



**Business plan 2010 - 2014
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Speakers:

- *Tomaso Tommasi di Vignano, Chairman*
- *Stefano Venier, Executive director of Development and Marketing*
- *Jens Klint Hansen, Investor Relations Manager*

Mr Tomaso Tommasi di Vignano speaking

I would like to thank you all for being here with us for the presentation of the update of our business plan for 2010-2014. [...] I think that for all those of you who already know us it would be useful to consider that this is an update on last year's business plan and that it is specifically relevant as far as we are concerned because it refers to a period which is a moment of discontinuity vis-à-vis the previous years – discontinuity in terms of regulatory terms and discontinuity in terms of some of the characteristics of the sector that we refer to.

We are moving up towards new tenders; new bills, new regulations have been passed which change some of the characteristics of the sector in terms of new liberalisation processes. We are also entering a phase in which there will be further rationalisation of the portfolio and of the number of operators working in this sector.

Now, this situation, these perspectives allow us to go back to some of the fundamentals and the background of the company and of our results: the success story which brought us to become leaders in the multi-utility sector in Italy.

We will be going over the reasons behind this growth and we will be comparing them to our future perspectives.

Currently, if we consider the period from 2003 to 2009 the company has had certain aspects in terms of the fundamental growth drivers. First of all, our choice of focusing on a multi-business approach: we were the first company to have this kind of approach and it was consistent from the very beginning.

This choice of ours was imitated by others and it became a reference point for other companies operating in this sector, a sector in which our Group, vis-à-vis our fundamental activities, is now stably among the leaders in the national ranking also in terms of the individual business sectors.

The intensity of our acquisitions and synergies in our Group contributed to our growth, which is something the company wanted to do also in light of its history of being an operator which was born through various M&A operations which then allowed us to become more and more efficient in several areas.

The final element I would like to refer to which is behind our growth is the choices we made which were often imitated, both in terms of organisational models which from the very beginning linked our need to be

close to the territory and the progressive choices we made in terms of growing vertically also in light of the unbundling regulations.

Within our strategy this brought about strategic approaches represented, as you know, by waste, energy and networks.

What was the size of this growth in the period of time we are looking into? It was important in terms of EBITDA: we had a yearly growth rate equal to 15%, which is considerable also compared to other operators both national and international, including the larger European operators. The investment made to support our growth was significant: 18% of net invested capital and the value of our overall capex is equal to 2.4 billion euro. As I have already mentioned, this was accompanied by an intense M&A activity, which further enhanced our growth.

The three main areas I referred to are areas in which we are leaders in terms of the waste market in Italy; just to give you a few figures, at the end of 2009 we were above 5 million tons of managed waste and we now have a number of very important plants nationally which are perfectly in line with the top quality plants present in Western Europe. We now have 77 plants which are within a single company which manages them according to the various types of activities present in the sector from waste-to-energy plants to landfills and the entire waste management sector and we also pay close attention to those plants dedicated to recovering and recycling waste.

In terms of the energy sector we are now present significantly, which is something that we did not have at the beginning of our activities: again, we are present in the gas customer sector and in the electricity customer sector.

As far as gas is concerned, at the end of 2009 we had some 1.1 million customers and through a series of phases we also increased our customer base in electricity. We also had an increase in our volumes and, in terms of gas, volumes have reached 2.2 billion cubic metres. In 2009 they were above 7 terawatt/hour as far as the sales to end customers are concerned.

A third area in which we have a significant presence nowadays is the networks area and in this sector we have gas distribution, electricity, water and district-heating networks. The total amount of this important asset is equal to 57 thousand cubic metres of networks. We are the reference operator in our territory and we are the owners of our networks which is also a point of strength when it comes to the future tenders for the new concessions.

All of this was translated into a significant growth which, as you know, in terms of EBITDA brought us above 550 million euro, 60% of this growth came from internal growth and more specifically from three areas. We had synergies which over the 5-year period we are going into brought us 74 million euro in EBITDA through the increase of efficiency in terms of staff, cost and operational efficiency.

Then we have 54 million euro in terms of organic growth which stems from our commercial activities through cross-selling, through the extension of our customer base (our customer base increased by 500 thousand units) and also due to the tariff increase which brought our tariffs in the regulated sectors in line with the tariffs as foreseen by the Law.

Finally, the third area of this 60% internal growth is represented by the contribution made to growth by the development of our new plants which we were very much committed to in the waste sector but also in the energy sector in the 2003-2009 period.

What were the three fundamental aspects of our strategy which we would like to remind you of within the Group? First of all, as I have already mentioned, we have a business model which is unique and had strength to help us during the mergers and the Group creation so that we were able to actually become strong on our territory, and then through a number of organisational operations in 2009 we were able to move towards a company structure which is more focused on the production processes and we were able to take advantage of the positive aspects in both of these areas. We also had governance which was objectively stable, unlike our competitors, and this was positive in terms of accompanying the company growth. I would like to remind you of the fact that we were the first, we are leaders when it comes to focusing on sustainability – social and environmental sustainability – in terms of our growth policies.

From a territorial point of view, we concentrated on a multi-business approach on the customer base presence in seven provinces, equal to some 2.5 million people, and taking advantage of the liberalisation of certain areas of the market – for waste, more specifically for special waste, and for the energy offer both in terms of electricity and gas – we started moving into other territories and therefore in these new areas we are present with a typically commercial approach.

This allowed us to become present in the regions you can see on page 9, regions which surround our reference territory. This means that the Group is no longer concentrated on a single albeit important territory. We are now pretty much national operators. All of this allows us to have a platform base upon which we are now able to offer an important plan, a reassuring plan, which was also reflected in the Group's ability [] customers' multi-service approach to be able to withstand the general crisis which characterized the past 18 months. Already during 2009 and even more in the first semester of 2010 our results make it safe to say that growth did not stop in 2009, with an EBITDA which grew by 7.4% that year and with the result as for the first semester of 2010 which sees a 50.6% growth in EBITDA.

This was very much supported by the excellent performance of our energy sector which further underlines the importance of two drivers of our policies. What are these drivers?

First of all we focused on the downstream and therefore we will continue increasing our customer base and we have some very important targets for the future as well, and especially the electricity sector is something we are very satisfied of since that was the area in which our presence was a lot more limited in the past.

The second positive element which brought about these results in the energy sector, as you can see on page 10, is represented by the cautiousness, also based on the suggestions of many of you, with which we entered the electricity generation sector and this allowed us to avoid being in a difficult position during the crisis. But also the cautiousness with which we managed the procurement contracts made by our commercial & trading departments in terms of the acquisition of gas. This is a situation which is unique in Italy in the sense that we do not take or pay contracts meaning that we are able to have a more flexible approach to the market's conditions. So, the sum of these two cautious approaches is a specific point of strength for us even during a period of crisis.

As I said in the beginning of my presentation, we are currently in a phase which is characterised by a number of regulatory novelties – some have already been completed, some are being completed – and obviously the tender in the regulated sectors is the most significant novelty even though it is not an immediate one as far as timing is concerned; the information I can give you is that as far as the gas tenders are concerned we are waiting for the completion of the three Decrees that will launch these tenders and

they will be launched on a provincial basis and hopefully the government will soon approve the three Decrees which are already ready for quite some months now.

As far as the water and the waste services are concerned, the tenders on our territory will begin in June 2013 because as you know up to that date we are still within the regulatory period in which the public shareholders will be able to make their decisions on whether or not they will decrease the amount of shares from being majority shareholders to 40%, as foreseen by the Ronchi Decree.

This was a period in which we have also been rationalising the company: we have been working on the company portfolio, with a great deal of attention paid on the issue of consolidating the company from the financial point of view as these are companies which did not count on the contribution of the shareholders vis-à-vis the significant investments they made. Specifically Hera now has a more solid position also compared to our competitors, with a reduced amount of debt, and this is something we are continuing to work on.

This brings us to the strategic priorities for 2010-2014; let's see the fundamentals, the main elements that will allow us to link what we have done so far to our future perspectives. We are forming priorities, the first of which is that of expanding our downstream and I believe that in the first part of the business plan we will be able to achieve 2 million customers which was the platform that we ourselves and our competitors work towards, which makes the situation in our territory very complex, especially for the gas sector. But I believe that these 2 million customers will allow our company to be independent without having to depend on the interventions made by other operators. We are close to the 2 million customer threshold; it is an important value from an economic point of view, from a strategic one and also vis-à-vis the potential that this figure can express. Were we to assess it in terms of progressively adding a number of services to our customers we hope that we will be able to reach an average of some three services per customer.

The second strength of our plan is the fact that many of our actions in terms of innovation and in terms of new business processes will allow us to have a significant contribution coming from enhancing efficiency in the years ahead; a significant contribution can also come from smaller M&A operations because, as we have foreseen, these are opportunities which already exist as a consequence of the upcoming tenders. In other words, the smaller operators are selling some of their autonomy, some of their independence.

The third strategic point, the third priority, is a novelty as far as investments are concerned: we have said that with 2009 we had completed the building of the large plants and therefore consistently you will see that already beginning in 2010 and for the entire business plan we will be reducing capex.

Finally, we have positive conditions so as to be able to increase profitability and I remind you that also in terms of EBITDA margins the plan allows us to foresee – vis-à-vis 18.2 – another trading to bring this in 2014 to slightly above 19% and this is a further positive element. Among our goals, which have already been announced, we intend to strengthen our cash flows, which not only do we confirm that it is positive in terms of pre-dividend in 2010 but also that it will continue being positive throughout the business plan and it will also be positive post-dividend in 2014 according to our forecasts.

At this point we can go into the plan's initial figures which tell us that our EBITDA forecast in 2014, as you can see on page 14, is equal to 750 million euro and, as you can see, we have a significantly lower capex which for the entire business plan will be around 340 million euro on average. What are the components, the drivers of this growth? They are well known and very much experimented. On one hand, we have 70 million growth in terms of organic growth, which are due to our expansion on the market and to the tariff

increase in water and waste. In 2012 these sectors will still not have completed the entire coverage of cost and remuneration of the investment. This involves a couple of provinces in which the completion of this process was already negotiated with the authorities.

The second traditional area is represented by the 12 million euro in synergy on a yearly basis, equal to 73 million euro for the entire business plan, fully in line with what we were able to accomplish in the 5 previous years; so we are not simply replicating things, we try to look at things in terms of the common scheme for each organisational project which we are already working on or which we have foreseen for the next few years and we believe that we will be able to maintain this level of growth.

An area in which we have a lower impact on the result is the area which concerns the new plants because, as I said, we completed the construction of this new plants – I would like to remind you of the fact that the last major plant we completed is the Rimini waste-to-energy plant which began working in June 2010. We are also working on the completion of two new waste-to-energy plants, specifically one in Modena and one in Bologna.

Then we have the activities concerning renewables which are concentrated in the biomass sector. I have already mentioned everything concerning investments and I believe that these are the factors that, from an overall perspective, can allow us to have a solid and transparent growth. I can go below EBITDA and be able to be positive also in terms of cash flow and in terms of the return on the invested capital.

With that I will give the floor to Stefano Venier who will be going into the various business areas and the financial aspects of the plan.

Mr Stefano Venier speaking

Thank you Mr Chairman. I will try to give you a few further elements not only in terms of the goals that we have already explained: 2 million customers, efficiency, assets and investments.

I can add something to what the Chairman has already illustrated, beginning on the first of the three columns: organic growth, equal to 70 million euro. 50% of this is due to the tariff increase, whereas the remaining 50% is due to the commercial development and to the broadening activities we are working on and in light of this our 2 million customer base objective is absolutely fundamental. The path we have been going along over the past 5 years brought us on one hand to increase our customers by 550 thousand – at the same time we also increased the number of contracts per customer from an average of 1.62; this is a key driver we intend to focus on and as you will see 2 million customers is something that we can reach and we will work on increasing the number of contracts per customer which will go from 2 to 2.5.

Where can we find these additional developments? We can find them in those areas in which we are already present outside our regions and in the region itself. For example Marche, Tuscany and Umbria are areas in which we are obtaining significant results; they are areas in which we already started to acquire 30 to 40 thousand new customers yearly.

So if we keep this pace and if we increase it slightly we will be able to reach 600 thousand customers in the electricity business maintaining our customer base in the gas business, an area in which since we are the incumbent we suffer from the competition of other competitors; but we are fully able to reconquer them or conquer new customers outside our territory.

Where are we focusing on? This goes back to the innovating approach we have always had: we were the first to focus on the SoHo market, the residential market, and that is a market in which we find new contracts and new customers and we feel that the conditions are there to continue focusing on this segment but the return rate in this area is significantly lower compared to other segments of the market and therefore even the investments we made in terms of acquisition now have some return rates which are very interesting indeed.

Another fundamental element of our activity is that of conquering new customers without losing customers, obviously because it makes the investment already made more profitable and it does not double our efforts. One of the reasons why we have lower return rates compared to other competitors is due to the customer satisfaction rates. As far as the residential market is concerned, last year we were close to 70% customer satisfaction which is the threshold of what is referred to as the “delighted area” and in the business sector, after the significant growth made in the past three years, we are now targeting 70% as an achievable threshold. Obviously we continue having systematic surveys on customer satisfaction once per year in overall terms, and specifically more than once a year, and this allows us to focus on how we can improve, ranging from communication to invoicing to commercial relations. These are all areas that we study systematically because we believe that this is an element which needs to be focused on.

Moving to the second column, the Chairman was saying that we confirmed what we have been doing so far, in other words, we have a goal ahead of us which is similar to what we already obtained, obviously with a few different levers, with a few different types of approaches. But the evolution of our operational models which we obtained last year by bringing back all commercial activities within the commercial area and bringing back our operations within the holding is something that can relaunch our possibility to optimise our costs.

We wanted to give you a parametric representation, and as far as the networks area is concerned – which more than half of these benefits stems from because it is the most vast area of ours – we intend to reduce the average cost of management from 140 euro to 125 euro, with a -2.5% which is obviously above the regulated price cap. This reduction in the average cost per POD will allow us to obtain significant benefits. How will we do this? The various significant points are on the right-hand side and we have smart grid and metering or [...] rationalising our cost to serve.

What counts here is that we believe that we will be able to reduce costs by some 3.6% yearly thanks to the scale economies which derive from the multi-utility approach because if we increase the number of clients of our contract per customer we will increase our overall economy. Secondly, we will continue to further optimise the front-end side of things, in other words our contact with customers, and then further enhance our online services: we have already launched an experimental phase about a year and a half ago which is very satisfactory indeed since you can deal with the acquisition of information online and online invoicing and payments and all possible solutions to problems. This allows us to reduce costs in terms of contact points and call centres, so it has a double advantage.

We have a further 50 million euro which will derive from our rationalisation activities both from the water point of view and from urban waste collection costs, as we have done in the past.

Moving on to the third goal we are giving ourselves – a goal that is strategic – in other words, that of being able to selectively complete our asset base. When I refer to a selective completion, this means not only completing the final plants but also working on our networks in which the upcoming gas tenders, for instance, will offer some very important opportunities.

The first element is the reduction of the investment: as the Chairman was saying, 2009, as we have already said, was the year of completion of the new plants and 2010, with 250 million euro invested, testifies that we had a 20% reduction of the investment immediately and this will continue probably years ahead of us and it will reach some 210 million euro, the level of investment which is a reasonable projection for 2014. As we saw two pages ago there will be a change between investment and EBITDA that in 2007 was 2 to 1 and in 2014 will be 2 and a half times. This investment in the 5 year period is equal to 1.7 billion euro and 55% of this is destined to regulated activities on the networks mainly and 58% is made up of investment on the so-called “development”: this means that these are investments either on new plants or on the enhancement or the renewal of the already existing plants.

How is this broken down? In the waste sector it is equal to some 550 million euro, of this the waste-to-energy part, which in the past was the most consistent part, is now reduced to some 200 million euro. What makes up those 200 million euro: obviously we have the creation of the third Modena line, just the one that we will be starting shortly, and then the creation of the new line in Bologna, which was not included in last year’s plan – we did not have a full visibility of things – but as a matter of fact which is the last area we will focus on in our territory.

So, it is 200 million to waste-to-energy, 70 million to other activities such as biomass, about 100 million euro goes into the waste collection. This makes up the investments in the waste sector which is pretty much a half of what used to be in the past. This reduction is also driven by the financial approach we already had from quite some time in terms of selecting the investments we need to make. This also has an impact on the energy sector: given the market situation currently we have not envisaged any further strengthening in terms of generation besides the completion of the plant which has already been build and which will become fully operational as of next year, which is the Tamarete peak-load plant. Besides that there are no other relevant investments which can enhance the asset base in this sector also because the market context currently favours a short position such as the one we have; therefore in the short term it does not limit our opportunities in terms of enhancing our commercial development.

As far as networks are concerned – and they are a little bit over a half of our overall investments and they are all in the regulated sectors – the 450 million euro dedicated to maintenance and 480 million to development. I would like to give you some further elements to understand what these are: within the 480 million euro in development we have investments concerning electronic meters and the substitution of the older gas meters as provided by the Law; we have 700 million euro to the new customers in our networks and the remaining part, which is 250 million euro, is the strengthening and enhancing of networks or plants, for example in the water cycle, in which we are creating new structures to purify water.

All of this lies within the regulated asset base. Just to make a comparison with the previous business plan, this brings about a shift in the various contributions made to the growth of the EBITDA: you remember how last year we were expecting a 70 million euro contribution from the new plants in the 2009-2013 period whereas now we expect 40 million euro because part of these assets in 2010 are already contributing to our businesses’ organic management.

Moving on to how we developed our three business areas, beginning with energy.

We have a pyramid here which not only reflects how the single business areas contributed to EBITDA but also shows how the risk is divided up in terms of our portfolio. We have a top of the pyramid which is fully liberalised and then we have networks which are fully regulated at the base of the pyramid.

Energy: as I was saying, our drivers are reaching 2 million customers and in terms of sales we want to reach 9 terawatt hours in the electricity sales, vis-à-vis the 7 we currently have, and 2.2 billion cubic metres of gas sold to end customers, excluding wholesales and thermoelectric sales which bring us to almost 3 billion cubic metres.

Now we point to the leverage upon the short position that the company has in the 2 years ahead. Nowadays the gas and electricity markets have a structural overcapacity in Italy. I will just give you two figures to highlight this aspect: in the gas market the level which we supply demand of gas highlights a gap equal to 20-25 billion cubic metres – this is a figure you already heard certainly – and in the electricity market the power reserve level is higher than 20%.

This means that there is competition in these two sectors and there is a structural unbalance stemming from the fact that consumption will not be going back to the levels we had in 2008, and this means that the market will require some time to recover balance. We are aware of that, meaning that when we said that we wanted to take advantage of the situation we did that without reasoning on what we will be doing after 2014-2015 when we believe that the market will be once again balanced, and therefore as far as gas is concerned after having a procurement portfolio with various options; as far as electricity is concerned we will have to be able to produce at least two things we were trying to do so that we will be ready when the time comes: whether or not we will be ready for the exact moment of time we have to be ready is something we will see over time.

We also want to diversify our procurement mix and this is an activity we were doing very intensively even though we are maintaining those privileged partnerships we have with certain suppliers which we had in the past and will continue to be important in the future; but at the same time we are looking to the opportunities that the market offers which can increase our competitiveness in terms of procurement. I have already mentioned how we want to optimise cost to serve.

Moving on to waste, we want to consolidate the leadership also outside of our reference territory. For the time being in the business plan we have the visible, solid initiatives, whereas we did not include some possible opportunities and beyond that the market still offers an important space for Herambiente which, as you know, is the most relevant, complete entity in terms of the assets that the market currently has.

The time has come for cash flows: the waste sector this year will have a positive free cash flow and it will continue contributing more and more over the years, revenues will grow some 6 to 7%, capex will be reduced by 10% on average for the business plan. They will be giving the space needed to be able to achieve these results.

An other important aspect, now we refer to the waste sector, it is somewhere on the border between waste and sustainability or renewables, and as a matter of fact throughout the business plan we will be strengthening energy from renewables: we are to produce 500 gigawatt hours but at the end of the business plan we will be able to reach 1 terawatt hour, meaning 1000 gigawatt hours. If you look at this in terms of installed capacity, this is generated by 150 megawatts and is due to the fact that this is a capacity which works for 7000 hours. If we take that same amount of renewable energy and were we to “beat it” so to speak, in terms of wind energy production it will be the equivalent of 500 megawatts working 2000 hours per year. This gives you an idea of the size the company has in this sector as represented by renewables.

A final element, which highlights the investment made on our plants, is the separate collection of waste, in which we are leaders on the market: we now have 45% of divided and recycled items and we want to reach a further 10%. This will allow us to increase solid collection and further solidify our leadership position.

Networks. On one hand we have to increase efficiency gains since this is an area in which this is crucial also because we are close to reaching a full balance in terms of return. The other frontier of the network sector, as the Chairman was referring to, is represented by the new tenders, and gas tenders more specifically, which we will be having in the next few years. We identified two opportunity levels: we have those within our reference territory, which would allow us to complete our presence by winning those concessions that we do not currently have and these represent 50-70.000 customers with an investment equal to some 50 million euro more or less; and then we also have the opportunities which may rise on the outskirts of our territory in the surrounding provinces, areas in which we have a higher potential were we to turn to the various decrees and that means an opportunity equal to 1-200.000 customers in this surrounding territories.

In the long term, since we have some parts of the electricity networks, we can also have opportunities concerning smart grids and concerning electric automobiles. These are issues that we will be going into in the next business plans but, again, we have already started to focus on these activities as dozens of our competitors have also done.

From a different perspective, on page 21 we have a business-by-business breakdown. The fact that waste is the most significant contributor to growth is no news, as the fact that we expect an improvement equal to 60 million euro from the networks sector. These are figures which are consistent with the past.

How dependent is the company on our territory? We have been trying to assess it, as from now to 2014 50% of EBITDA will stem from outside our territory, the rest from within our territory of reference. I think that the figures speak for themselves.

Let's move on to the remaining two priorities of the Group. We started focusing on the business, on the industrial part of things, now let's move to the financial side of things: the cash flow that we want to obtain. We have already announced that last year we had already achieved an important result in line with our forecasts and this year, as the Chairman was saying, our goal is that of being free cash flow positive pre-dividend within the entire Group and this will be made possible thanks to the contribution made by energy and waste, both of which will be positive, whereas the networks contribution will be positive beginning in 2011, obviously due to the presence of the water operations within this business area.

In terms of the full financing of dividends, our goal is to be net cash flow positive in 2014, so from now to 2014 the cash flow will partly be covering the dividends and we will partly tap into our financial resources.

Another issue in terms of the company's free cash flow is on one hand that of improving our bottom line and having enhanced financial flexibility. This is a very important goal for us, which is obviously linked to the cash flow 2009 to the highlight of the completion of our investments, and it underlines a situation which vis-à-vis other competitors is very comforting but we fear it is not in line with the goals we intend to have. So, in this sense, the company's goal is that of bringing the debt/EBITDA ratio under 3 times and the FFO over debt above 20%. These are goals that we intend to reach based on the conviction that the sectors will offer new and interesting opportunities and that we will be able to grasp them without stressing our balance and without having to sacrifice net results due to the effect of the financial charges.

We believe that return on net invested capital will be above 10% and return on equity will be above 9%. Here we have a more significant difference and therefore we are continuing to work so as to be able to have satisfactory goals according to our forecasts.

Now I will give the floor back to the Chairman for the closing remarks.

Mr Tomaso Tommasi di Vignano speaking

I will not be repeating the things that we have already said. We have already mentioned what the drivers will be, what the strengths are and I think that the plan also explains some further concepts that we are proud of. We have been very consistent, even with what we have done in the past years, and even though there has been a significant crisis we continue to grow with this business plan which is enhancing our financial strength to the best condition to be able to meet the changing scenario and any possible opportunities which may arise in the sector. This is all done with complete transparency and this is something that has always characterised our relationship with the market and therefore I think it is safe to say that those who are patient and have been working with us in the past few years will now be able to take advantage of a further growth, a proved growth: it has been a wise period of time in terms of investment and not because we have not made wise decisions in terms of investments faster but we have been reducing our investment, with cash flow trends in line with your expectations – this is with the contribution of all business areas – and finally, with the financial ratios which are top-class, as you have heard.

The good results obtained during the crisis and in the first semester of 2010 are a further indication of the fact that we can be confident in terms of our results in 2010 and therefore I can anticipate that we will be proposing a dividend of 9 cents, taking into account the 2010 results, with a growth equal to 12.5% on the previous year.

And now we are here for any questions you may have. Hopefully we were able to present our business plan as best as possible.

Q&A Session

Q: Three questions if I may. The first on green certificates: I noticed that your forecast is equal to 84 euro per megawatt/hour in the business plan and it is 20% higher compared to what your competitors have. So my question is: do you think that there will be a positive regulatory evolution which can compensate the cap proposed by the government? And if that is true, is there any space for any further investment in waste-to-energy vis-à-vis what you showed us on the business plan today? Same question on gas margins: they went very well in 2010, do you expect a similar performance in 2011? Finally, as far as dividends are concerned, the Chairman said what the dividend will be in 2010, but what about the rest of the business plan? Do you intend to stick to the 11 cents pre-dividend that you had in your previous guidelines?

A: Your first question: well, the view that we inserted in the business plan is some 80 euro megawatt/hour per green certificate. This is combined with the price of the electricity, in which case it should range from 150-154 and 170-178 throughout the business plan just below the 180 euro per megawatt/hour threshold. Our reasoning is the following: obviously with article 45 the government says that intervention is required in this area: as you know, the unbalance which exists is quite significant. Just to give you a few figures, the offer of green certificates is double compared to demand, and there is another interesting aspect vis-à-vis the energy which is installed to the end customers. A little less than 60% is linked to that so obviously the

government will have to make a choice because the stabilization intervention and the guarantee intervention on the future evolution of this type of incentives is mandatory. It is true that we are one of the last countries to have these stabilization and guarantees, together with the UK, but there is a mechanism which is currently in place because otherwise there would be no feasible project, I mean, biomass projects, wind-to-energy projects or waste-to-energy projects. Therefore, stabilization in that sense will be necessary. I think that the government is looking into this and I am sure that they are fully aware of the fact that if the price of the green certificates would decrease significantly there would be few new initiatives and therefore the 20-20-20 goal would be very far away, very difficult to reach.

I will try to explain how this type of contribution counts in our business: if the price, as you were saying, is 10% lower what would the EBITDA reduction be? Between 5 to 7 million euro. Were it 20% it would be between 10 and 12 million, meaning that we are referring to figures which, in the worst case scenario, count 10% of EBITDA, not more than that. So I think that green certificates at 60 euro is a kind of a gloomy scenario even if we take into account the fact that the price of electricity is very low nowadays. Therefore, the renewable producer [...] the overall sum of the two elements which count, and therefore combining these effects is very risky.

Gas margins: 2010 went well in terms of margins, especially due to a number of opportunities the market offered. So it is more a type of work we have done last year: we were able to optimise, we were ready to grasp specific opportunities on the market. 2011 sees a shift: some benefits which used to characterise the spot market will shift to more structural elements of the market. In other terms, this year like other operators we will be able to benefit from the trading in the procurement area, perhaps next year will be more favourable for commercial activities. Obviously this level of competition will have an impact on commercial activities, but I think that the results will be positive, as far as we are concerned at least.

Moving on to your third question, besides what I have already said, which confirms the principle we have, in other words, to increase dividends, the figure we are giving for 2010 is a confirmation of that vis-à-vis the business plan we are looking into, the growth that we imagine we will be having is a growth equal to some 25% in the years [...] – actually we have not quantified it yet in 2010 dividends; in 2011, which as I have already said, is 12% higher, with a yield of approximately 6%.

Q: As far as the EBITDA growth is concerned you were referring to a 6.5% average throughout the business plan. Will it be more concentrated in the initial part of the business plan with the new plants and the synergies or the organic growth that you want to obtain or will it be at the end of the plan that we will be seeing the reduction of costs for the years in the commercial activities that should bring about a 35 million euro growth?

The second question is on tariffs: could you tell us the average tariff growth in water and what do you expect? I noticed that in the waste it is 3.2% whereas in the previous plan it was lower – so can you tell us why there was an improvement? I noticed that debt would be equal to 2.1 billion euro at the end of the plan and free cash flow will be about 450 million euro and I do not understand why debt is vis-à-vis the 1.8 which should be the debt at the end of the year after the sale of 20% of Herambiente. Is there any effect for the working capital or is there anything else which has an impact on this in the years ahead?

Finally, do you have any news on AIMAG? What will the growth be in terms of network acquisition? What is the most homogeneous growth plant?

A: The distribution over time is very different one year over the next. Over than 80 million euro distributed over the 5 years, equal to 25.40 million per year which is pretty much the figure we can find each year. Keep in mind that it is true that in the first 2 years we will have the contribution of the new plants but the same will be also true in the remaining years because the Bologna line will be giving its contribution only beginning in 2014. You will also remember that in the short term, in 2012, [...] in Bologna we will have this significant offsetting vis-à-vis what happened in the past years and it is something that we have to cover and it is equal to some 50 million euro. Without that, I agree with you: 2011-2012 will be more important. Again, these are the figures.

Tariffs: as far as waste is concerned, tariffs are slightly higher, also because the level of services required continues to evolve and therefore the more you sort, the higher costs you have, and therefore there is an evolution in that sense, also because what we have behind is sorting collection of waste. We have a change in waste disposal costs because one thing is to have waste that you dispose of in waste-to-energy plants and another thing is to sort them and manage them individually.

As far as water is concerned, growth is equal to 2.4% per cubic metre, as a consequence of the fact that in the past years we had a higher percentage, but keep in mind that in the next two years we will have full remuneration, meaning that the growth rate will be comparable to inflation but in terms of variation of RAB on the investment made, so we are going towards a normalisation of the growth process.

You were also referring to debt. What do we have from this point of view? Throughout the plan certainly there are variations in working capital: according to forecasts, we expect to have a growth in electricity prices – 65-70 euro per megawatt/hour. This should increase to 80 euro per megawatt/hour. Maybe an oil price which is 85 dollars per barrel and as a consequence in 2014-2015 you may have a recovery, a spark spread which is now currently almost zero should be brought to 5-10 euro. This increases the unit value of electricity and gas though increased turnover with the same amount of customers, therefore there will be some variations from that point of view, obviously there may be some other costs which represent smaller values.

As far as AIMAG is concerned, the acquisition of the majority share will take place, we believe, in some six months. I am not sure what the second part of your question is: you asked about other acquisitions in the business plan figures. Only in the gas sector, as Stefano was mentioning, from network acquisitions to tenders: from that point of view, yes, that is already present in the business plan. If you referred to generic acquisitions on the territory, referring to the situation having a multi-utility approach rather than a specific gas approach, then no: these are not in the plan also because we do not know what they are about yet.

We expect these smaller companies to feel the pressure of the new regulations, which as you know, are making mandatory for the small operators to sell 40% of their shares to larger operators by 2011 and therefore since 2011 is very close some will come to us and say "we offer 40%" and that is where the negotiations start. These are very small realities, very small companies and we will be going into things as the time comes. This is a potential growth factor but it is not present in the plan.

Q: Do you have any updates in the energy tenders in the surrounding areas, Tuscany and more specifically in Florence?

A: There were two tenders in that area, also referred to the renovation of plants in three areas of Tuscany. As far as Florence is concerned, as you certainly know, we qualified for the short list with Veolia. Recently we have seen the conditions for the tender for the local operators and therefore we are examining the

conditions before sending our final bid. I think the deadline is the end of the year. As far as the other operations in southern Tuscany – the tenders for the entire waste sector so both the waste collection and the management of the new plants – even there we sent a manifestation of interest so as to try to understand what these tenders would be about. In the last 15 months in Italy there were more waste-to-energy tenders: one was in Florence, there was another one in the Veneto region and a couple more. Sometimes even the tender conditions were drafted very badly so we were able to select the ones we were interested in and that is something we intend to continue to do during the years ahead. As we know, Italy requires 50 plants. Honestly we do not know how much time is needed to actually complete this phase, it depends on the interest, on the initiatives of the local authorities, basically.

Q: Three questions. Going back to the gas margins, you told us what you expect for 2011, therefore it seems to me that these spot advantages that you have this year will be structured on the contracts beginning next year. How do you see your evolution to 2014 on the plan? Do you think that the current favourable situation will continue in the years ahead?

As far as procurement is concerned, I noticed that your goal is to increase procurement from abroad. So, do you intend to actually sign import contracts? Where does that change stem from?

Then another question for gas tenders: I seem to understand that they represent an opportunity both in your territory and outside of your territory, also in light of the decrees which have been discussed by the government. In fact, RAB is face value or [...] be able to create value. This comes from different placings.

A: As far as gas is concerned, we now have contracts for 2011 which were signed and they referred to the spot market. These become effective starting from October 1st. What is our forecast to 2014? I think that 2011 was a very unique year. Market will continue being long, we believe, over time: all we have included in the business plan is a progressive increase in this margin, in this advantage we saw for 2010-2011 also because the larger operators will start moving downstream. So, our conservative forecast is that there will be a reduction of the gap between offer and consumption: I think it is best to be more on the safe side.

As far as the increase of procurement is concerned, it is a strategical approach of ours. We have always considered it to be a guideline and we believe that it is also an opportunity to allow our procurement portfolio structure to evolve. I think that it would be very important to continue having import capacity on two pipelines. We have had a certain amount for 20 years on one of the pipelines, whereas there are three yearly tenders that we take part in that already brought a certain amount of capacity last winter and I think that that will continue happening in the years ahead, and that is because both pipelines will be working with a reverse full option as well beginning in the years ahead, therefore, in a market situation in which we continued investing – such as Galsi for example: it is an idea we still have not abandoned – it will certainly be a positive element.

Again, we are looking into other options, but our idea is to continue though remembering that strategically we have not changed our mind compared to the past. Maybe we will be working on a timeframe which is more in line with the events already faced but we want to continue having an important relationship with the national provider although we will have to support our requirements with other sources as well. Diversification is fundamental because the Italian market will no longer be the close market that it is today and it was up to some time ago.

Your last question on distribution: RAB can be a reference, but we are taking part in tenders and currently, as we wait for the decrees to be approved by the government, some smaller things are coming up. The RAB

is the reference that is used for the most part. Merger/Managing operations with a significant discount vis-à-vis the RAB are/is possible but up to now still we have not seen them yet.

Q: Just one last thing: as far as depreciation is concerned, in the past few years there were significant depreciation on credit. Are you seeing an improvement from this point of view? There will be a reduction of depreciation in 2010-2011 or is the situation as far as the credit is concerned still difficult? You were referring to a 25% increase in dividends in the years ahead: will this increase be at the end of the business plan or will it be gradual throughout the business plan?

A: The Group provisions, the credit situation is improving but the credit problems are things that we will continue having for time. We have a company which has credit problems or face bankruptcy or things like that. There are a number of phases before it goes bankrupt and therefore is only when the company is bankrupt that you have bad credit in your portfolio so there is a time delay between the two events. Therefore vis-à-vis fresh credit situation is improving progressively but we still have the effects of the problems in 2009 and the initial part of 2010. If I insert 1 million bad credit is only because I have 165 days of management. Vis-à-vis the Group provisions, obviously this year we will still be seeing some of the consequences of the previous years that is inevitable.

As far as the dividend growth for the business plan, it will not be something which will focus at the end of the plan: it will be a progressive growth.

The question from the Conference Call is from Maria Beatrice Gerosa of Mediobanca. Please, go ahead Madam. Ms Gerosa, your audio is open. Ok, Ms Gerosa has no questions. Thank you.

I am sorry, I am the operator: Ms Gerosa has questions. Ms Gerosa please go ahead.

Can you speak louder please?

I am shouting, I do not know why you cannot hear me.

Q: My first question is: out of your 1.7 billion total investment how much is related to financial investment? Among operating capex, how much is related to [...]? Can we have a breakdown of the network capex by area of operation? Third question: can you provide us – as always done in the past – with target debt to equity ratio and target at net invested capital in [...]. Last question: please clarify your [...] and, as a final comment just so that you know, audio is very bad: the interpreter voice comes and goes which makes it almost impossible to understand what goes on. Let me say it is quite amusing that a presentation [...] held in Italian and heard in English [...]. Thanks a lot.

Q: I will try to answer even though your third question was impossible to understand. [...] is extremely low in the sense that we have few investments for the acquisition of gas networks in the region of 40-50 million euro, instead we have some financial investment to support the development of the Galsi project plus other minor things that hovers around 50 million euro, so in total I might say 100 million euro out of the 1.7. As far as the breakdown for the net investment in the network area, we have prepared a specific attachment to the presentation in which you have a breakdown: let's say water, gas distribution, electricity distribution area by area and therefore from there you can extract the values. The third question was on debt/equity or the net invested capital, right? In net invested capital our target is slightly below 4 billion euro – 3.9 exactly. In terms of debt to equity, for the time being we have a roughly 1.2 times. The fourth question was the one that I could not hear.

[...]

I think we are not able to manage it. We can answer to your question by e-mail. If you send an e-mail to Jens [Hansen] we will reply as soon as possible. Sorry for that because, really, we cannot hear you!

Sirs, there are no more questions from the conference call.

Thank you very much and see you soon. Goodbye.