



Hera business plan 2010-2014
October 19th, 2010



Hera Group

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Hera Group

Mr. Tomaso Tommasi di Vignano

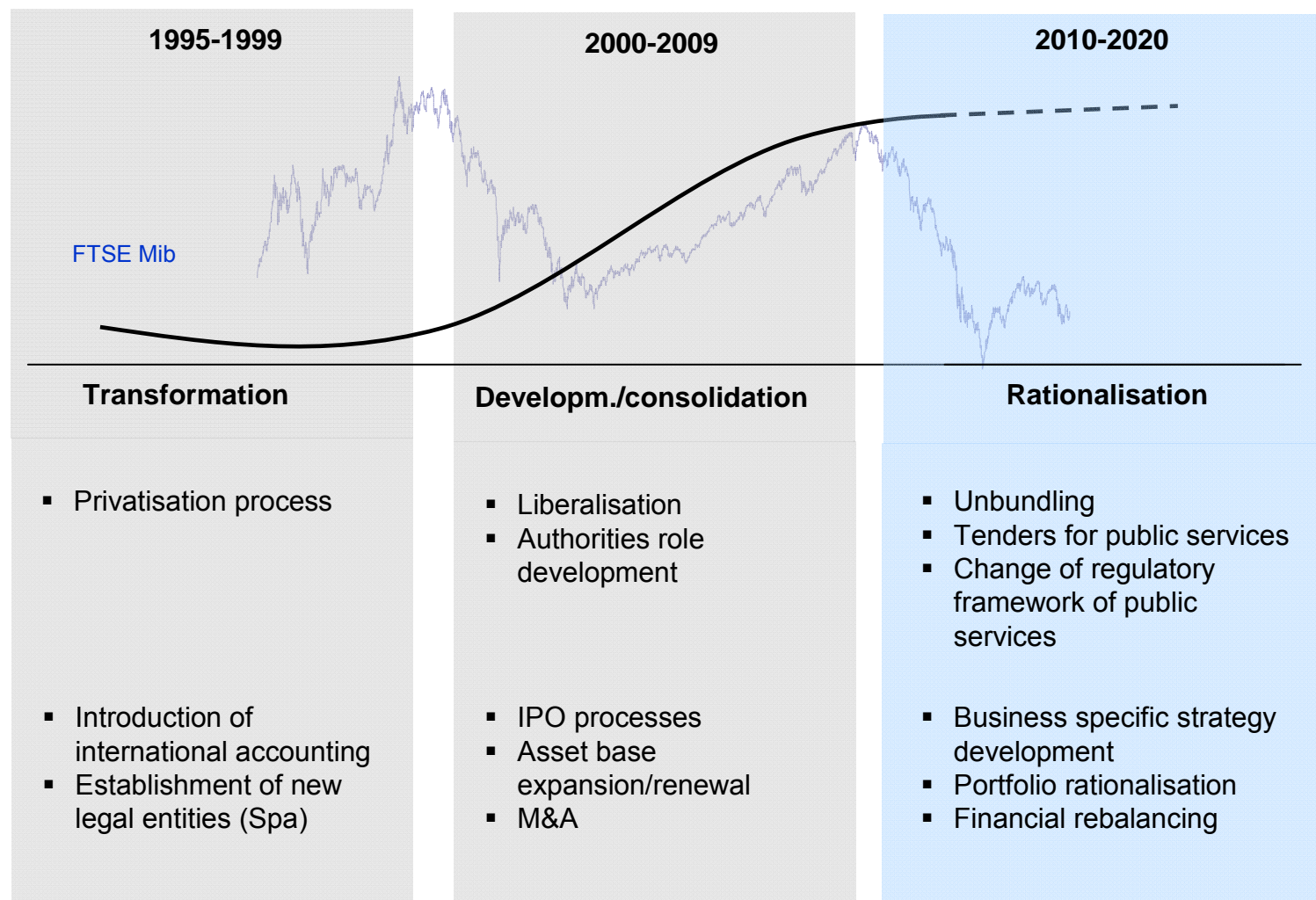


Hera Group

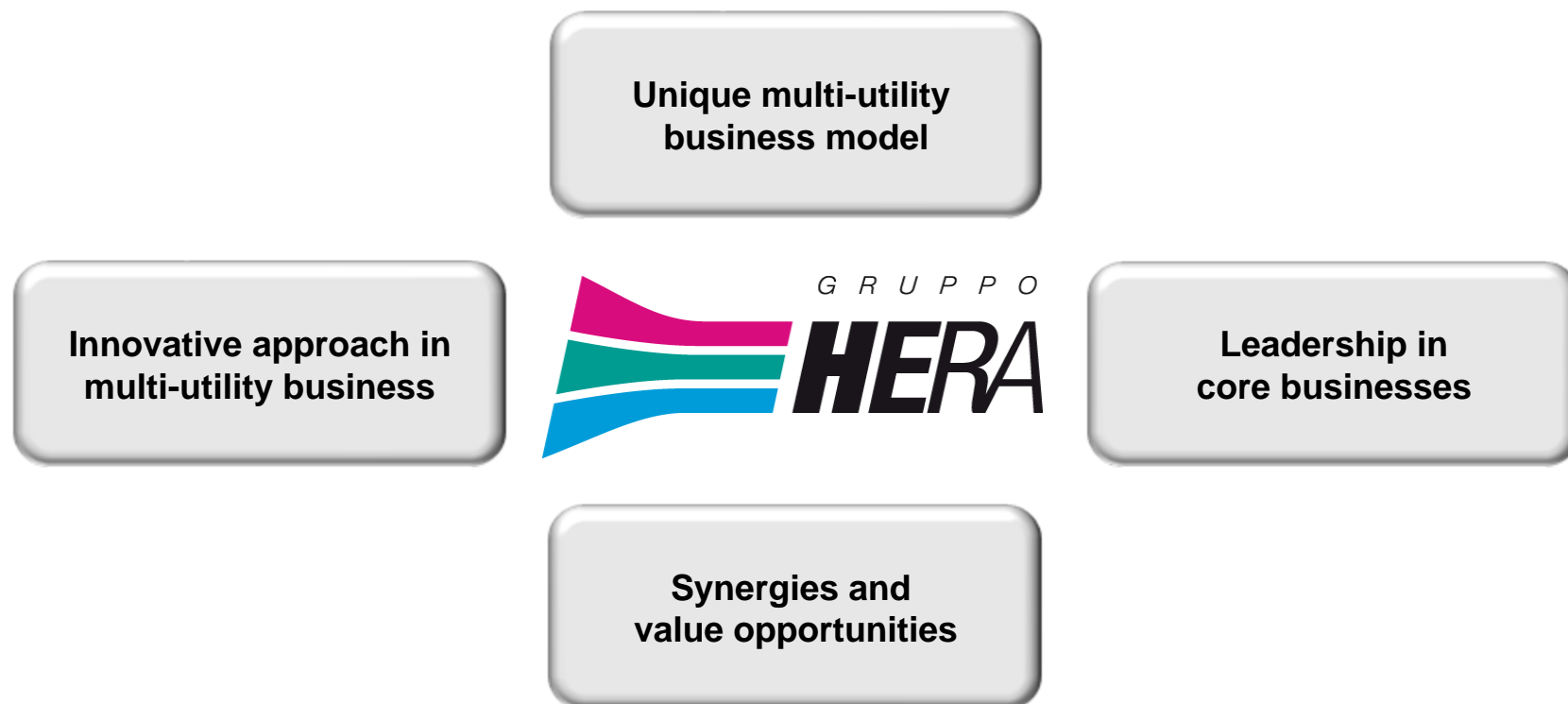
Mr. Stefano Venier



Hera is strongly positioned to cope with the new scenario



A decade of growth based on key strategic pillars



Strong platform to pursue new opportunities

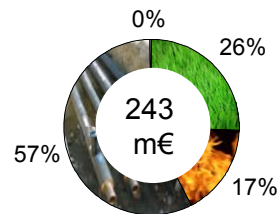
Unique multi-business model to underpin growth

Continuous growth significantly improved results

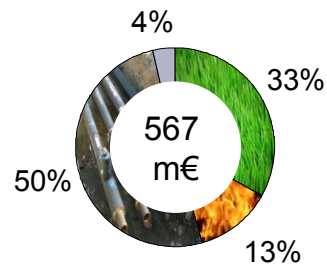
Ebitda

(m€)

2003



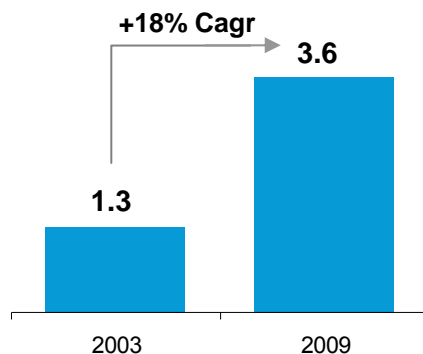
2009



■ Waste ■ Energy ■ Networks ■ Other

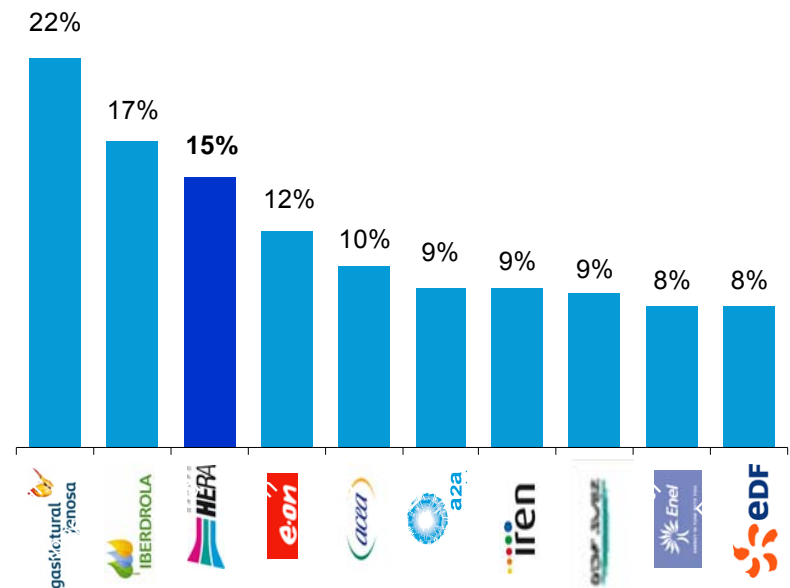
Net Invested capital

(b€)



Top Ebitda growth in Europe

(2003-2009)



Underpinned by 2.4 b€ capex
and acquisitions

From a local player to a top ranked national player

Top ranked in Italy in all businesses



WASTE

Market Leader

2009 Data/ Cagr '03-'09

5.1m ton of volume treated* (+13.5% Cagr)

Full range treatment capacity in 77 plants



ENERGY

***4th in gas supply
8th in electricity supply***

1.1m gas (+7% Cagr) and 0.35m electricity (+37% Cagr) customers

2.2 bcm (+5% Cagr) and 7.0 TWh (+28% Cagr) volumes sold to end customer



NETWORK

***Dominant player
in reference territory***

57,000 km networks

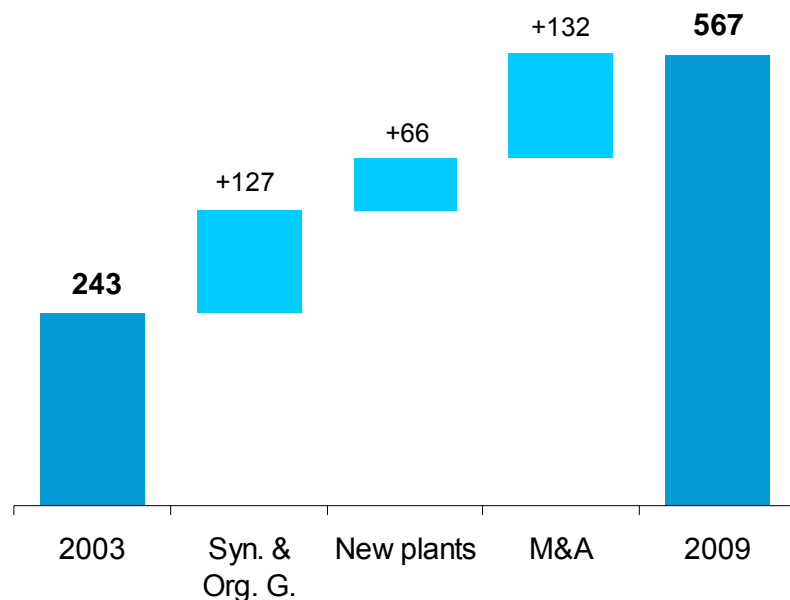
2.7m POD

**of which 1.2m ton in third parties*

Balanced contribution from all drivers

Ebitda drivers

(m€)



□ Effective model to extract synergies

- 74m€ synergies (12m€ avg/Y)

□ Market expansion and tariff increase

- +500k new customers
- avg tariff increase (+ 4% Cagr '03-'09 in water and waste)

□ Challenging new plants construction

- Expanding capacity confirming unique expertise in plant construction/mgmt

□ M&A

- 15 deals for a total EV in excess of 1 b€ focused exclusively on core businesses

Strategic steps to anticipate market trends

- ❑ Implementation of a business model focused on territorial presence
- ❑ Further evolving organisational/business model
- ❑ Leading Sustainable approach to business (CSR):

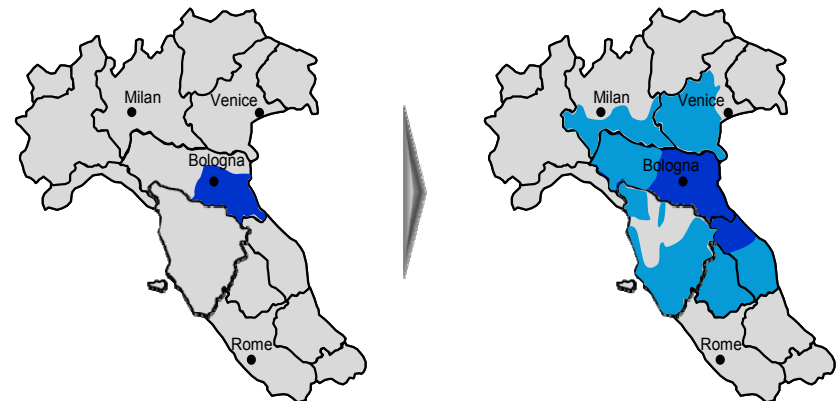
“we do better what is good”



Multi-service/multi-regional player

2003: 1.2m customers

2009: 1.8m customers



■ Multi-service offering

■ Presence with dual offering

Resilient business model in recent economic environment

Business environment

Domestic consumption:

Electricity

2009 / 2008

(6.7%)

1H '10 / 1H '09

+ 1.8%

Gas

(8.0%)

+ 10.5%

Energy margins:

PUN

2009 / 2008

(26.8%)

1H '10 / 1H '09

(7.1%)

Spark Spread*

(61.7%)

(4.4%)

*net of environment cost

Hera performance

Sales volumes increase:

Electricity**

2009 / 2008

+ 38.9%

1H '10 / 1H '09

+ 16.3%

Gas**

(1.0%)

+4.6%

Waste

(2.6%)

+8.1%

Margins in Sales and Trading:

Ebitda

2009 / 2008

+12%

1H '10 / 1H '09

+15%

**excluding trading activities

EBITDA

2009 / 2008

+ 7.4%

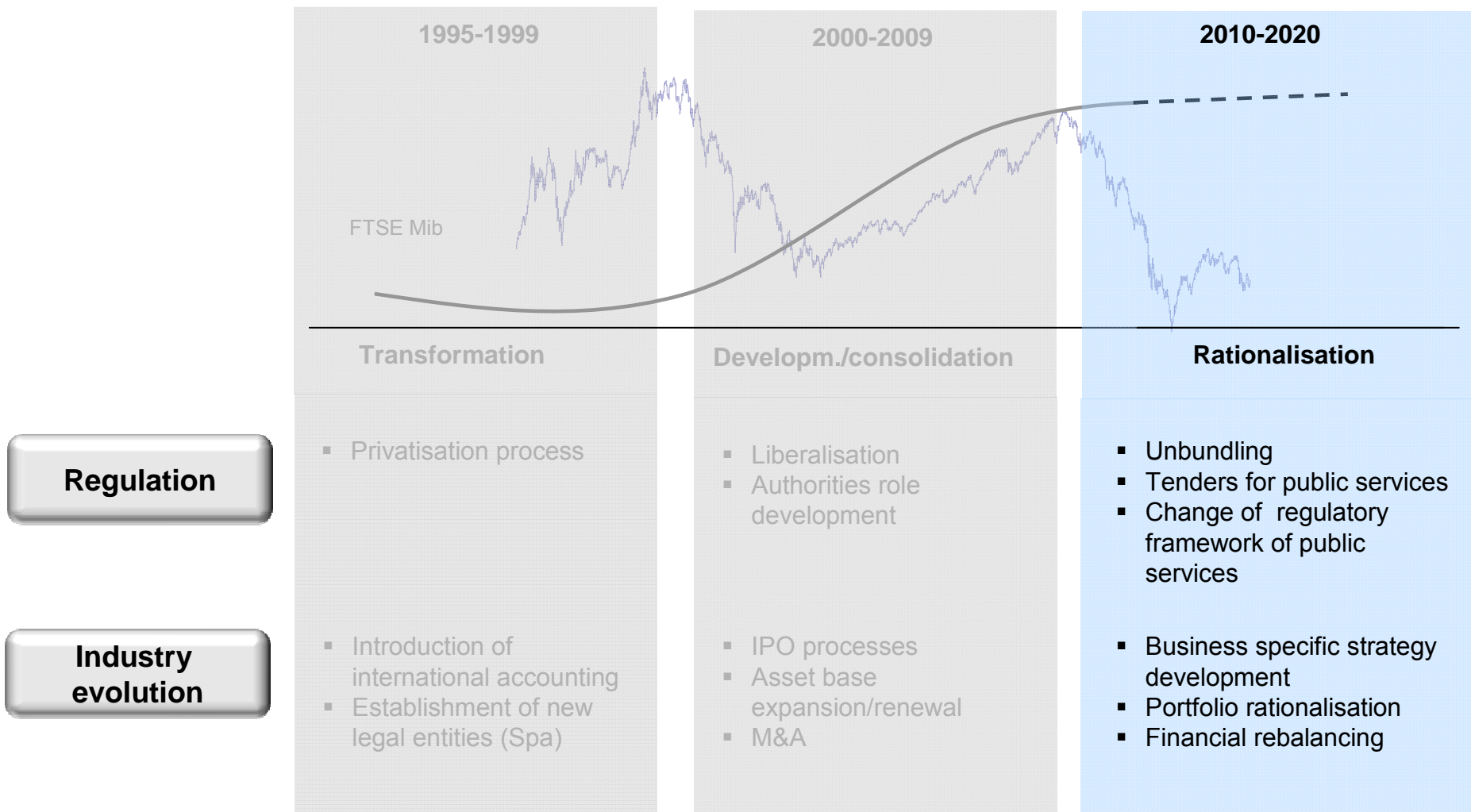
1H '10 / 1H '09

+ 15.6%

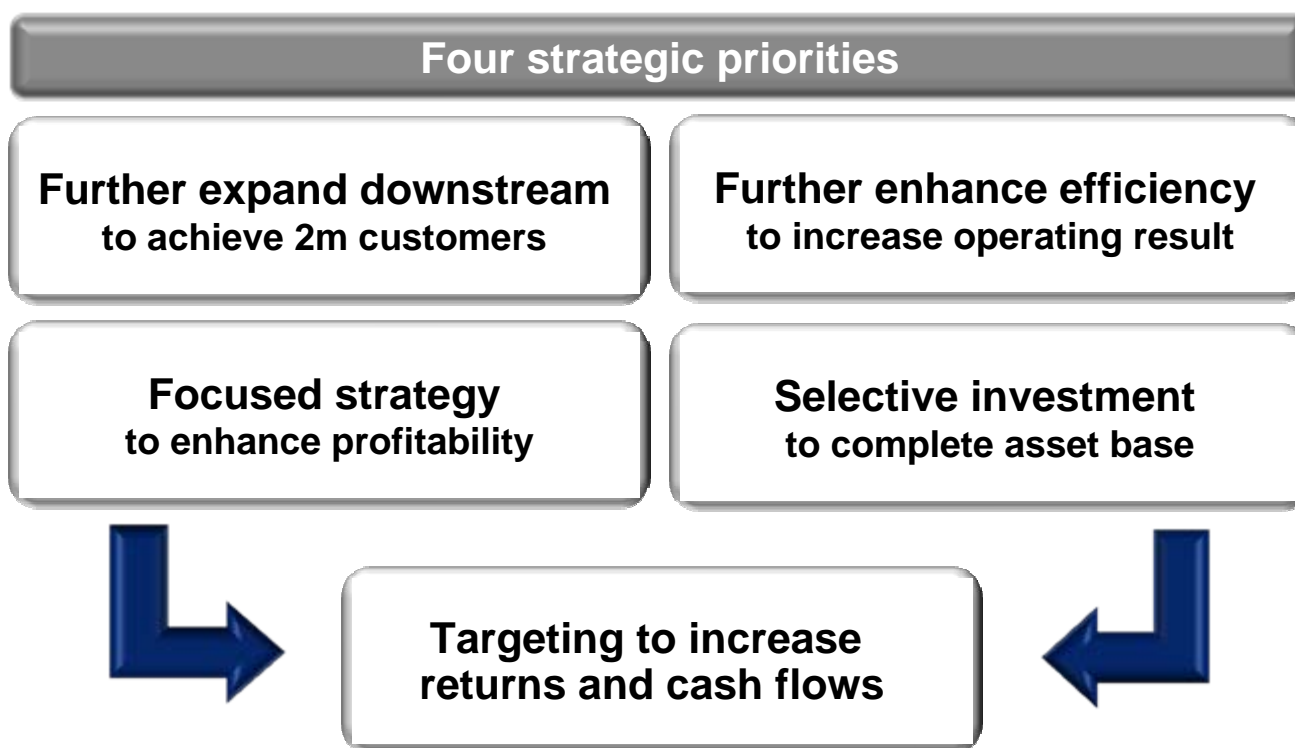
Dividends

8€
(stable)

n.a.



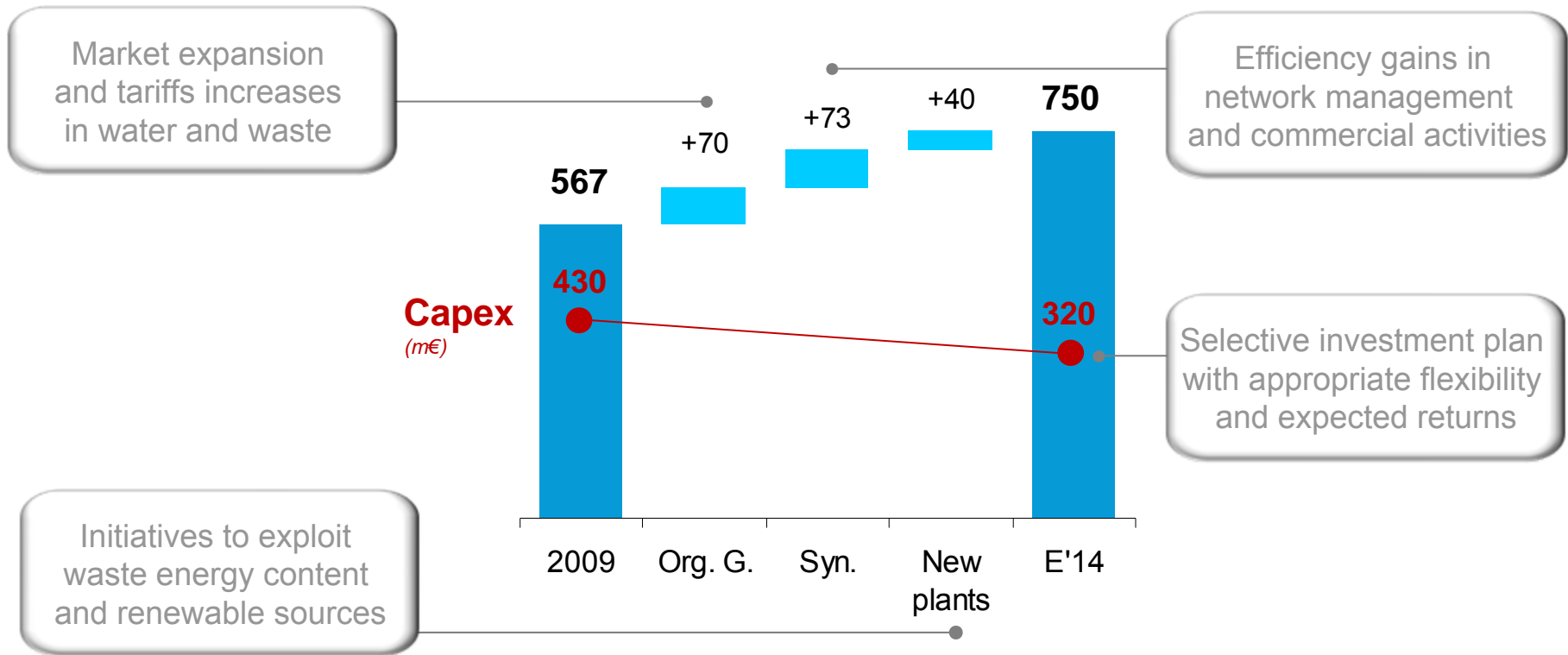
Consistent multi-utility strategy leveraging upon key strengths



2014 Hera Group targets

Ebitda Drivers

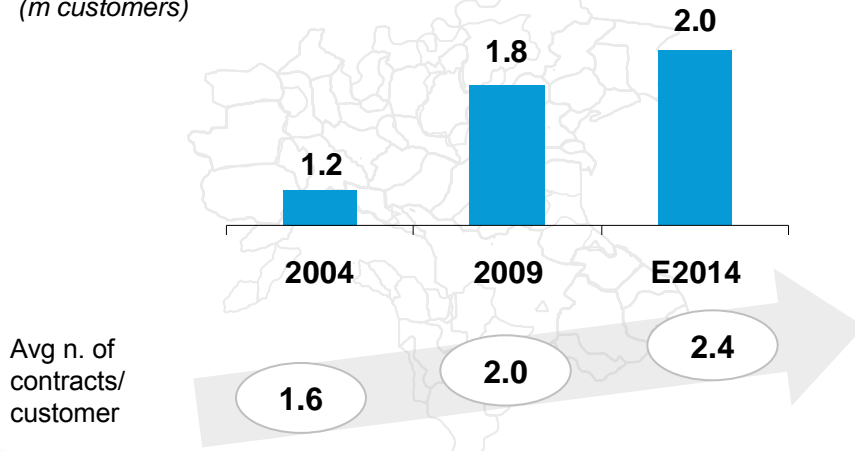
(m€)



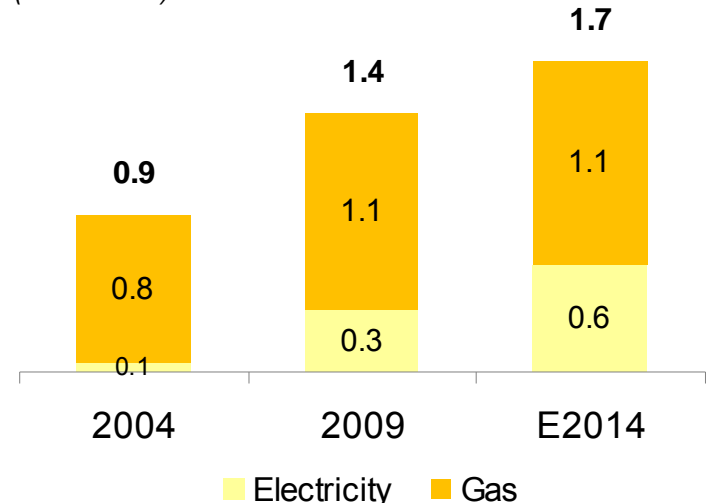
Strengthening cash flows to support returns and flexible capital structure

Further expand downstream to achieve 2 million customers

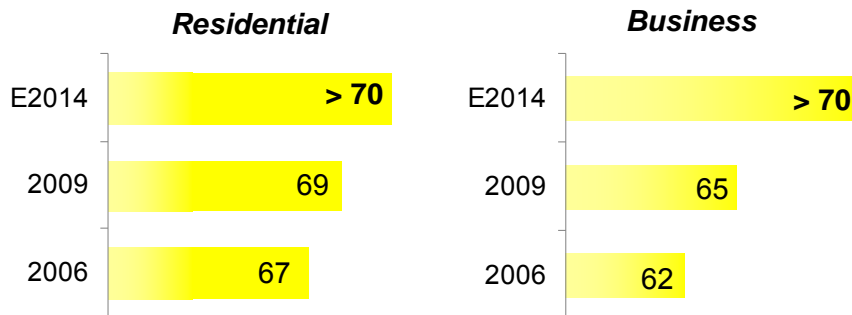
Multi-service customers base (m customers)



Evolution of Hera Energy contracts (m contracts)



Hera customer satisfaction indexes*



* 60 corresponds to satisfied, 70 to delighted

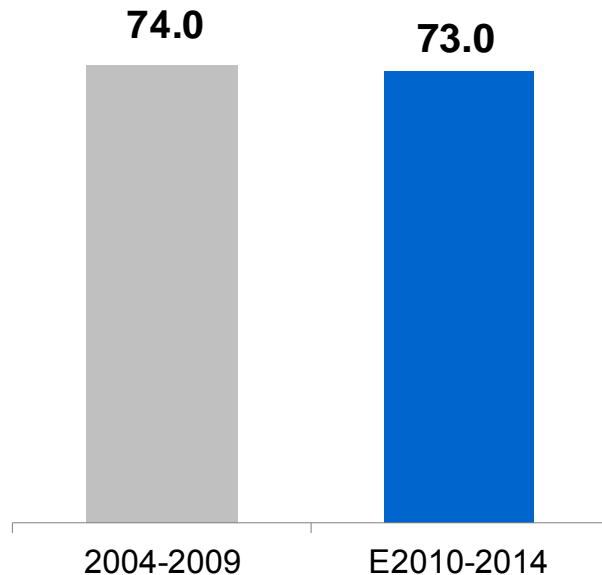
Hera commercial strategy

- ❑ Increase focus on Residential and SoHo
- ❑ Further exploit opportunities in Marche, Tuscany and Umbria
- ❑ Focus on cross selling and customer loyalty

Further enhance efficiency and increase operating result

Efficiencies

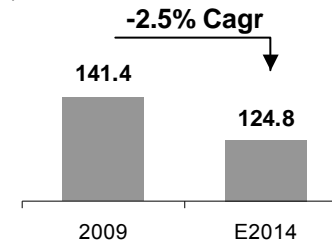
(m€)



Average Cost per POD

(€/POD)

45 m€

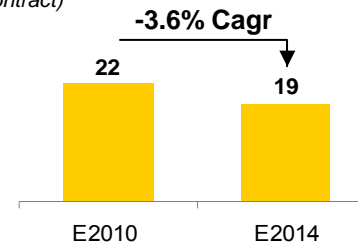


- ❑ Smart grid and metering
- ❑ Workforce Management
- ❑ Remote control
- ❑ Support activities rationalisation

Average Cost to serve

(€/contract)

14 m€



- ❑ Multi-utility approach
- ❑ Sales channels tailored on clients' segment
- ❑ On-line services and optimisation of customer operations

Other initiatives

14 m€

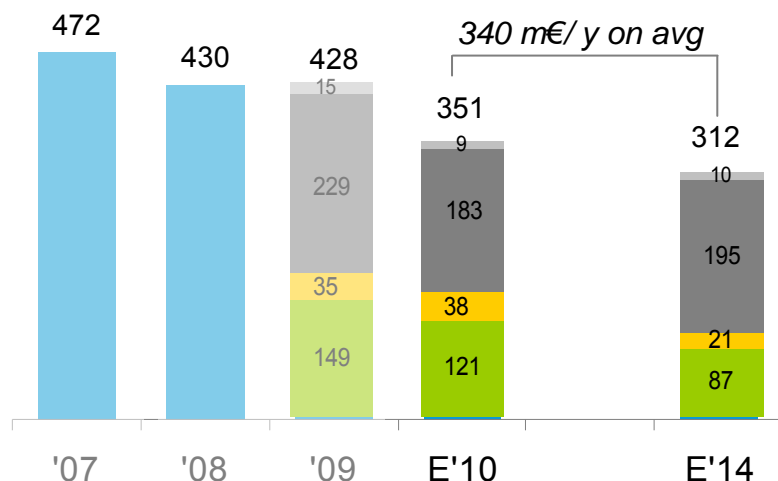
- ❑ Reduction of Urban Waste collection costs through operations rationalization
- ❑ Headcount rationalization in staff
- ❑ Specific projects to rationalize indirect costs (in sourcing optimisation)

Selective investments to complete asset base

... fully exploiting competitive advantage

Hera '10 – '14 Capex: 1.7 b€

(m€)



58% development capex

Waste

546 m€

WTE



Biomass



Digestors



Energy & Other

211 m€*

CCGT peak I.



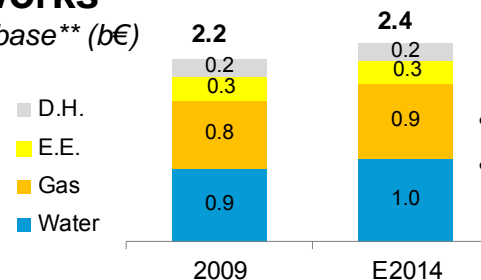
- Complement power gen. mix with "Tamarete" (peak load)
- Partnership in upstream gas

*of which 51 m€ for Other activities/Corporate

Networks

943 m€

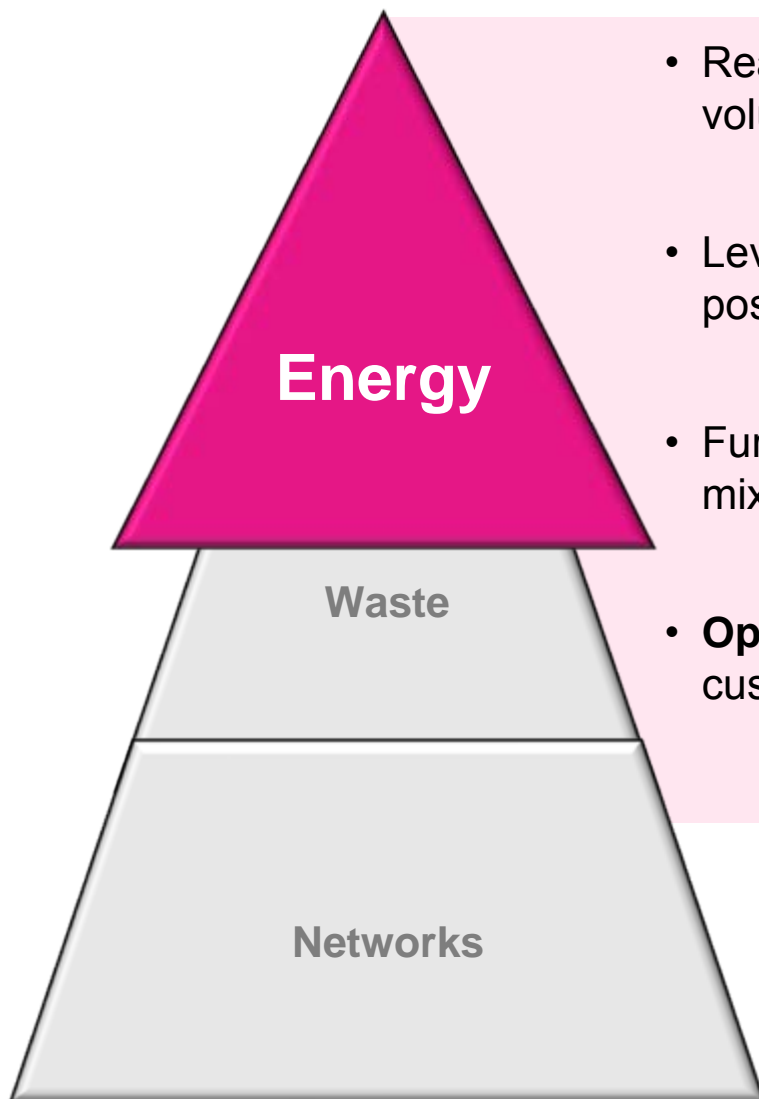
Asset base** (b€)



- Mainten. 458 m€
- Develop. 485 m€

**Regulated Asset Base (RAB) for Gas & Water and Net invested capital for Electr. and D. Heat.

Focused strategy to enhance profitability (1/3)



Key strategic actions

- Reach **2m customers** and volume increase
- Leverage upon **short upstream** position
- Further **diversify procurement** mix and trading opportunities
- **Optimise cost** to serve and customer satisfaction

2014 Target

9 TWh electricity sales
2.2 bcm gas sales*

From 42% to 44% of
electricity provisioning
from owned assets**

From 38% to 58% of
Gas provisioning
from international supplies

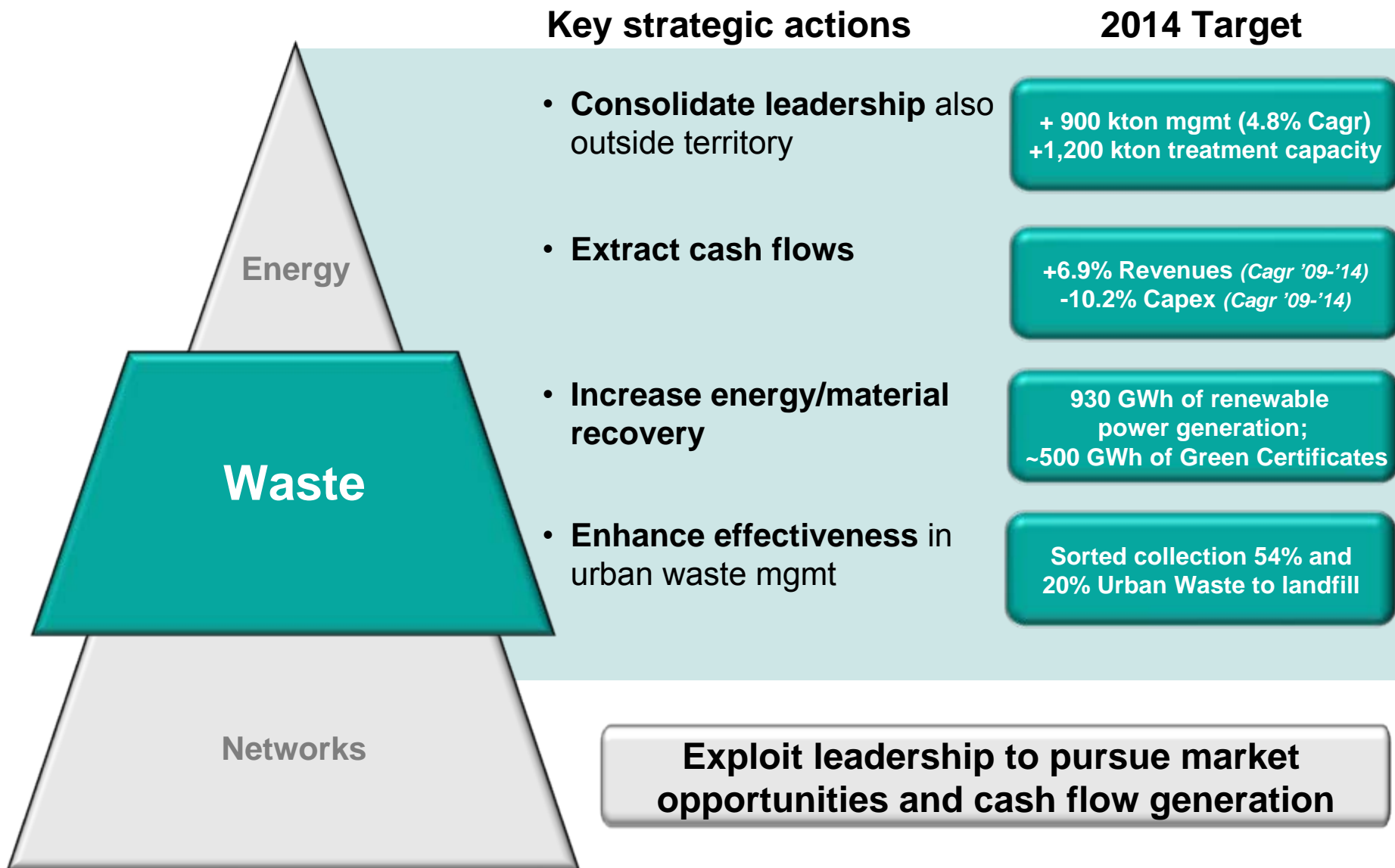
3.6% yearly decrease
in cost to serve
CSI to 70 in all segments

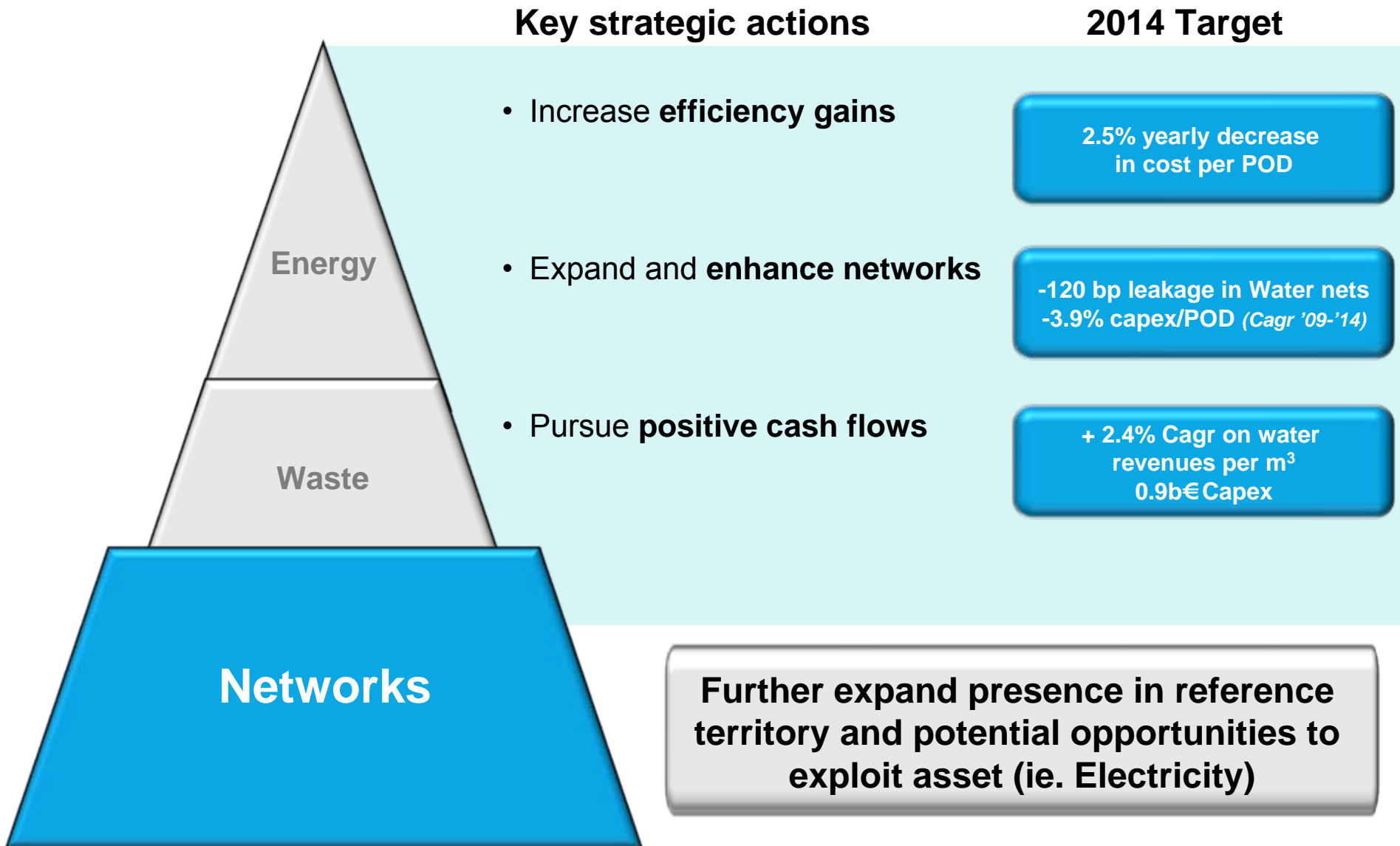
**Exploit flexible upstream and
downstream potential**

* Excluding wholesale and power plants

** Total power gen. 4.6 TWh of which 1.5 TWh from renewables and co-generation

Focused strategy to enhance profitability (2/3)

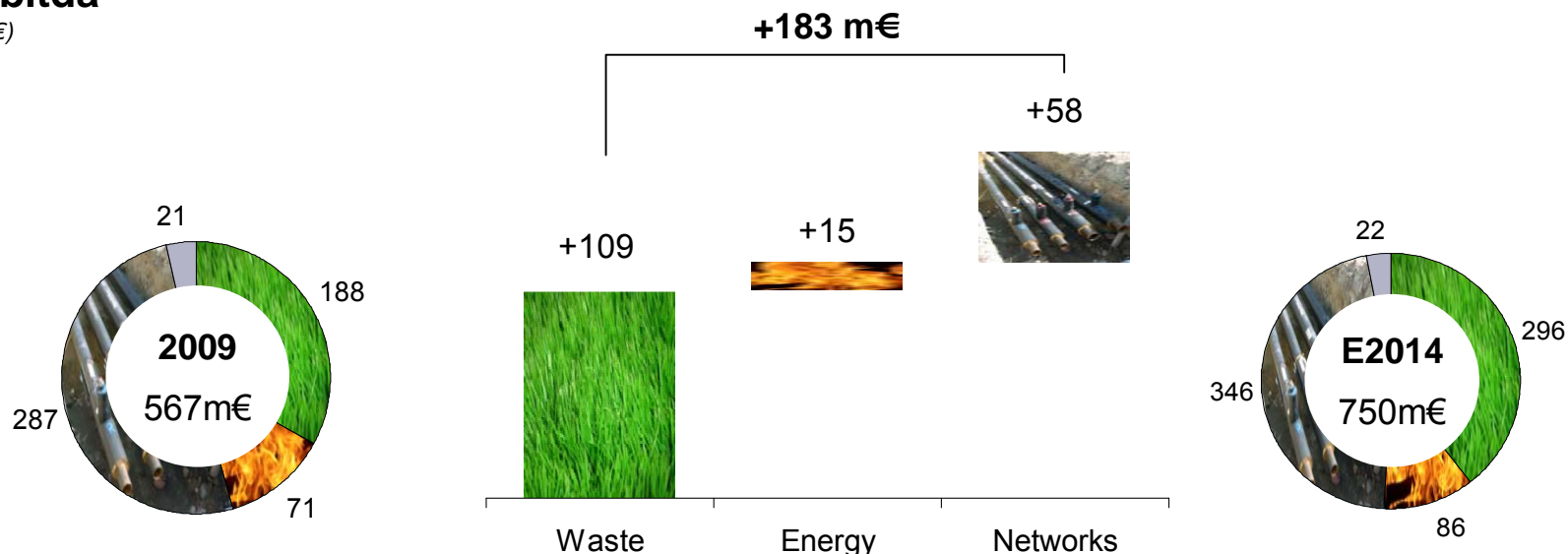




Ebitda growth by strategic areas

All business areas contributing

Ebitda
(b€)



Waste

- + 20 m€ tariffs (+3.1% Cagr)
- + 37 m€ new plants
- + 52 m€ other org.g.& syn.

Energy

- + 3 m€ new plants
- + 12 m€ other org.g.& syn.

Networks

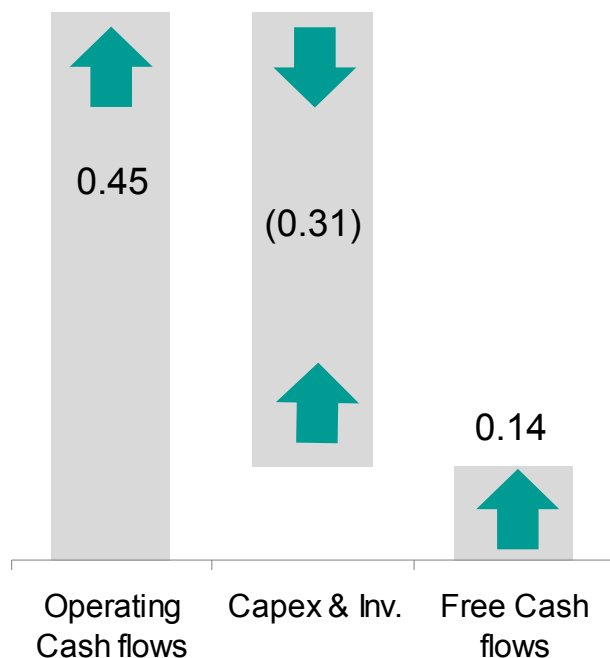
- + 33 m€ tariffs
- + 25 m€ other org.g.& syn.

Cash flow development

... all business areas in positive zone

2014 Cash flows

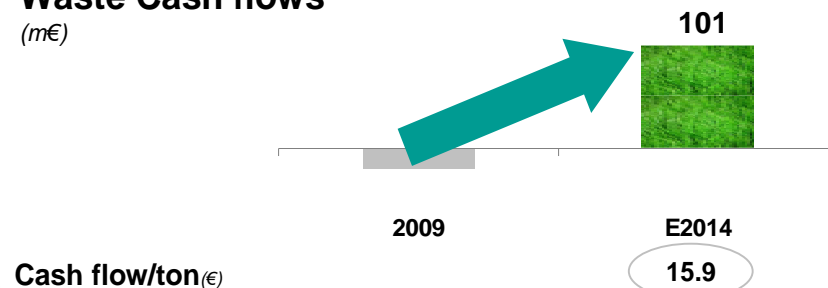
(b€)



Appropriate free cash flows to guarantee shareholder's return

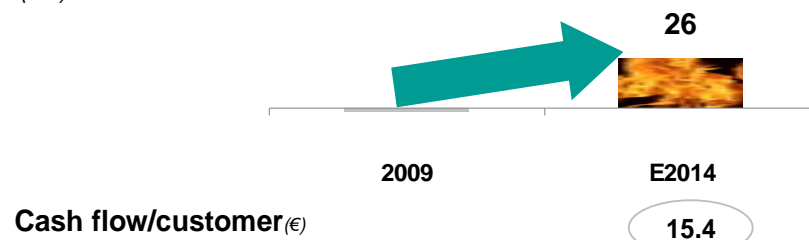
Waste Cash flows

(m€)



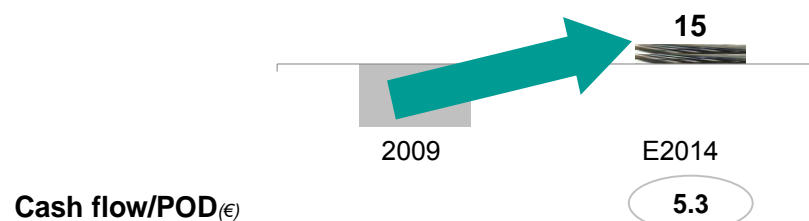
Energy Cash flows

(m€)



Networks Cash flows

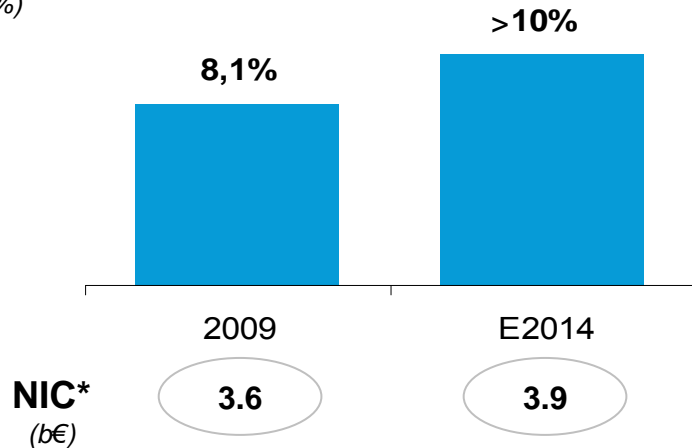
(m€)



Benefitting from Ebitda growth and bottom line enhancement

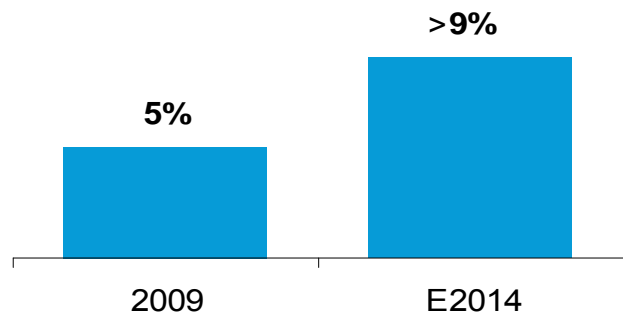
Return on Net invested capital (ROI)

(%)



Return on Equity (ROE)

(b€)

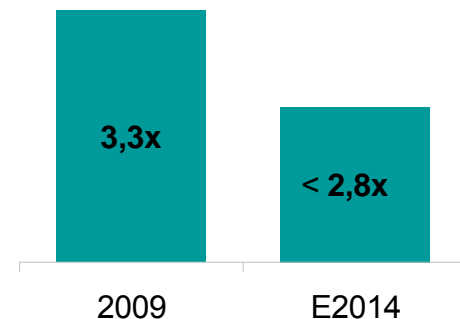


Enhanced financial flexibility

FFO/Debt



Debt/Ebitda



*Net invested capital = fixed assets + working capital - provisions

Hera Group

Mr. Tomaso Tommasi di Vignano



**Hera ready to tackle with the current scenario
and the forthcoming developments...**



**Energy position
and downstream
presence to exploit
opportunities**

**With Herambiente
execution in the
front position to
lead Italian Waste
sector development**

**Accomplished
Networks acquisition
and efficiency enhance-
ment allow to properly
address challenges/
opportunities from
tenders**

...with increasing profitability and enhancing financial strengths

750 m€EBITDA (+ 183 m€) with marginal risks

**340 m€/year of Capex down 120 m€/year vs 2005-2009,
55% on regulated activities**

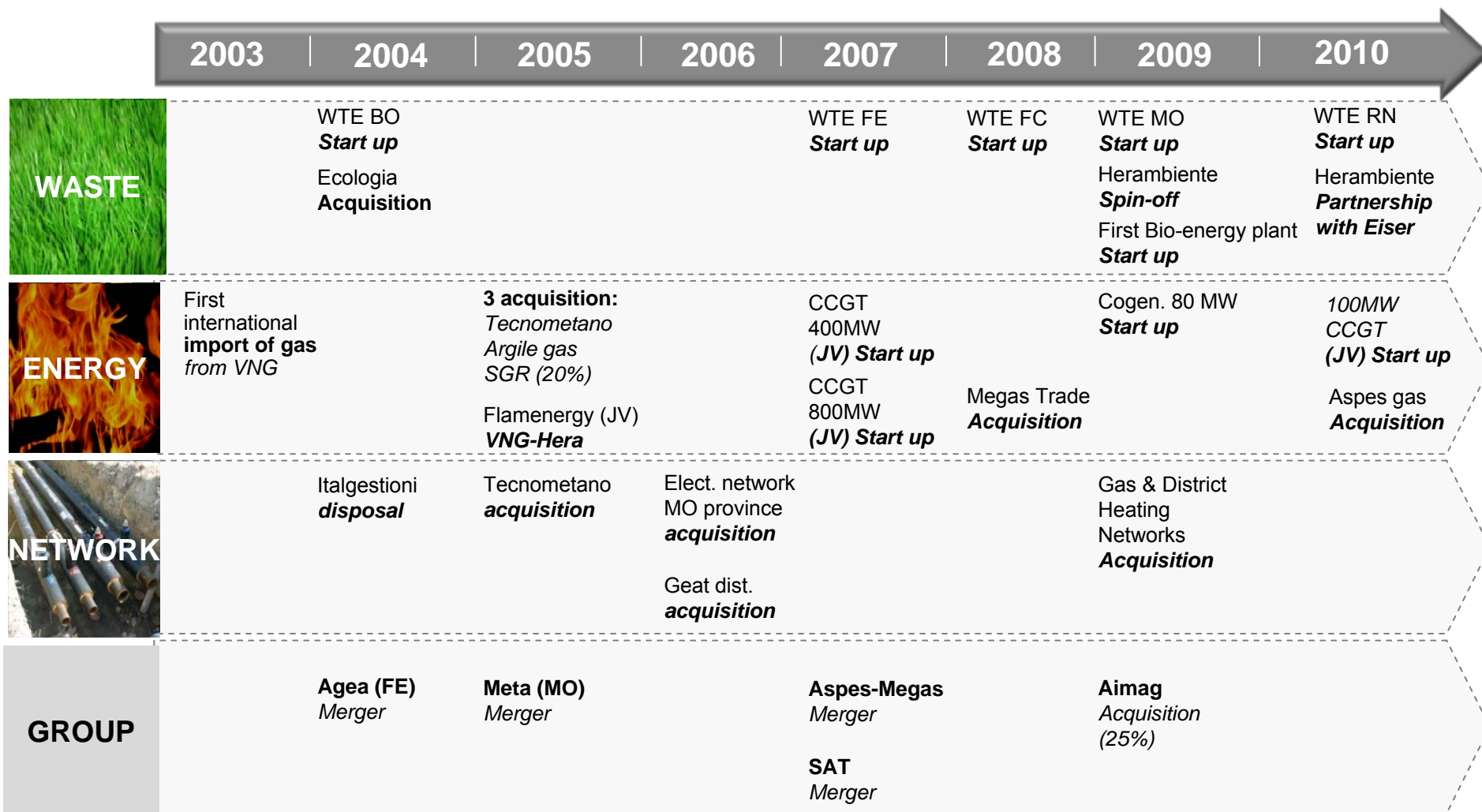
Free Cash Flow of all businesses in “positive” zone

Net Debt/EBITDA to <3 by 2013

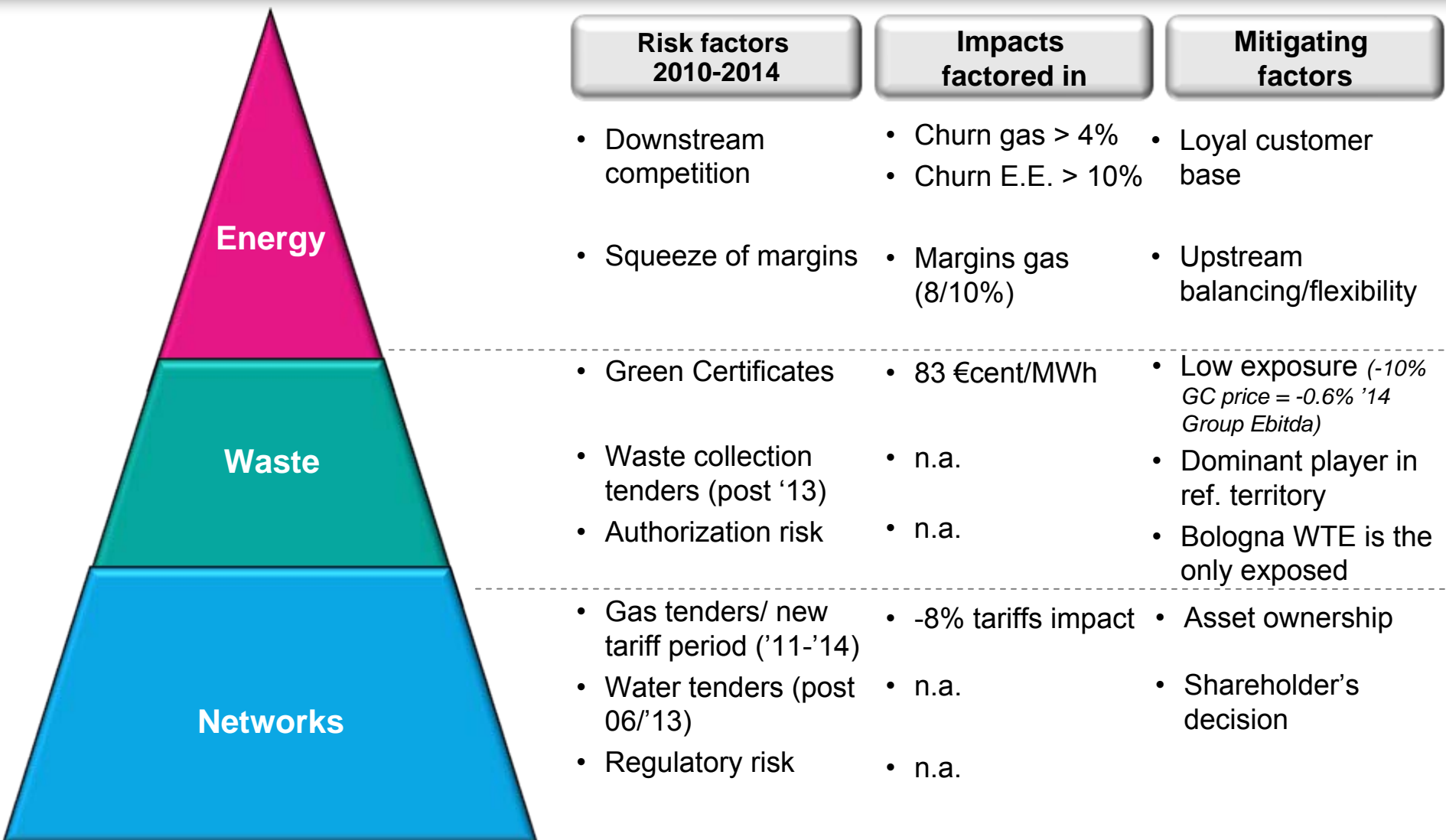
Q&A Session



Consistent pattern to strengthen positioning in all businesses



Risk exposure of economic targets



...still retaining some Capex flexibility (~10%)



Waste

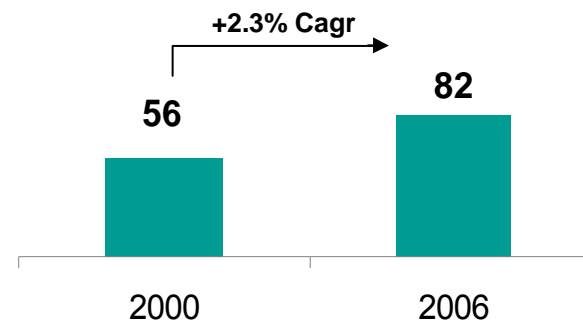


Short market with an unsatisfied demand

- ❑ Shortage in treatment capacity
(8% WTE treatment in Italy vs 20% UE)
- ❑ Increase in control/regulation
- ❑ Fragmented market

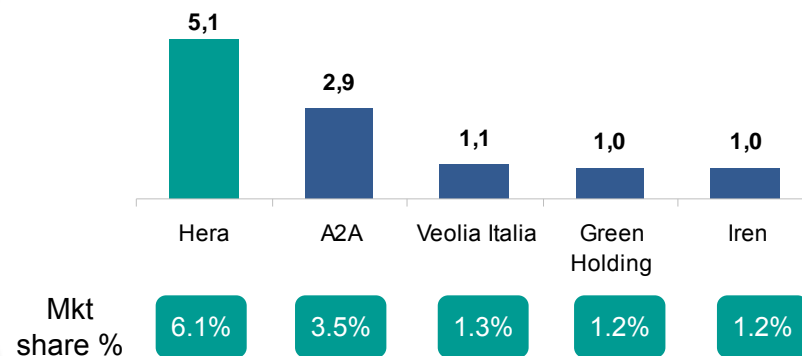
Special Waste Production*

(m tons)



National player ranking

(m tons)



*2008 data; special waste do not include C&D

Focus on deploying key competitive advantages

Hera Strategy

Key Success Factors

- ☐ Economies of scale
- ☐ Integrated solution providing (full service)
- ☐ Asset management expertise
- ☐ Relationship with Authorities
- ☐ Qualification/reliability

- ☐ Consolidate leadership also outside territory
- ☐ Extract cash flows
- ☐ Increase energy/material recovery
- ☐ Enhance effectiveness in Urban Waste mgmt

Hera Distinctive Features

- ☐ Market leadership
- ☐ Fully comprehensive business coverage
- ☐ Unique expertise
- ☐ Strong corporate image

Exploiting strong asset base to expand market share

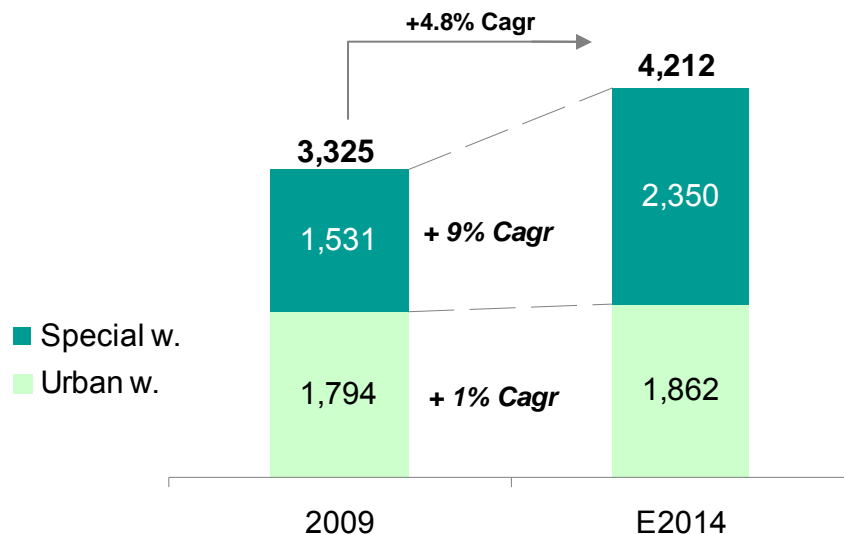
Focus on value added treatments

Expand geographical scope

Increase “full service” customer base

Hera sales volumes

(kton)

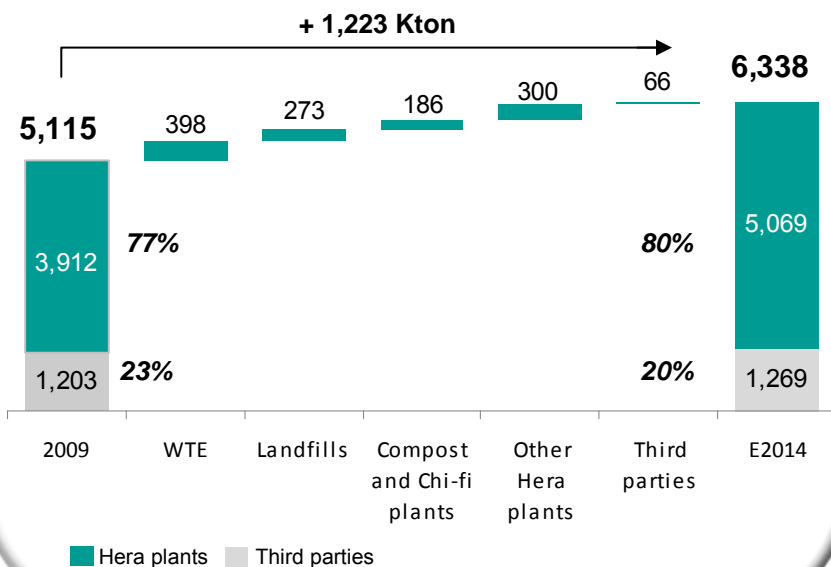


- ❑ Leverage upon domestic plant shortage
- ❑ Identified key target areas/regions/segments
- ❑ Developed competitive commercial offers (full service)

- ❑ Physiological market growth
- ❑ Manage volume growth with efficient treatments (urban w. landfill treatments down to 20%)
- ❑ Increase sorted collection from 45% to 54%

Fully integrate asset base across value chain

Hera treatment capacity (kton)



Develop and fully exploit existing WTE capacity



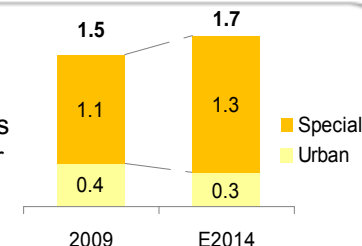
TOTAL
• 50 MW
• 310 GWhe

Potential new initiatives outside territory not accounted

Landfill development



Authorised extensions
of existing landfills for
special waste



New frontier: *Biogas/mass project*



• 215 Kton
• 8 MW
• 45 GWhe



• 140 Kton
• 12.7 MW
• 89 GWhe

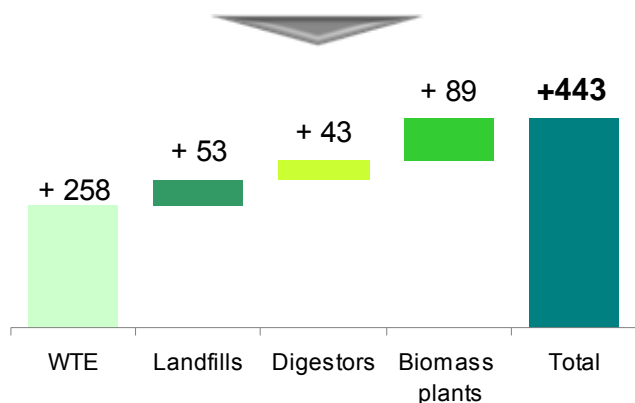
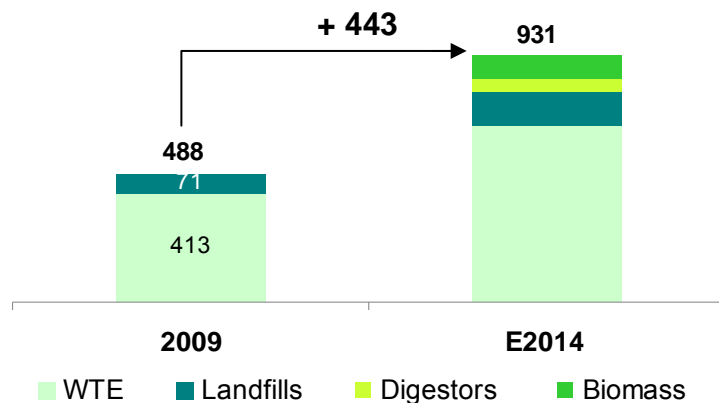
**Leadership linked to the integration of asset base development
and to expansion opportunities, partly outside reference territories**

Increase energy production awarded with incentives

Diversified renewable incentive schemes underpinning results

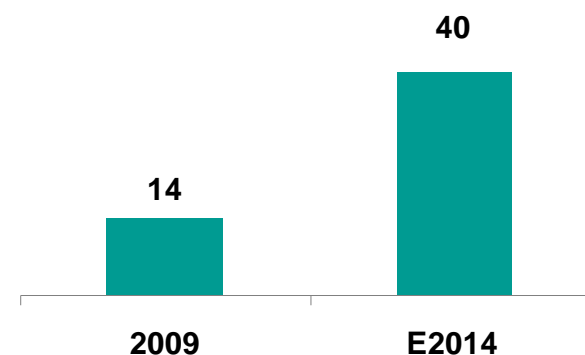
Renewable power generation

(GWh)



Green certificate incentives to waste

G.C. revenues (m€)



GC quantity
(GWh)

158

482

GC price
(€/MWh)

88.5

83.7

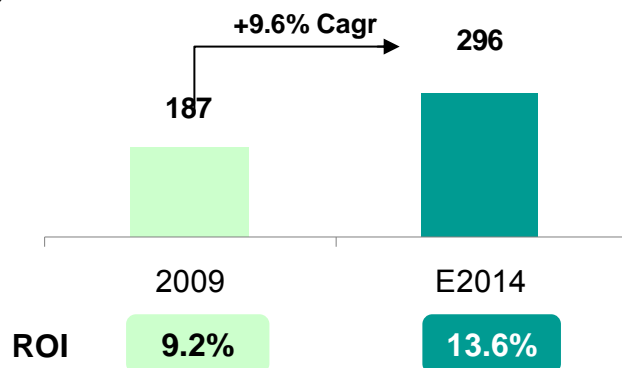
Complement Green Certificates with special tariffs schemes (i.e. 280 €/MWh for energy produced by biogas plants)

Growing cash flow despite increasing Capex

Full contribution from all new and started up plants

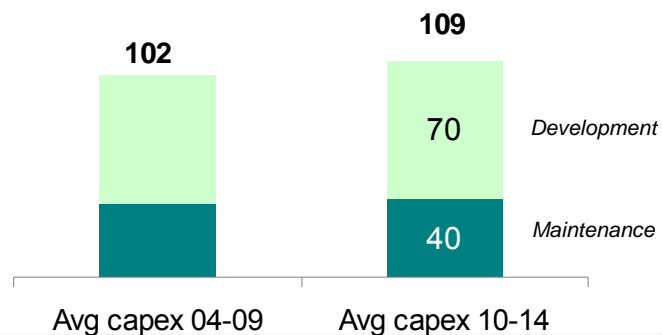
'10-'14 Ebitda growth

(m€)



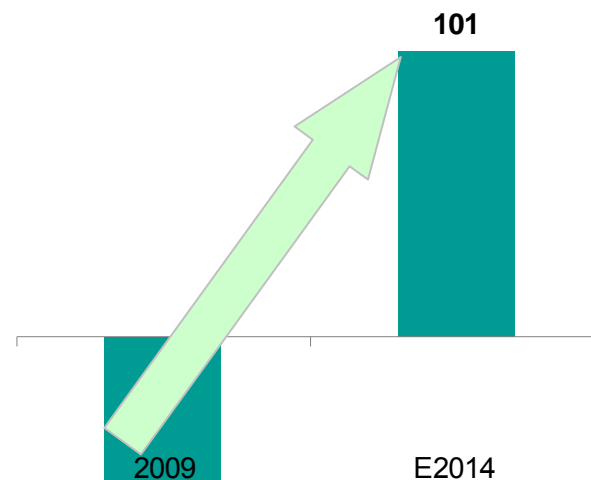
'10-'14 Capex plan*

(m€)



Cash Flow significant progression

(m€)



Cash Flow/ ton
(€)

15.9

*Including a portion of Hera Indirect Capex



Energy



Leverage upon unique and effective position to expand markets

Key Success Factors

- ☐ Flexible procurement mix
- ☐ Market size
- ☐ Effective commercial capabilities
- ☐ Efficient production and commercial operations

Hera Strategy

- ☐ Leverage on short upstream position
- ☐ Further diversify procurement mix and trading operations
- ☐ Reach 2 m customers
- ☐ Optimize cost to serve

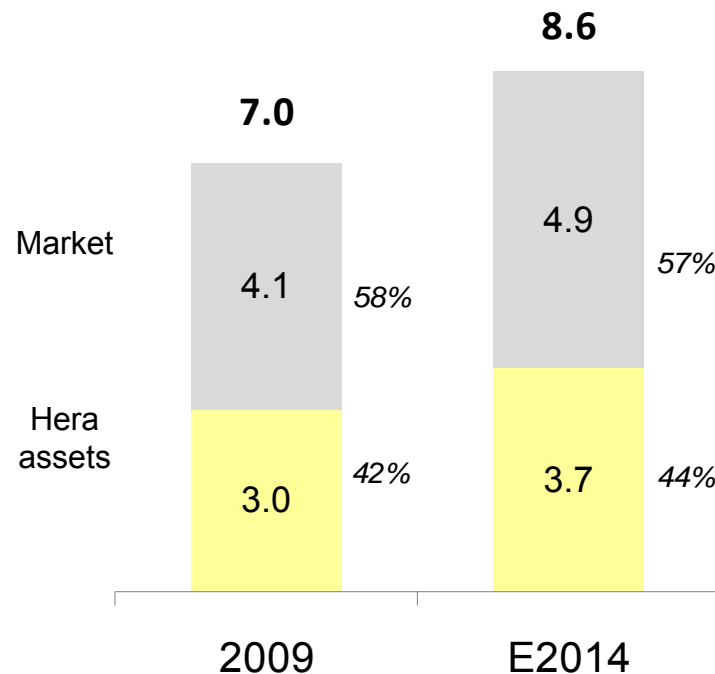
Hera Distinctive Features

- ☐ Sizeable and effective in client management
- ☐ Effective mix of assets
- ☐ Know how in trading/ procurement and asset management
- ☐ Strong and qualified image
- ☐ Loyal customer base

Unique flexible upstream profile is the key competitive advantage

Evolution of Hera Electricity provisioning mix to serve final clients

(TWh)



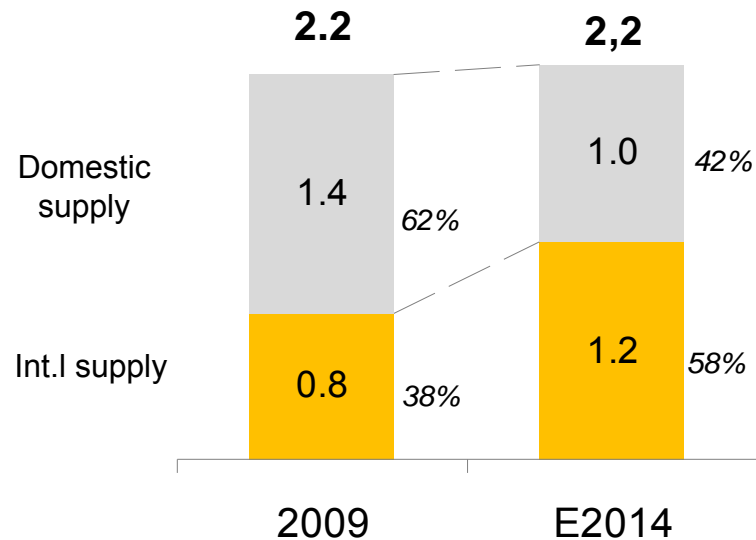
Exploit trading and procurement capabilities

- Reach flexibility with current asset base
- Identify opportunities on new leading edge projects in the M/L term

Further diversify gas low risk profile procurement

Evolution of Hera gas provisioning mix* to serve final clients

(bcm)



- Exploit market position
- Consolidate relationship with key player

Exploit short term opportunities

- Leverage on procurement trading capabilities
- Exploit capacity available on international pipelines
- Expand trading strengths
- Identify infrastructure opportunities

* Procurement breakdown has been calculated on the overall gas sales

Hera will defend gas positioning and expand electricity

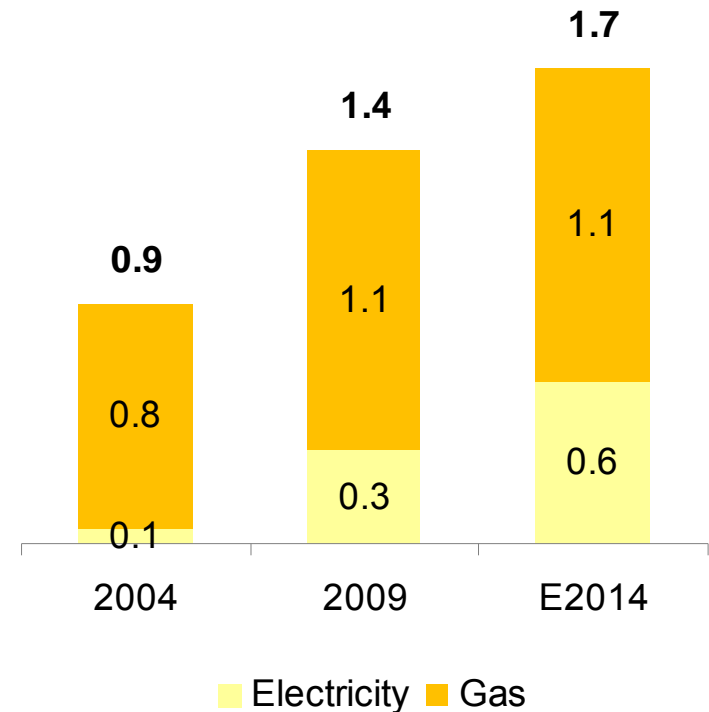
Keep on expanding customer base leveraging upon key commercial strengths

Hera commercial strategy

- ☐ Keep in focusing on residential and SoHo
- ☐ Further penetrate surrounding Regions
- ☐ Keep on leveraging on “salvaguardia” customer base (Tuscany and Umbria)
- ☐ Focus on cross selling through a multiservice offer
- ☐ Provide key industrial clients trigren solutions

Evolution of Hera Energy clients

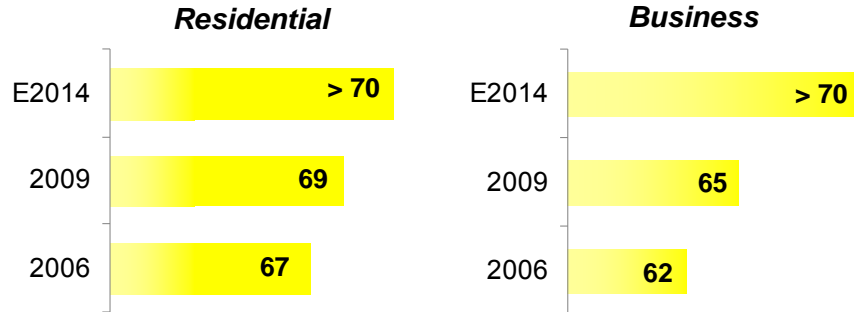
(m clients)



Enhance loyalty and efficiency

Hera customer satisfaction Indexes

(60 correspond to satisfied, 70 to delighted)

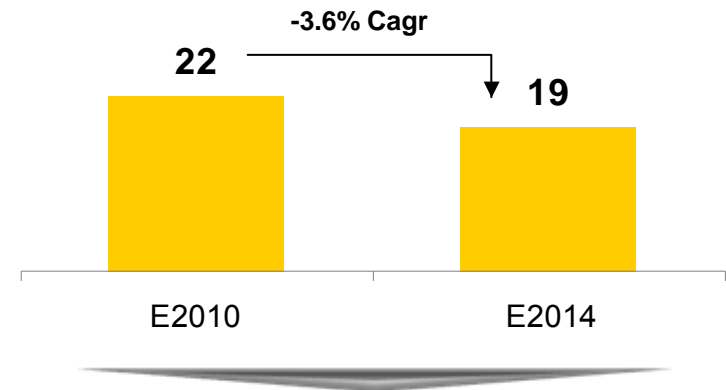


Hera effectiveness drivers

- ❑ Implement innovative CRM practices
- ❑ Leverage upon direct contact points to enhance customer satisfaction

Hera efficiency: Cost to serve

(€/contract)



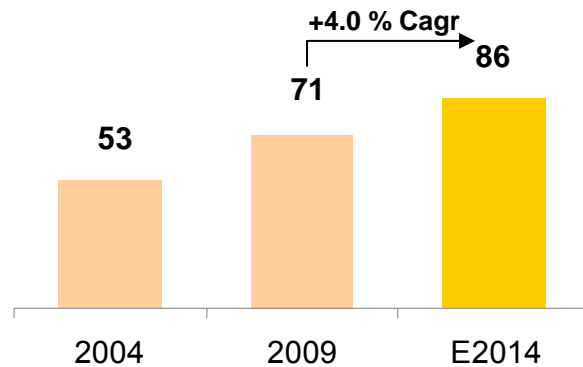
- ❑ Multi-utility approach to exploit economies of scale
- ❑ Sales channels tailored on clients' segment
- ❑ Online services and electronic invoices
- ❑ Optimisation of customer operations

Unique upstream position yields growing cash generation

Growing results and decreasing capex turn cash flow to positive

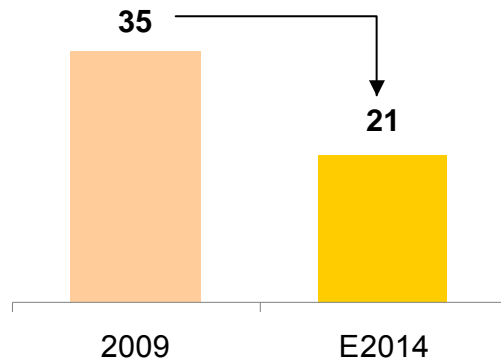
Ebitda growth

(m€)



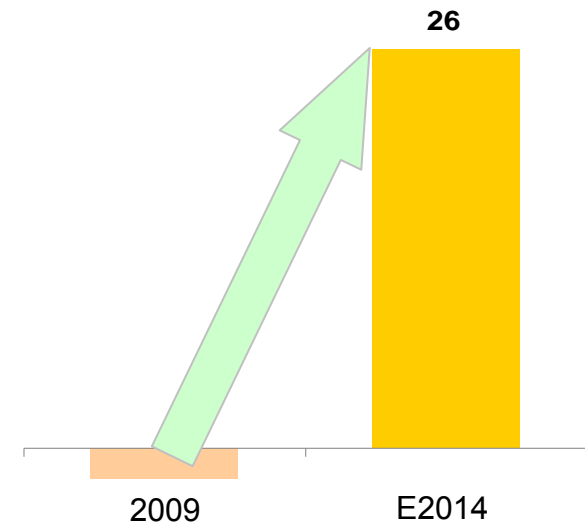
Capex

(m€)



Cash Flow

(m€)



Cash Flow
per customer
(€)

15



Networks



Continue efficiency improvements to strengthen presidium of reference territory

Key Success Factors

- ☐ Efficient cost structure
- ☐ Continuity of served areas
- ☐ Relationship with Authorities
- ☐ Ownership of assets

Hera Strategy

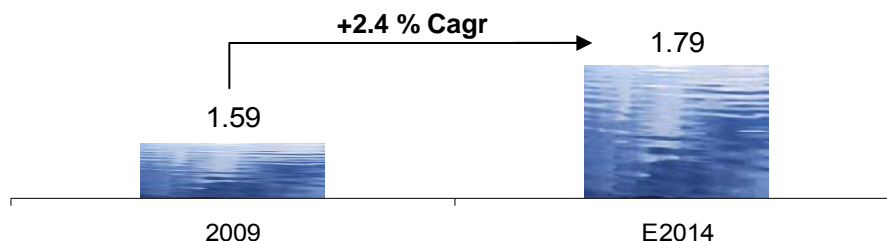
- ☐ Increase efficiency gains
- ☐ Expand and enhance networks
- ☐ Pursue positive cash flows

Hera Distinctive Features

- ☐ Almost fully coverage in contiguous areas
- ☐ Constant improvement of efficiency
- ☐ Positive relationship with Authorities
- ☐ Outstanding service quality

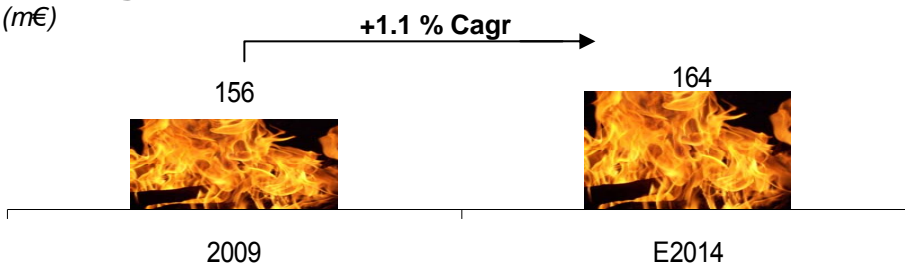
Visible and safe growth perspectives

Avg. revenue per m³ of water distributed (€/m³)



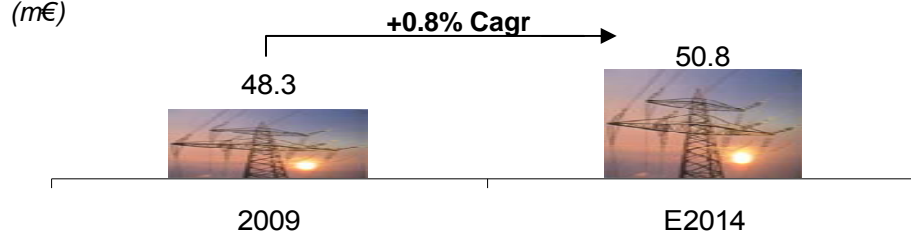
+2.6% cagr (agreed water tariff up to '12)

Total gas revenues (m€)



RAB upgrade (from 800 m€ in 2009 to 900 m€ in 2014)

Total electricity revenues (m€)

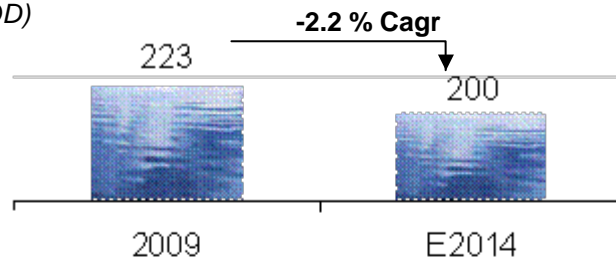


1.7% cagr volume increase

Economies of scale deployed in networks management and control

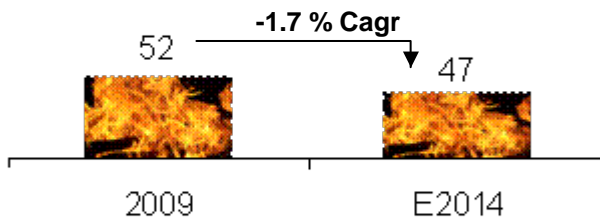
Cost per POD in water

(€/POD)



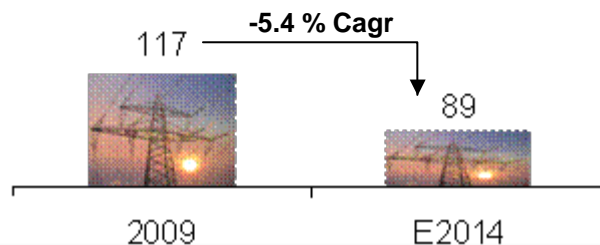
Cost per POD in gas

(€/POD)



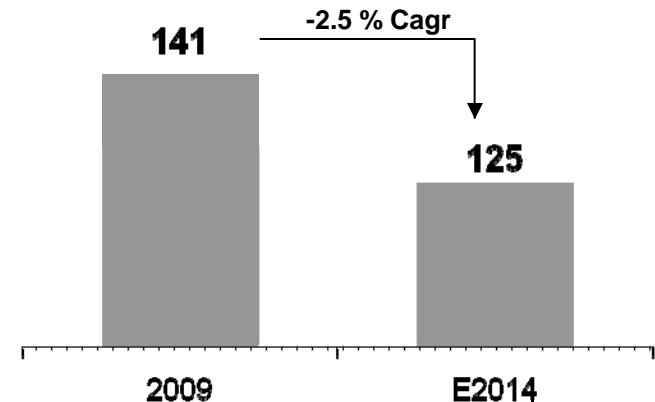
Cost per POD in electricity

(€/POD)



Average Cost per POD

(€/POD)

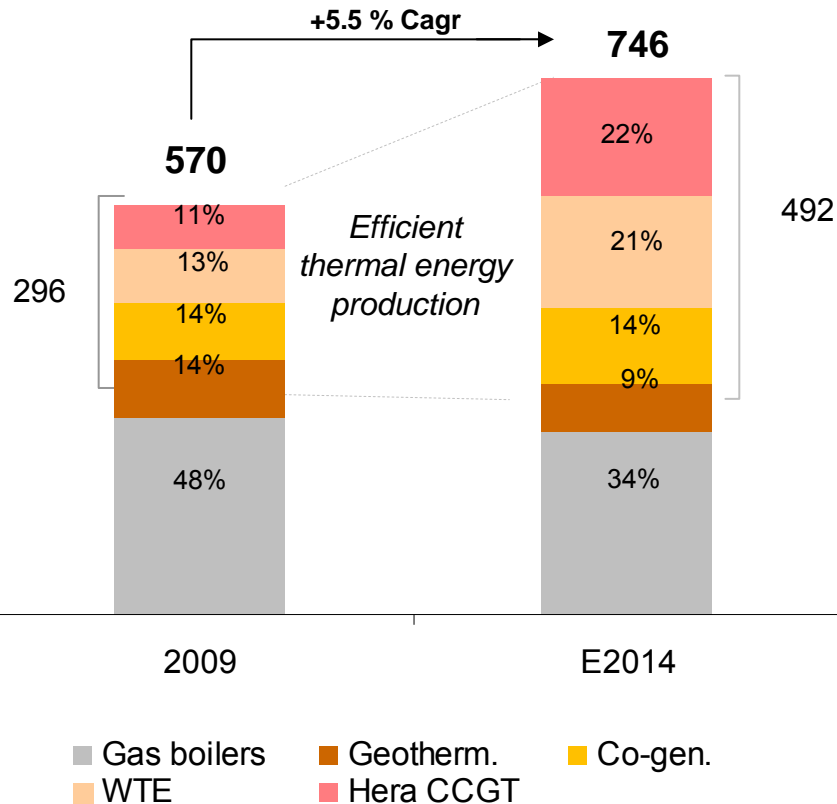


- ❑ smart metering and smart grid
- ❑ workforce management
- ❑ network remote control
- ❑ network layout optimization

Benefitting from new asset base developed to enhance profitability

Hera heating production sources

(GWh)



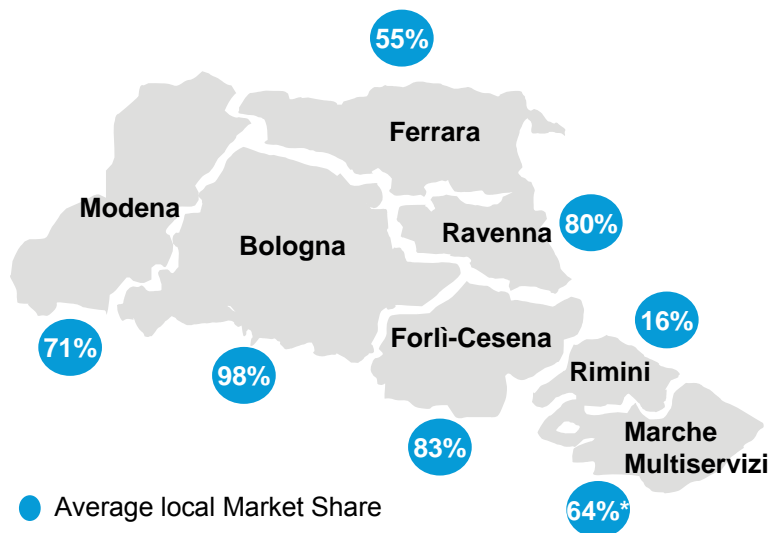
Hera heating production sources

- ☐ Increase volume sold to new customers (new urbanization)
- ☐ Efficient sources for heat production
- ☐ Waste contribution to increase heat gen.
- ☐ Increase of margins/environmental performances

Win upcoming tenders completing reference territorial coverage

Incumbent in reference territories

(% of customers)



Other main players:

SGR	12%	E.On	4%
Aimag	9%	Edison	3%

Hera key strengths to win tenders

- ☐ Incumbent in reference territories
- ☐ 4th national player
- ☐ Continuity in territory served
- ☐ Remote control of networks
- ☐ Quality of service

Potentials to win tenders inside the reference territory and in surroundings

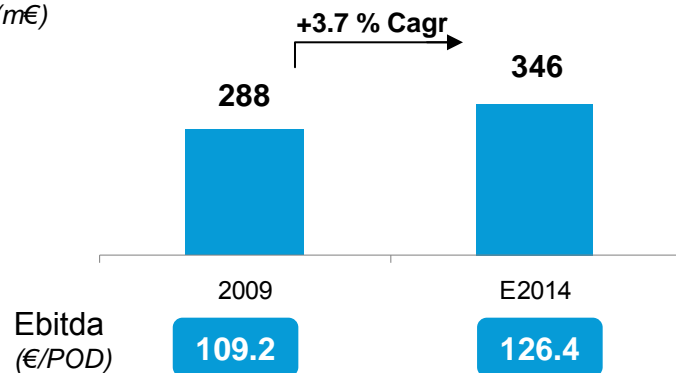
*% on total Municipalities

Strong profitability increase

Capital discipline and efficiency gains turn cash flows to positive

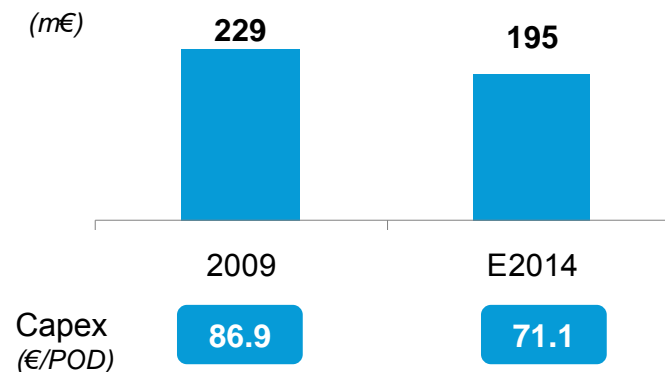
Ebitda

(m€)



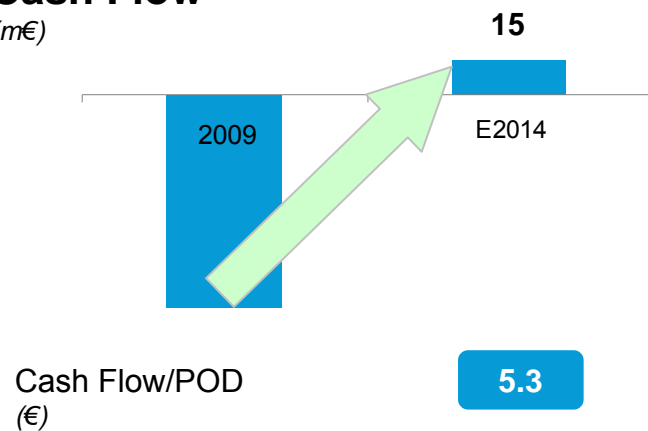
Capex

(m€)



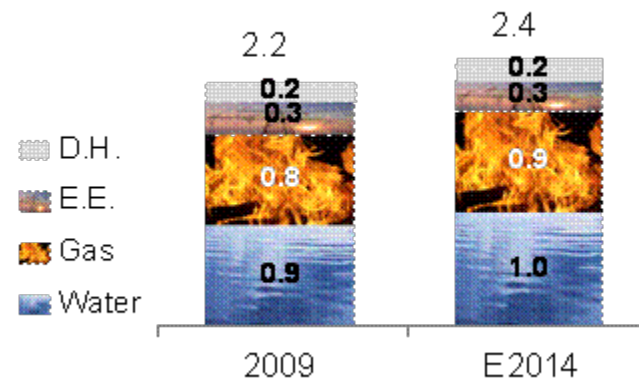
Cash Flow

(m€)



RAB/ NIC*

(b€)



*Regulated Asset Base for Gas & Water; Net Invested Capital (Fixed Asset, Working Capital less provisions) for E.E. & D.H

Breakdown by business

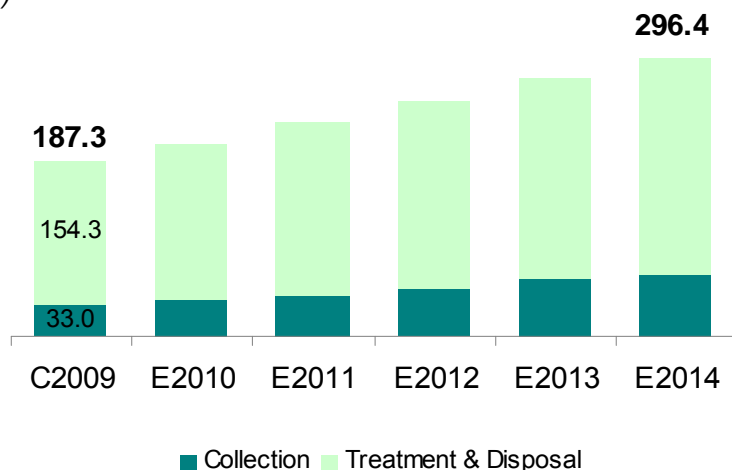


Economics

M €	C2009	E2014	Cagr.
Revenues	642.4	896.3	+6.9%
Operat. costs	(327.3)	(441.0)	+6.1%
Personnel	(142.4)	(159.3)	+2.3%
Capitaliz.	14.5	0.4	(52.1%)
Ebitda	187.3	296.4	+9.6%

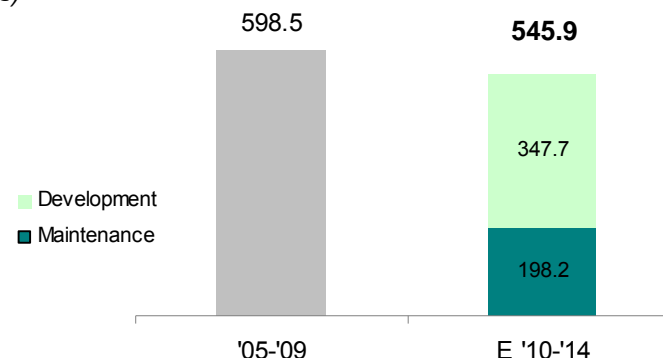
Ebitda breakdown

(m€)



Capex '10-'14: 546 m€

(m€)



Highlights

	2009	E2014
Tariffs (€/ton)	219.5	255.3
Volume treated		
Urban (kton)	1,794	1,862
Special (kton)	1,531	2,350
Hera prod. (kton)	1,790	2,127

Economics

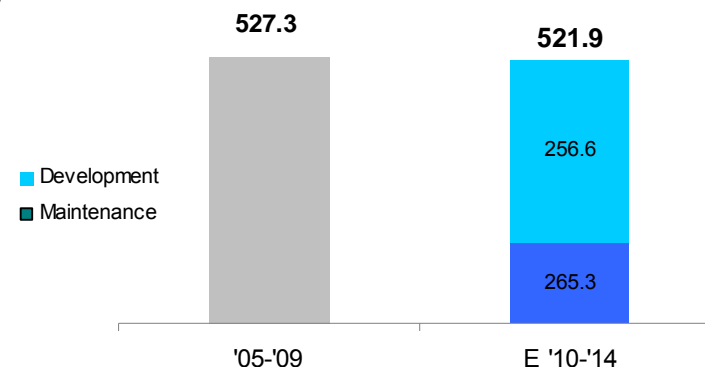
M €	2009	E2014	Cagr.
Revenues	471.4	530.3	+2.4%
Operat. costs	(264.5)	(287.4)	+1.7%
Personnel	(104.7)	(113.1)	+1.6%
Capitaliz.	29.3	39.9	+6.4%
Ebitda	131.4	169.7	+5.2%

Volume sold & n. of contracts

	2009	E2014
Volumes (mm ³)	257	259
Contracts (m)	1.17	1.20

Capex '10-'14: 522 m€

(m€)



Highlights

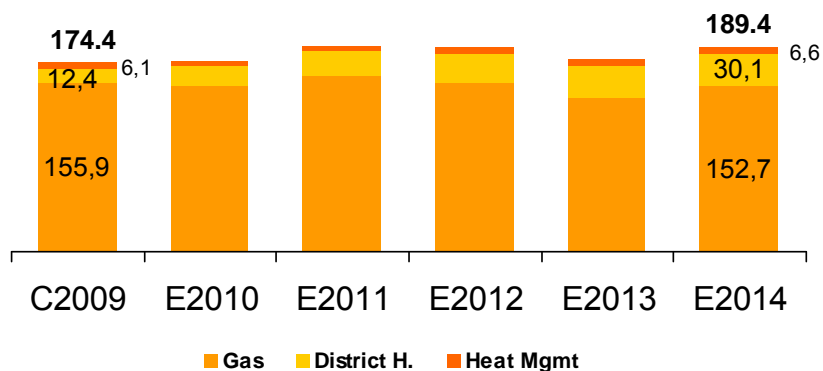
	2009	E2014
Leakage	25.9%	24.7%
RAB (b€)	0.9	1.0
Tariff (€/m ³)	1.6	1.8

Economics

M €	2009	E2014	Cagr.
Revenues	1,268.1	1,262.5	(0.1%)
Operat. costs	(1,050.9)	(1,025.7)	(0.5%)
Personnel	(63.4)	(71.8)	+2.5%
Capitaliz.	20.6	24.4	+3.4%
Ebitda	174.4	189.4	+1.7%

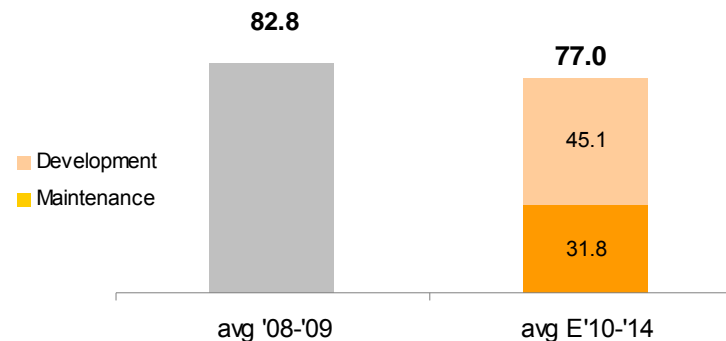
Ebitda breakdown

(m€)



Capex '10-'14: 385 m€

(m€)



Highlights

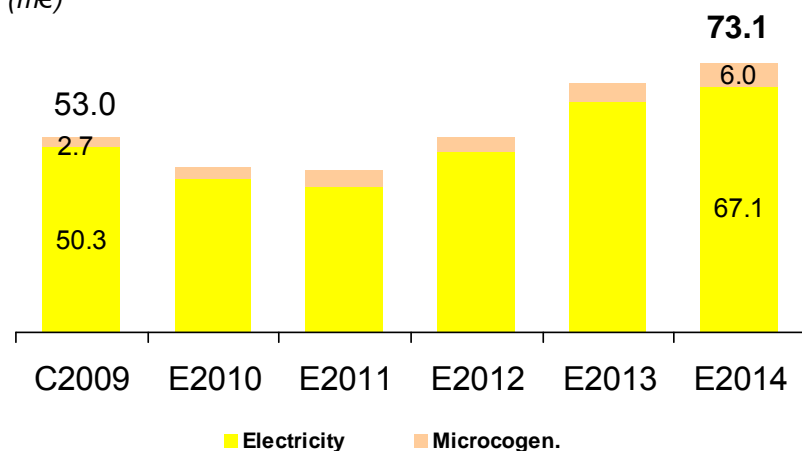
	2009	E2014
RAB (b€)	0.8	0.9
Networks (kKm)	14.7	15.5
Tariffs (€/m³)	6.7	6.4

Economics

M €	2009	E2014	Cagr.
Revenues	2,031.0	2,571.1	+4.8%
Operat. costs	(1,968.5)	(2,474.8)	+4.7%
Personnel	(24.0)	(32.4)	+6.1%
Capitaliz.	14.5	9.2	(8.8%)
Ebitda	53.0	73.1	+6.6%

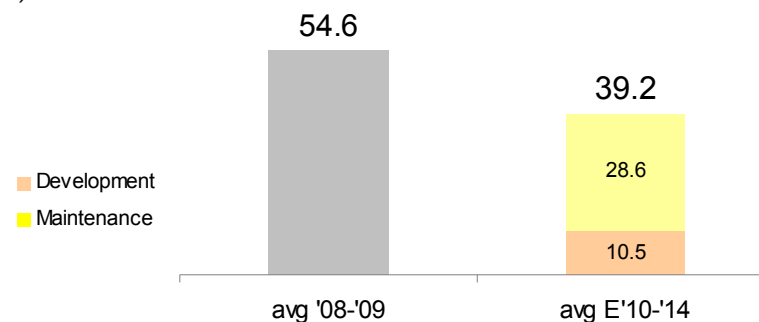
Ebitda breakdown

(m€)



Capex '10-'14: 196 m€

(m€)



Highlights

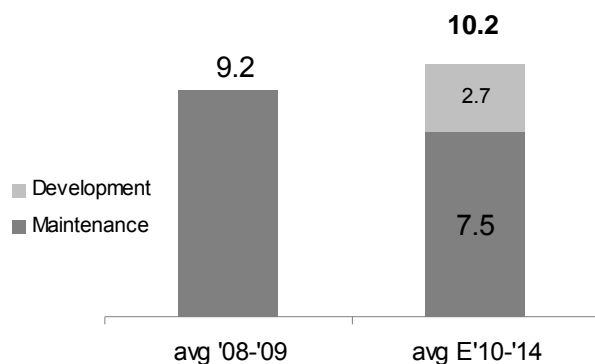
	2009	E2014
E. sold (TWh)	7.0	8.6
E. distr. (TWh)	2.1	2.3
E. contracts (k)	335	553
E. tariffs (€/KWh)	2.3	2.2

Economics

M €	2009	E2014	Cagr.
Revenues	96.4	86.9	(2.1%)
Operat. costs	(58.7)	(46.2)	(4.7%)
Personnel	(17.5)	(19.1)	+1.7%
Capitaliz.	1.0	0.0	
Ebitda	21.1	21.6	+0.4%

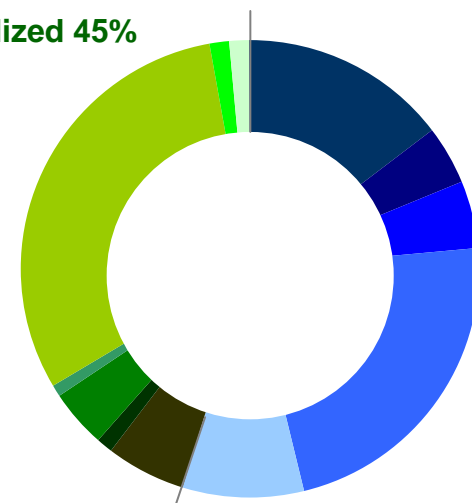
Capex '10-'14: 51 m€

(m€)

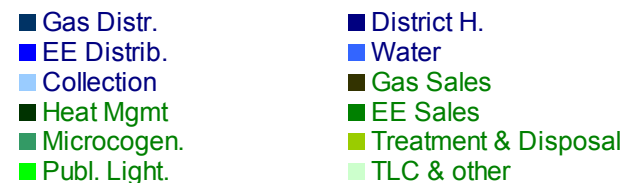


Business Portfolio breakdown

Liberalized 45%



Regulated 55%



This presentation contains forward-looking statements regarding future events (which impact the Hera Group's future results) that are based on current expectations, estimates and opinions of management.

These forward-looking statements are subject to risks, uncertainties and events that are unpredictable and depend on circumstances that might change in future.

As a result, any expectation on Group results and estimates set out in this presentation may differ significantly depending on changes in the unpredictable circumstances on which they are based.

Therefore, any forward -looking statement made by or on behalf of the Hera Group refer on the date they are made.

The Hera Group shall not undertake to update forward-looking statements to reflect any changes in the Group's expectations or in the events, conditions or circumstances on which any such statements are based.

Nevertheless, the Hera Group has a "profit warning policy" , in accordance with Italian laws, that shall notify the market (under "price-sensitive" communication rules) regarding any "sensible change" that might occur in Group expectations on future results.