

Year 1, Issue 1

The information contained in this Newsletter is as of 31 May 2006

Next issue: September 2006

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HeraNews

Investors' Newsletter

First issue of HeraNews: message from the Chairman of the Board

Dear shareholders,

I am very pleased to present this, our first issue of the HeraNews newsletter, which we decided to dedicate to our private investors. Individual shareholders account for a considerable part of Hera's share capital (from shareholder register data we may estimate the contribution at approx. 10%). Nearly half of our private investors are residents in the area in which the Group is operational, and therefore it is more than likely that they also have an appreciation of the Group's presence as users of its services and products. The other half is made up of persons residing elsewhere in Italy. We want all our private shareholders to be fully informed, and active – rather than passive – observers of Group developments.

Following stock exchange quotation we soon managed to achieve important development objectives in line with our Industrial Plan. In 2002-2005 the EBITDA doubled, thanks to an average growth of 26.6% per year. At the time of the IPO we had foreseen this result for 2007. The success of our strategy – a blend of both internal and external growth via targeted acquisitions – stimulated us to draw up plans for further development. New challenges await us. For the 2005-2008 period, it is our intention to achieve higher levels of efficiency and to increase revenues. Consequently, our commitment is to bring about an investment plan of more than 1.4 billion euro, which, to a great extent, will be financed by the cash flows generated by our business activities.

We hope all our readers will find in this new quarterly publication an instrument for an

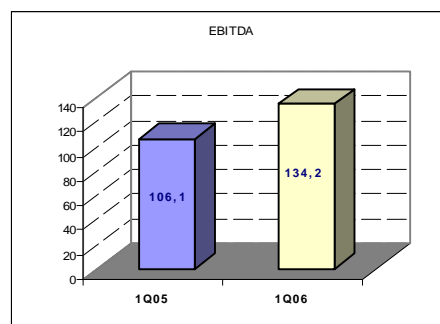
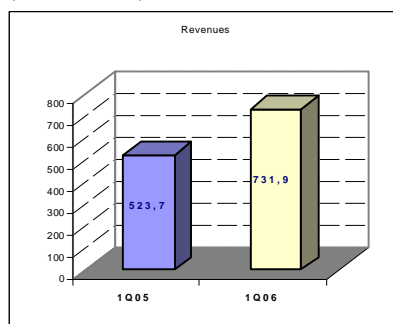


enhanced knowledge and understanding of Hera Group developments, of the objectives to be achieved over time, and of the challenges we are constantly faced with. This is why future issues will be published on a quarterly basis and released at the time of publication of our management performance reports.

Our hope is that HeraNews will fully reflect the open, transparent approach we insist on as a basic feature of dialogue with all share capital partners. We therefore hope it is as effective in its form as it is of interest in terms of content matter. Creating value for all shareholders and not to communicate our achievements adequately would mean preventing the market from adequately assessing Hera Group results and prospects via the share price, which would cancel out part of the value we have created. This is why we decided to reach out to our private shareholders with this new instrument, which we present today.

The Chairman

An encouraging first quarter (MN EURO)



FIRST QUARTER 2006

(mn euro)

REVENUES 731.9 (+39.8)

EBITDA 137.2 (+29.3%)

PRE-TAX PROFITS 82.6 (+22%)

INVESTMENTS 58.5

NET DEBT 934.4

A closer look at our performance for the first quarter of 2006

Group Hera revenues for the first quarter of 2006 increased by 40% (approx. 208 mn euro) with respect to the first quarter of 2005. 60% of this increase is to be ascribed to integration of the Modena companies (Meta Group). The other factor is the distinct increase in prices and volumes of raw energy materials. Gas price rises alone impacted Hera revenues to the tune of approx. 80 mn euro.

EBITDA, which rose from 106.1 to 137.2 mn euro, improved as a result of greater efficiency. However, we also note that the expected synergic effects of integration of the companies of the Modena area have yet to make their presence felt in a significant way. EBITDA performance reflects the very positive trends noted for the Environment and Water Cycle area, which has more than offset the low EBITDA margin for the gas area, generated by the market situation (high gas prices).

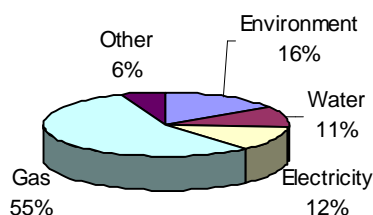
Pre-tax profits reached 82.6 mn euro, reflecting amortisation, depreciation and provisions totalling 41.7 mn euro and net financial charges (13.1 mn euro).

Maintaining an unchanged scope of enquiry (and therefore comparing the first three months of 2006 with the same period of 2005, including the Modena area) the revenues and EBITDA seem to indicate more modest growth (15.1% and 6.3%, respectively), while pre-tax profits would remain basically as for the first quarter of the previous year (-0.4%).

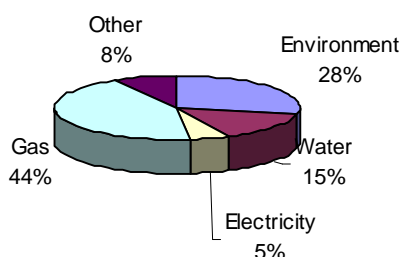
Investments for the first quarter of 2006 came to 58.5 mn euro. Despite this, Group net financial charges fell from 974 mn euro (close of 2005) to 934.4 mn euro at the close of the first quarter of 2006. To defer debt maturity, and to limit debt costs and enable adequate financing of planned investments, on 16 February 2006, a fixed rate (4.125%) Eurobond was issued (with expiry in 2014), for the sum of 500 mn euro. Hera (the only Italian multiutility) has received solid confirmation of its excellent state of health from the ratings provided by S&P (A+) and by Moody's (A1).

Results for the first quarter of 2006, sector by sector**HERA: business areas**

- Distribution and sale of **GAS**
- Distribution and sale of **ELECTRICITY**
- INTEGRATED WATER CYCLE** (waterworks, wastewater treatment and sewers)
- ENVIRONMENT** (waste collection and treatment)
- District heating, public lighting, heat management.

REVENUES 1 Q 06

The Environment area, thanks to its high profitability, accounts for 15.9% of revenues and 28.4% of EBITDA.

EBITDA 1 Q 06

Interview

In this issue, we interview **JENS K. HANSEN**, heading the Group's Investor Relations team

Dr. Hansen, how long ago did you join Hera?

I was one of the team co-opted into launching the stock exchange listing operation. I saw Hera right from the start and watched the company grow and gain leadership positions in its business areas. I saw Hera as it gradually made a name for itself as a prime multiutility player in Italy, including among international financial market operators. Hera's excellent track record is something which inspires me in the work I do, which I see as bridging the gap between Hera and the capital market.

Tell us something about your general approach to investor relations at Hera?

From the very start, our investor relations quality objective was to be on a par with the companies considered best practice internationally. Comparatively, we were rather small and our job was a big one, which meant thinking big – and thinking big got us where we are today. It's easier now to establish contacts with the most important operators worldwide since our level of capitalization, at approx. 2.5 bn euro, is beginning to look pretty sizeable. Our high credibility rating is based on achieved performance. However, when we were starting out, three key aspects emerged as vital: transparent communication, clearly setting forth our commitments to future objectives, and a proactive approach to creating contacts.

The Hera shareholder base?

Municipalities account for something like 59%. Institutional investors account for a 31% share, and retail is estimated at 10%. Our capital sees the participation of important foreign professional investors, totalling something like 22%, with a significant portion from British and American institutions.

How do you explain the interest displayed by the more sophisticated institutional investors in shares like Hera?

British and American investors are noteworthy for two reasons. Not only do they cover a very large part of managed savings globally; they also display the highest degree of sector specialization. They have in-depth knowledge of utilities and can accurately evaluate them. I think that at the first stage, from IPO up to the start of 2005, our share figured as one of the most interesting opportunities for investment, given the high rate of profit growth foreseen. So we found ourselves in the company of many so-called 'growth' investors on the lookout for companies growing at a considerable pace. These investors liked the business model we had chosen and believed we would successfully accomplish our various acquisitions.

Hera people: integration with Meta

We believe our success in incorporating other (sometimes large) concerns within Hera is the result of our ability to immediately generate the involvement of our most important asset – people. This is why, as soon as we acquired Meta, we organized a meeting with the Chairman of the Board, Dr Tommasi, so that we could discuss together the industrial plan objectives for 2008. We also decided to hold our traditional yearly meeting in Modena with all Hera Group manage-

More recently?

Starting from 2005, after acquiring Meta, Hera generated interest among various kinds of investors, all interested in encouraging growth prospects but from a mid-term outlook. These investors also consider the degree of credibility reached, capabilities with regard to integration of acquired companies, management quality, and the achieved leadership position.

What approach is your Investor Relations programme based on?

For a start, we dedicate considerable attention to the 15 analysts who monitor our share and we make sure they are in a position to fully appreciate our strategic approaches and correctly interpret performance. They must receive the information they require to make forecasts with respect to our growth. Then there are the 'roadshows' we organize to meet up both with investors already providing us with capital and those who show an interest in shareholdings. The top management team takes this task very seriously. Let me give you an example. During the last big roadshow, following publication of the annual report, we met 62 institutional investors in various countries (USA, Great Britain, Germany, the Netherlands, Switzerland, Austria, and, of course, Italy). During 2005 we had meetings with more than 300 institutional investors. We also dedicate a lot of time and attention to the structure and content side of all our instruments of financial communication. In 2005, we were awarded the Milano Finanza "Leone d'Oro" award for best investor relations in the Mid-Cap class. What does that tell us? It tells us we have taken up the right path – but it remains a demanding path, if we want the share price to correctly reflect the value of Hera at all times.

How does this newsletter for private investors come into the picture?

This is our latest project. The newsletter is our way of saying loud and clear that we are very interested in our private shareholder base. Private shareholders are an important part of many utilities, but we at Hera firmly believe private shareholders should have an even bigger part to play.

What can shareholders expect in the near future in the way of information?

In the short term, we have the semi-annual report, and we also plan to publish our industrial plan (2007-2009), which we are drawing up at the moment.

ment teams and senior management. This gave people a chance to understand the nature of the objectives assigned to each, which enables individual commitment with respect to the challenges represented by our industrial plan. We also presented a revised version of our corporate 'mission' in order to foster the personal involvement of all in consolidating a set of corporate values which could serve as the bedrock for all our actions.

"It's easier now to establish contacts with the most important operators worldwide since our level of capitalization, at approx. 2.5 bn euro, is beginning to look pretty sizeable"



Jens K. Hansen—Head of IR at Hera

"... when we were starting out, three key aspects emerged as vital: transparent communication, clearly setting forth our commitments to future objectives, and a proactive approach to creating contacts"

APPOINTMENTS

Bruno Tani, engineer, has been a non-executive independent director since 28 April 2006.

Bruno Tani obtained his degree in mechanical engineering in 1973 at the University of Bologna. He is a leading expert in the business areas of Hera since he has covered many functions for companies the group, Gruppo Società Gas Rimini S.p.A.

CONTACT US

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FINANCIAL CALENDAR 2006**12 September**

Board meeting to approve semi-annual report

14 November

Board meeting to approve third quarterly report

HERA SHARE

Price as on 31 May 2006: 2.5 €

Max-Min/365 days: 2.71-2.00 €

No. shares issued: 1,016,752,029

Capitalization: 2.54 bn €

Specialist: Banca IMI

Price target consensus

(source: Reuters): 2.91 €

Hera stock exchange indices

Midex—Borsa Italiana

DowJones Stoxx TMI

TMI Utility

Axia Ethical

Kempen/SNS

Smaller Europe SRI Index

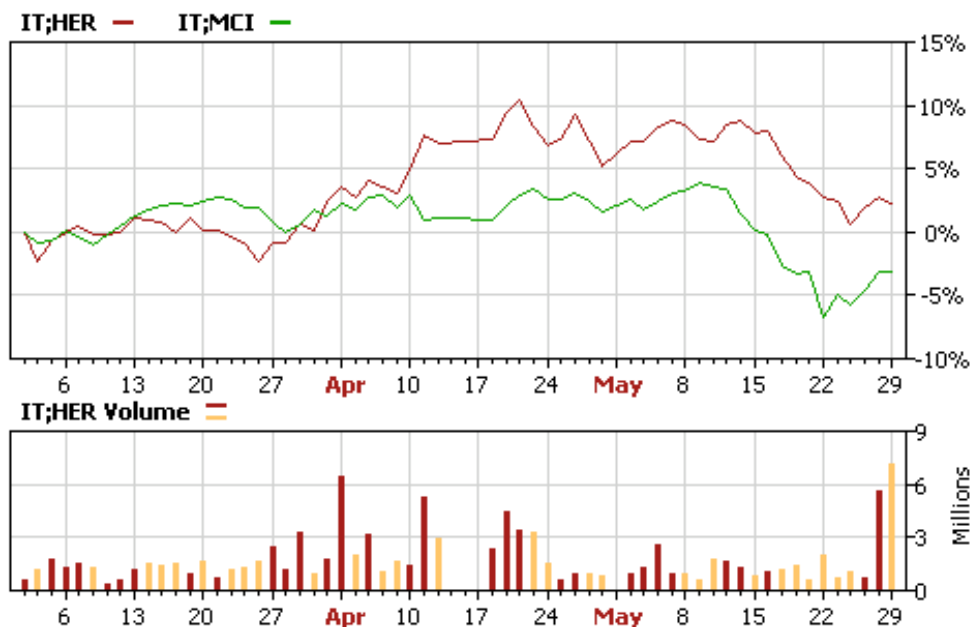
DIVIDEND

The dividend for FY 2006 is
7cts (€)

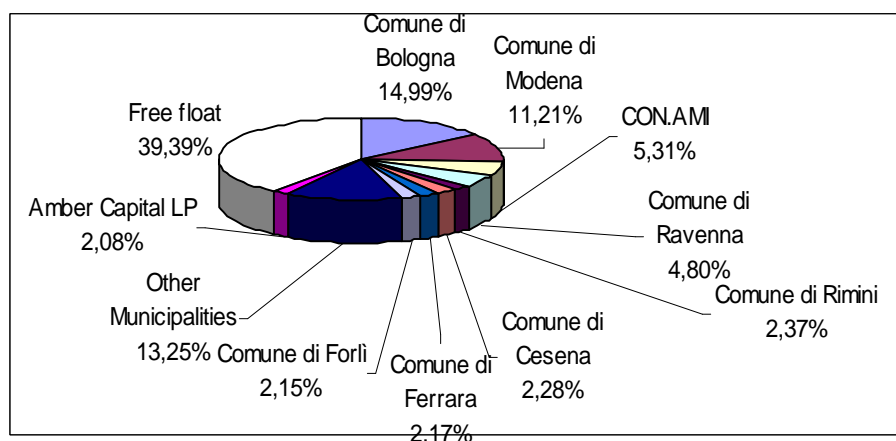
Date of share-out: **5 June 2006**

Date of payment: **8 June 2006**

Next issue: September 2006

Hera share vs. MIBTEL

As of early April, when the roadshow was under way with the results for the year, the Hera share (red line) has constantly outperformed MIBTEL (green line), and reached a peak for the period of 2.71€. Also during the most recent adjustment phase, Hera shares outperformed the entire Italian equity market, with very limited trading in the bearish phase but with record volumes during price recovery days

Shareholders

Hera S.p.A. Has a broad shareholder base, including more than 150 public shareholders (municipalities of the Emilia Romagna region), approx. 300 Italian and international institutional investors, and approx. 40,000 private shareholders.

Total return for investors

See the Group website for our pages dedicated to private investors ("Azionisti Privati"). These pages provide a user-friendly instrument for calculating return for investors in Hera shares. You can also check the alteration of share capital and yield in terms of dividend share-out.

We await your comments on our newsletter. Please send them to:

ir@gruppohera.it