



**H1 Results 2007 and Business plan 2007-2010**  
**September 2007**

# Contents

## H1 2007 results

- > Overview of H1 achievements
- > Ebitda growth drivers
- > Capex accomplished
- > Stock performance and closing remarks

## Business plan 2007-2010

- > Business plan framework
- > Business plan main assumptions
- > Business plan targets
- > Ebitda growth drivers
- > Strategic Framework
- > “Development strategy”: Waste Asset Strengthening
- > “Development strategy”: Upstream integration
- > “Development strategy”: Market expansion
- > “Development strategy”: M&A
- > “Efficiency” and Innovation” strategy
- > Portfolio mix and group cash flows
- > Capital expenditure E2007-2010
- > “On top” growth potentials
- > Closing remarks

### page

1  
2  
3  
4  
5  
  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

## Annexes

- > Business plan: Breakdown by business
- > Business plan targets on main KPI
- > Introduction to the Hera Group
- > Breakdown of H1 results 2007 by business
- > Disclaimer

### page

21  
21  
25  
26  
31  
37

## H1 Results in line with budgets



In H1 Hera **continued extracting synergies** focusing mainly on improving efficiency of operations in all core activities and through “Meta” integration.

**Organic Growth also highlighted good performances** driven by *tariff increases* mainly in Water and Urban Waste businesses. *Electricity market expansion* progresses thanks to effective marketing and cross selling activities. *Gas distribution tariffs* activities benefit from price cap reduction as a results of the completed M&As.

H1 results benefit from the contribution of **M&A activities** carried out in 2006 (*Aspes* multi-utility in Marche region and *Electricity network* in Modena province (not accounted for in H1 2006)).

The full mergers of *SAT* (multi-utility in Modena province) and of *Aspes-Megas* (between Pesaro and Urbino multi-utilities) recently agreed were not included in H1 results.

These internal and external growth drivers achieved a positive growth offsetting the **considerable negative effect of the mild winter** and the reduction in Gas sale prices due to D. 134 AEEG.

The significant **capex plan executed** in H1 includes several new WTE plants; those in Ferrara and Forlì will start operations in Q4 this year.

# H1 achievements overview

## Revenues

**+13.9%**

Revenues benefit from M&As, regulated tariff increases and market expansion. These effects were partially offset by lower Gas sales due to the mild winter season.

## Ebitda

**+0.4%**

Ebitda still increases slightly as a result of internal growth and M&As contribution. The Ebitda margin was affected by Gas business' low margins due to the mild winter (as in Q1).

## Ebit

**(6.9)%**

Ebit affected by growing depreciation charges mainly related to M&A (70% of the increase regards the acquisition of Aspes and Enel network).

## H1 2007 Group Results

M €	H1 2006	%	H1 2007	%	Inc. %
<b>Revenues*</b>	<b>1,198.0</b>	<b>100.0%</b>	<b>1,364.8</b>	<b>100.0%</b>	<b>+13.9%</b>
Operat. Cost	(915.8)	(76.4%)	(1,105.5)	(81.0%)	+20.7%
Personnel	(142.2)	(11.9%)	(150.6)	(11.0%)	+5.9%
Capitaliz.	69.9	5.8%	102.0	7.5%	+46.0%
<b>Ebitda</b>	<b>209.9</b>	<b>17.5%</b>	<b>210.7</b>	<b>15.4%</b>	<b>+0.4%</b>
D&A	(87.8)	(7.3%)	(96.9)	(7.1%)	+10.4%
<b>Ebit</b>	<b>122.2</b>	<b>10.2%</b>	<b>113.8</b>	<b>8.3%</b>	<b>(6.9)%</b>
Financials	(22.8)	(1.9%)	(36.2)	(2.7%)	+58.3%
<b>Pre tax Profit</b>	<b>99.3</b>	<b>8.3%</b>	<b>77.6</b>	<b>5.7%</b>	<b>(21.9)%</b>
Tax	(39.9)	(3.3%)	(33.6)	(2.5%)	(15.8%)
<b>Net Profit</b>	<b>59.4</b>	<b>5.0%</b>	<b>44.0</b>	<b>3.2%</b>	<b>(26.0)%</b>

*\*Revenues include sales, change in stock and other operating revenues*

## 1H2007 capex

**184.9 m€**

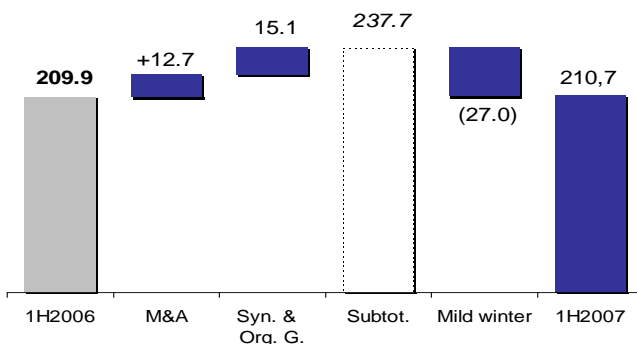
Capex plan executed to strengthen the strategic asset base (mainly related to Water and Waste businesses development).

## NFD and Cash Flows

Q2 cash generation was capable of funding Q2 capex and dividend expense (0.08€/p.s.). NFD remains at Q1 levels (1,323 m€).

# Growth drivers offset effects of extraordinarily mild winter

H1 2007 Ebitda Growth (m€)



The growth achieved offset the considerable negative effect of past mild winter.

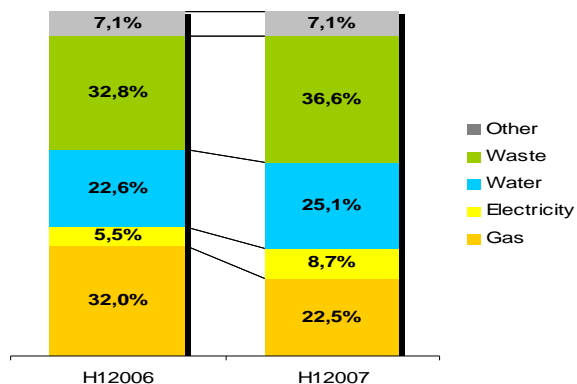
Internal growth drivers and achieved M&A contribution fully offset the effects of the extraordinarily mild winter (approx. -27 m€).

**Synergy and Organic growth** drivers performed in line with expectations in terms of tariff increases and efficiency gains more than offsetting lower sales margins on residential customers in Gas business (due to D. 134 of AEEG).

**M&A** mainly involves **Aspes** (contribution of approx. 7 m€) and the acquisition of **Modena province Electricity network** (contribution to Ebitda of about 6 m€) which were not included in H1 2006 results.

Business Mix confirms its low risk profile

H1 2007 Ebitda Breakdown (m€)



# H1 NFD unchanged (vs. Q1) despite increased capex and dividends

## H1 2007 Operating Capex

M €	H1 2006	H1 2007
Waste	35.5	63.4
Water	43.8	64.8
Gas	11.5	15.2
Electricity	4.6	10.7
Other	12.9	12.1
Holding	23.6	18.7
<b>Capex &amp; Inv.</b>	<b>131.9</b>	<b>184.9</b>

## H1 2007 Cash Flows

M €	H1 2007
Net Profit	44.0
D&A	96.9
<b>FFO</b>	<b>140.9</b>
NWC & Prov. Change	(23.1)
<b>Operating C.F.</b>	<b>117.8</b>
Capex & Investments	(184.9)
<b>Free Cash flows</b>	<b>(67.1)</b>
Dividends & third parties	(81.3)
Other Net Equity ch.	(1.6)
<b>Ch. In Net Debt</b>	<b>(150.0)</b>
<b>H1 2007 Net Debt</b>	<b>(1,323.3)</b>

## Operating Capex

Waste capex mainly (by 60%) concerns new WTE plants (Ferrara, Modena and Forlì).

Capex in Water business relates to asset enhancements agreed with Atos (capex remunerated in tariff).

Electricity capex includes 4.7 m€ regarding new Cogeneration plant in Imola.

Half of the Other business capex relates to District Heating network maintenance and development.

## Positive operating Cash Flows

Working capital reduced since SAP Billing system in Modena L.O.C. came fully on stream recovering part of Q1 delay in invoicing.

Capex and dividends funded by cash generation of Q2.

Financial net debts in line with the end of Q1.



# Closing remarks on H1 results

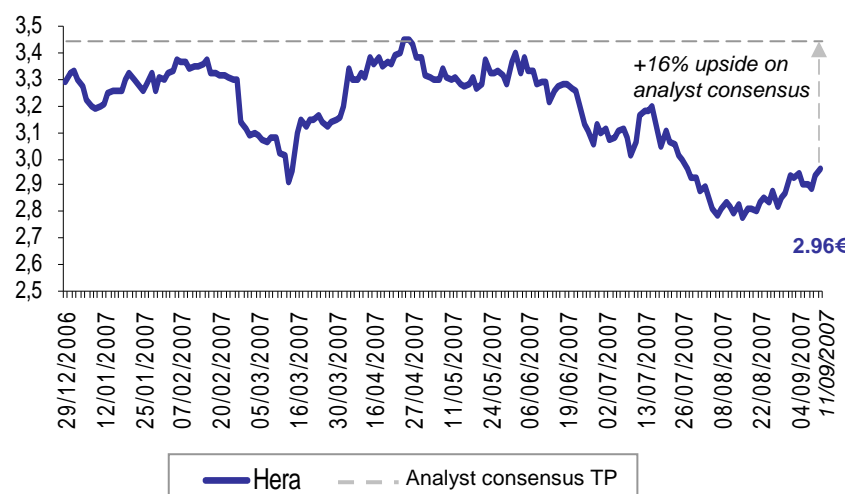
**H1 Results were in line with budgets** except for -27 m€ negative impact of the mild winter season affecting Gas and Other businesses (District Heating).

**M&A activities, market expansion and tariff increases and the pursuit of efficiency gains** more than compensate the extraordinary negative weather effects.

**Capex plan** commitments maintained and new WTE plants in Ferrara and Forlì will start operations in Q4.

**NFD** stands around 1.3 b€ as at the end of Q1 even after significant capex and dividend paid thanks to Q2 cash generation.

**Stock performance since 1<sup>st</sup> January 2007**



- > Stock price underperformed both Mibtel and "local Utility index"\*.
- > Analyst consensus (calculated based on recent analyst researches) highlights +16% upside potentials.
- > Daily trading volumes in 2007: avg. 2.2 million shares

\* the index includes Aem, Asm, Acea, Iride, Enia, Ascopiave, Aps-Acegas and Acsm



## Business Plan 2007-2010



800 MW CCGT Plant in Sparanise (Campania region, Italy)

## Business plan confirming fast growth perspectives



**Business plan has been updated** to extend projections to **2010**, factoring in the deployment of Hera's strategy developed consistently throughout the last 4 years.

The mission to satisfy customer base delivering by high quality core services through an environmentally sustainable approach is pursued based on **3 main strategic pillars**:

1. **Development** of market shares and assets base;
2. **Efficiency gains** on customer relation management, asset operations and maintenance, organisational structure;
3. **Innovation** deployment IT system integration and Research & Development.

2010 targets include **M&A previously** negotiated last June/July (100% SAT merger and Megas-Aspes merger).

**2007-2010 business plan highlights fast growing results** (still the highest among peers), **a sound capital structure** together with a **low business risk profile**.

As in the past, **further developments through M&As** in surrounding areas remain one of the Group priorities. This strategy aims at **consolidating the Group's primary standing** in the Italian local multi-utility arena.

**2010 targets include the most visible growth potentials, not projects currently under negotiation and/or valuation.**



## 2007-2010 fast growth is based on prudent 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

	Prior plan E2009	New Plan E2010
<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%)	+0.5%
Electricity distribution (cagr)	(1.3%)	(1.2%)
Water (cagr)	+4.5%	+4.7%
Waste (cagr)	+2.2%	+2.9%
<b>Synergies and Org. Growth</b>		
Synergies (m€)	+67.0	+62.0
Organic growth (m€)	+68.0	+65.0

## +57% increase in Ebitda and raised profitability ratios in 2010

Profit & Loss (M€)					
M €	2006	%	E2010	%	Cagr %
<b>Revenues</b>	<b>2,364</b>	<b>100%</b>	<b>2,956</b>	<b>100%</b>	<b>+5.7%</b>
Oper.cost	(1,837)	(77.7%)	(2,136)	(72.3%)	+3.9%
Personnel	(296)	(12.5%)	(316)	(10.7%)	+1.7%
Capitaliz.	195	8.2%	167	5.6%	(3.8%)
<b>Ebitda</b>	<b>427</b>	<b>18.0%</b>	<b>670</b>	<b>22.7%</b>	<b>+11.9%</b>

Returns and Capex plan		
Ratios & Dividends	2006	E2010
Net invested Capital (m €)	2,690	3,060
ROI	9%	14%
ROE	7%	12%
D/E	0.8	0.8
NFD/Ebitda	2.7	2.0
Dividend cagr		+13%
<b>Capex Plan 2007-2010 (b €)</b>	<b>1.4</b>	

### > Revenues **+5.7% Cagr**

Revenues increase by +592 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 **+11.9% Cagr**

Increase of +243 m€ (+57% in the period) with the contribution of all core businesses. Group margin up to 22.7% (+470 bps)

### > Profitability and Dividends

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

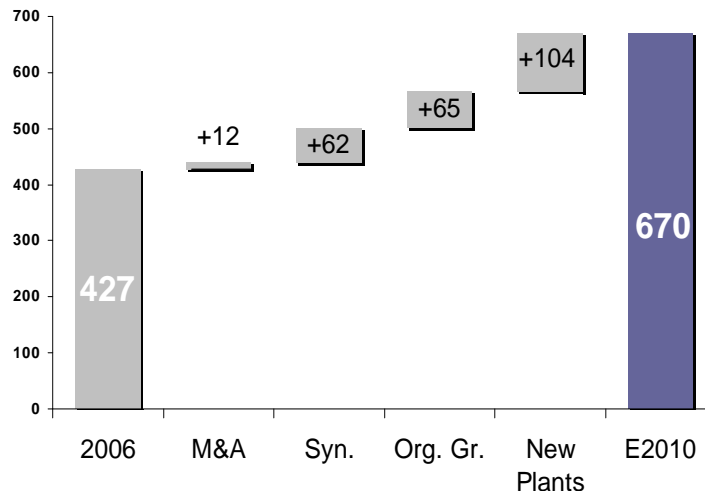
Double digit dividend increase confirmed (+13% avg. per year throughout 2010).

### > Capex plan

Fully funded by 2007-2010 operating cash flows.

## Balanced contribution from visible levers

2007-2010 Ebitda Build-up



### 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.*

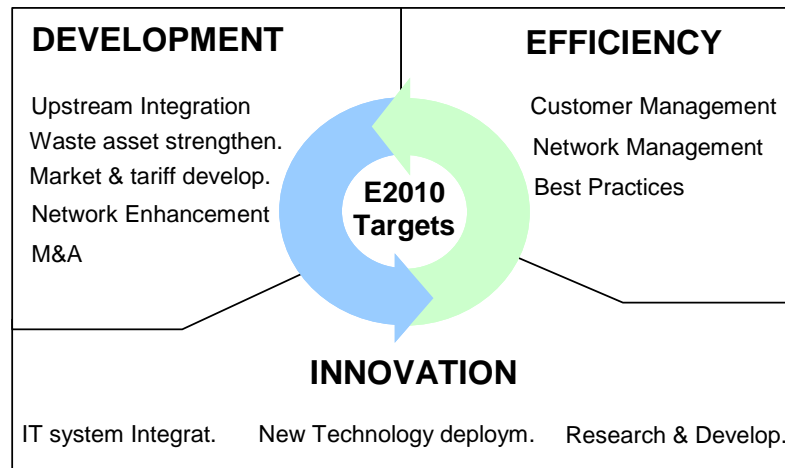
Past and expected performance driver

M €	2003-2006	2007-2010
M&A	+108	+12
Synergies	+64	+62
Organic Growth	+63	+65

- > **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€.*

# Deploying a successful strategy leveraging upon Hera strengths

## Strategic guidelines



**Strategic guidelines leverage a wide and loyal customer base, a unique asset base and effective business model.**

## 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:

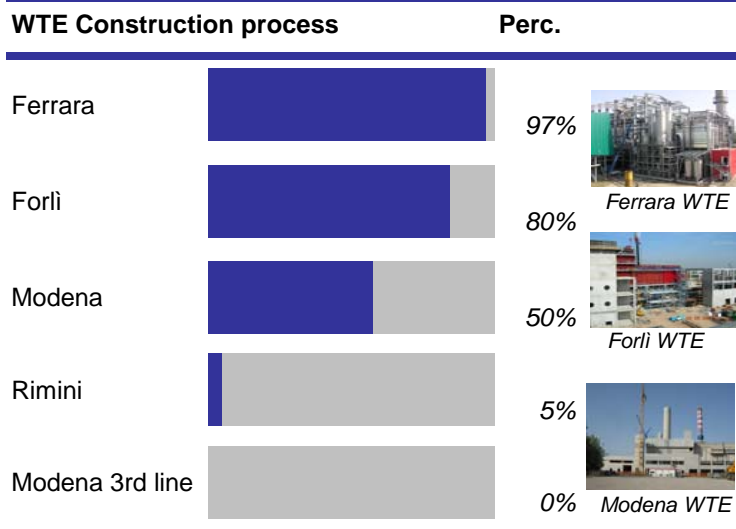
- > **Integration of 2nd level IT systems** and deployment of new technologies.

# New waste assets progressive start up confirms sector leadership

Doubling WTE energy production and urban waste treatment

Strengthening special waste division leveraging upon significant expertise

## WTE Plants



The WTE repowering program increase Group treatment capacity to 968k tons and power gen. sold at incentive tariffs up to 508 GWh.

13% contribution to E2010 Ebitda

## Special Waste Strategy

### Assets

- > Strengthening and expanding asset base with new plants for:
  - > chemical treatmt.;
  - > appliance recycling;
  - > desorption, digestion and inertisation.
- > **Development of a new site** for Special waste treatment in Sicily.
- > Acquisition of stakes in plants **“outside E-R region”**.

### Commercial

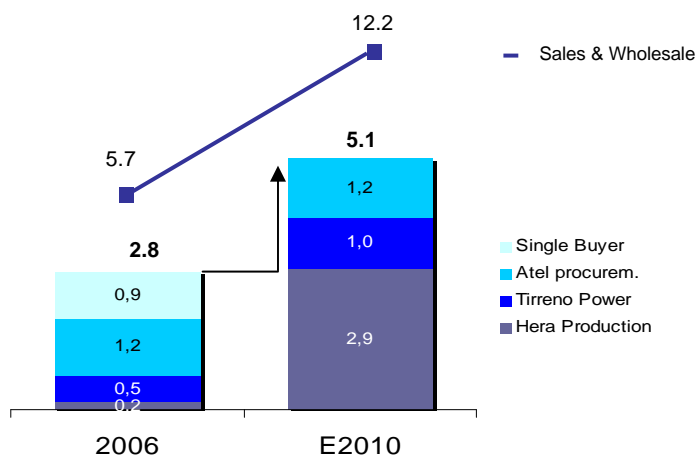
- > Focusing on **full range of services offered sustained by:**
  - > Strong development of **site remediation** market;
  - > Development of infrastructures to reduce market seasonality effects.
- > Develop a pro-active marketing approach and cross selling initiatives.

Sharp Ebitda increase expected

# Develop further upstream integration in energy businesses

## 66% of 2010 electricity sales ensured

Electricity (TWh)



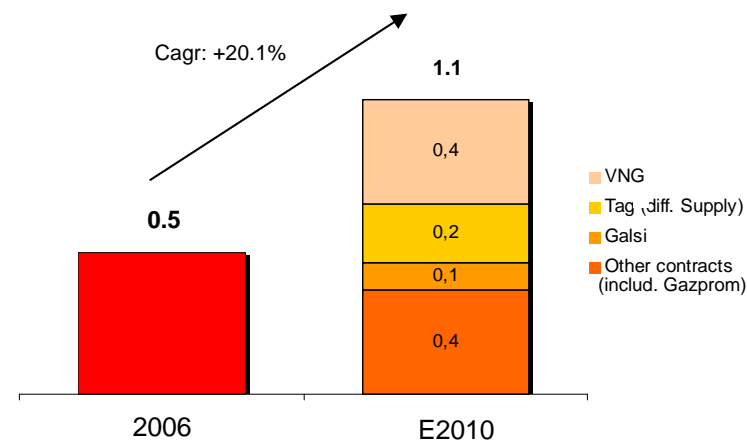
“Hera production” benefits from an 80 MW cogen. Plant, renewables and from investments in Calenia Energia (Sparanise), SET (Teverola), Zecca (Ortona).

(Twh)	2006		E2010	
Final Sales	3.1	100%	7.7	100%
<b>Production*</b>	<b>2.8</b>	<b>89%</b>	<b>5.1</b>	<b>66%</b>

\* including Atel contract

## Doubling direct gas procurement

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



Diversifying procurement sources to sustain more competitive commercial initiatives inside and outside the Emilia-Romagna region.

(bm <sup>3</sup> )	2006		E2010	
Final Sales	2.1	100%	2.4	100%
<b>Import</b>	<b>0.5</b>	<b>24%</b>	<b>1.1</b>	<b>47%</b>

# Sales expansion capitalising on liberalisation opportunities

## Development in liberalized businesses leveraging a loyal customer base in profitable segments

### 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 2007-2010 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

#### Marketing strategy

Electricity (TWh)	2006	E2010	Cagr
SOHO & Resid.	1.1	3.7	+35.4%
Large business	2.0	4.0	+18.6%
<b>Total</b>	<b>3.1</b>	<b>7.7</b>	<b>+25.3%</b>
Gas volumes (b m <sup>3</sup> )	2006	E2010	Cagr
SOHO & Resid.	1.5	1.7	+3.3%
Large business	0.6	0.7	+2.2%
<b>Total</b>	<b>2.1</b>	<b>2.4</b>	<b>+3.0%</b>
Waste Volume (m ton)	2006	E2010	Cagr
Urban waste	1.7	1.8	+2.2%
<b>Special Waste</b>	<b>1.8</b>	<b>2.6</b>	<b>+9.5%</b>
<i>Total*</i>	3.5	4.5	+6.2%

\* Excluding Hera internal production

**Cross selling will increase up to 2.6 the avg. number of services per customer**

# M&A in surrounding areas: an ongoing process

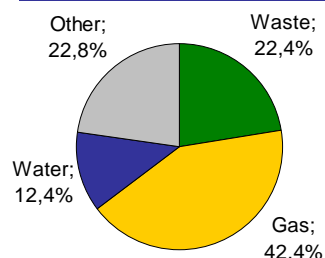
2010 targets include only mergers and acquisitions previously agreed up to date

## SAT agreed 100% merger

SAT	2006	
Sales	53	100%
Ebitda	12	22%

SAT	2006	
Gas Distrib. (M m3)	116	
Urban W. Collect.(Kton)	79	
Water (m3)	10	

### 2006 Ebitda Breakdown



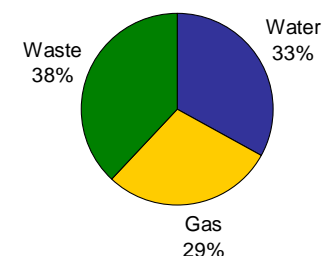
- > SAT 100% merger (46.5% bought for cash in 2006).
- > SAT public shareholders will obtain 14.5 m Hera shares.
- > Full merger into Hera Modena L.O.C. reorganising operations in order to exploit synergy potentials.
- > Accounted from 2008.

## Megas merger in Aspes

Aspes-Megas	2006	
Value of P.	113	
Ebitda	15	

Aspes-Megas	2006	
Gas Distrib. (M m3)	161	
Urban W. Collect.(Kton)	141	
Water (m3)	19	

### 2006 Ebitda Breakdown



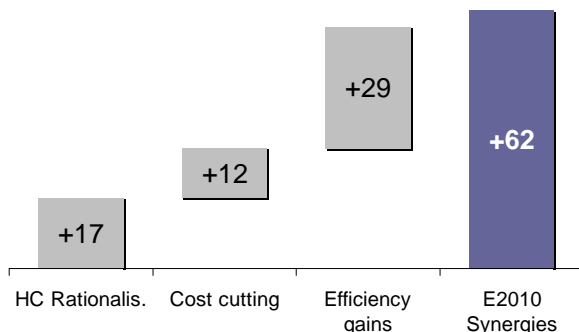
- > Aspes accounted for since 2006.
- > Aspes-Megas full merger to take place between companies with similar portfolios in contiguous areas.
- > Following the merger, Hera will held a 41.8% stake of Aspes-Megas and will acquire 100% of Megas Trade serving about 35,000 clients (78 m m<sup>3</sup> gas sold in 2006).

## Further Local Expansion in Gas

Hera is consolidating its leadership in gas distribution in reference territory through the merger of networks covering 5 municipalities in Bologna province and through the acquisition of a 74% stake of a small distributor (to be executed by year end) increasing customer base by +4.000 clients.

# Visibility of Efficiency gains and profitable Innovation projects

## Efficiency: 2007-2010 targets (M€)



### Specific projects underpin efficiency improvements

- >Personnel turnover and cost cutting still managed to further exploit economies of scale
- >Efficiency gains potentials identified in several projects:
  - >CRM and billing systems;
  - >Metering and quality services monitoring activities (water and waste businesses);
  - >Remote control systems (e.g. Networks, WTE);
  - >Vehicle optimisation (e.g. urban waste trucks).

## Innovation

### IT System

From SAP deployment to IT platform integration (including 2<sup>nd</sup> level):

- >Automated metering;
- >Remote control systems;
- >Work force management;
- >E- procurement platform.

### R&D

From solutions development to process innovation:

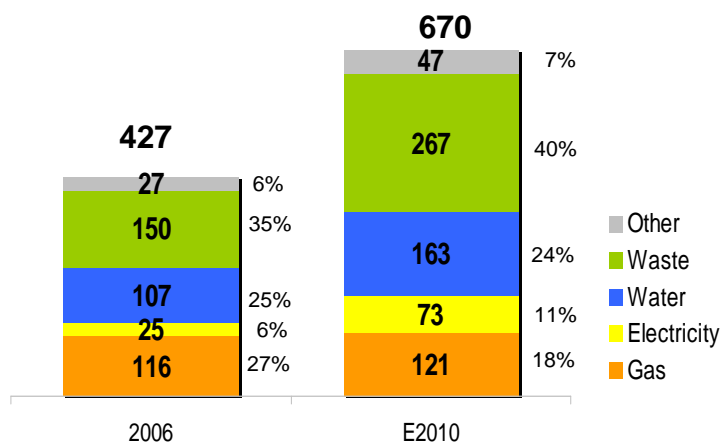
- >Metering technological infrastructures;
- >Emission control systems;
- >CO2 capturing and conversion for power production.



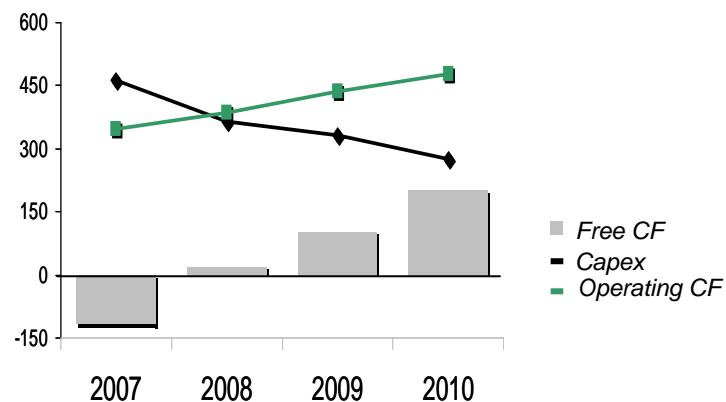
**Consistent and effective innovations pursued to sustain efficiency enhancements and business opportunities**

# Progressive and balanced growth to achieve surplus cash generation

Ebitda 2006 & E2010 by Business (m€)



Expected cash flows 2007-2010 (m€)



2006 & E2010 Group Ebitda Margin

**Group Ebitda Margin increase through the contribution of all businesses (+470 bp)**

Ebitda Margin	2006	E2010
Hera Group	18.0%	22.7%

- > **Portfolio mix confirms** balance among businesses and between regulated and non-regulated activities
- > **Efficiency gains** in core businesses and contribution of new plants enhance Group Ebitda margin
- > **Free cash flows** progressively increase due to increasing results, to working capital enhancement and to decreasing capex.

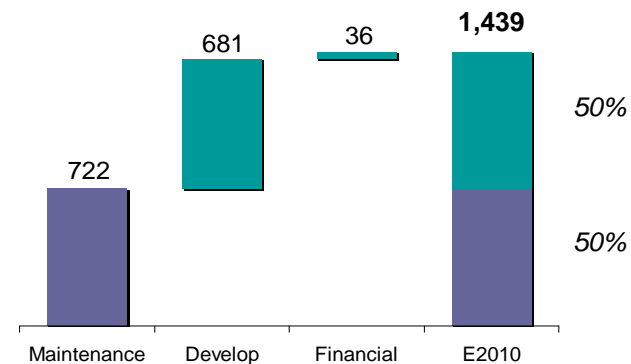
# Sustainable capex plan combining improvement in ROI

Expected cash flows 2007-2010

(M€)	Cash Flow*	Capex
Waste	618	463
Water	378	478
Gas	350	145
Electricity	175	198
Other	123	155
<b>Hera Group</b>	<b>1,644</b>	<b>1,439</b>

\*Cumulated operating cash flows E2007-2010

Expected Capex Plan 2007-2010

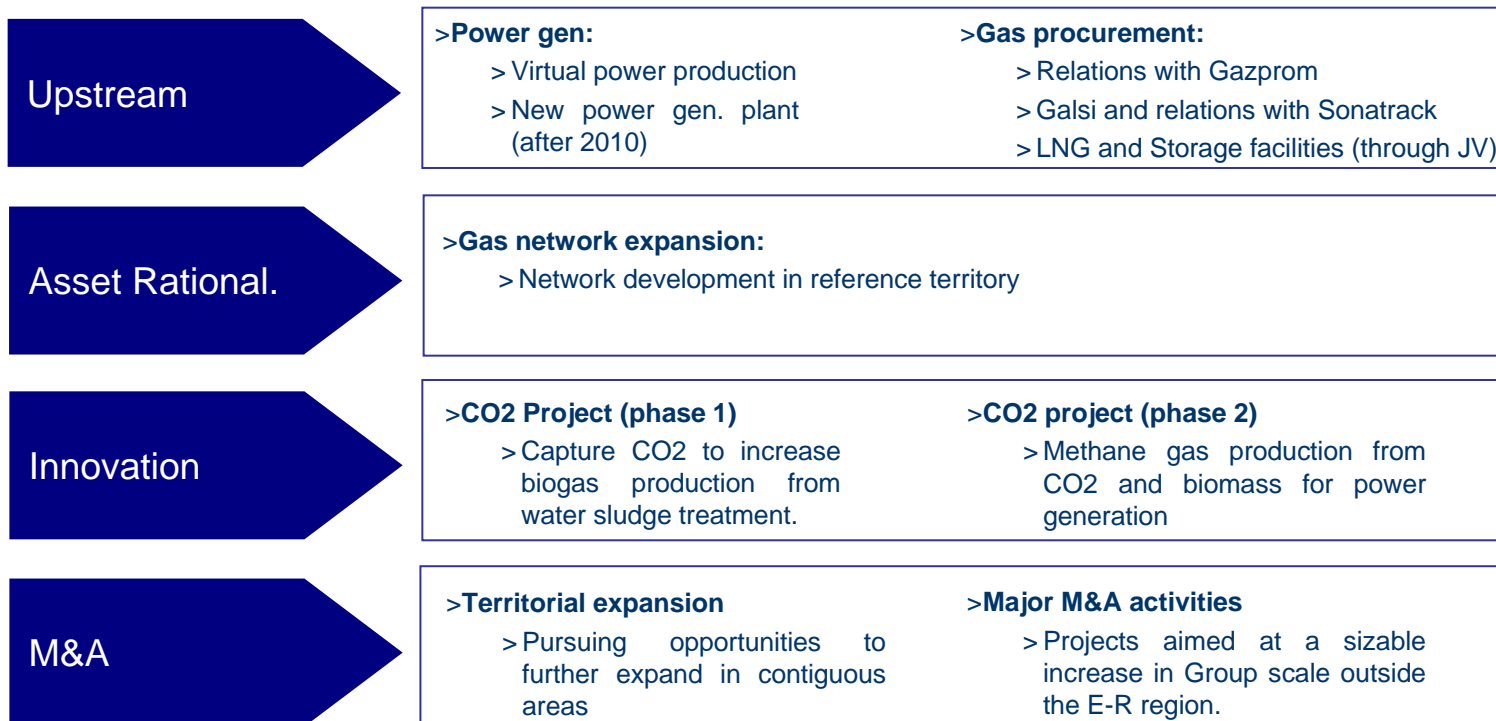


- > **Operating cash flows** progressively increase due to enhanced efficiency of all core businesses and to the contribution of new plants coming of stream.
- > **Capex plan** over the period E2007-2010 is **fully funded** by operating cash flows despite significant development capex.

- > **Maintenance capex** (avg. 180 m€ per year) concerns Network and asset maintenance.
- > **Development capex relates to:**
  - > 4 new WTE and 1 WTE refurbishment
  - > 2 power gen. plants (1 CCGT and 1 OCGT) and other renewables (e.g. biomass)
  - > Networks/other asset expansion
- > **Financial investment** (36 m€) mainly related to upstream energy strategy (Galsi).
- > **ROI** expected around **14.3%** in 2010.

## Further contribution potential “on top” of 2010 targets

The “ongoing agenda” includes promising projects to further develop growth



## Confirming strong and visible targets on a stand alone basis

Hera's updated business plan is underpinned by a successful strategy based on consolidated pillars.

Ebitda growth confirms the past double digit growth, not including contributions from new projects currently under development.

Double digit increase in returns pursued through growth in all core activities, while maintaining a balanced business mix with a low risk profile.

Cash flows fully fund capex plan, maintaining a sound financial structure.

Double digit growth in dividends extended up to 2010 (cagr +13%).

Business plan growth strengthens Hera's "local" market position and maintains the sources for funding further growth projects, already identified.

### Business Plan: Breakdown by business and targets on main KPIs

# Business Plan 2007-2010: Waste & Water business

## 2006-E2010 Growth

M€	2006	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>539.7</b>	100.0%	<b>728.5</b>	100.0%	<b>+7.8%</b>
Oper.cost	(275.5)	(51.1%)	(329.1)	(45.2%)	+4.5%
Personnel	(126.7)	(23.5%)	(137.3)	(18.8%)	+2.0%
Capitaliz.	13.0	2.4%	4.7	0.6%	(22.4%)
<b>Ebitda</b>	<b>150.4</b>	27.9%	<b>266.9</b>	36.6%	<b>+15.4%</b>

### Revenues

+7.8%

Urban w. tariff +2.9% cagr  
 Urban w. volumes: +2.2% cagr  
 Special w. volumes: +9.5% cagr

Hera exploits the positive Special waste market trends.  
 Next Urban waste regulatory period 2007-2010.

### Ebitda

+15.4%

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

463 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.

## 2006-E2010 Growth

M€	2006	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>398.4</b>	100.0%	<b>451.3</b>	100.0%	<b>+3.2%</b>
Oper.cost	(319.2)	(80.1%)	(296.1)	(65.6%)	(1.9%)
Personnel	(85.3)	(21.4%)	(97.2)	(21.5%)	+3.3%
Capitaliz.	113.6	28.5%	104.9	23.2%	(2.0%)
<b>Ebitda</b>	<b>107.5</b>	27.0%	<b>162.7</b>	36.1%	<b>+10.9%</b>

### Revenues

+3.2%

Tariff growth: +4.7% cagr

Regulated water tariff increase will be agreed with AATOs by year end for the next regulatory period ranging 2007-2010. Volumes remain steady excluding contribution from M&A.

### Ebitda

+10.9%

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

### Capex

478 m€

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



# Business Plan 2007-2010: Energy businesses

## 2006-E2010 Growth

M€	2006	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>987.6</b>	<b>100.0%</b>	<b>978.7</b>	<b>100.0%</b>	<b>(0.2%)</b>
Oper.cost	(856.9)	(86.8%)	(835.8)	(85.4%)	(0.6%)
Personnel	(44.1)	(4.5%)	(45.3)	(4.6%)	+0.7%
Capitaliz.	29.5	3.0%	23.2	2.4%	(5.9%)
<b>Ebitda</b>	<b>116.1</b>	<b>11.8%</b>	<b>120.7</b>	<b>12.3%</b>	<b>+1.0%</b>

### Revenues

(0.2%)

Gas distr. tariff +0.5% cagr  
 Gas distr. volumes: +3.1% 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 m³/year)

### Ebitda

+1.0%

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

### Capex

145 m€

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

## 2006-E2010 Growth

M€	2006	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>389.4</b>	<b>100.0%</b>	<b>708.9</b>	<b>100.0%</b>	<b>+16.2%</b>
Oper.cost	(322.1)	(83.0%)	(631.7)	(89.1%)	+14.9%
Personnel	(16.0)	(4.1%)	(19.5)	(2.8%)	+5.1%
Capitaliz.	14.0	3.6%	15.4	2.2%	+2.5%
<b>Ebitda</b>	<b>25.2</b>	<b>6.5%</b>	<b>73.2</b>	<b>10.3%</b>	<b>+30.5%</b>

### Revenues

+16.2%

Elect. distr. tariff (1.2)% cagr  
 Elect. sales volumes: +25.3% cagr

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

### Ebitda

+30.5%

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

### Capex

198 m€

Mainly relates to new plants and maintenance of networks

\*including contribution from M&A

# Business Plan 2007-2010: Other business & Portfolio Mix

## 2006-E2010 Growth

M€	2006	%	E2010	%	Cagr.%
<b>Revenues</b>	<b>163.1</b>	<b>100.0%</b>	<b>153.5</b>	<b>100.0%</b>	<b>(1.5%)</b>
Oper.cost	(135.6)	(83.1%)	(108.3)	(70.6%)	(5.5%)
Personnel	(24.5)	(15.0%)	(16.9)	(11.0%)	(8.8%)
Capitaliz.	24.4	15.0%	18.4	12.0%	(6.8%)
<b>Ebitda</b>	<b>27.4</b>	<b>16.8%</b>	<b>46.7</b>	<b>30.4%</b>	<b>+14.2%</b>

## Revenues

(1.5%)

### District Heating

Thermal e.: from 426 to 650 Gwht  
Power gen. from 90 to 130 Gwh

### Public Lighting

Lighting towers. from 309k 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%

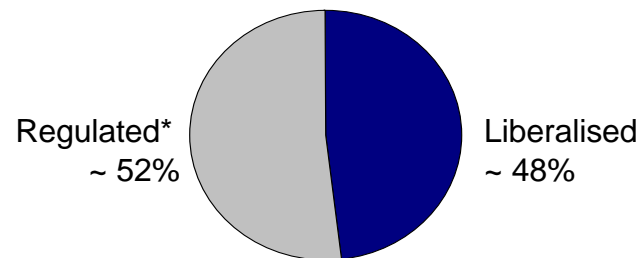
Mainly underpinned by efficiency gains and development of District Heating and Public Lighting activities. Ebitda margin expected to increase significantly.

## Capex

155 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.



## Sustainability

- > **Hera** is a major economic and is responsible for **managing significant environmental and socially resources** in its reference territory.
- > Hera is committed to use environmental resources (earth, water, air) in a proper manner: **delivering services to customers while reducing negative environmental effects** (CO2 emissions, water and soil pollution) through efficiency gains, R&D on innovative processes and strict control systems.
- > **Hera** is also **committed to promote social improvement** by promoting social values, respect for people and responsiveness to all main stakeholders.
- > **This citizenship** has a significant impact on how people within Hera effectively think, organize, act and manage relations with personnel, customers, suppliers shareholders, the environment and the other stakeholders.

### 2006-E2010 KPI Growth

Personnel	2006	E2010	Trends
Training (K h./capita)	122.5	130.0	+1.5% ↑
Incidents on Job*	47.5	42.0	(3.0)% ↑
Gravity of damage**	1.5	0.9	(12.0)% ↑

Customers	2006	E2010	Trends
Interruptions in e.e. service	17 min.	17 min.	+0.0% =
Respect of Aeeg std	95%	100%	+1.3% ↑
Avg waiting time in shops	36 min.	20 min.	(13.7)% ↑
Avg waiting time call centres	34,5 sec.	27,5 sec.	(5.5)% ↑

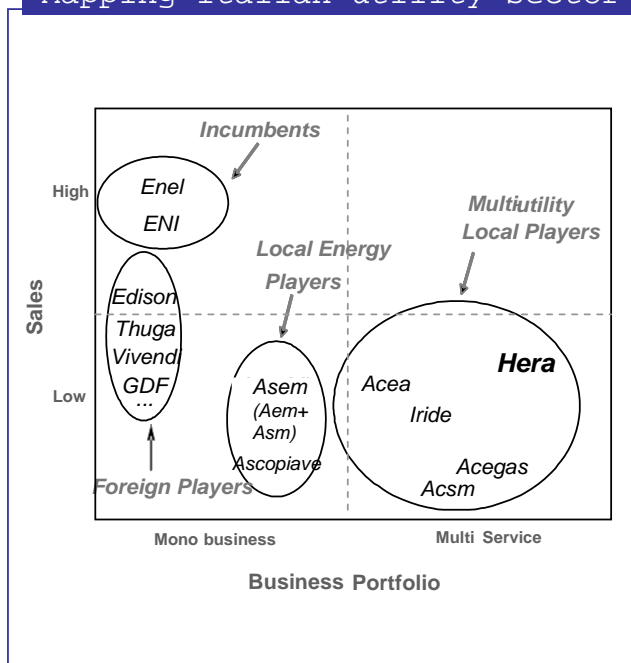
Energy from renewables (Gwh and Gwh/t)	2006	E2010	Trends
Cogeneration (incl. thermal)	207	1,158	+53.8% ↑
WTE (incl. thermal)	354	705	+18.8% ↑
Geothermal (thermal)	67	84	+5.8% ↑
Solar	-	2	- ↑
Hydro	11	13	+4.3% ↑
Biogas (incl. thermal)	27	128	+47.6% ↑
<b>Total</b>	<b>666</b>	<b>2,090</b>	<b>+33.1%</b> ↑

Environment	2006	E2010	Trends
Sorted Waste collection	34%	50%	+10.5% ↑
Waste to landfill	29%	15%	(15.2)% ↑
Water leakage (incl. Administrative I.)	25%	21%	(4.3)% ↑
Respect Kyoto Standards (Co2)	>100%	>100%	- =
White Certificates (K Tep)	29	88	+31.6% ↑
Green Certificates (Gwh)	17	497	+132.5% ↑

## Introduction to the Hera Group

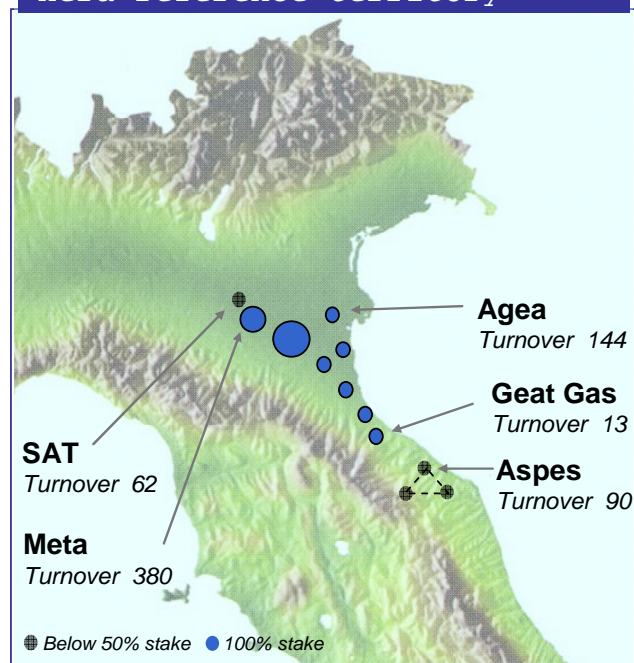
# Local multi-utility consolidation process is speeding up

Mapping Italian utility sector



Hera has become one of the largest Italian multi-utility following a significant consolidation process.

Hera reference territory



Hera Group has so far primarily expanded in Emilia Romagna, one of the most wealthy Italian region.



# Hera leadership founded on unique governance and operating model

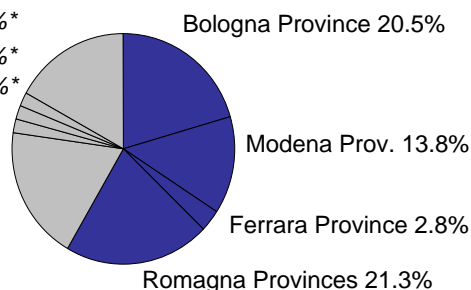
Shareholdings: 1,016.8 m shares

**Free float 41.6%**

Schroders >2.0%\*

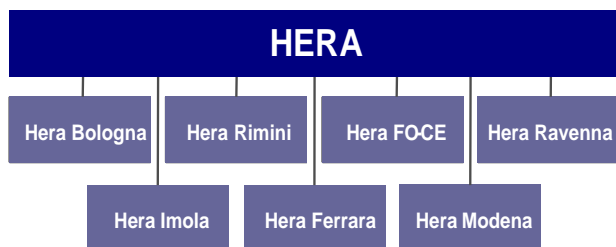
Pictet >2.0%\*

Amber C. ~ 1.9%\*



\* included within "free float"

Area presence through L.o.c.



## Hera's growth based on "balancing"

Expansion carried out through mergers which involved public shareholders of merged companies (deals based on cash and share swaps).

Unique multi-utility with no "absolute controlling shareholder" (public shareholders commit to maintain 51%).

## Full reorganization

Reorganization into 7 multi-business L.O.C.s (100% owned) and a few divisions.

The Holding concentrates all corporate duties whereas the L.O.C.s, deeply rooted in the local area, manage operations and strategic customer relations.

L.O.C.s are benchmarked in order to define and share best practices.



## Balanced business portfolio

### Water-2006

Volume sold (m m <sup>3</sup> )	244
Customers (K)	982
Pipeline (km)	24,508

**3rd national player**

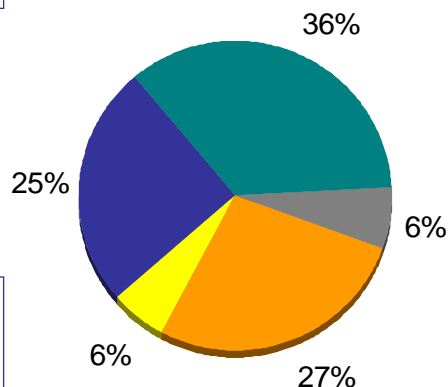
### 2006 Group Ebitda breakdown by business

### Electricity-2006

Volume sold (GWh)	3,133
Volume distributed (GWh)	1,880
Customers (K)*	264
Network (km)	5,590

**6th national player**

\* Including Enel network in Modena province



### Waste-2006

Urban waste (m tons)	1.7
Special waste (m ton)	2.3
Population served (m )	2.4
Treatment plants	72

**1st national player**

### Other-2006

Light towers (K unit)	309
Heat distribution (Gwh)	426

**Top national player**

### Gas-2006

Volume sold (m m <sup>3</sup> )	2,409
Volume distributed (m m <sup>3</sup> )	2,312
Customers (K)*	958
Pipeline (km)	11,500

**3rd national player**

\* Including Geat clients

# Sharp, continuous and sustainable growth achieved

## 4Y double digit growth

M €	2002	2003	2004	2005	2006	Cagr %
Revenues	1.099	1.241	1.529	2.148	2.364	+21,1%
Ebitda	192	242	292	386	427	+22,1%
Net Profit	37	53	87	109	100	+28,2%
D/E (%)	29	50	53	65	77	+27,7%
DPS (c€)	3,5	5,3	6,0	7,0	8,0	+23,0%
ROI (%)	6,9	8,4	10,9	8,8	8,6	+5,7%

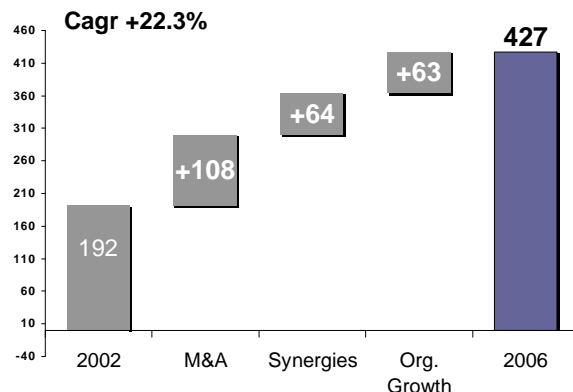
Ebitda doubled; net profit tripled.

4Y Ebitda growth (+22.1% Cagr) supported by the benefits of the effective aggregation model.

Dividends increased significantly, maintaining comfortable debt levels.

ROI rose by 170 basis points.

## 4Y Ebitda Growth Drivers (M€)



## Ebitda growth drivers:

54% Synergy exploitation (cost cutting, efficiency gains and HC reduction) and Organic Growth;

46% contribution of the merged companies.



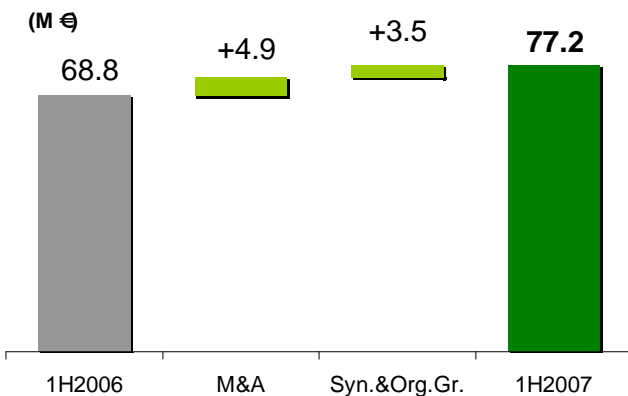
## H1 2007 Results: Breakdown by business

## Waste: Growth continues - new WTE plants soon on-stream

### H1 2007 Ebitda Growth

M €	H1 2006	%	H1 2007	%	Inc. %
<b>Revenues</b>	<b>255.7</b>	<b>100.0%</b>	<b>274.3</b>	<b>100.0%</b>	<b>+7.3%</b>
Operat. cost	(128.0)	(50.1%)	(137.2)	(50.0%)	+7.1%
Personnel	(61.3)	(24.0%)	(64.7)	(23.6%)	+5.6%
Capitaliz.	2.5	1.0%	4.8	1.7%	+94.5%
<b>Ebitda</b>	<b>68.9</b>	<b>26.9%</b>	<b>77.2</b>	<b>28.1%</b>	<b>+12.1%</b>

### H1 2007 Ebitda growth drivers



**Revenues:** **+7.3%**

Revenue increase mainly driven by Aspes consolidation (+12.2 m€), increase in the regulated Urban Waste tariff (agreed with Atos) and volume development.

**Ebitda:** **+12.0%**

Continuous growth also in Ebitda margins (+120 bp).

### Synergies & Organic Growth:

Mainly relates to Urban Waste tariffs increase.

**Capex Plan:** **63.4 m€**

Capex mainly concerns new WTE plants in Ferrara, Forlì and Modena (about 2/3<sup>rd</sup> of H1 capex) entering into operation within next 6-7 months.

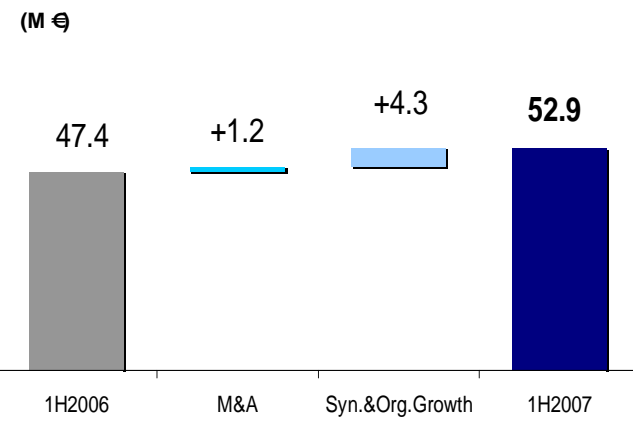


# Water: Progressive tariff increase drives better margins

## H1 2007 Ebitda Growth

M €	H1 2006	%	H1 2007	%	Inc. %
<b>Revenues</b>	<b>185.0</b>	<b>100.0%</b>	<b>195.4</b>	<b>100.0%</b>	<b>+5.6%</b>
Operat. Cost	(143.1)	(77.3%)	(164.6)	(84.3%)	+15.1%
Personnel	(39.6)	(21.4%)	(44.4)	(22.7%)	+12.1%
Capitaliz.	45.0	24.3%	66.5	34.0%	+47.8%
<b>Ebitda</b>	<b>47.4</b>	<b>25.6%</b>	<b>52.9</b>	<b>27.1%</b>	<b>+11.6%</b>

## H1 2007 Ebitda growth drivers



**Revenues: +5.6%**

Revenue increase mainly driven by regulated tariff increase (agreed with Ato).

Volume growth mainly concerns Aspes consolidation (8 m m<sup>3</sup>).

**Ebitda: +11.6%**

Continuous growth also in Ebitda margins (+150 bp).

**Synergies & Organic Growth:**

Mainly relate to regulated tariffs increase.

**Capex Plan: 64.8 m€**

Capex mainly relates to asset improvements on sewerage and purification plants agreed with Atos.

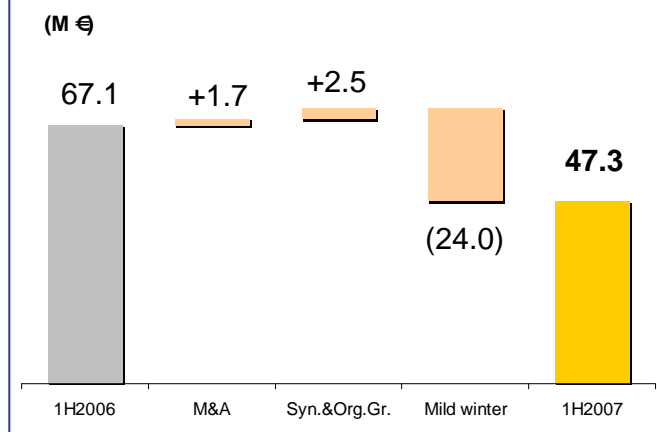


# Gas: Extraordinary Mild winter season affected results

## H1 2007 Ebitda Growth

M €	H1 2006	%	H1 2007	%	Inc. %
<b>Revenues</b>	<b>564.4</b>	<b>100.0%</b>	<b>477.7</b>	<b>100.0%</b>	<b>(15.4%)</b>
Operat. Cost	(483.2)	(85.6%)	(422.8)	(88.5%)	(12.5%)
Personnel	(24.5)	(4.3%)	(20.8)	(4.3%)	(15.1%)
Capitaliz.	10.3	1.8%	13.1	2.8%	+27.1%
<b>Ebitda</b>	<b>67.1</b>	<b>11.9%</b>	<b>47.3</b>	<b>9.9%</b>	<b>(29.5%)</b>

## H1 2007 Ebitda growth drivers



## Revenues: (15.4%)

Revenues decrease (-86.7 m€) mainly affected by the mild **winter season**.

Aspes consolidation contributed for 10.9 m€ revenues.

**Distribution tariffs** record a slight increase mainly due to benefits from M&A activities.

**Customer base** grew to more than 1 million clients (including Aspes).

## Ebitda: (29.5%)

**Mild winter effect** amount to -24 m€ Ebitda (recorded in both distribution and sales activities due to a decrease of approx. -300 m<sup>3</sup> in volumes in H1)\*.

Sales margin squeeze on residential customers (by **Del. 134, AEEG**) was offset by synergies and lower overheads (commercial cost primarily concerned electricity business marketing activity).

**M&A** contribution involves Aspes and Geat Distribuzione consolidation.

## Capex Plan: 15.2 m€

Capex includes investments in the Galsi project and the Flameenergy JV.

\*excluding Aspes contribution of about 41 m<sup>3</sup>.

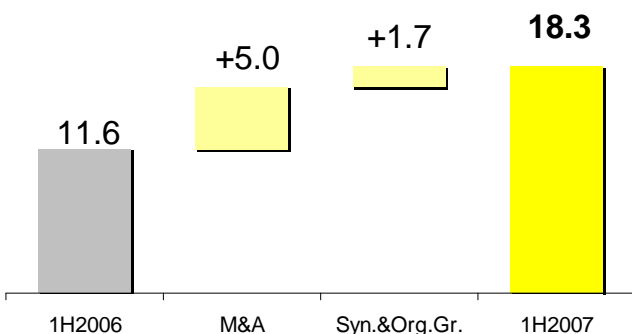
# Electricity: Sharp sales expansion through M&As and cross selling

## H1 2007 Ebitda Growth

M €	H1 2006	%	H1 2007	%	Inc. %
<b>Revenues</b>	<b>183.4</b>	<b>100.0%</b>	<b>401.0</b>	<b>100.0%</b>	<b>+118.6%</b>
Operat. Cost	(170.4)	(92.9%)	(381.6)	(95.2%)	+124.0%
Personnel	(5.0)	(2.7%)	(9.3)	(2.3%)	+84.8%
Capitaliz.	3.6	1.9%	8.1	2.0%	+128.5%
<b>Ebitda</b>	<b>11.6</b>	<b>6.3%</b>	<b>18.3</b>	<b>4.6%</b>	<b>+57.5%</b>

## H1 2007 Ebitda growth drivers

(M €)



**Revenues:** **+118.4%**

Sharp increase in revenues was mainly driven by Modena province Electricity network consolidation and market expansion (cross selling activities through Dual Fuel offering).

**Ebitda:** **57.8%**

Electricity business increased its weight on Group Ebitda (from 5.5% to 8.7%) mainly due to M&A activities.

**Capex Plan:** **10.7 m€**

Capex mainly involves the new Cogen. plant in Imola and to network development and maintenance.



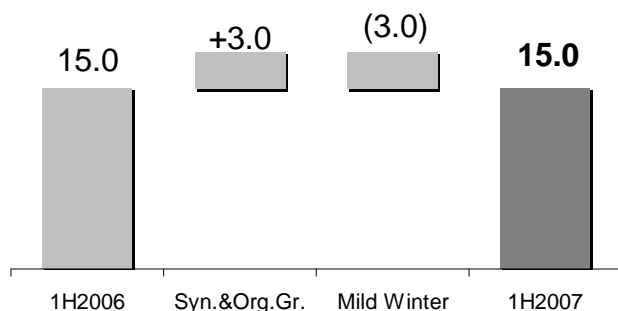
## Others: Steady results despite the mild winter

H1 2007 Ebitda Growth

M €	H1 2006	%	H1 2007	%	Inc. %
<b>Revenues</b>	<b>81.1</b>	<b>100.0%</b>	<b>81.1</b>	<b>100.0%</b>	<b>+0.0%</b>
Operat. Cost	(62.0)	(76.5%)	(64.0)	(79.0%)	+3.3%
Personnel	(11.8)	(14.6%)	(11.5)	(14.1%)	(3.1%)
Capitaliz.	7.8	9.6%	9.4	11.6%	+21.5%
<b>Ebitda</b>	<b>15.0</b>	<b>18.5%</b>	<b>15.0</b>	<b>18.5%</b>	<b>+0.2%</b>

H1 2007 Ebitda growth drivers

(M €)



### Revenues:

Revenues remained stable despite the increase in Public Lighting operations (from 298k to 310k lighting towers) due to lower sales in District Heating (from 274 to 210 Gwh) as a result of the mild winter season.

### Ebitda:

The negative effect of the mild winter was offset by increase market expansion and synergy exploitation in Public Lighting.

### Capex Plan:

12.1 m€

Capex mainly relates to District Heating network development and other plant expansion.



## Disclaimer

- > *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.*