



## Hera Group Sustainability



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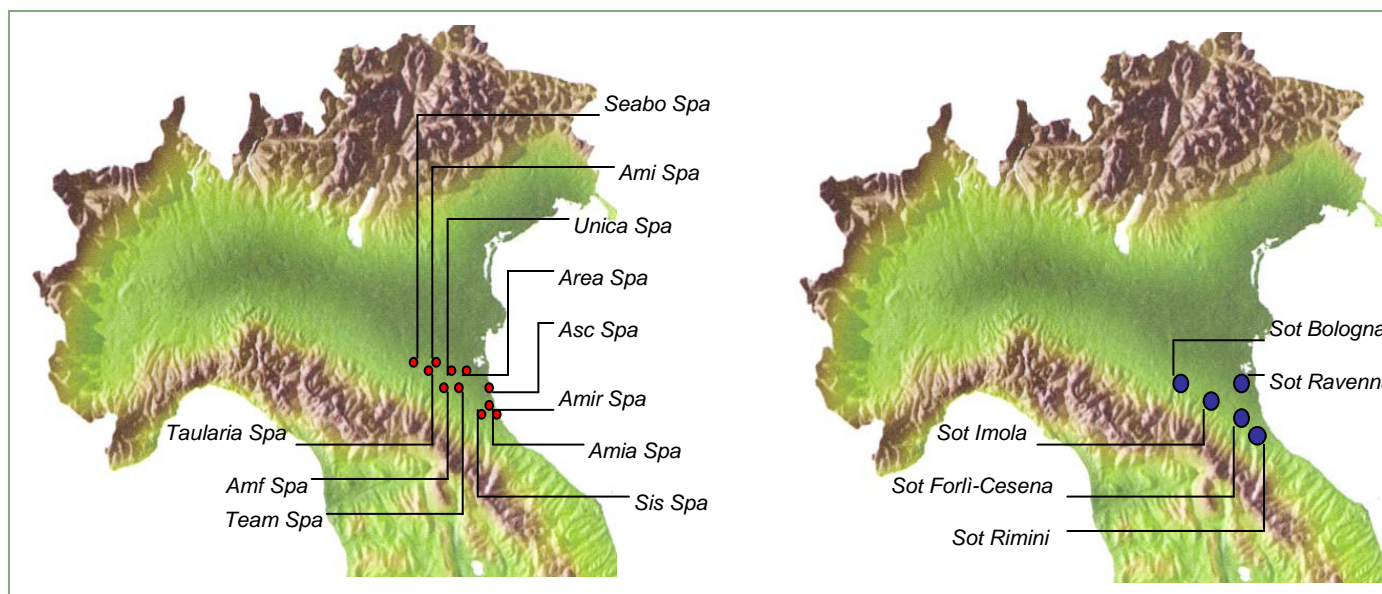
Oscar di Bilancio  
Società  
e Grandi Imprese

**WINNER  
2007**

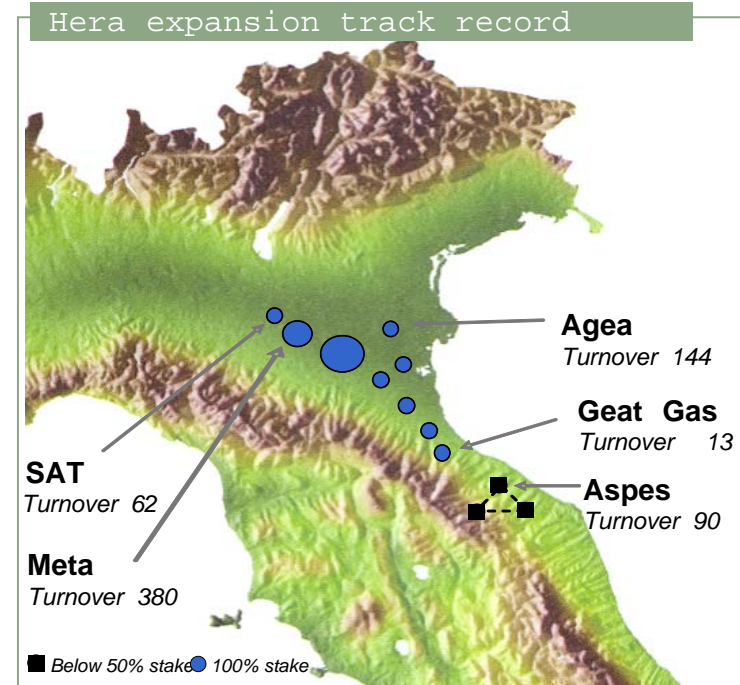
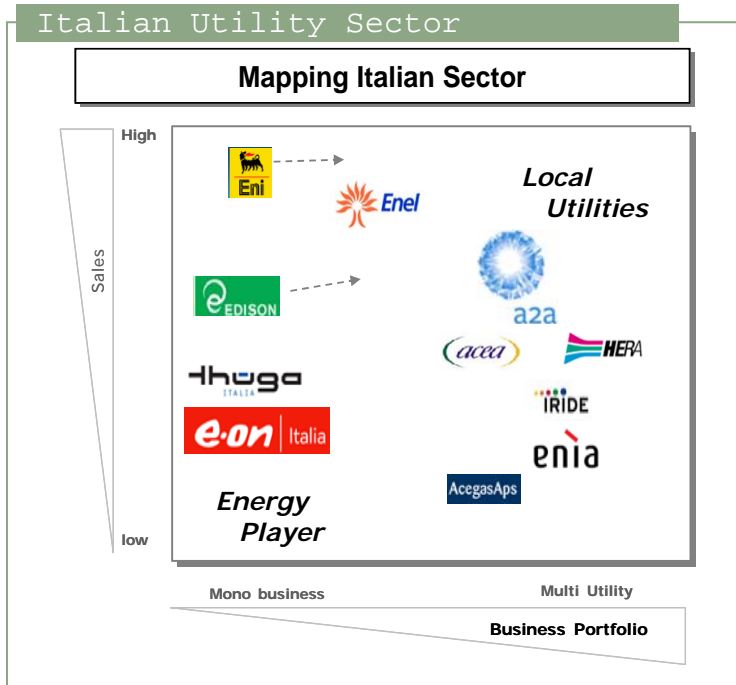
## Hera establishment

Hera established in November 2002 through the first relevant merger in the Italian utility sector involving 11 companies operating in contiguous areas (Emilia Romagna, one of the wealthiest region located in the northern part of Italy).

Following a reorganisation process, the 11 companies were rationalised in 5 similar Local Operating Companies (internal benchmarking and tight relation with customer base).



# Italian Utility sector



Sector includes national players (focused on energy businesses) and local-multi utility players (energy, water and waste).

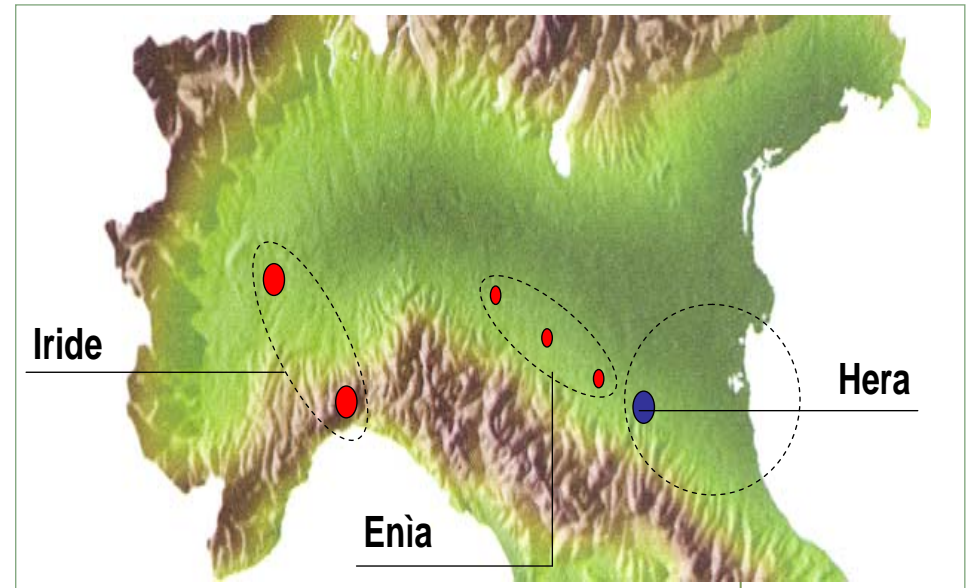
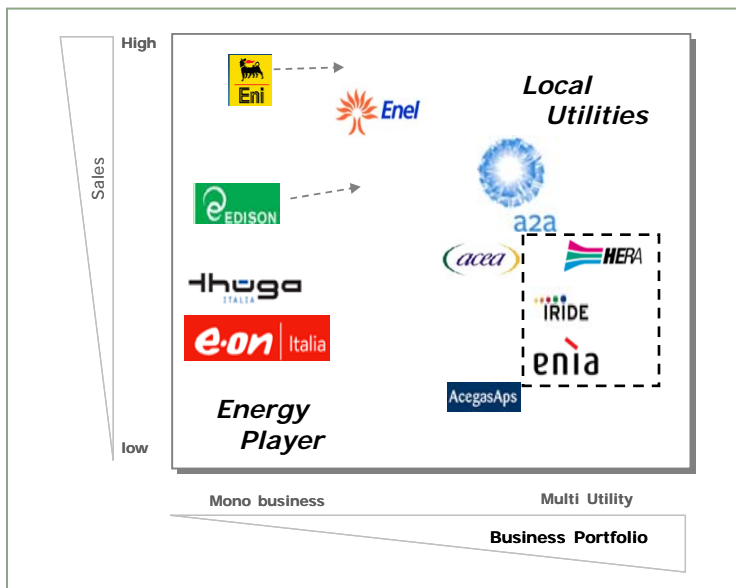
Hera Group has so far primarily expanded in Emilia Romagna (merging further 5 companies) and has become a leading player with a market cap. of about 2.8 b€.

## Sector consolidation process

Hera signed in May 2008 a Memorandum of Understanding with Enià and Iride to pursue a “full” merger.

The combined entity will reach a market cap of 5 billion € and will become the

leading player in **Waste** management (5.3 m ton waste/year) and **District Heating**, second best in **Water** and **Gas** (450 m m<sup>3</sup> fresh water and 6 b m<sup>3</sup> of gas respectively), top ranking in **Electricity** (20TWh sales).



# Portfolio mix and ranking

## 2° in Italy

### Water

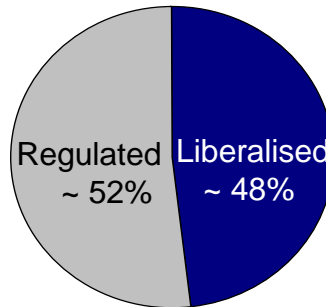
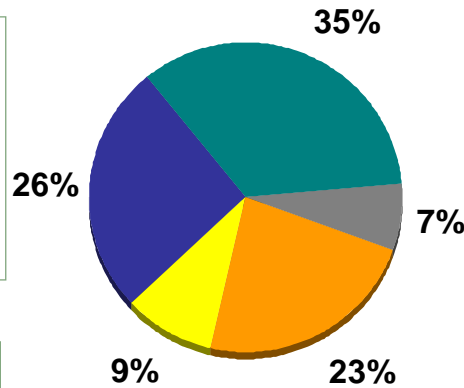
Volume sold (mm <sup>3</sup> )	241
Clients (K unit)	1.015
Networks (km)	24.806

**EBITDA 2007: 453 m€**

## 1° in Italy

### Waste

Urban waste (m ton)	1,7
Special Waste (m ton)	2,7
People served (m)	2,4
Treatment plants	73



### Other business

Lighting towers (k unit)	319
Heat (GWh)	392
Municip. Served (unit)	60

### Electricity

Volume sold (Gwh)	4.335
Clients (k unit)	273

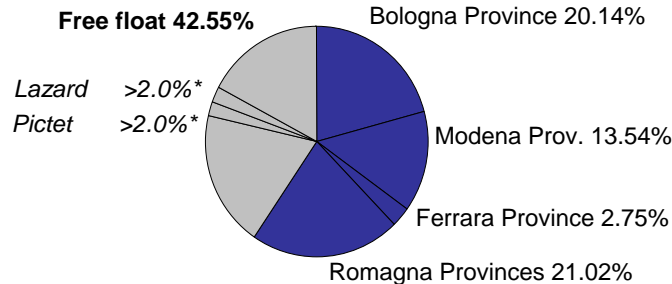
## 3° in Italy

### Gas

Volume sold (mm <sup>3</sup> )	2.337
Volume distrib. (mm <sup>3</sup> )	2.150
Clients (K unit)	1.019
Networks (km)	12.360

# Governance

Shareholdings: 1,032.8 m shares



\* included within "free float"

Hera's growth based on "balancing"

Expansion carried out through mergers (deals based on cash and share swaps).



No "absolute controlling shareholder" (public shareholders commit to maintain 51%).

> **58%** shareholdings is build up by **public several entities** (tied in a pact 51% of shares).

> **Management have a large mandate** from shareholders.

> Each private shareholder has **max. 2% voting rights**.

> Private shareholders appoint **4 out of 18 Board members**.

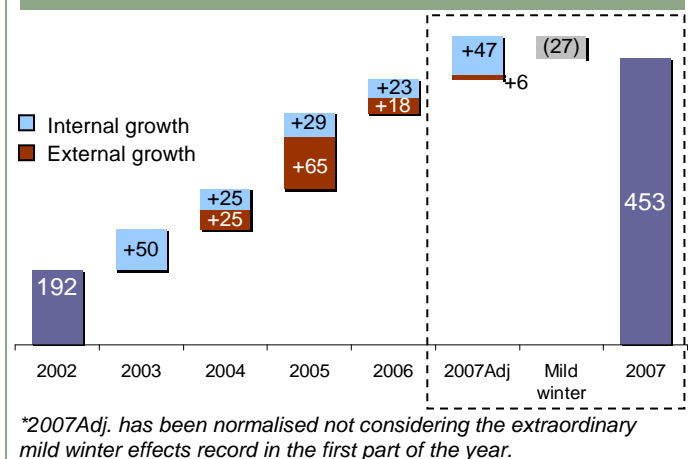
> **Internal BoD Committees** in place both for management remuneration and internal control.

## 5 years growth

### 5Y double digit growth

M €	2002	2003	2004	2005	2006	2007	Cagr %
Revenues	1,099	1,241	1,529	2,148	2,364	2,905	+21.5%
Ebitda	192	242	292	386	427	453	+18.8%
Net Profit	37	53	87	109	100	110	+24.3%
D/E (%)	29	50	53	65	77	93	+26.1%
DPS (c€)	3.5	5.3	6.0	7.0	8.0	8.0	+18.0%

### 5Y Ebitda Growth Drivers (M€)



Ebitda more than doubled; net profit tripled.

Dividends increased significantly, maintaining comfortable debt levels.

DPS increased by +18% cagr.

Ebitda growth drivers:

56% Internal Growth (Synergies and Organic Growth);

44% contribution of M&A.





Mission with a multi-stakeholder approach

“Hera **goal** is to be the **best multi-utility** in Italy **for its customers, workforce and shareholders**. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by **respecting the local environment**”.



## Citizenship

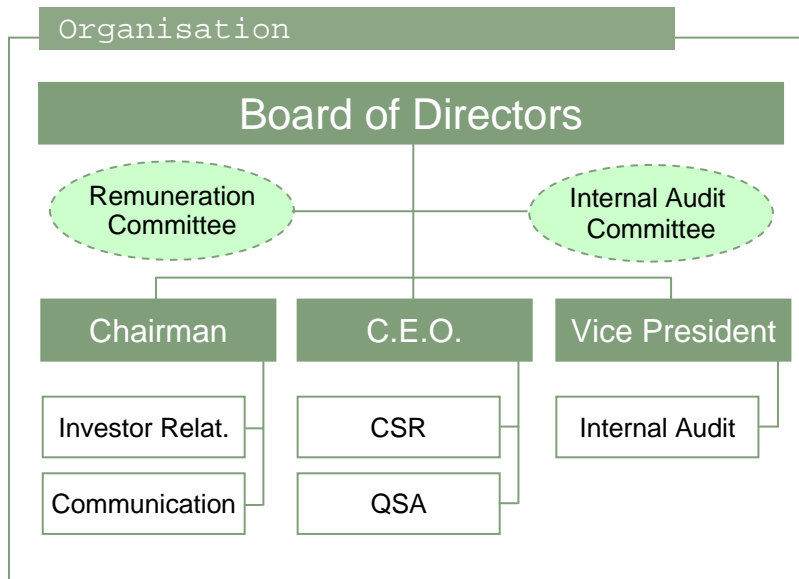
- > Hera is a relevant economic entity managing significant **environmental and social** resources of its reference territory.
- > Hera is **committed to properly use natural resources** (earth, water, air) delivering services to **people** aiming at reducing negative environmental effects (CO<sub>2</sub> emissions, water and soil pollution).
- > Hera is as well committed to **promote social enhancement** through promotion of values, respect of people, listening and speaking to all stakeholders.
- > This citizenship has a significant **impact on how Hera people effectively think, organize, act and manage** relations with stakeholders.

	2005	2006	2007	
<b>Gross Value Added</b>	<b>715.5</b>	<b>792.4</b>	<b>797.8</b>	↑
<b>Personnel</b>				
Training (K h.)	113.0	113.0	122.5	↑
Incidents on Job*	50.1	47.5	42.4	↑
Gravity of damage**	1.1	1.5	1.1	↑
<b>Customers</b>				
Interruptions in e.e. service (minutes)	14.7	17.5	12.8	↑
Respect of Aeeq std	100%	100%	100%	
Avg waiting time in shops	23.0	23.7	21.9	↑
Avg waiting time call centres	70.2	34.5	46.2	↑
<b>Energy (Gwh and Gwht)</b>				
Cogeneration (incl. thermal)	218.8	207.2	178.4	
WTE (incl. thermal)	300.8	353.7	341.2	↑
Geothermic (thermal)	76.1	66.6	57.3	↑
Solar	-	-	0.2	↑
Hydro	1.5	-	0.5	↑
Biogas (incl. thermal)	11.9	17.0	29.8	↑
Conventional thermal plant	294.3	262.2	267.8	↑
Other sources (incl. thermal)	16.7	9.8	11.6	
<b>Total</b>	<b>920.1</b>	<b>916.5</b>	<b>886.8</b>	
<b>Environment</b>				
Sorted Urban Waste collection	29.1%	24.0%	25.0%	↑
Urban Waste to landfill	36%	38%	35%	↑
Water leakage (incl. Administrative I.)	-	25.4%	24.7%	↑
Respect Kyoto Standards (Co2)	102%	115%	132%	↑
White Certificates (K Tep)	2.0	23.4	52.9	↑
Green Certificates/Cip6 (Gwh)	239	252	215	

\* total number of incidents on total working hours

\*\*days of absence on total working hours

# Organization




> All main functions focused on stakeholders are directly in staff to Top Management.

> Further more other main Organizational Units are in place:

> Supervisory Board on corporate crime prevention (legislative decree 231/2001).

> Risk management Unit.



## “Sustainability” Milestones (1)

### The RAB at Ferrara started

On **May 2005** the kick-off meeting of the **Residential Advisory Board regarding the Ferrara waste-to-energy** plant was held. The RAB provides a method for consultation between the company and citizens.

### New Mission approved


On **June 2006**, the Board of Directors of Hera SpA approved the **new Mission** and new company Charter of Values. The Mission and Charter of Values have been submitted to the approval of the workforce through focus groups and a survey.

### The first Hera's kindergarten

On **January 2007** the first Hera's kindergarten "**Tirithera**" was opened.

### Waste-to-energy plant emissions available on-line

From **February 2007** the **daily updated atmospheric emissions** are available on the Hera Group website.



## “Sustainability” Milestones (2)

### Corporate Social Responsibility Convention organized by Hera

On **June 2007** was held an **international convention organized by Hera** entitled "Corporate Social Responsibility: the other side of competition. How to reconcile social responsibility and competitive advantage?"

### Second internal climate survey

On **October 2007** the second **internal climate survey** was conducted (first edition in 2005) with the participation of more than 60% of employees.

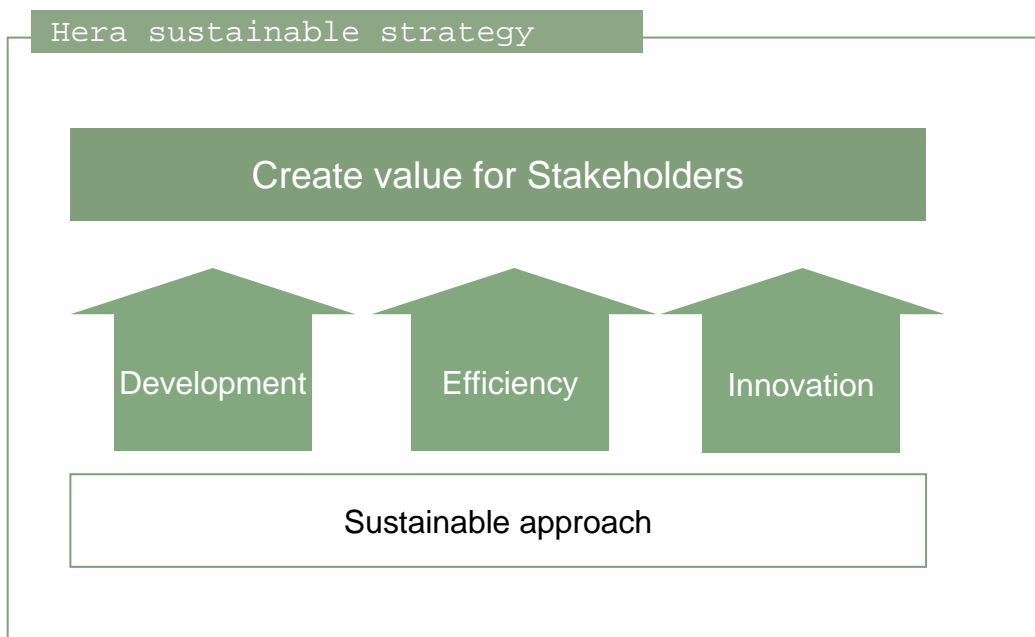
### Approval of the new Hera Group Code of Ethics

On **September 2007** the Board of Directors approved the new Group **Code of Ethics**.



## Hera Sustainable Future

# Strategy



## Financial sustainability: expected +57% in Ebitda by 2010

### Profit & Loss (M€)

M €	2007	%	E2010	%	Cagr %
<b>Revenues</b>	<b>2,905</b>	<b>100%</b>	<b>2,956</b>	<b>100%</b>	<b>+0.6%</b>
Oper.cost	(2,389)	(82%)	(2,136)	(72%)	(3.6%)
Personnel	(301)	(10%)	(316)	(11%)	+1.7%
Capitaliz.	238	8%	167	6%	(11.1%)
<b>Ebitda</b>	<b>453</b>	<b>16%</b>	<b>670</b>	<b>23%</b>	<b>+13.8%</b>

Business plan 2007-2010 restated with 2007 actual figures

### Returns and Capex plan

**Capex Plan 2008-2010 (b €) 1.0**

Ratios & Dividends	2007	E2010
Net invested Capital (m €)	2,963	3,060
ROI	7.4%	14.2%
ROE	7.7%	12.0%
D/E	0.9	0.8
NFD/Ebitda	3	2
Dividend cagr		+13%

Business plan 2007-2010 restated with 2007 actual figures

### Revenues **+0.6% Cagr**

Revenues increase by +50 m€ through:

- >Cross selling and market expansion in electricity business
- >Expansion of Special Waste market share and increase in Urban waste tariffs (+2.9% cagr)
- >Increase in water tariffs (+4.7% cagr).

### Ebitda **+13.8% Cagr**

Increase of +217 m€ (+48% in the period) with the contribution of all core businesses. Group margin up to 23%.

### Profitability and Dividends

Increases expected in all return ratios maintaining a sound capital structure.

Double digit dividend increase confirmed (+13% avg. per year throughout 2010).

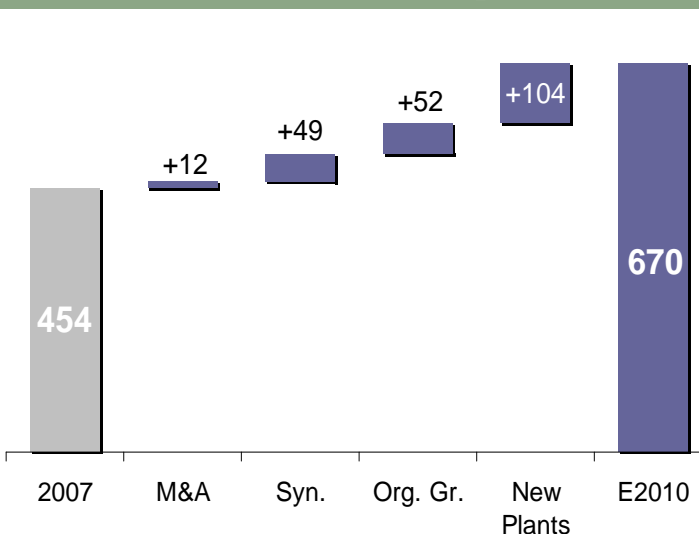
### Capex plan

Fully funded by 2008-2010 operating cash flows.



## Financial sustainability: Balanced contribution from visible levers

2007-2010 Ebitda Build-up (m€)



Business plan 2007-2010 restated with 2007 actual figures

Past and expected value drivers

M €	2003-2007	2008-2010
M&A	+108	+12
Synergies	+77	+49
Organic Growth	+76	+52

### Growth is based on proven drivers

**M&A:** SAT (merger agreed in July 2007) has been included in 2010 targets.

**Synergy exploitation** is driven by *cost cutting, efficiency improvement and HC rationalisation* in line with track records.

**Organic Growth** mainly involves *market expansion, to tariff increases and to the contribution of power generation.*

**New Plants** add up mainly relates to *new WTE +90 m€ (1 completed, 3 under construction and 1 refurbishment) and other power gen. plants +14 m€.*

## Financial sustainability: New WTE Plants

### New WTE construction program

New WTE	Capacity	Ownership
WTE Ferrara	13 MW	100%
WTE Forlì	11MW	100%
WTE Modena	19 MW	100%
WTE Rimini	11 MW	100%
WTE Modena (rev.)	6 MW	100%

New WTE	Authorisation (48 months)	Construction (avg 18 months)
WTE Ferrara	100%	100%
WTE Forlì	100%	100%
WTE Modena	100%	
WTE Rimini	98%	
WTE Modena (rev.)	100%	

Hera is the leading player in Waste Management with 73 treatment plants of which 7 WTE.

Ferrara and Forlì WTE new plant already started operations.

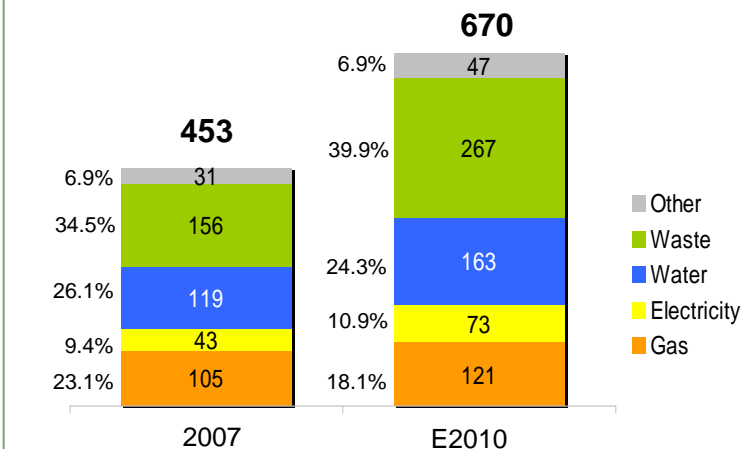
The construction of Modena and Rimini new WTE are progressing.

The economics of WTE plants highlight good margins due to incentive schemes (Cip6 and Green Certificate certificates).

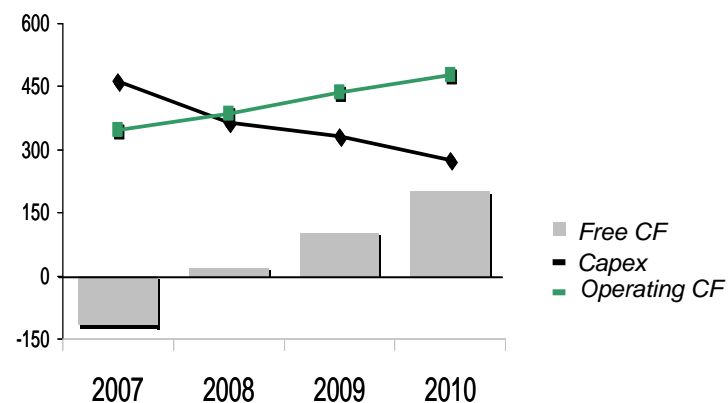
CO<sub>2</sub> – New allocation plan will not cause significant impacts up to 2011.

## Financial sustainability: Mix and cash generation

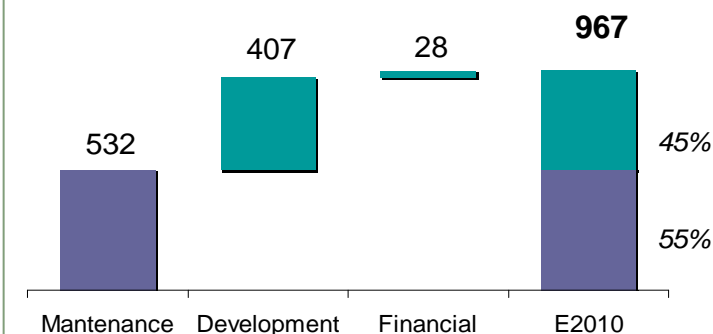
Ebitda 2007 & E2010 by Business (m€)



Expected cash flows 2007-2010 (m€)



2008-E2010 Group Capex plan (m€)



- > **Portfolio mix confirms** balance among businesses and between regulated and non-regulated activities.
- > **Capex plan** includes significant developments in infrastructures (new plants constructions and network enlargements).
- > **Free cash flows** progressively increase “fully” funding the capex plan.

## Business plan targets on KPIs

- > Hera strategic planning sets targets for all main KPIs.
- > Strategic planning in Hera is a “**bottom-Up**” process renewed every year to define a 3-years business plan.
- > **Targets are analytically defined in a Balanced Score Card system** extended to all senior and middle management.
- > **Top management remuneration** (disclosed in the financial statements) is **50% linked to target achievements.**
- > **Senior and middle management remuneration** system is also linked **(15%-20%) to the achievements of target set in the BSC.**

	2007	E2010	Trends
<b>Gross Value Added</b>	<b>797.8</b>	<b>954</b>	<b>+19.6%</b> ↑
<b>Personnel</b>			
Training (K h.)	122.5	130.0	+6.1%
Incidents on Job*	42.4	42.0	(0.9)%
Gravity of damage**	1.1	0.9	(18.2)%
<b>Customers</b>			
Interruptions in e.e. service (minutes)	12.8	17	+33.0%
Respect of Aeeg std	100%	100%	+0.0%
Avg waiting time in shops	21.9	20.0	(8.7)%
Avg waiting time call centres	46.2	27.5	(40.5)%
<b>Energy (Gwh and Gwht)</b>			
Cogeneration (incl. thermal)	178.4	1,158.0	+549.1%
WTE (incl. thermal)	341.2	705.0	+106.6%
Geothermic (thermal)	57.3	84.0	+46.6%
Solar	0.2	2.0	+900.0%
Hydro	0.5	13.0	+2500.0%
Biogas (incl. thermal)	29.8	128.0	+329.5%
Conventional thermal plant	267.8	870.0	+224.9%
Other sources (incl. thermal)	11.6	94.2	+710.6%
<b>Total</b>	<b>886.8</b>	<b>3,054.2</b>	<b>+244.4%</b>
<b>Environment</b>			
Sorted Urban Waste collection	25.0%	50%	+100.0%
Urban Waste to landfill	35%	15%	(56.7)%
Water leakage (incl. Administrative I.)	24.7%	21%	(15.0)%
Respect Kyoto Standards (Co2)	132%	100%	(24.0)%
White Certificates (K Tep)	52.9	88	+66.4%
Green Certificates/Cip6 (Gwh)	215	506	+135.3%

\* total number of incidents on total working hours

\*\*days of absence on total working hours

## Focus on Environment (1)

- > Hera **waste** management, **water** services and **energy** production intensively use environmental sources.
- > The **commitments regarding low environmental impact** of these activities highlights **positive results in past 3 years**.
- > **In electricity production**, Hera is **active in all renewable sources** mainly in WTE plants, district Heating and biogas (100% renewable sources) which benefit from **incentive schemes** (CIP6 tariff and Green certificates).
- > Hera is **respecting** all national law and **Kyoto protocol standards** on pollution.
- > **10% of 2007 Ebitda was related to benefits** coming from Hera environmental low impact activities.

## 2005-2007 Electricity Production

	2005	2006	2007
<b>Energy (Gwh and Gwht)</b>			
Cogeneration (incl. thermal)	218.8	207.2	178.4 ↑
WTE (incl. thermal)	300.8	353.7	341.2
Geothermic (thermal)	76.1	66.6	57.3
Solar	-	-	0.2 ↑
Hydro	1.5	-	0.5
Biogas (incl. thermal)	11.9	17.0	29.8 ↑
Conventional thermal plant	294.3	262.2	267.8
Other sources (incl. thermal)	16.7	9.8	11.6
<b>Total</b>	<b>920.1</b>	<b>916.5</b>	<b>886.8</b>

## 2005-2007 KPI

	2005	2006	2007
<b>Environment</b>			
Sorted Urban Waste collection	29.1%	24.0%	25.0% ↑
Urban Waste to landfill	36%	38%	35% ↑
Water leakage (incl. Administrative I.)	-	25.4%	24.7% ↑
Respect Kyoto Standards (Co2)	102%	115%	132% ↑
White Certificates (K Tep)	2.0	23.4	52.9 ↑
Green Certificates/Cip6 (Gwh)	239	252	215



## Focus on Environment (2)

- > Hera is committed to **enhance the outstanding position in WTE** (building 4 new plants).
- > Waste management will **focus on recycling** (up to 50% of urban waste).
- > Investments in Water to **reduce leakages**.
- > **CO<sub>2</sub> emissions** will have a **positive balance** up to 2011.
- > **Cogeneration** expected to increase (district heating plants) in energy production by **5.5x**.
- > **R&D** will focus on alternative energy sources (Biomass, vegetable oil, solar) and **recycling CO<sub>2</sub> emission in electricity generation** (Bio-digestion technology)
- > Hera expect to increase **up to 20% the portion of E2010 Ebitda coming from benefits** yield on low environmental impact of activities.

## Electricity Production targets

	2007	E2010	Trend
<b>Energy production (Gwh and Gwht)</b>			
Cogeneration (incl. thermal)	178.4	1,158.0	+549.1% ↑
WTE (incl. thermal)	341.2	705.0	+106.6% ↑
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## Environment: targets

	2007	E2010	Trend
<b>Environment</b>			
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Urban Waste to landfill	35%	15%	(56.7)% ↑
Water leakage (incl. Administrative)	24.7%	21%	(15.0)% ↑
Respect Kyoto Standards (Co2)	132%	100%	(24.0)% ↑
White Certificates (K Tep)	52.9	88	+66.4% ↑
Green Certificates/Cip6 (Gwh)	215	506	+135.3% ↑

## Closing remarks

- > Hera has a long **tradition in sustainability** due the sensibleness of public shareholders (main shareholders of Hera and the companies merged in Hera Group).
- > **From flotation**, Hera has **adopted several governance and organizational changes** in order to involved effectively stakeholders in continuous dialog.
- > **Track records** give evidence of the **sustainable progress performed** and strategic planning has set **enhancement targets on all main KPIs for the next 3 years**.
- > Hera **remuneration system assures personnel commitment** on achieving the sustainable targets.
- > **Sustainability** represent and ethical “must” and a **“profitable” business** (20% of E2010 Ebitda comes from incentives such as Green Certificates, Cip6 and white certificates).
- > **R&D department engaged in working out new technologies to reduce environmental impact** of Hera activities (CO2 project, water network leakage control systems etc.).
- > **The sustainable profile** have been **awarded** by several entities and positively analysed by **specialist analysts and ethical investors** (Oddo Securities, Cheuvreux, Axia, and Ethifinance analysts; several U.K., Suisse and France investors).
- > **Hera website** ([www.gruppohera.it](http://www.gruppohera.it)) include a “sustainable” and “investor Relations” section that make available **further information**.

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## Annexes

Business Plan: Breakdown by business and targets on main KPIs



## Focus on Personnel (1)

### Hera's most relevant stakeholder

- > A continuous internal communications system is having success (meetings, House organ, intra-net site, television screens)
- > At Hera all relevant matters are shared with employees starting from the discussion on the new mission, new business plan etc.
- > In 2007 the second survey on personnel satisfaction yielded positive results.
- > A Balance score Card system was introduced to guarantee a fair valuation of results and bonuses.
- > Hera commitment is to improve education and know how sharing. Training activities performed obtained positive feed back from personnel (above 1ml€ spent in training in 2007).

### 2005-2007 KPI

	2005	2006	2007
<b>Personnel</b>			
Senior Management	93	99	109 ↑
Management	245	252	286 ↑
Clerks	2,458	2,535	2,700 ↑
Workers	3,108	2,998	3,019 ↑
<b>Total</b>	<b>5,904</b>	<b>5,884</b>	<b>6,114 ↑</b>
Avg age	43.8	44.4	45.1 ↑
Seniority in Hera (years)	13.7	14.3	15.0 ↑
Female senior managers (%)	8.3%	8.6%	11.9% ↑
Female managers (%)	25.0%	26.9%	28.7% ↑
Strikes (hours pro capita)	4.4	4.8	1.4 ↑
Litigations	21	24	29 ↑
Persons awarded with Bonus	414	493	483 ↑
Training (K h.)	113.0	113.0	122.5 ↑
Incidents on Job*	50.1	47.5	42.4 ↑
Gravity of damage**	1.1	1.5	1.1 ↑

\* total number of incidents on total working hours

\*\*days of absence on total working hours

## Focus on Personnel (2)

### Hera actions and commitments on social responsibility

- > Hera commitments to improve its social responsibility are stated in the business plan 2007-E2010.
- > Hera will invest in training employed people to share best practices and promote internal carriers replacing natural retirement.
- > Above 3 MI€ investments are planned to improve training courses to employees in next 3 years.
- > Safe and security on work place have been certified with Ohsas 18001 in 2007.
- > Balanced Scorecard system has been extended to 100% of managers in 2007.
- > Facilities will be built in order to meet family needs of workers (e.g. Kinder garden etc).

### Targets 2007-E2010

	2007	E2010	Trend
<b>Personnel</b>			
Training (K h.)	122.5	130.0	+6.1%↑
Incidents on Job*	42.4	42.0	(0.9)%↑
Gravity of damage**	1.1	0.9	(18.2)%↑

\* total number of incidents on total working hours

\*\*days of absence on total working hours

## Focus on Customer

### Customers represent Hera focus

- > Customer satisfaction survey in 2007 highlighted a significant degree of satisfaction (67 points achieved on a max of 100).
- > Loyalty of customers is highlighted by low churn rates in liberalized activities (such as gas sale: 0.8% churn rate).
- > In order to meet the commitment to improve the customer care Hera is implementing:
  - >An integrated SAP IT system (CRM and one invoice for different services).
  - >Working out a quality standard card of services for all provinces
  - >Several projects aiming at enhancing customer care activity (in 3 years dedicated personnel increased by above +100%).

### 2005-2007 KPI

	2005	2006	2007
<b>Customers</b>			
Interruptions in e.e. service (minutes)	14.7	17.5	12.8 ↑
Respect of Aeeg standards	100%	100%	100% ↑
Avg waiting time in shops	23.0	23.7	21.9 ↑
Avg waiting time call centres	70.2	34.5	46.2 ↑

### Targets 2007-2010

	2007	E2010	Trend
<b>Customers</b>			
Interruptions in e.e. service (minutes)	12.8	17	+33.0% ↑
Respect of Aeeg std	100%	100%	+0.0% ↑
Avg waiting time in shops	21.9	20.0	(8.7)% ↑
Avg waiting time call centres	46.2	27.5	(40.5)% ↑

- > Develop web-site potentials to serve customers
- > Work out a welcome kit for new customers

## Focus on Suppliers

### Suppliers considered strategic partners

- > Hera deals with 21k suppliers
- > 75% in reference territory
- > A qualification system introduced on certification basis
- > Ethical Code in contract clauses

### Commitments for the future

- > Improve ethical code knowledge among suppliers
- > Increase share of supplier certified Ohsas 18001, SINAL, SIT and SA 8000
- > Improve web-site information dedicated to suppliers

### 2005-2007 Suppliers data

	2005	2006	2007
<b>Suppliers</b>			
Materials	9,143	9,337	9,443
Services	9,387	9,886	10,350
Works	1,080	1,197	1,297
<b>Total</b>	<b>19,610</b>	<b>20,420</b>	<b>21,090</b>
Resident in reference territory	74%	76%	75%
S. certified ISO 9001	5.3%	6.9%	8.3%
S. certified SOA	1.4%	2.0%	2.5%
S. certified ISO 14001-EMAS)	0.5%	0.8%	1.1%
S. certified (OHSAS 18001)	0.1%	0.1%	0.2%
S. certified (SA 8000)	0%	0%	0.1%



## CSR past and future activities

### **Past main focus of Hera CSR action:**

- > Mission and Corporate value identification
- > Sustainability reporting
- > Strategy sharing and management process optimisation (Balanced Scorecard)
- > Dialog with inhabitants living close to industrial plants of Hera
- > Reduce environmental impacts and certification (ISO 9001, ISO 14001)

### **> Targets for CSR activities:**

- > Sharing and apply the ethical code of conduct
- > Obtain further certification (OHSAS 18001, EMAS)
- > Start the process to obtain SA 8000 certification
- > Further extend the dialog opportunities with stakeholders (es. RAB)

## Main CSR results and awards

### European EMAS Award

In November 2005, the Ecolabel and Ecoaudit committee (a body appointed by the Italian Ministry for the Environment, issuing EMAS certification) selected Hera for the European EMAS Award and singled out the corporate EMAS certification project as an instance of excellence.

### Sodalitas Social Award's Award

On 7 June 2006 Hera was awarded the Sodalitas Social Award for its project involving the local community in the Ferrara RAB (Residential Advisory Board). The Hera Group was recognized in this field as a result of the project involving the local community.

### Sustainability report A+ GRI-G3

The Hera Group Sustainability Report 2006 was drawn up using the G3 guidelines set forth by the Global Reporting Initiative.

In terms of the levels of application identified for these guidelines, this Report reached a level of application of A+, which corresponds to complete application of the requirements of the guidelines, and an independent external audit.

### Financial Statements Oscar

On 28 November 2007, the Hera Group has won the 2007 "Financial Statements Oscar": sponsored by FERPI, the Italian Federation of Public Relations, the award destined to major Italian companies with the most outstanding levels of transparency, timely and quality of communication since 1955 (Fiat, RCS, SIP, Pirelli, ENI, ENEL, to name but a few).



# Plan assumptions

## What has been changed in the new plan ...

- > **The Macro-scenario assumptions** factor in higher oil prices and more conservative outlook on energy sector.
- > **Incentives for energy produced from renewables** are projected on the basis of current values.
- > **2007-2010 Market expansion projections** underpinned by more conservative assumptions:
  - > Water 2010 volumes maintained flat vs. A2006 on same perimeter;
  - > Gas 2010 volume just below 2009 in prior business plan.
- > **New refurbishment** of the old 3<sup>rd</sup> line of **WTE plant** in **Modena** was included in new plan (60 ktons and 38 GWh/year).
- > **Wind power gen. projects dropped** (~60 GWh/year).

## What has been confirmed ...

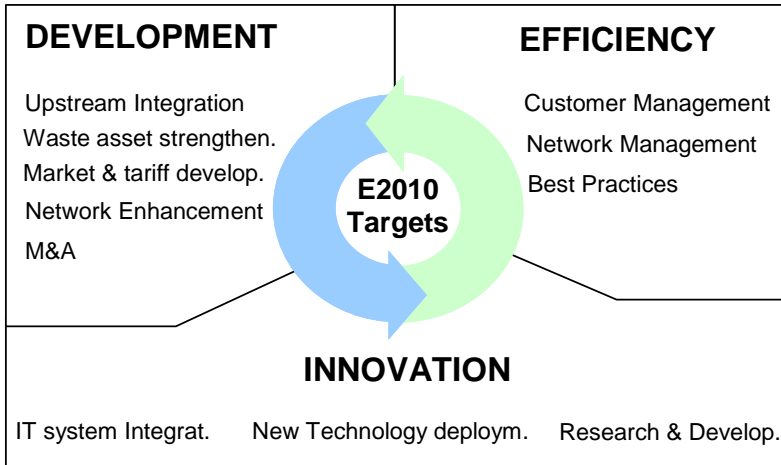
- > **Tariff trends** in regulated businesses have been fine tuned reflecting the new capex plan on regulated asset base and regulatory framework.
- > **New WTE plant realisation** confirmed with progressive visibility on start up schedule.
- > **Cost cutting and synergy exploitation** were consistent with track records.

### Main assumptions

	E2009	New Plan
<b>Macro-scenario assumptions</b>		
Inflation	2%	2%
\$/B Brent	40	50
Exchange rate \$/€	1.21	1.31
avg Electricity cost €/MWh	58	62
Green Certificates (€/Mwh)	98	120
<b>Sales to end customers</b>		
Gas (bcm)	2.47	2.41
Water (mcm)	237	255
Electricity (TWh)	7.3	7.7
Urban Waste (mton)	1.7	1.8
<b>Tariff increase</b>		
Gas Distribution (cagr)	(0.3%)	(1.6%)
Electricity distribution (cagr)	(1.3%)	(0.6%)
Water (cagr)	+4.5%	+4.7%
Waste (cagr)	+2.2%	+2.9%
<b>Synergies and Org. Growth</b>		
Synergies (m€)	+52.0	+49.0
Organic growth (m€)	+60.0	+52.0

# Focus on Hera strategy

Linee strategiche



**Strategic guidelines include the Sustainable approach stated in Group mission**

## Hera strategic pillars:

### Development:

- > Market expansion leveraging upon a loyal customer base (cross selling).
- > Upstream integration in electricity and gas sector through asset development and procurement portfolio enlargement.
- > Development of waste asset base respond to fast growth in demand.
- > Regulated tariff increase and asset enhancement.
- > M&A activities also outside of E-R region.

### Efficiency gains:

- > Cost cutting and HC reduction
- > Operating efficiency gains deploying knowledge sharing.
- > Enhancement of CRM to improve marketing initiatives.

### Innovation:

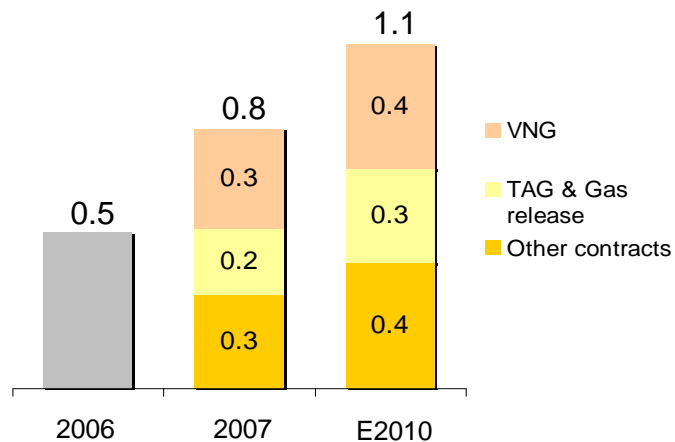
- > Integration of 2nd level IT systems and deployment of new technologies.





## Focus on upstream strategy: Gas sourcing diversification

Gas procurement (bm<sup>3</sup>)



(bm <sup>3</sup> )	2006		2007		E2010	
Final Sales	2.2	100%	2.1	100%	2.4	100%
Import	0.5	24%	0.8	36%	1.1	46%

Effective Consolidation of VNG relationship (400 ml mc<sup>3</sup>).

TAG imports from October 2008 (~200 ml m<sup>3</sup> for 5 years).

Increase on Galsi stake to 10.4%.

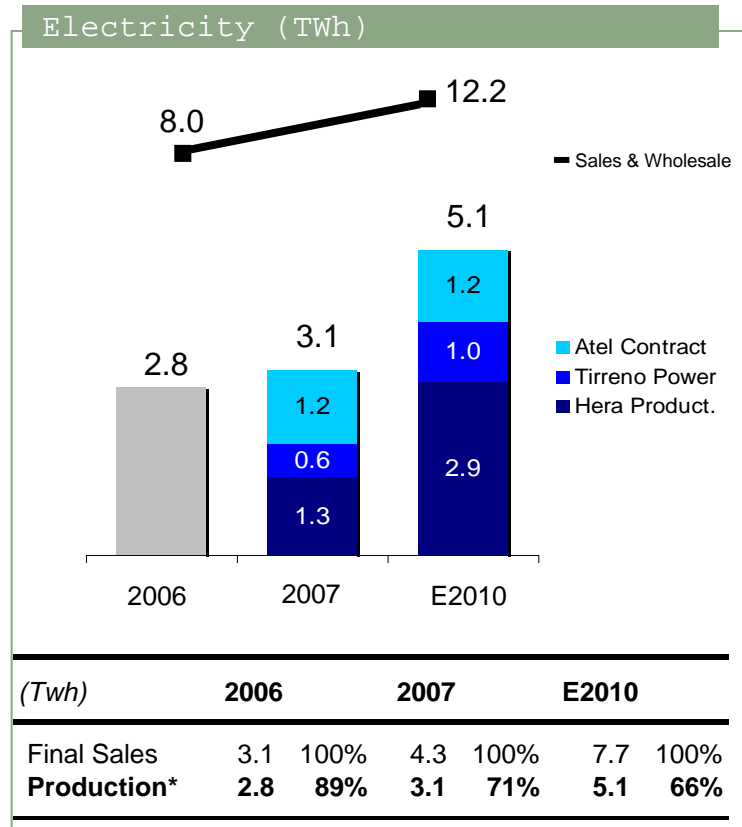
E&P stake in North Sea under evaluation.

Storage Project (Bagnolo Mella) feedback by June 2008 from MSE.

Customer base expected to increase by +3%, reaching 2.3 bm<sup>3</sup> of gas sold by 2008 (on normalised thermal season).



## Focus on upstream strategy: Electricity – New project upcoming



Teverola and Sparanise on commercial operation (2008 first full year).

Napoli Levante (Tirreno Power) and Imola cogen. on stream by year end.

New project on thermal generation (20% stake) under finalization.

4MW on solar production under development and new projects on vegetable oil & biomass (~60 MW – 30% stake) under finalization.

2008 contracted sales amount to about 5 TWh and customer base expected to increase by 3%-5%.

# Focus on Sales expansion

## Development in liberalized businesses leveraging a loyal customer base

### Electricity: customer base up to 370k

Supply market liberalization is an opportunity to develop:

- > cross selling and market expansion through energy dual fuel proposal mainly to “Soho” and residential clients;
- > commercial and trading capabilities.

➔ Overall margins enhanced due to “own” power gen.

### Gas: about 1 million customers

Expanding leadership:

- >Market expansion in surrounding areas (including Megas clients) conservatively expected to offset increased competition;
- >Development of trading activities;
- >Expected normalized consumption in 2008-2010 winter seasons.

➔ Margins preserved due to better procurement mix

### Waste: +6.2% cagr volume increase

Taking advantage from a fast growing market through:

- >cross selling: “trial fuel” offering (energy & special waste services);
- >“full” service contracts (including remediation of sites);
- >Up to 1.3 m customers will be billed with Urban waste activities (thanks to the shift from tax to a tariff system).

➔ Leveraging a stronger and wide ranging asset base

#### Market expansion

Electricity (TWh)	2007	E2010	Cagr
SOHO & Resid.	1.5	3.7	+34.7%
Large business c.	2.8	4.0	+12.6%
<b>Total</b>	<b>4.3</b>	<b>7.7</b>	<b>+21.0%</b>

Gas (b m <sup>3</sup> )	2007	E2010	Cagr
SOHO & Resid.	1.2	1.7	+4.4%
Large business c.	0.9	0.7	+2.9%
<b>Total</b>	<b>2.1</b>	<b>2.4</b>	<b>+3.0%</b>

Waste Volume (m ton)	2007	E2010	Cagr
Urban waste	1.7	1.8	+3.1%
Special Waste	1.8	2.6	+13.9%
<i>Total*</i>	3.4	4.5	+8.9%

**Cross selling activities will increase up to 2,6 the number of services per client**

## Focus: Waste & Water business plan 2007-2010

### 2007-E2010 Growth

M €	2007	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>554</b>	<b>100%</b>	<b>729</b>	<b>100%</b>	<b>+9.5%</b>
Opex	(289.4)	(52.3%)	(329.1)	(45.2%)	+4.3%
Personnel	(129.1)	(23.3%)	(137.3)	(18.8%)	+2.0%
Capitaliz.	21.3	3.8%	4.7	0.6%	(39.1%)
<b>Ebitda</b>	<b>156</b>	<b>28%</b>	<b>267</b>	<b>37%</b>	<b>+19.3%</b>

#### Revenues +9.5%

<i>Urban w. tariff</i>	<i>+2.9% cagr</i>
<i>Urban w. volumes:</i>	<i>+3.1% cagr</i>
<i>Special w. volumes:</i>	<i>+13.9% cagr</i>

Hera exploits the positive Special waste market trends.  
Next Urban waste regulatory period 2008-2010.

#### Ebitda +19.3%

Mainly underpinned by the increase in energy production of new WTE plants (4 new and 1 refurbishment in Modena old plant), Special waste fast growing results and urban waste tariff increase. Ebitda margin up by 870 bp.

#### Capex 276 m€

Mainly relates to new WTE plants, refurbishment of old Modena WTE, and expansion of Special waste treatment plants. Capex fully funded by waste business cash generation.

### 2007-E2010 Growth

M €	2007	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>408</b>	<b>100%</b>	<b>451</b>	<b>100%</b>	<b>+3.4%</b>
Opex	(342.0)	(83.9%)	(296.1)	(65.6%)	(4.6%)
Personnel	(89.8)	(22.0%)	(97.2)	(21.5%)	+2.7%
Capitaliz.	142.7	35.0%	104.9	23.2%	(9.7%)
<b>Ebitda</b>	<b>119</b>	<b>29%</b>	<b>163</b>	<b>36%</b>	<b>+11.0%</b>

#### Revenues +3.4%

*Tariff growth: +4.7% cagr*

Regulated water tariff increase will be agreed with AATOs by year end for the next regulatory period ranging 2008-2010. Volumes remain steady excluding contribution from M&A.

#### Ebitda +11.0%

Mainly underpinned by tariff increases.  
Efficiency gains pursued in network management and maintenance (reduction of network leakage). Ebitda margin up by 910 bp.

#### Capex 334 m€

Mainly relates to maintenance and development of pipelines. Capex is remunerated by 7% return on RAB.



# Focus: Energy business plan 2007-2010

## 2007-E2010 Growth

M €	2007	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>922</b>	<b>100%</b>	<b>979</b>	<b>100%</b>	<b>+2.0%</b>
Opex	(810.5)	(87.9%)	(835.8)	(85.4%)	+1.0%
Personnel	(39.5)	(4.3%)	(45.3)	(4.6%)	+4.7%
Capitaliz.	32.7	3.5%	23.2	2.4%	(10.7%)
<b>Ebitda</b>	<b>105</b>	<b>11%</b>	<b>121</b>	<b>12%</b>	<b>+4.8%</b>

### Revenues

+2.0%

Gas distr. tariff (1.6%) cagr

Gas distr. volumes: +4.7% cagr\*

Gas sales volumes: +3.0% cagr

Sales volumes increase due to market expansion in surrounding areas. The expected increase is based upon "normal" winter seasons. Gas sales prices projected in line with assumption of downward trend in commodity price. Gas distribution volumes benefit mainly from SAT contribution (116 m m<sup>3</sup>/year)

### Ebitda

+4.8%

Ebitda underpinned by market expansion capable of offsetting competition pressure on margins.

### Capex

102 m€

Mainly relates to maintenance of networks. Capex plan fully funded by business cash generation.

## 2007-E2010 Growth

M €	2007	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>989</b>	<b>100%</b>	<b>709</b>	<b>100%</b>	<b>(10.4%)</b>
Opex	(945.1)	(95.5%)	(631.7)	(89.1%)	(12.5%)
Personnel	(20.0)	(2.0%)	(19.5)	(2.8%)	(0.8%)
Capitaliz.	18.6	1.9%	15.4	2.2%	(5.9%)
<b>Ebitda</b>	<b>43</b>	<b>4%</b>	<b>73</b>	<b>10%</b>	<b>+19.5%</b>

### Revenues

(10.4%)

Elect. distr. tariff (0.6%) cagr

Elect. sales volumes: +21.0% cagr

Market expansion is mainly driven by cross selling on gas customer base (mainly Soho and residential customers).

### Ebitda

+19.5%

Mainly underpinned by new power generation and market expansion. Ebitda margin up by 380 bp.

### Capex

140 m€

Mainly relates to new plants and maintenance of networks

\*including contribution from M&A

# Focus: business plan 2007-2010 on Other business & Portfolio Mix

## 2007-E2010 Growth

M €	2007	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>160</b>	<b>100%</b>	<b>153</b>	<b>100%</b>	<b>(1.4%)</b>
Opex	(129.6)	(80.8%)	(108.3)	(70.6%)	(5.8%)
Personnel	(22.6)	(14.1%)	(16.9)	(11.0%)	(9.0%)
Capitaliz.	23.0	14.3%	18.4	12.0%	(7.0%)
<b>Ebitda</b>	<b>31</b>	<b>19%</b>	<b>47</b>	<b>30%</b>	<b>+14.2%</b>

### Revenues

(1.4%)

#### District Heating

Thermal e.: from 392 to 650 Gwht  
Power gen. from 76 to 130 Gwh

#### Public Lighting

Lighting towers. from 319k to 349k

Sales expected reduction relates to non-core activities dismissions partially compensated by increase of District Heating and Public Lighting revenues.

### Ebitda

+14.2%

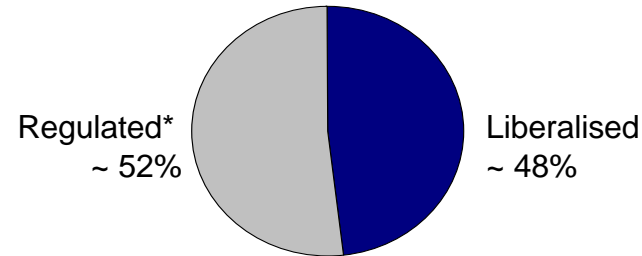
Mainly underpinned by efficiency gains and development of District Heating and Public Lighting activities. Ebitda margin expected to increase significantly.

### Capex

115 m€

50% relates to expansion of District Heating network.

## 2010 regulated businesses



\*includes Other businesses

**Portfolio mix confirmed** balanced between regulated and non-regulated business.

Waste business confirmed as main contributor to Group Ebitda.

**Efficiency gains** in all core businesses mainly benefit Waste, Water and Other businesses.

**Organic growth** development mainly driven by market expansion in all core activities.

**Risk profile** diversified among core businesses and projected results based on conservative assumptions.



## Focus on last financial achievements: Q1 2008 results

**Revenues** **+33.8%**

Mainly relates to normalised winter season, Electricity **cross selling**, enhanced commodity **trading** activities, energy prices increase and improved **tariffs** in “WW”.

**Ebitda** **+14.7%**

**Normalised climate** conditions of Q1 2008, **M&A** activities and **internal growth** drivers underpinned growth offsetting personnel cost increase (renewal of national labour contracts).

**Ebitda margin, netting** the higher Electricity trading activities, is about **18.5%**.

**Ebit** **+16.8%**

Affected by D&A related to significant operating capex.

### Q1 2008 Group Results

M €	Q1 2007	%	Q1 2008	%	Ch. %
<b>Revenues</b>	<b>759.5</b>	<b>100.0%</b>	<b>1,016.3</b>	<b>100.0%</b>	<b>+33.8%</b>
operat. costs	(595.4)	(78.4%)	(835.9)	(82.2%)	+40.4%
personnel	(76.6)	(10.1%)	(85.5)	(8.4%)	+11.6%
capitaliz.	47.1	6.2%	59.3	5.8%	+25.9%
<b>Ebitda</b>	<b>134.5</b>	<b>17.7%</b>	<b>154.3</b>	<b>15.2%</b>	<b>+14.7%</b>
D&A	(47.5)	6.3%	(52.6)	(5.2%)	+10.8%
<b>Ebit</b>	<b>87.1</b>	<b>11.5%</b>	<b>101.7</b>	<b>10.0%</b>	<b>+16.8%</b>
Financials	(17.1)	(2.3%)	(23.2)	(2.3%)	+35.3%
<b>Pre tax Profit</b>	<b>70.0</b>	<b>9.2%</b>	<b>78.5</b>	<b>7.7%</b>	<b>+12.2%</b>

**Pre-tax Profit** **+12.2%**  
Discounting financial charges in line with financial debt increase.