



***Acquisition of remaining 51% stake of Agea.  
Preparing 100% merger of Multi-utility operation of AGEA in HERA GROUP***

Conference call held on 28th July 2004

- Executive Summary
- Agea
- The Acquisition
- Combined Hera + Agea
- Synergy Potentials
- Conclusions

## TOPICS

## HIGHLIGHTS

### Strategy

- Within **sector consolidation process**, Hera aims at expanding into surrounding territories (to exploit synergy potentials), seeking 100% operational integration with complementary multiutility companies deploying Hera unique business model.

### The Deal

- **(1) Acquisition of 51% stake of Agea** (reaching 100%) operating in Ferrara province through a merger into Hera, **(2) Spin-off and sale of water assets** (Acosea Impianti).

### Price

- **The merger: 46.7 mln Hera shares** for the 51% of Agea and 24.5% Acosea Gestioni.
- **Former acquisition of 49% of Agea: 55.2 mln €** (plus 9.8 mln € for capital increase).
- **Sale of control of water assets: 19.1 mln €** (cash consideration) for 75.5% stake of Acosea Impianti.
- **Total Enterprise value 140.5 mln €** implies **Ev/Ebitda'04** around **5.5x-5.9x**

### Economics

Highlights (mln euro)	2002	2003	E2004
Turnover	97.4	139.3	141 - 144
<b>Ebitda</b>	<b>8.8</b>	<b>23.5</b>	<b>24</b>
Margin%	9.0%	16.9%	
Ebit	4.0	10.4	

### Further value creation

- Significant potential for Hera: estimated further value creation of about 30 mln €

### Closing

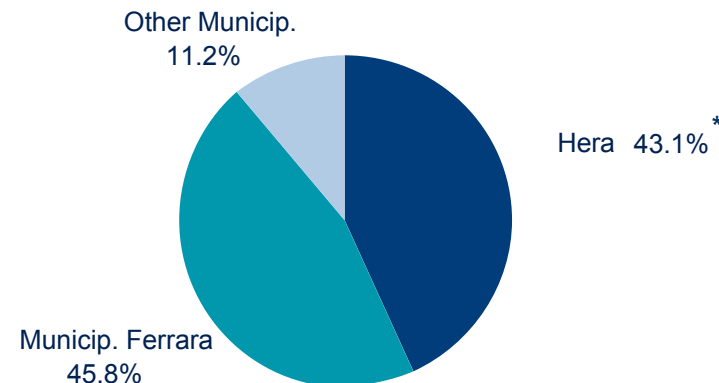
- Within 2004 (end December) accounting consolidation from 1 January 2004

## Description of Agea

### Agea operations:

- **Gas** sale and distribution
  - Geothermic **district heating** and cogeneration
  - **Waste** collection and treatment
  - **Water** integrated business
  - **Other** services (Public Lighting and other services)
- Through Acosea Spa (75,5% stake), Agea operates in the **water** business within the area of Ferrara “Ato”. Acosea Spa, through Acosea Reti (100% stake), has the ownership of water assets.
  - Increase in Agea 2003 financials was reached thanks to the consolidation of Acosea and the contribution of the WTE plant and Turbine.
  - **Agea business plan** aims at further growth particularly thanks to :
    - the expansion of the Canal bianco WTE (2 additional lines of a total capacity of 150.000 tons/year that will be in operations in 2007)
    - The expansion of district heating network in Ferrara town
    - Consolidation in the Gas business

## Shareholdings

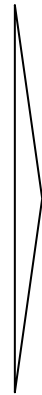
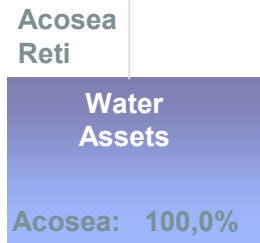
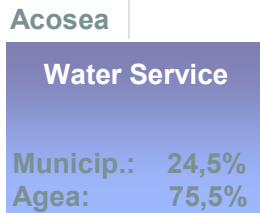


*Up to 49% in September thanks to the put option of the municipality of Ferrara (price 7,9 mln €)*

## Financial Highlights

€ mln	2002	2003
Turnover	97.4	139.3
Change %	<i>n.a.</i>	43%
Ebitda	8.8	23.5
Ebitda %	9%	17%
Ebit	4.0	10.4
Ebit %	4%	7%
Net Profit	0.6	3.3
Net Profit %	1%	2%
Net Equity	12.6	108.8
NFP*	31.8	49.5

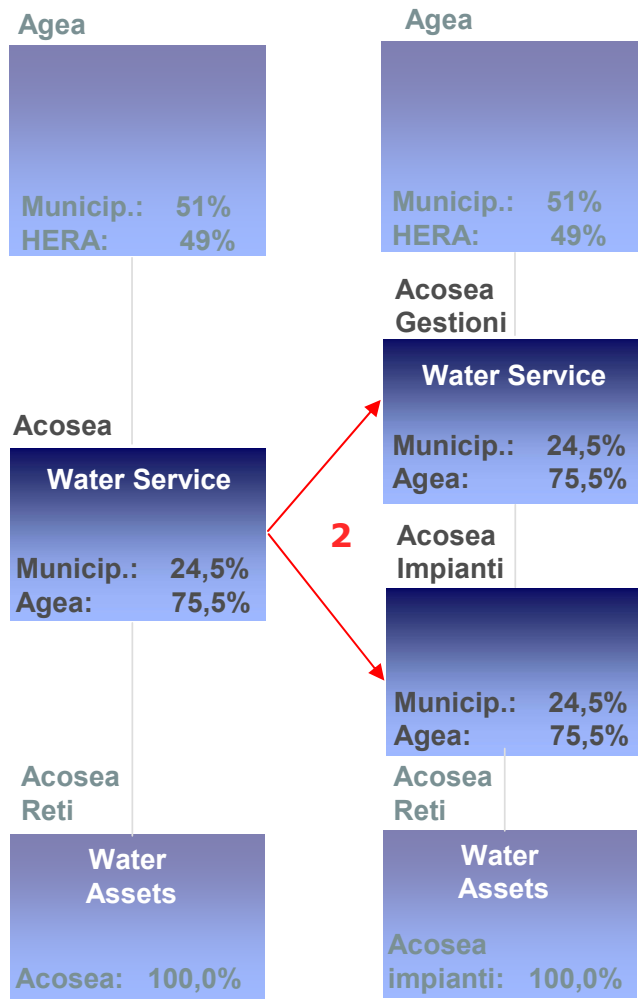
\* In April 2004 the public shareholder of Agea subscribed a share capital increase through a cash injection of 10.2 mln €



**1. Acquisition of 49,0% of Agea ( paid 55.2 mln €\*)**

- a. 42,0% on October 2003
- b. 7,0% end of September 2004:

\* On top of the cost of 55.2 mln €, Hera has subscribed an increase of capital of 9.8 mln € in December 2003

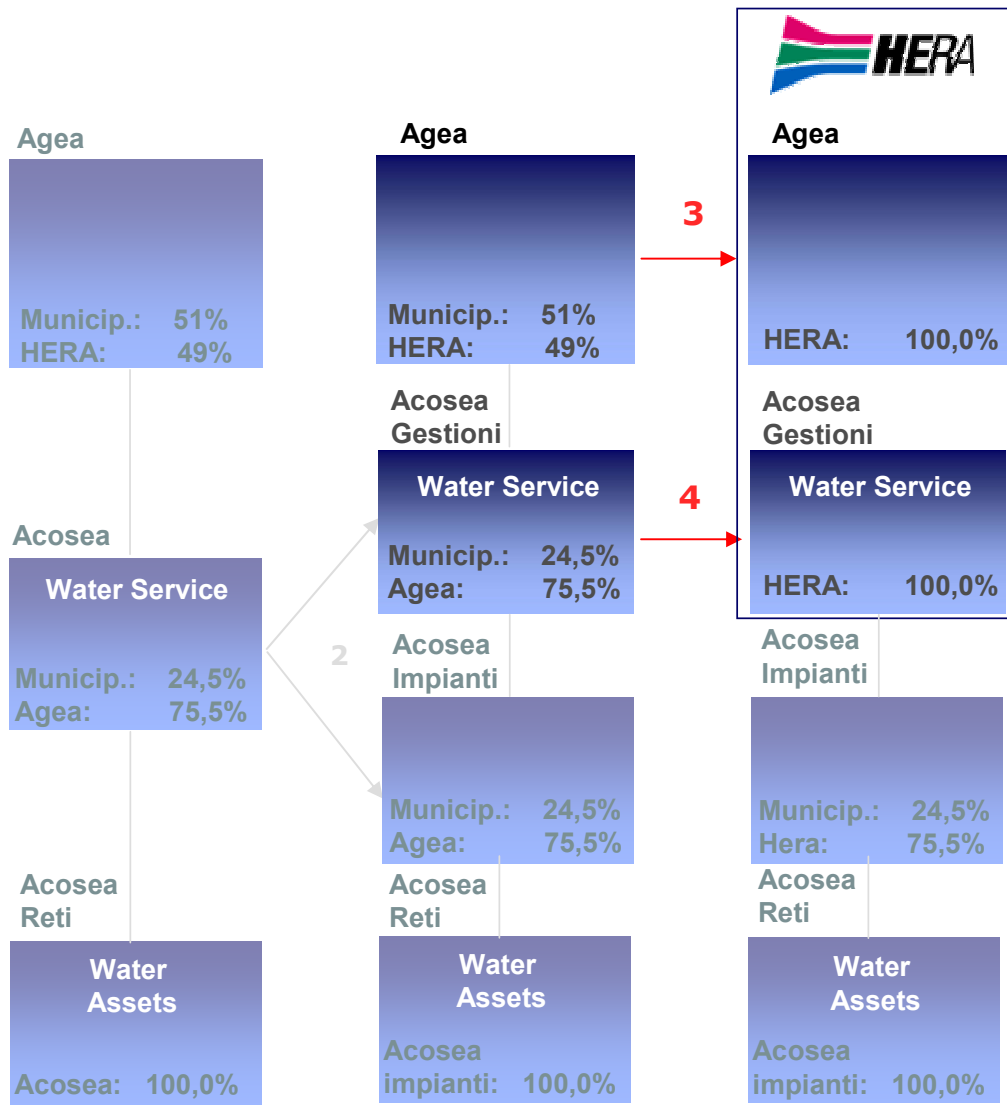


## Acquisition of 49,0% of Agea ( paid 55.2 mln €\*)

- a. 42,0% on October 2003
- b. 7,0% end of September 2004:

2. Demerge into two businesses (“Water service” and “Water assets”) and **Spin off the “Water assets”** into a Newco named **“Acosea Impianti”** which will own 100% of “Acosea Reti”

\* On top of the cost of 55.2 mln €, Hera has subscribed an increase of capital of 9.8 mln € in December 2003



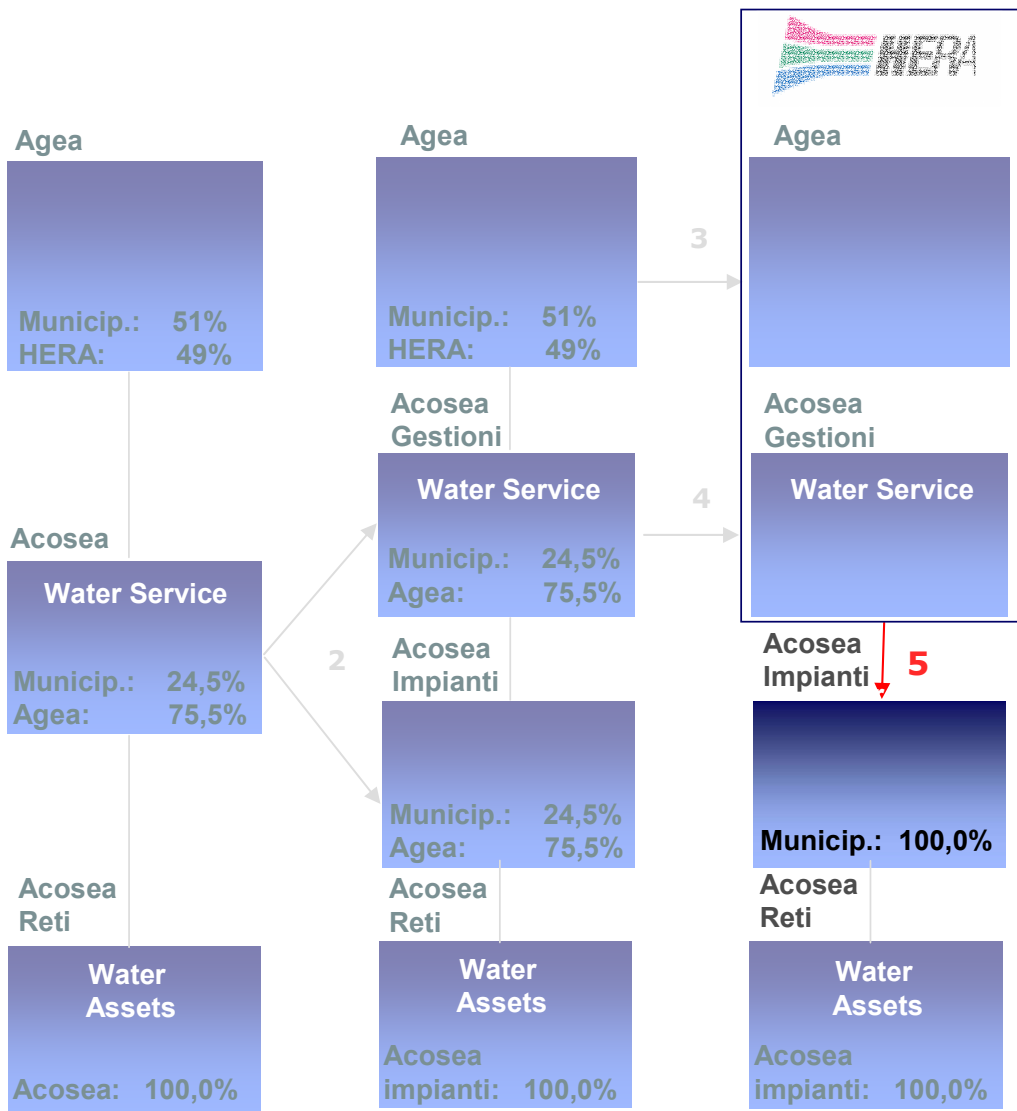
## Acquisition of 49,0% of Agea ( paid 55.2 mln €\*)

- 42,0% on October 2003
- 7,0% end of September 2004:

Demerge into two businesses (“Water service” and “Water network”) and **Spin off the “Water assets”** into a Newco named **“Acosea Impianti”** which will own 100% of “Acosea Reti”

- 3. Merge of AGEA into Hera**
- 4. Merge of Acosea Gestioni into Hera**

\* On top of the cost of 55.2 mln €, Hera has subscribed an increase of capital of 9.8 mln € in December 2003



## Acquisition of 49,0% of Agea ( paid 55.2 mln €\*)

- 42,0% on October 2003
- 7,0% end of September 2004:

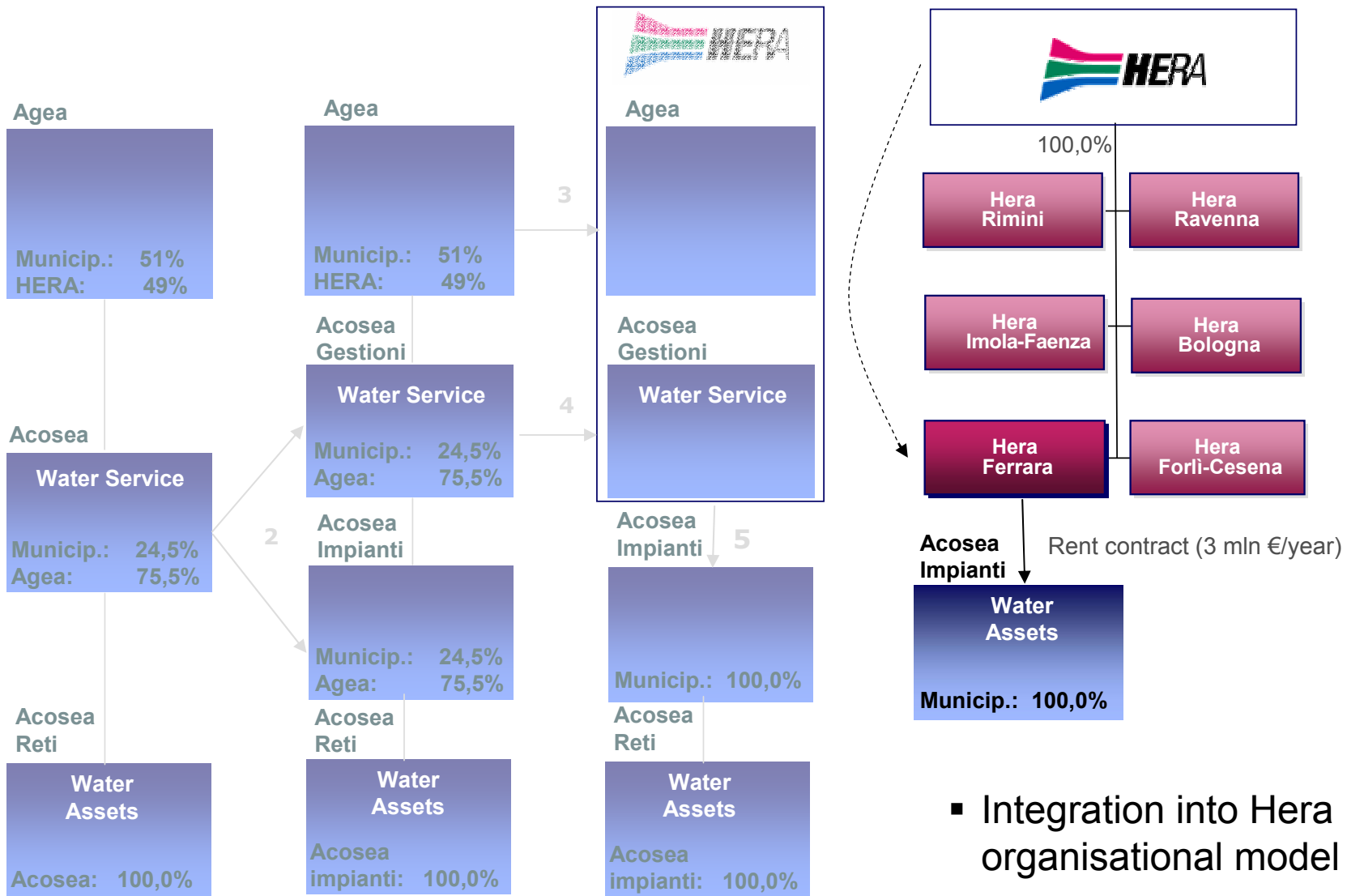
Demerge into two businesses (“Water service” and “Water network”) and **Spin off the “Water assets”** into a Newco named **“Acosea Impianti”** which will own 100% of “Acosea Reti”

- Merge of AGEA into Hera
- Merge of Acosea Gestioni into Hera
- 5. Sale (in 1st Half 2005) of the 75,5% stake of “Acosea Impianti” to the public Acosea shareholders\*\***

\* On top of the cost of 55.2 mln €, Hera has subscribed an increase of capital of 9.8 mln € in December 2003

\*\* To be compliant with Dlgs 267/2000





- Integration into Hera organisational model

\*Lease payment of 3 mln € per year.

## The Acquisition: Integration of Agea into Hera model

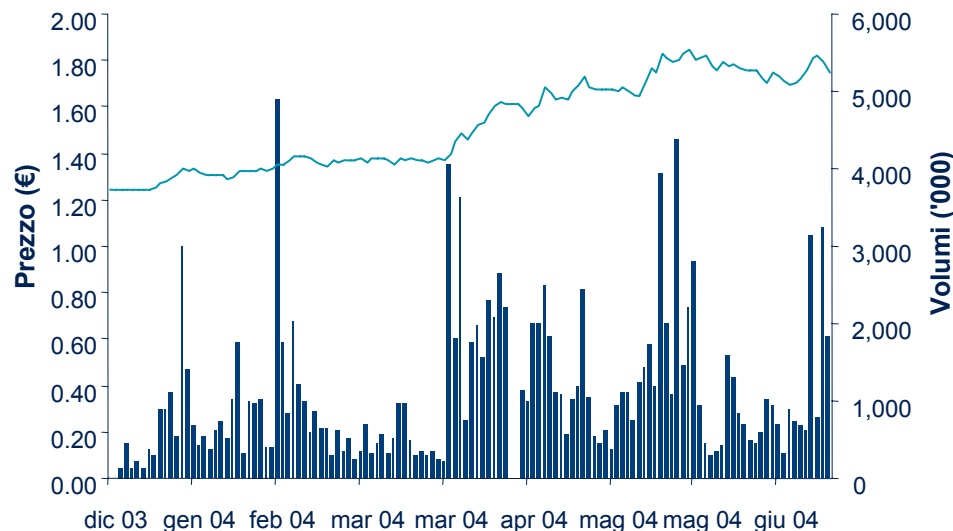
## The Spin off and sale of Acosea Impianti increases Agea ROI from 6.6% (2003) to 9.8% (Proforma 2003).

	Agea 2003	Acosea Impianti Proforma**	Cash Consid.	Agea Pro_ Forma 2003
Net Equity	<b>108,8</b>	(25,3)		<b>83,5</b>
NFP	<b>49,5</b>	(24,3)	(19,1)	<b>6,2*</b>
<b>Net Invested Capital</b>	<b>158,3</b>	<b>(49,6)</b>	<b>(19,1)</b>	<b>89,7</b>
<i>ROI</i>	<b>6,5%</b>	—————→		<b>9,8%</b>

\*The Net financial position do not include the increase of capital of 10.2 mln € incurred on 2nd April 2004

\*\*Proforma to be consistent with Agea 2003

- **The purchase agreement** determines the **consideration in shares** to be paid by Hera to the Agea and Acosea Gestioni shareholders for their stakes (respectively 51% and 24,5% stake).
- **The purchase agreement** sets **Hera's equity value** for the share swap ratio based on the **average market price** recorded in the period between **23th March and 21st June 2004** (60 days).



#### Implicit Multiple of Hera

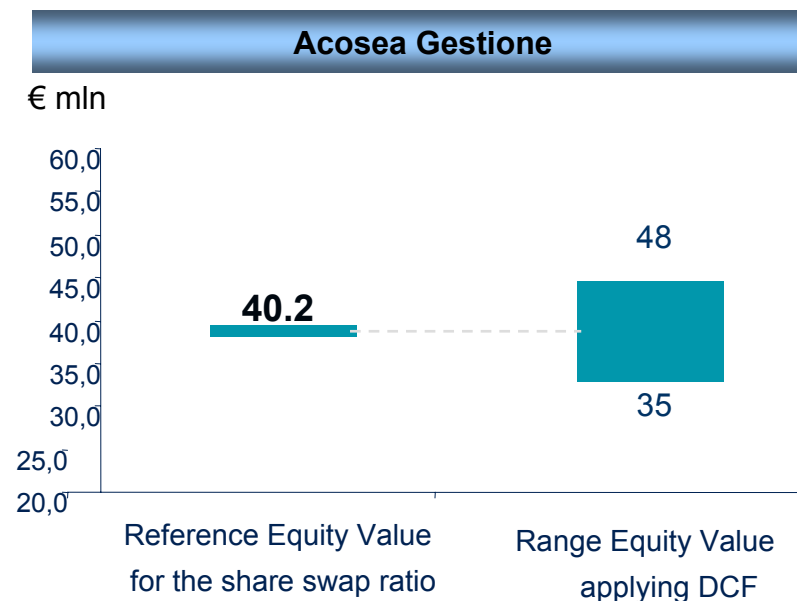
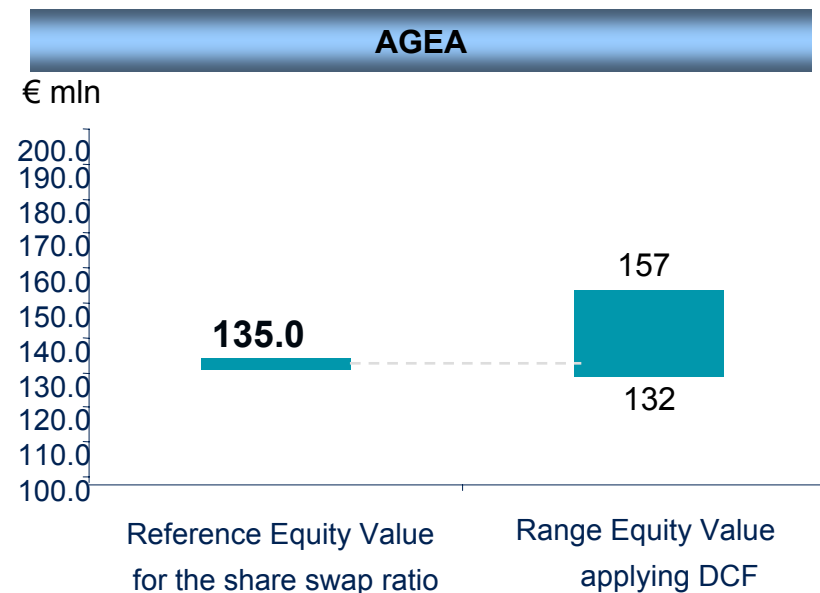
Average Hera market price (60 days) (€)	1.685
N. of Hera shares (mln)	793.202
<b>Equity Value Hera (€ mln)</b>	<b>1,336.466</b>
NFP Hera 31/12/2003 (€ mln)	444.345
Book value of Minorities (€ mln)	24.192
<b>EV Hera (€ mln)</b>	<b>1,805.003</b>
Ebitda Hera 31/12/2003 (€ mln)	242.502
<b>Implicit Hera EV/Ebitda</b>	<b>7.44x</b>

- **The reference Equity value of Hera** for the share swap ratio is **1,336.46 mln €** (average of 1.685€ per share).
- The purchase agreement sets **the implicit EV/Ebitda average market multiple of Hera as reference for the valuation of Agea**. The implicit multiple is equal to **7.44x**.

- **Agea equity value defined for the share swap ratio is equal to 135.0 mln €** (determined applying Hera EV/Ebitda of 7,44x to Agea Ebitda and taking into consideration also the effects of the spin off and sell of Acosea Impianti).
- The equity value of **Acosea Gestioni defined for the share swap ratio is equal to 40.2 mln €** and has been determined on the basis of the DCF method.

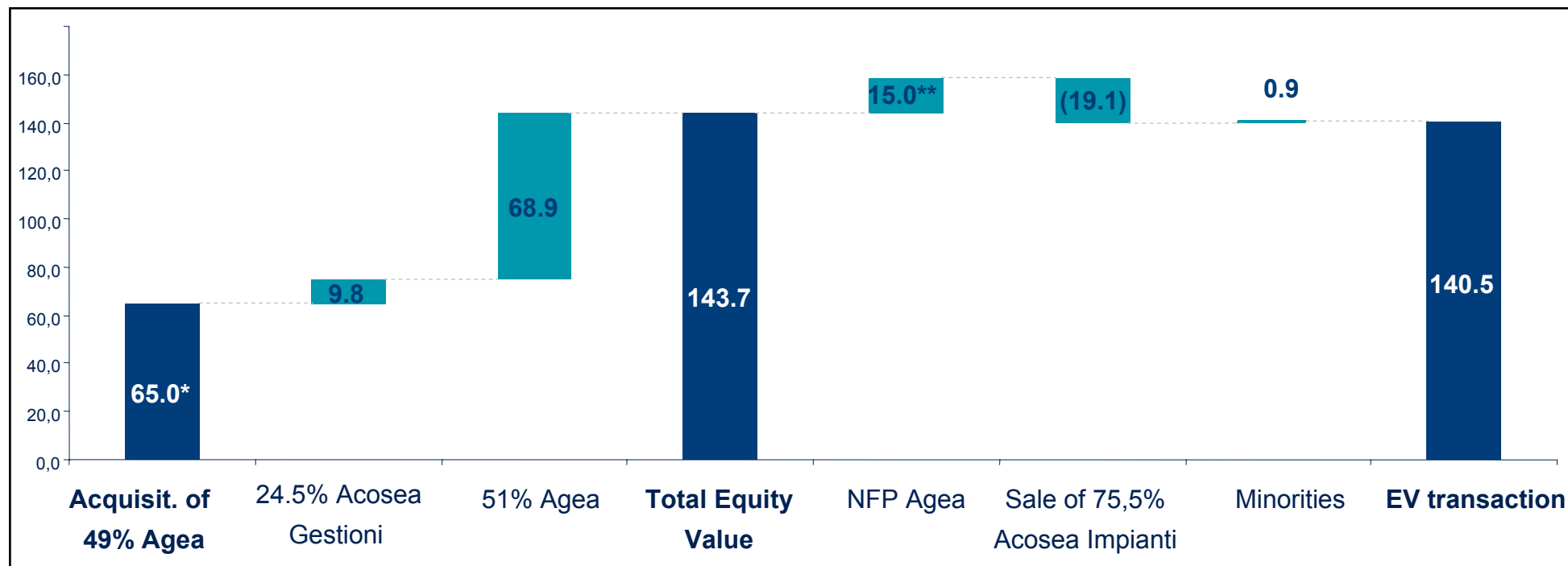


- **The values defined for the share swap ratio are close to the low range of the fair value identified applying the DCF valuation method.**



<b>Exchange ratio Hera / Agea</b>	
<b>Equity Value Agea (€ mln)</b>	<b>135.0</b>
N. of share Agea (mln)	1.502
Value per share Agea (€)	89.903
<b>Equity Value Hera (€ mln)</b>	<b>1,336.47</b>
N. of shares Hera (mln)	793.202
Average value per Hera share (€)	1.685
<b>N. of Hera shares for each Agea share (swap ratio)</b>	<b>53.36</b>
<b>N. of Hera share for 51% of Agea shares (mln)</b>	<b>40.861</b>
<b>Value (at average Hera mkt price of 1.685 € per share) (€ mln)</b>	<b>68.9</b>
<b>Exchange ratio Hera / Acosea Gestioni</b>	
<b>Equity Value Acosea Gestioni (€ mln)</b>	<b>40.173</b>
N. of shares Acosea (mln)	5.235
Value per share (€)	7.674
<b>Equity Value Hera (€ mln)</b>	<b>1,336.47</b>
N. of shares Hera (mln)	793.20
Average value of Hera share (€)	1.685
<b>N. of Hera shares for each Acosea share (swap ratio)</b>	<b>4.55</b>
<b>N. of Hera share for 24,5% of Acosea Gestioni (mln)</b>	<b>5.841</b>
<b>Value (at average Hera mkt price of 1.685 € per share) (€ mln)</b>	<b>9.8</b>
<b>Total Hera shares to be issued (mln)</b>	<b>46.702</b>
<b>Total value (at average Hera mkt price of 1.685 € per share) (€ mln)</b>	<b>78.7</b>

- **The Transaction**, (acquisition of 100% of Agea, 24.5% and of Acosea Gestioni, spin off and sale of 75.5% of Acosea Impianti), **has an Enterprise value of 140.5 mln €.**



\* 65.0 mln € include 9.8 mln € of capital increase subscribed in 2003 and 55.2 mln € for the acquisition of 49% of Agea

\*\* The Net Financial Position of Agea 2003 is 49.5 mln € reduced by the **deconsolidation of financial debts of 24.3 mln €** related to Acosea Reti and of the **share capital increase of 10.2 mln €** incurred on the 2nd April 2004 underwritten by the Municipalities.

- The implicit EV/Ebitda '04 multiples of the transaction are better than Hera market multiples

Implicit Multiple EV/Ebitda of the transaction	
EV transaction (€ mln)	140.5
Ebitda Agea 2004 post spin off (€ mln)	24.0*
<b>Implicit Multiple EV/Ebitda Agea 2004</b>	<b>5.9x</b>

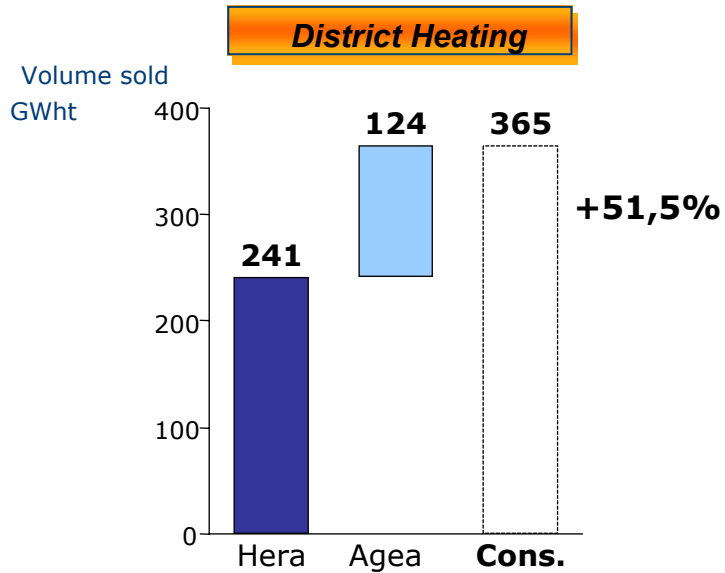
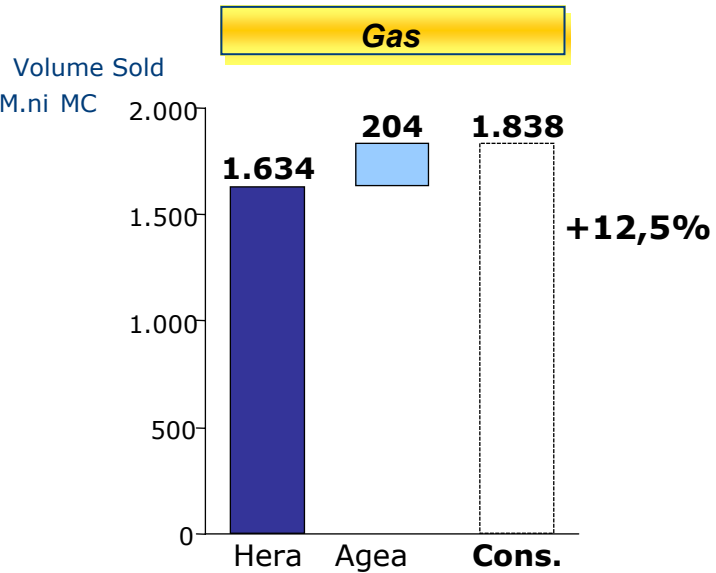
... based only on core business ...

Implicit Multiple EV/Ebitda of the transaction	
EV transaction (€ mln)	140.5
Investments (not consolidated)	8.7
<b>Core businessEV</b>	<b>131.8</b>
Ebitda Agea 2004 post spin off (€ mln)	24.0*
<b>Implicit Multiple EV/Ebitda core business Agea 2004</b>	<b>5.5x</b>

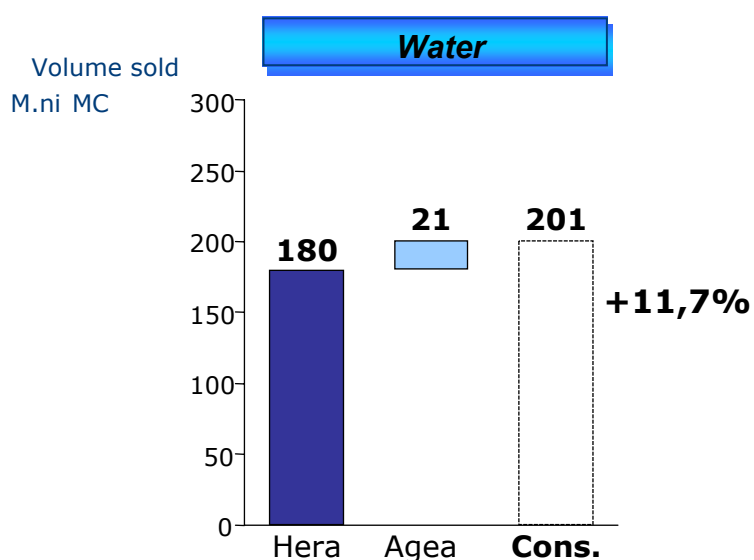
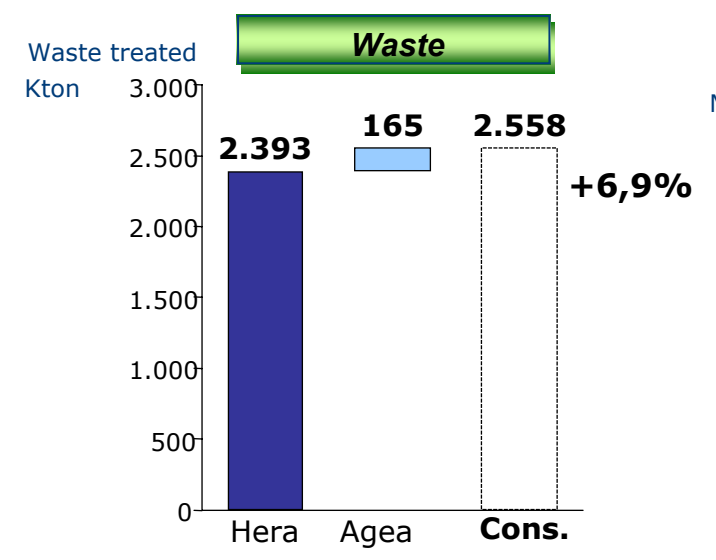
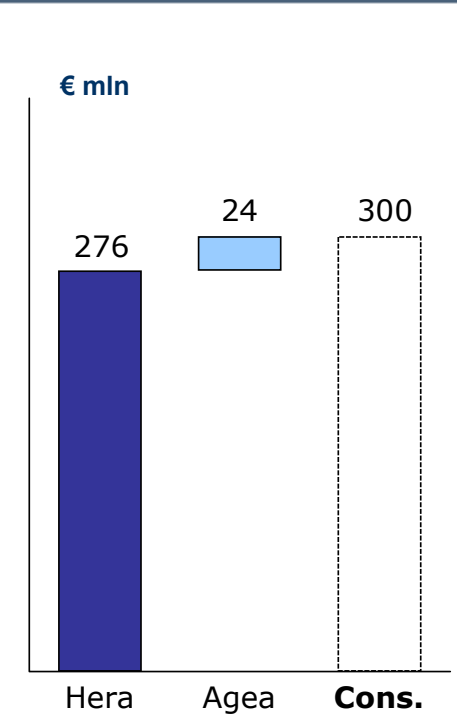
\* The expected ebitda 2004 range is net of the pro quota network rent payment of about 2,0 mln € due to Acosea Impianti (Based on an rent contract of 3 mln € per year)

**Hera market Multiple**

**EV/Ebitda '04 6,5x**



### Target Ebitda E2004 Consolidated



**Combined Hera + Agea**



- The business portfolio of Agea is similar to Hera's and **synergy potentials** have been indentified in the following areas:

### Gas

- Lower Procurement cost
- Customer loyalty and further expansion (dual Fuel comercial proposition)

### District H.

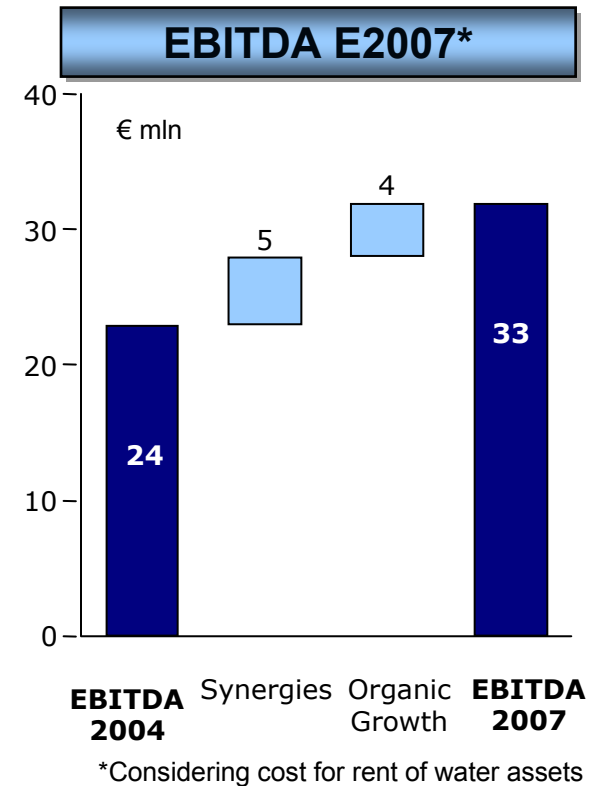
- Expansion of business:
  - ◆ Capacity from 4.0 to 6.1 mln mc in 2007
  - ◆ Heat sales from 124 to 207 GWht nel 2007

### Waste

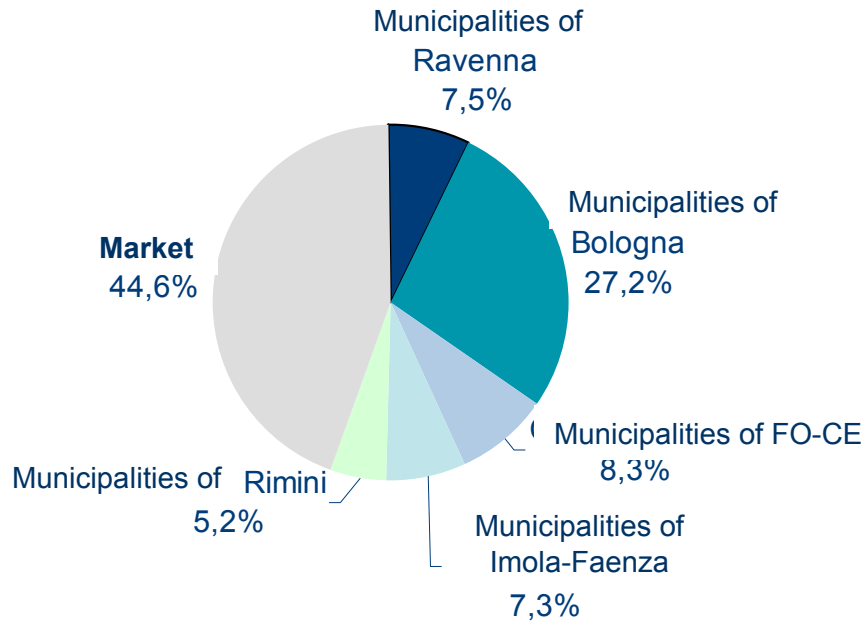
- Expansion of the WTE of Canal bianco treatment capacity from 50 kton to 150 kton in 2007 and up to 78 MWh electricity production(Green Certificates)**
- Cross selling opportunities for special waste business of Hera

### Water

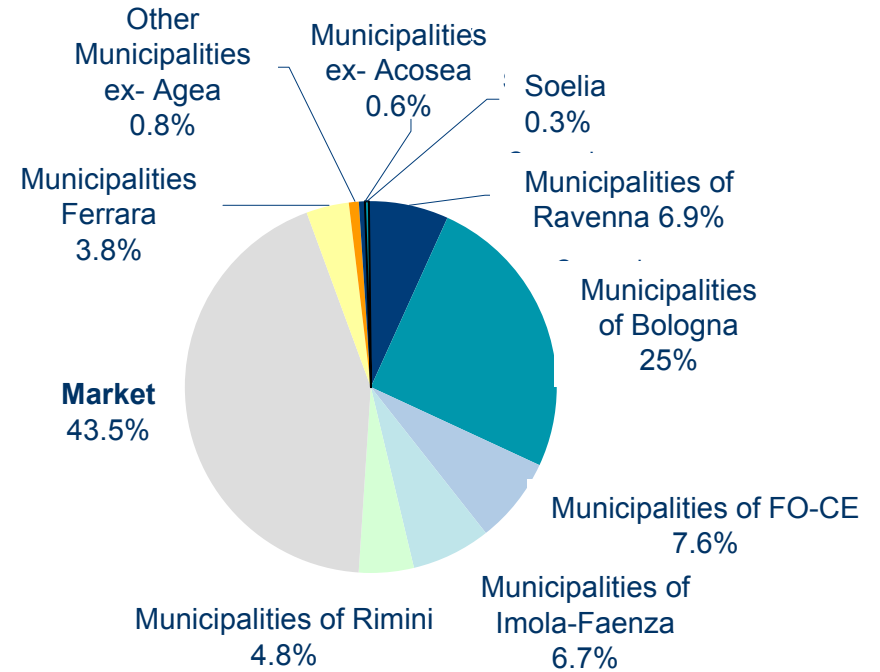
- New tariff scheme from 2005 (+5.5%)
- Efficiency increase of the network reducing leakage down to Hera standards



### Current Shareholdings Hera (Pre-Bonus Share)



### Post Transaction shareholding Hera (Post Bonus Share)\*



\*Estimated

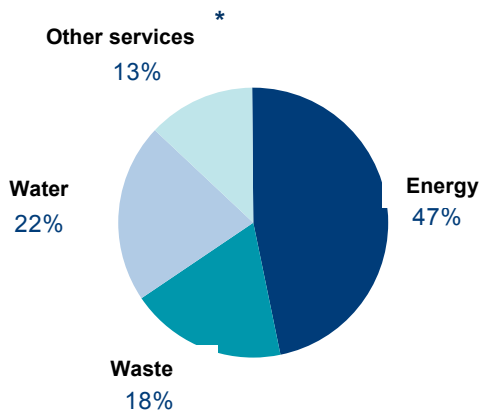
- Agea represents a further step in the sector consolidation process and Hera development.
  
- Agea has a complementary business portfolio that strengthens:
  - Hera market position
  - synergy exploitation and organic growth
  
- Agea represents a full operational merger into Hera business model
  
- The merger will be effective by the end of December and consolidation effects from 1 January 2004. Acosea Impianti (water assets) will be sold within first half 2005.
  
- The transaction economics implies an EV/ 2004 Ebitda multiple moving in a range of 5.5x – 5.9x below Hera's (6.5x).

---

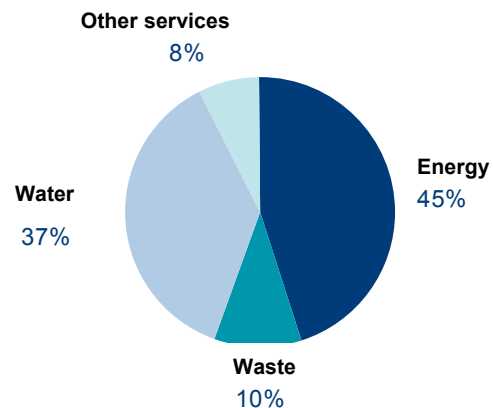
## Conclusions



## Turnover 2003 Breakdown



## EBITDA 2003 Breakdown



## Main key performance data

		2002	2003
Gas sold	MIn mc	189,9	203,8
Gas customer	n.	89.020	90.465
Heat Sold (District h.)	GWht	113,4	123,5
Volume heated (District h.)	MIn mc	3,6	4,0
Electricity sold	GWh	8,1	6,4
Urban Waste	kton	93,7	92,5
Waste treated in Agea plants	kton	51,5	54,6
Sorting of waste	%	29%	33%
Water sold	MIn mc	19,6	20,8
Light towers	n.		20,300

\*Include distric h.

Profit & Loss - Euro (mln)	2002A	2003A
Sales	89,0	130,6
% change	n.a.	46,7%
Other revenues	8,4	9
% change	n.a.	3,6%
<b>Turnover</b>	<b>97,4</b>	<b>139,3</b>
% change	n.a.	43,0%
Raw materials	(46,9)	(54,1)
% on turnover	48,2%	38,8%
Services	(17,0)	(25,1)
% on turnover	17,5%	18,0%
Leases	(6,1)	(10,1)
% on turnover	6,3%	7,3%
Personnel	(16,8)	(24,5)
% on turnover	17,2%	17,6%
G&A	(1,8)	(2,0)
% on turnover	1,8%	1,4%
<b>Ebitda</b>	<b>8,8</b>	<b>23,5</b>
% margin	9,0%	16,9%
D&A and provisions	(4,8)	(13,1)
% on turnover	4,9%	9,4%
<b>Ebit</b>	<b>4,0</b>	<b>10,4</b>
% margin	4,1%	7,5%
Financial Inc/(Exp.)	(1,8)	(2,9)
Extraordinary Inc/(Exp)	(0,2)	(0,5)
<b>Pretax Profit</b>	<b>2,0</b>	<b>7,1</b>
Tax	(1,4)	(3,8)
<b>Net Profit</b>	<b>0,6</b>	<b>3,3</b>
% margin	0,6%	2,4%

Balance sheet - Euro mln	2002A	2003A
Tangible	39,4	162,0
Intangible	10,0	21,1
Financial	21,6	9,2
<b>Fixed assets</b>	<b>71,0</b>	<b>192,2</b>
Stock	2	3
Receivables	40,3	44,0
Other receivables	2,3	7,3
Other current assets	1,1	1,0
Payables	(57,1)	(58,0)
Other payables	(0,7)	(11,5)
Other current liabilities	(1,4)	(2,0)
<b>Net Working Capital</b>	<b>(13,2)</b>	<b>(16,0)</b>
Staff leaving indemnity	(7,5)	(12,1)
Provisions	(5,5)	(5,8)
<b>Provisions</b>	<b>(13,0)</b>	<b>(17,9)</b>
<b>Net Invested Capital</b>	<b>44,8</b>	<b>158,3</b>
Cash	(4,2)	(13,1)
Financial current assets	0,0	(1,6)
Short term debt	2,0	4,0
Ling term debt	34,4	60,2
<b>NFP</b>	<b>32,2</b>	<b>49,5</b>
Share Capital	7,0	12,8
Reserve	4,8	76,1
Net Profit	0,6	3,0
<b>Net Equity</b>	<b>12,4</b>	<b>91,8</b>
<b>Minorities</b>	<b>0,2</b>	<b>16,9</b>
<b>Net Invested Capital</b>	<b>44,8</b>	<b>158,3</b>