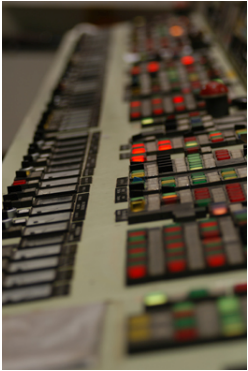




annual results  
**2006**

## Introduction



In 2006 Hera has continued the strategy to focus on efficiency improvement of operations and on the fine tuning of the operating model.

Organic Growth also highlights good performance driven by tariff increase in Water and Urban Waste businesses.

Gas distribution activities benefit from price cap reduction thanks to M&A activities accomplished.

Market expansions realised in Special Waste and Other businesses were in line with targets.

4 acquisitions were carried out

consistently with the objective to expand core businesses (upstream integration and sector consolidation).

Contribution of these activities allowed to offset the negative effect of the warm winter and the reduction in Gas sales prices (D. 134 AEEG).

Return on invested capital was maintained (8.6% pre-tax) despite 2006 remarkable Capex and Investments executed to develop asset base that will provided contribution to results starting from 2007.

Dividend proposed is in line with announced commitments.



## Confirming double digit growth

### Revenues +10.1%

Growth mainly (~+5%) relates to “pass through” Gas prices.

A further ~+5% increase involves improved tariffs in “WW” and M&A (Aspes, Geat and Enel network in Modena).

### Ebitda +10.4%

Increased despite negative impact of warm winter on gas sales.

Ebitda incidence on revenues confirmed at 2005 level.

### Ebit +7.2%

Positive growth even discounting higher D&A related to M&A and significant capex and investments.

### Net Profit (7.8%)

Affected by financial expenses increase (due to higher financial debt) smoothed by restructuring that allowed to fix the interest rate at 4.5%.

#### 2006 Group Results

M €	2005	%	2006	%	Inc. %
Revenues	2.147,6	100,0%	2.364,4	100,0%	+10,1%
oper.cost	(1.635,4)	(76,2%)	(1.835,6)	(77,6%)	+12,2%
personnel	(270,1)	(12,6%)	(296,6)	(12,5%)	+9,8%
Capitaliz.	144,3	6,7%	194,5	8,2%	+34,8%
Ebitda	386,4	18,0%	426,7	18,0%	+10,4%
Amm	(170,7)	(7,9%)	(195,4)	(8,3%)	+14,5%
Ebit	215,7	10,0%	231,3	9,8%	+7,2%
Financials	(26,4)	(1,2%)	(52,1)	(2,2%)	+97,3%
Pre tax Profit	189,3	8,8%	179,2	7,6%	(5,3%)
tax	(80,5)	(3,7%)	(79,0)	(3,3%)	(1,9%)
Net Profit	108,8	5,1%	100,2	4,2%	(7,8%)
of which minorities	7,4		10,1		

2005 benefit by non recurring contribution on asset (15 m€ pretax).

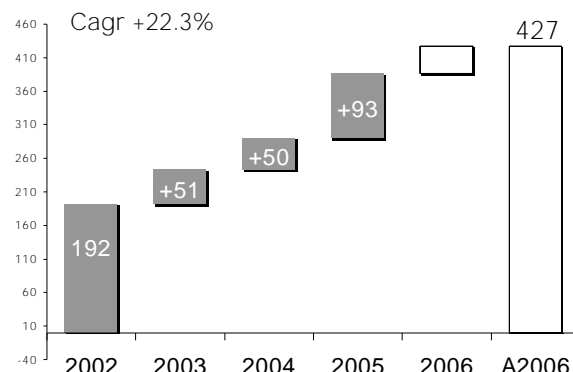
### 2006 Dividend

8 c€ p.s.

Proposed dividend increase in line with business plan targets.

## 4th year of progressing results

4Y Ebitda Growth (M€)



4Y "steady" Growth

M€	Internal Growth	M&A	Total
2003	+51,0	+0,0	+51,0
2004	+25,0	+25,0	+50,0
2005	+28,0	+65,0	+93,0
2006	+23,0	+18,0	+41,0
Total	+127,0	+108,0	+235,0
Inc. %	54%	46%	100%
Average per year	31,8	27,0	

### 2006 confirmed growth potentials

2006 achievements in line with past performances (excluding Meta one off contribution) also accounting climate effects on 4Q (~15 m€).

Last 4 years Ebitda growth rate about +22% Cagr

### Constant internal and external Growth drivers

#### Internal Growth

Synergies and Organic Growth have driven results progression well for the 4th year in a row.

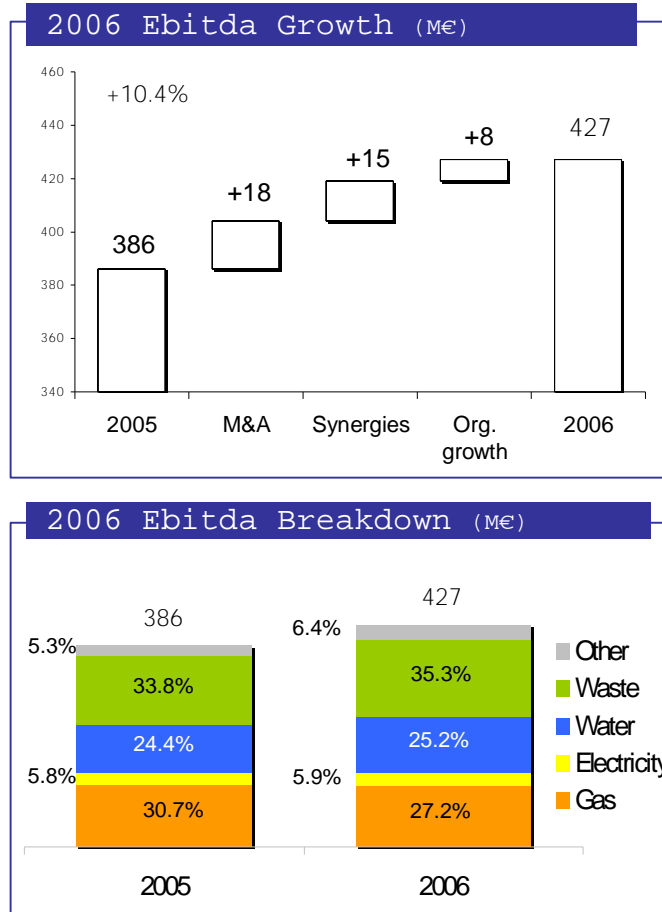
#### External Growth

External Growth contributed to rebalance climate effects, confirming past track record.





## Strong and balanced growth



### Internal growth still primary growth driver

Organic growth smoothed by gas price and volume reduction as well as electricity volumes (refocusing of Meta client portfolio).

M&A includes 6 months results of electricity network in Modena province as well as full-year results for both Aspes and Geat.

### Business Mix confirms low risk profile

Balanced portfolio mix enable to achieve internal growth year over year.

### Increase in Group Ebitda margins driven by Waste and Other activities

Higher efficiency levels, rationalisation and tariff increases helped to enhance profitability of all main businesses (excluding Gas).

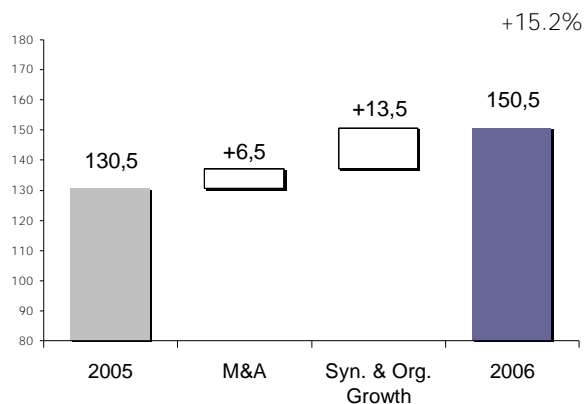


## Waste: Best performance and confirming leadership

### 2006 Ebitda Growth

M €	2005	%	2006	%	Inc. %
Revenues	481,7	100,0%	539,7	100,0%	+12,0%
oper.cost	(241,3)	(50,1%)	(275,5)	(51,0%)	+14,2%
personnel	(116,1)	(24,1%)	(126,7)	(23,5%)	+9,1%
Capitaliz.	6,1	1,3%	13,0	2,4%	+113,1%
Ebitda	130,5	27,1%	150,4	27,9%	+15,2%

### 2006 Ebitda growth drivers (M€)



### Revenues increase

2006 revenues for Urban waste increased by +5% (+14 m€ without considering Aspes) partly due to tariffs (+2%) and volume/services (+3%).

CIP6 tariff increased to ~220€/Mwh (~+5%) and energy production from renewables reached 250 Gwh (mainly thanks to use of full capacity of FEA and CE Ravenna).

Special waste volumes increased organically by +5.8% (from 2.17 to 2.3 m tonnes excluding Aspes).

### Synergies & Organic Growth

Higher plant efficiency and market expansion on Special waste yield +13.5 m€ in additional Ebitda (+80 bp of Ebitda margin).

### M&A: Aspes' contribution

Aspes' contribution (+23.5 m€ revenues) mainly related to Urban waste (143kton of treated waste of which 67% is urban waste).



## Waste: New Waste to energy at starting blocks

### New WTE Ferrara

Hera stake	100%
Installed capacity	13 MW
Incentive power gen	73 GWh
Start operations	Aug. '07
Completion	70%

### New WTE Forlì

Hera stake	100%
Installed capacity	11 MW
Incentive power gen	74 GWh
Start operations	Dec. '07
Completion	40%

### New WTE in Modena

Hera stake	100%
Installed capacity	20 MW
Incentive power gen	140 GWh
Start operations	March '08
Completion	30%

Building is progressing and contribution will come in 2007

Ferrara WTE is progressing and has reached 70% and will be on stream in August '07.

Infrastructure constructions, furnaces and pollution equipment are already in place.

Forlì plant has completed infrastructure constructions and Power gen. equipment assembling will start in April.

The plant will start activity in December 2007.

Modena Plant, the largest of new plants (similar to FEA) have completed building infrastructures and power gen. equipment is already in place.

In few weeks the furnaces and the pollution system will start to be assembled.



## Water: Progressive tariff increase allow better returns

### 2006 Ebitda Growth

M€	2005	%	2006	%	Inc. %
Revenues	346,2	100,0%	398,4	100,0%	+15,1%
oper.cost	(263,2)	(76,0%)	(319,2)	(80,1%)	+21,3%
personnel	(75,4)	(21,8%)	(85,3)	(21,4%)	+13,1%
Capitaliz.	86,7	25,0%	113,6	28,5%	+31,0%
Ebitda	94,3	27,2%	107,5	27,0%	+14,0%

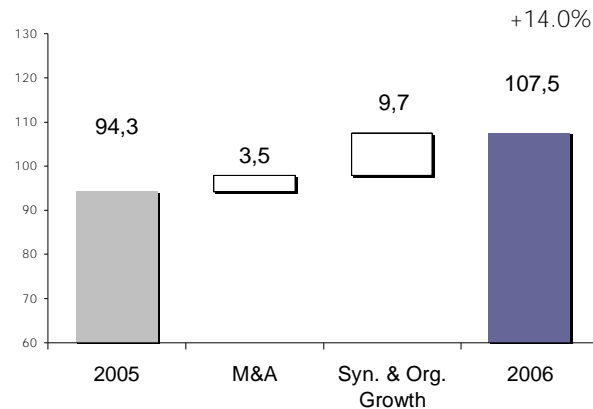
### Tariff increase

2006 avg revenues increased by +4.9% (+16 m€ without accounting Aspes).

### Volume increase

Volume increased by +2% (from 228 to 233 m m<sup>3</sup>) and Aspes contributed for further 10,5 m m<sup>3</sup>.

### 2006 Ebitda growth drivers (M€)



### Synergies & Organic Growth

Higher tariffs are the main driver of Ebitda growth. Benefits were partially offset by high electricity costs (related to water treatment and pumping).

### M&A: Aspes contribution

Aspes contribution (+18.8 m€ revenues) highlights lower Ebitda margins than Hera (Ebitda margin of 19% vs 27%).

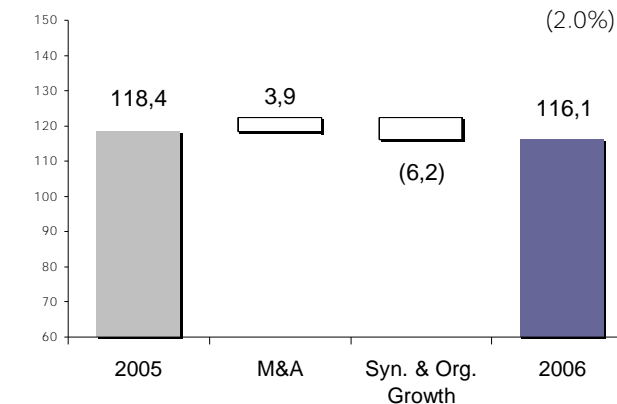


## Gas: Warm winter significantly affected performance

### 2006 Ebitda Growth

M€	2005	%	2006	%	Inc. %
Revenues	871,2	100,0%	987,6	100,0%	+13,4%
oper.cost	(733,6)	(84,2%)	(856,9)	(86,8%)	+16,8%
personnel	(43,5)	(5,0%)	(44,1)	(4,5%)	+1,4%
Capitaliz.	24,3	2,8%	29,5	3,0%	+21,7%
Ebitda	118,4	13,6%	116,1	11,8%	(2,0%)

### 2006 Ebitda growth drivers (M€)



**Distribution tariff and prices increase**  
Sales prices increased due to higher gas procurement costs (linked to oil prices). Distribution tariff increased by +1% (from 5.28 to 5.34 c€/ m<sup>3</sup>) thanks to benefits recognised on price cap (3.6% vs 4.6%).

### Volume decreased for extraordinarily warm winter

Volume distributed/sold decreased by ~200 m<sup>3</sup>. Aspes contributed for +4% m<sup>3</sup>.

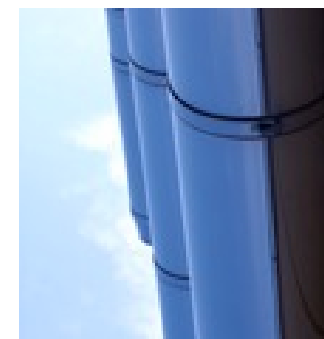
### Synergies & Organic Growth

Positive effect of improved distribution tariffs and limited net churn rate, were offset by lower volumes (-15 m€) and lower margins (following D.134 AEEG and higher competition pressure: effect of about -4 m€).

Ebitda also benefit from the reallocation of corporate costs.

### M&A: Aspes and Geat contribution

About +21 m€ revenues and 82.5 m<sup>3</sup> of gas sold.

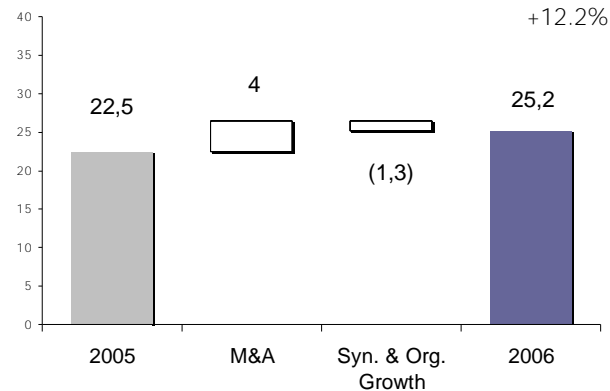


## Electricity: Building up a solid platform for future

### 2006 Ebitda Growth

M€	2005	%	2006	%	Inc. %
Revenues	396,7	100,0%	389,4	100,0%	(1,8%)
oper. cost	(369,6)	(93,2%)	(362,2)	(93,0%)	(2,0%)
personnel	(9,2)	(2,3%)	(16,0)	(4,1%)	+73,9%
Capitaliz.	4,6	1,2%	14,0	3,6%	+204,3%
Ebitda	22,5	5,7%	25,2	6,5%	+12,2%

### 2006 Ebitda growth drivers (M€)



### Distribution tariff and prices increase

Sales prices increased due to higher oil prices. Distribution tariff increased by +1.6% (from 22.5 to 22.9 €/Mwh).

### Volume sold decrease following the restructuring of Meta portfolio

Volume decreased by 16.6% (from 3.75 to 3.13 Twh) mainly due to switch toward more profitable customers (Ebitda margins increased by 80 bp).

### Synergies & Organic Growth

Positive effect of improved distribution tariffs, slight drop in procurement costs, offset by customer base rationalisation.

### M&A: Enel Network contribution

The network in the province of Modena has been integrated with Modena city network owned by Meta (merged into Hera in 2005). Included in accounts for 6 month only (since 1 July 2006).





## Electricity: Building up a solid platform for future (2)

### CCGT Teverola

Hera stake	39%
Installed capacity	400MW
Hera Take (power gen.)	1.2 TWh
Start operations	Dec. '06
Completion	100%

### Teverola

From Dec. 18 fully operating.

Full capacity achieved on steady state.

From June “regular” operations.



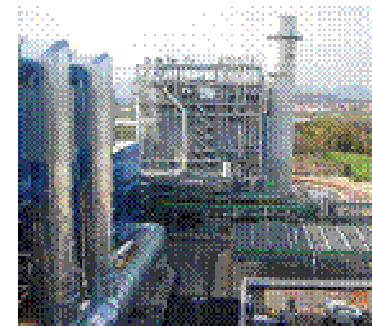
### CCGT Sparanise

Hera stake	15%
Installed capacity	800MW
Hera Take (power gen.)	3.9 TWh
Start operations	Next May
Completion	99.4%

### Sparanise

End of of March full capacity achieved for 1st module. Full operation from end of April.

2nd module in start up phase. Full operation end of May.

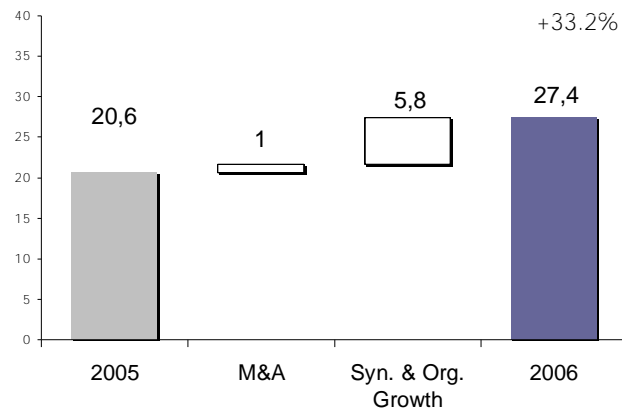


## Others: Sharp growth benefiting from some disposals

### 2006 Ebitda Growth

M€	2005	%	2006	%	Inc. %
Revenues	130,8	100,0%	163,1	100,0%	+24,7%
oper.cost	(107,0)	(81,8%)	(135,6)	(83,1%)	+26,8%
personnel	(25,8)	(19,7%)	(24,5)	(15,0%)	(5,4%)
Capitaliz.	22,6	17,3%	24,4	15,0%	+7,8%
Ebitda	20,6	15,7%	27,4	16,8%	+33,2%

### 2006 Ebitda growth drivers (M€)



### Revenues

Revenues increased despite disposals of non-core assets (real estate). Growth was mainly driven by District Heating (revenues linked to oil prices).

### District Heating affected by warm winter

District Heating volumes decreased by -9.4% (from 470 to 426 Gwht) due to the warm winter.

Public Lighting business developed lighting tower under management (from 293 to 309 thousand).

### Synergies & Organic Growth

Positive effect of efficiency gain and disposal of non-strategic assets drove up Ebitda margins (by +110 bp).



## Positive Operating cash flow with remarkable operating capex

### 2006 Group Cash Flows

M €	2006
<b>Net Profit</b>	<b>100,2</b>
D&A	195,4
<b>FFO</b>	<b>295,6</b>
NWC	70,5
<b>Operating C.F.</b>	<b>366,1</b>
Operating Capex	(321,1)
Asset disposals	21,9
<i>Subtotal</i>	<i>66,9</i>
Financial Investments	(183,7)
<b>Free C.F.</b>	<b>(116,8)</b>
Dividends	(71,0)
Other Net Equity ch.	(11,5)
<b>Ch. in Net Debt</b>	<b>(199,3)</b>
 Net Debt	 (1.173,3)

### Positive Free Cash flow (before financial investments)

Net working capital enhancement contributed significantly to fund capex.

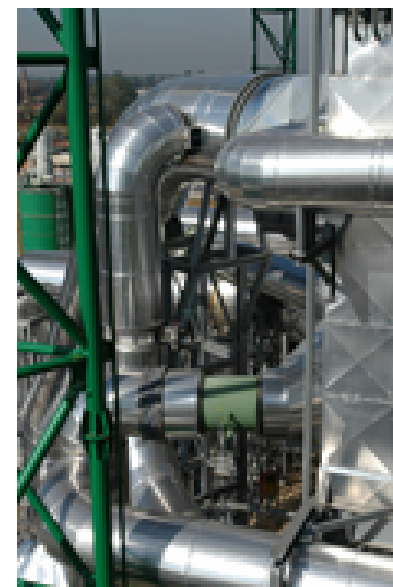
Positive cash flow from operations (by 66.9 m€) with contribution from asset disposal.

Financial investments (about 183.7 m€) will contribute on a “full year basis” from 2007.

### Net Financial Debts

Debt restructuring achieved through 500 m€ Euro Bond emission and 180 m€ EIB funds. Average debt duration reached 8 year at a fixed interest rate of avg 4.5% (s/t debt euribor + 10bp).

Merged companies (Aspes, Geat) debts amount to about 9 m€.



## 2006 focused on development capex

### 2006 Operating capex

M €	2005	2006
Waste	120,2	88,8
Water	76,2	100,2
Gas	44,3	25,4
Electricity	8,4	14,8
Other	24,4	35,4
Holding	50,8	56,5
Capex & Inv.	324,3	321,1

### 2006 Financial Investments

M €	Activity	2006
Elect. Network (Modena)	Elect. Distrib.	106,6
SAT (46% stake)	Multi-utility	34,5
Aspes (49.7%)	Multi-utility	16,6
Geat (100% stake)	Gas	14,5
SET	Power gen.	7,1
Calenia Energia	Power gen.	3,7
Other	-	0,7
Financial invest.		183,7

### Operating Capex

Waste: WTE new plants are progressing (about 68% of waste capex refer to those new plants).

Water: increased capex relates to Aspes. Tariff system provides 7% return on the agreed capex determined by ATO's.

Gas & Electricity: capex relates to extension of the networks.

Other: Public Lighting, District Heating and Heat Management activities increased capacity through 2006 capex.

### Financial Investments

Financial Investment were mainly related to the strengthening of electricity business (distribution assets in Modena province and 2 power generation plants with 800 and 400 MW installed capacity respectively) in line with Group upstream strategy.

Two further acquisition of multi-utility companies were achieved (Aspes in the nearby Marche region and SAT in Modena province).

Hera progressed in completing Gas business coverage in the local area by merging Geat Gas operating in Riccione.

### ROI

ROI at 8.6% even accounting significant capex and investments.


### 3. Closing Remarks



*(Teverola plant)*

Closing remarks

## Closing remarks



2006 has been characterised by extraordinary climate conditions, higher competition and regulatory pressure in energy businesses.

In this scenario Hera achieved good results (double digit Ebitda growth) in all main businesses as a result of higher efficiency levels and effective marketing strategies on liberalised activities.

Capex plan was executed in line with business plan mainly on new assets which will start to contribute from 2007/2008 (mainly 2 power gen. and 3 WTE plants).

Further steps in external growth was performed through acquisition of local utilities and electricity network in Modena province.

These achievements were reached maintaining Hera low risk profile, return on invested capital, the comfortable financial leverage and the promised dividend policy of +14.3% (8c€/ps).

