



# Hera 2006-2008 business plan

## **Strategic overview and main business targets**

- Strategic Guidelines
- Main business plan initiatives
- Key targets

## **Economic and financial insights**

- Ebitda build up
- Capex and financial investment plan
- Cash flows ratio overview

## **In summary**

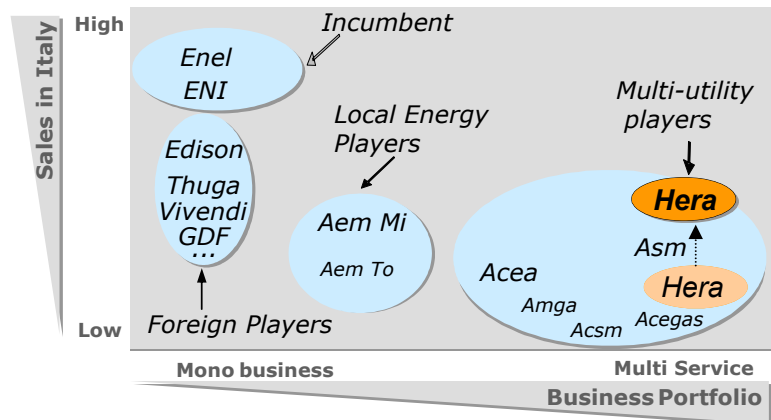
## **Overview of business portfolio**

- Waste
- Water
- Gas
- Electricity
- Other businesses

## Hera's business plan update comes after further Sector Consolidation

- In the fragmented Italian **Energy sector**, **consolidation is progressing and involves the entire value chain.**
- In **Water and Waste services**, Italian market shows a strong need for experienced management and investments in infrastructure, overcoming the “atomistic size of players”.
- Hera has been anticipating competitors by leading the sector consolidation.
- Hera's new business plan embeds Meta and further growth potentials.

### Hera's repositioning in the utility sector

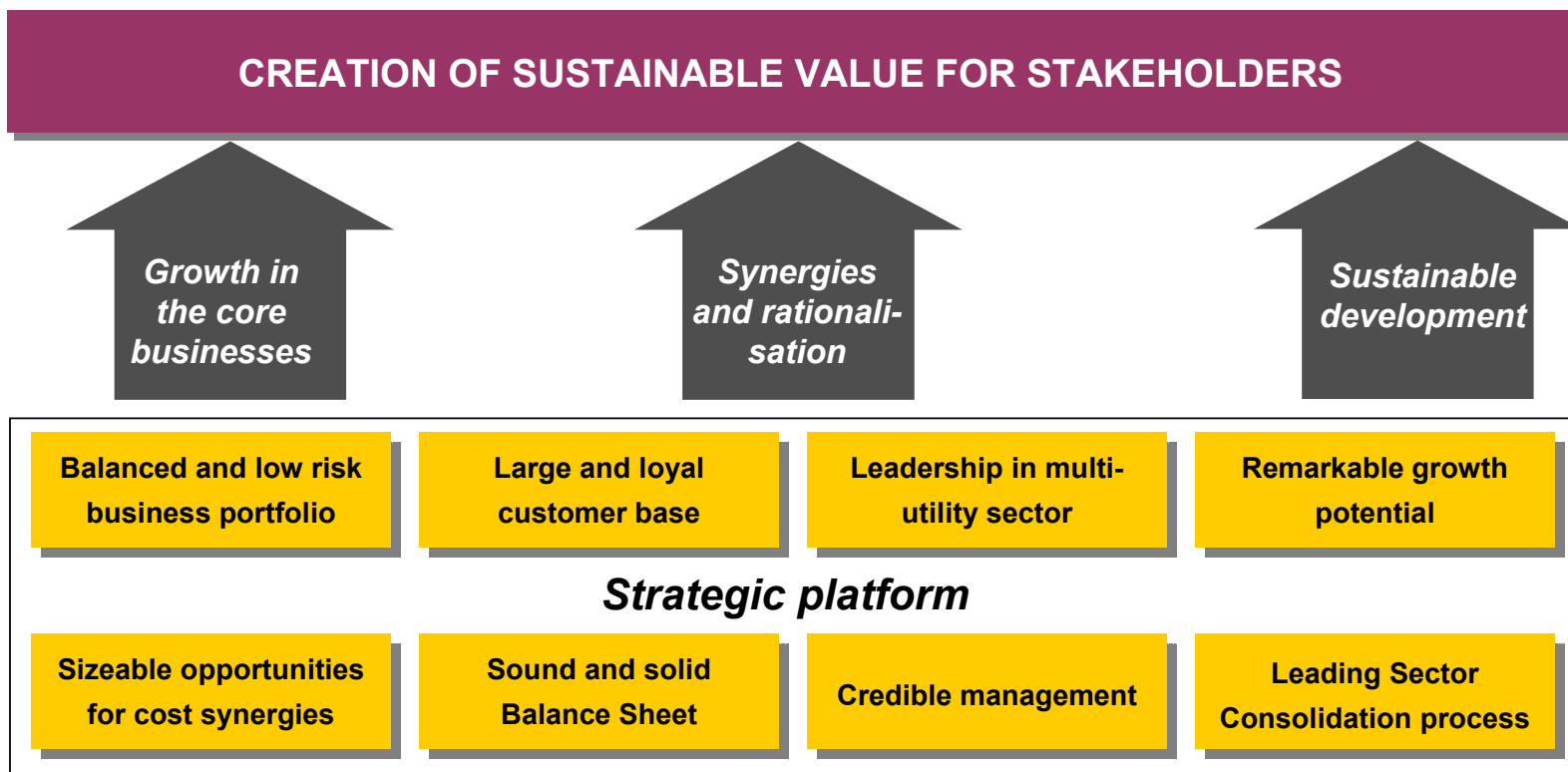


### Hera's market position after Meta merger

	2004	Ranks
Waste population served ('000)	2,433	1st
Water population served ('000)	2,239	2nd
Gas Distribution (mln m <sup>3</sup> )	2,271	3rd
Elect. Distribution (Gwh)	1,471	6th

## Hera's strategy is confirmed for the next future

Hera strategy is focused on strengthening and developing core businesses to increase returns to stakeholders



## Top line Growth in the Core Businesses

### *Organic growth*

- Achieve market expansion by leveraging upon cross selling potentials to the customer base and upon the optimisation of regulated businesses management.

### *Upstream Integration*

- Guarantee coverage of energy sales and enhancement of the special waste business.

### *Sector consolidation*

- Pursue opportunities to further consolidate an homogeneous presence in the Reference Territory and to extend Hera “model”.

Initiatives to be deployed with capital discipline

## Increase Profitability with Social Responsibility

A large, dark grey arrow pointing to the right, containing the text "Synergies and rationalisation" in white, bold, sans-serif font.

### **Synergies and rationalisation**

- Exploit economies of scale and scope by optimising external and internal costs.
- Leverage upon innovation and know how to achieve rationale use of assets and resources.

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### **Sustainable development**

- Focus on energy production from renewable sources and on energy savings.
- Assure progressive reduction of environmental impact.
- Deploy a fully-rounded Corporate Social Responsibility.

## Economic perspectives in line with past track record

### **Value of production** **+13.6% Cagr**

Mainly related to changes in perimeter, Dual Fuel commercial proposal, tariff increase (Water and Waste) and Waste business development.

### **Ebitda** **+19.6% Cagr**

Balanced contribution from all strategic pillars

### **Investment plan** **1.4 bln €**

Mainly funded by cash flows that assures comfortable financial gearing.

### **Returns and Dividends**

Expected increase in all ratios.  
Commitment to increase dividends by 15% per year through out 2008.

P&L	2004*		E2008		Cagr %
Sales	1,519	92.7%	2,625	96.0%	+14.7%
Capitalisation	120	7.3%	109	4.0%	(2,4)%
Value of Prod	1,639	100%	2,734	100%	+13.6%
Operating c.	(1,131)	69.0%	(1,861)	68.0%	+13.3%
Personnel c.	(216)	13.2%	(276)	10.1%	+6,3%
Ebitda	292	17.8%	597	21.8%	+19.6%

\*Restated in accordance with IAS principle

Capex plan E'05-E'08	1.1 bln €
Financial Investments E'05-E'08	0.3 bln €

Ratios	2004*	E2008
D/E	~ 0.5	~0.6
ROI	11%	15%
ROE	8%	12%
Dividend increase per year	+13%	+15% avg

\*Restated on IAS adjusted figures

## Key building targets for 2006-2008 Business plan

### WASTE:

Construction of 4 new WTE plants (+330K tons) and consolidation of Special Waste market by strengthening asset base.



*1 mln tons WTE capacity by 2008 and 1.7 mln tons of special waste with new products treated*

### WATER:

Full alignment to “normalised” tariff as per Galli provisions by 2008.



*16% cagr in Ebitda with positive cash balancing*

### GAS:

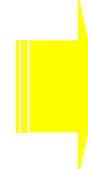
Retention of customer base and commercial development in surrounding territories.



*Gas sales to 2.7 bln m<sup>3</sup> in 2008 and 900,000 customers*

### ELECTRICITY:

Construction of 3 CCGT plants (about 360 MW), increase production from WTE (about 60 MW) and acquisition of Enel network.



*Electricity sales to 8.5 Twh by 2008 and 250,000 customers*

### OTHER

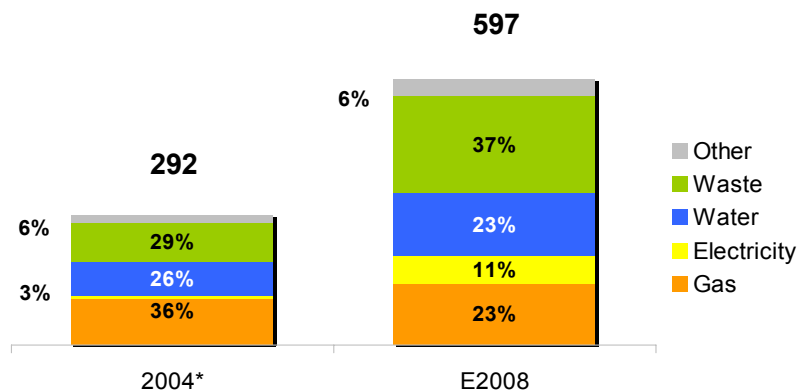
Increase profitability of District Heating and Public Lighting.



*700 Gwht (+85%) and 350.000 towers by 2008*

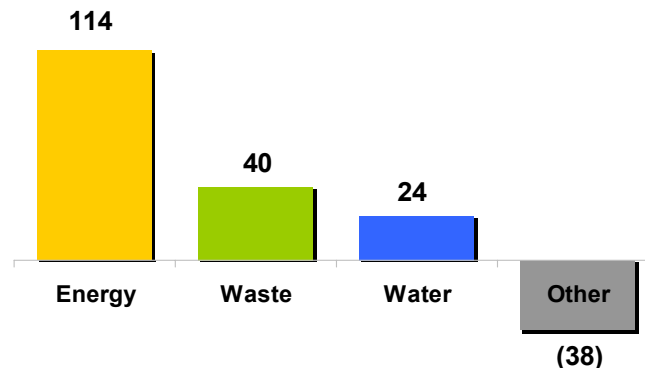
## Complementary and balanced business growth...

Ebitda 2004 and E2008 by Business



\*Restated in accordance with IAS accounting principle

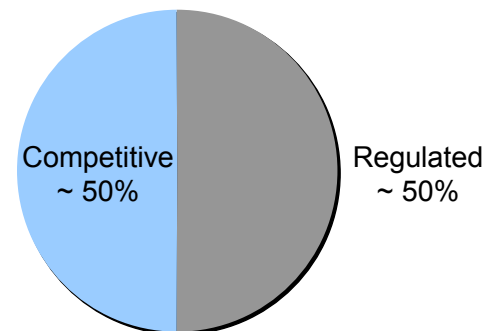
E2005-E2008 Cash flows by Business (\*)



\*Excludes Pto cash out and dividends

...by maintaining the peculiar  
balancing among the  
regulated and competitive  
activities.

E2008 Group Ebitda by type of Business







## Economic & Financial Insights



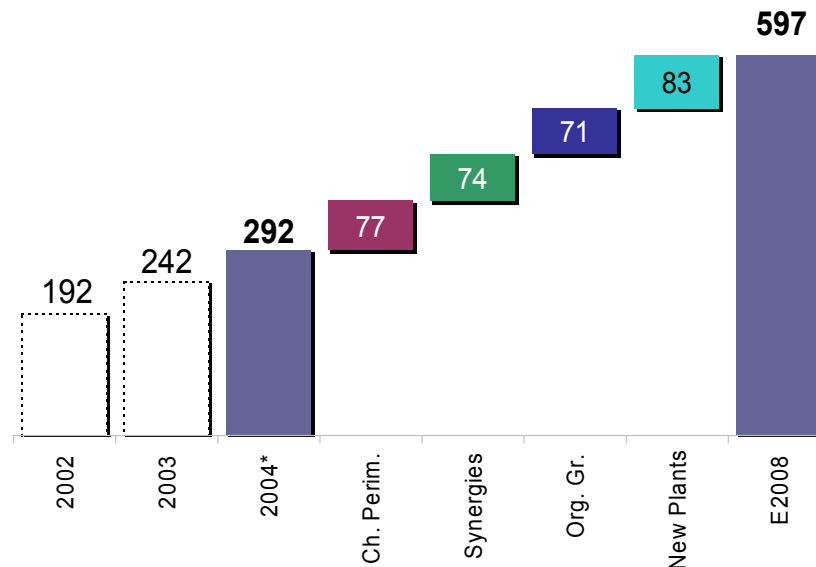
## Growth breakdown by drivers highlights balanced risk exposure

Hera expansion strategy focuses on synergy exploitation and on physiological expansion of core businesses.

- 2005-2008 expected Ebitda growth from change in perimeter is due to Meta merger and to Enel electricity network acquisition in Modena province (currently under final negotiation).
- Synergies driven by further cost cutting, efficiency improvement and personnel reduction enabled by new initiatives and Meta merger.
- Organic Growth includes tariff increase agreed with ATOs and additional volume sales.
- Plant development contribution is based on 6 fully authorised plants, plus WTE Rimini in final stage of approval process.

### 2004 – E2008 Ebitda Build up

Mln €



\*Restated in accordance with IAS principle



## External growth driven by Meta merger

- Meta merger will contribute by ~65 mln € to Ebitda growth.

Meta merger finalized 29th November with the legal deed.

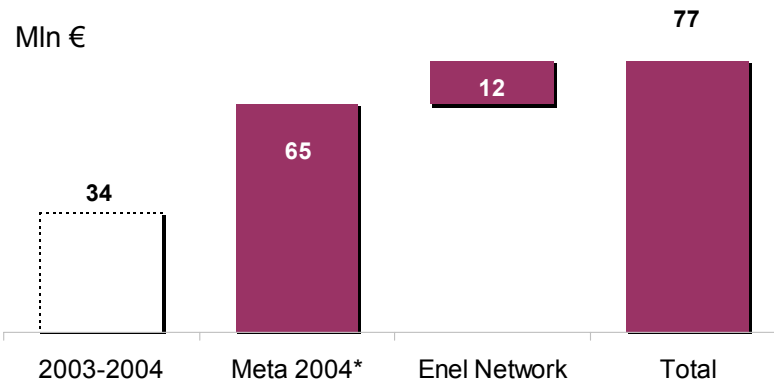
The on going PTO on 29% of Meta shares will be concluded the 22nd November.

- Enel Network acquisition contribute by 12 mln € to Ebitda on an yearly basis.

Meta owns the electricity network in Modena city which can be widened to the province adding 80,000 customers.

Completion is expected within 1H2006.

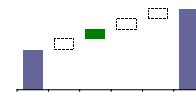
### Change in Group Perimeter



\*Restated in accordance with IAS principle

Hera M&A activity has been fulfilled at accretive multiples

Companies merged/acquired	EV/Ebitda
Agea (including synergies)	5.5x
Centro Ecologico of Ravenna	5.4x
Meta (including value of synergies)	5.1x



## Capitalization on Hera expertise to accomplish new synergies

- Meta integration will contribute 20 Mln € by 2008.
- Excluding the contribution from the Meta merger, projection of additional synergies are equal to about 14 Mln € per year on average.

### Personnel cost reduction 20 mln €

Headcounts 2004	5,023
Change in Group perimeter	948
Net Head Count Reduction	(405)
<b>Target 2008</b>	<b>5,566</b>

### Procurement costs 15 mln €

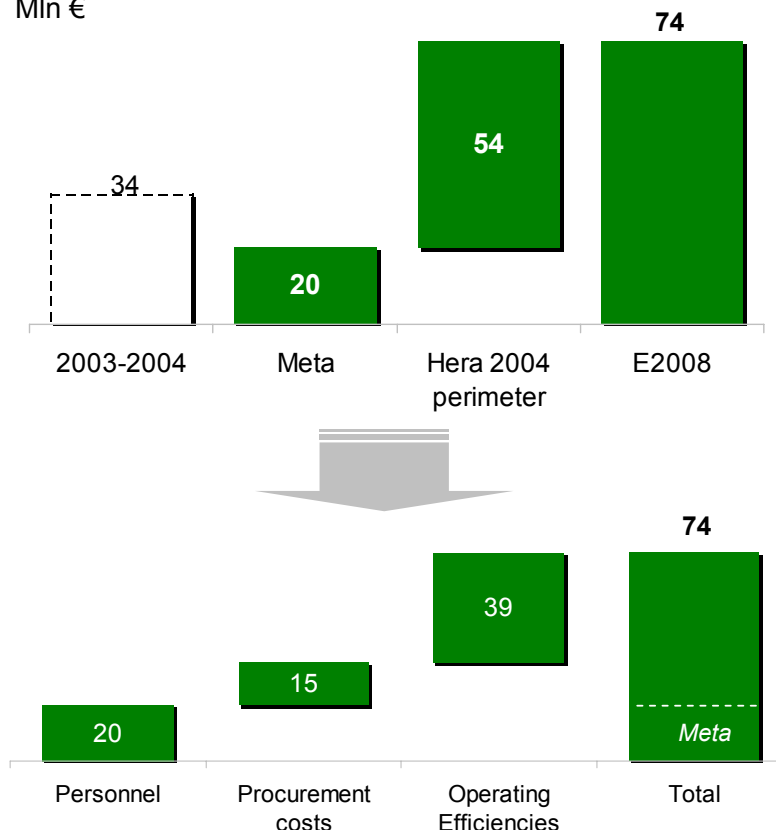
- Sourcing practices
- Supplier Base Rationalisation

### Operating Efficiencies 39 mln €

- Operating activities Standardisation
- Process reorganisation
- Demand Management and efficiencies

### Synergy exploitation

Mln €





## All Main Organic Growth drivers are secured

- Organic Growth E2005-E2008 is estimated at 71 mln € (compared to 49 mln € achieved over last 2 years).
- 2005-2007 tariff increase of Water and Urban Waste services already agreed with local authorities.
  - +3.5% per year for Integrated Water services.
  - +2.5% per year for Urban Waste services.
- Other Organic Growth drivers related to market expansion and increase in volume in all businesses, off-set cost increase

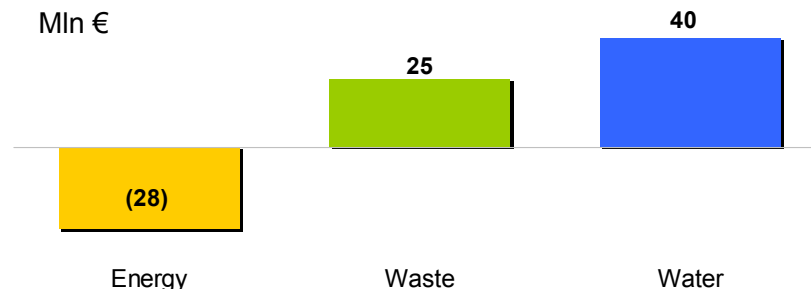
### Organic Growth

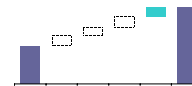
Mln €



### Contribution from tariff changes

Mln €





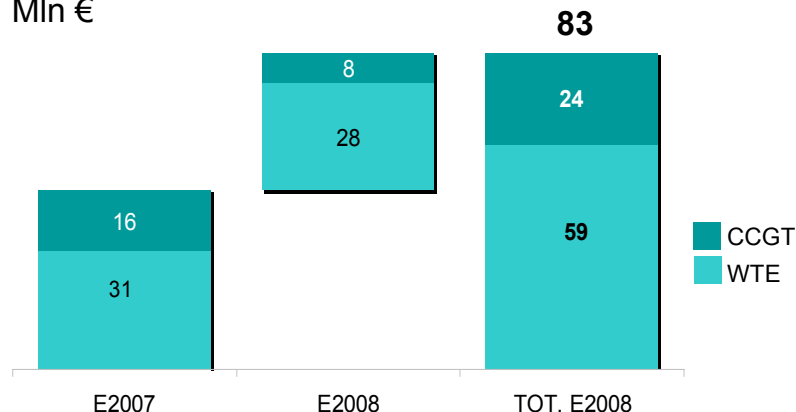
## Plant contribution come from fully authorised projects

- 6 plants are fully authorised and 4 are already under construction. WTE of Rimini is in final stage of approval process.
- 4 WTE plant (of which 2 already under construction) are expected to contribute for about 59 Mln € to 2008 Ebitda. Plants will be located in Modena, Ferrara, Forlì and Rimini existing sites.
- 3 fully authorized CCGT plant (located in Sparanise, Teverola and Imola) will contribute for 24 Mln €.

*All plants will contribute on a 12 month basis in 2009 adding further 10 Mln €*

### Plant Development

Mln €



Plants	2005	2006	2007	2008
CCGT Sparan.				
CCGT Imola				
CCGT Teverola				
WTE Modena.				
WTE Ferrara				
WTE Forlì				
WTE Rimini				

## Investments in 2005 and 2006 will underpin business plan growth

- 70% of investment (including financial investments) executed in 2005 and 2006.

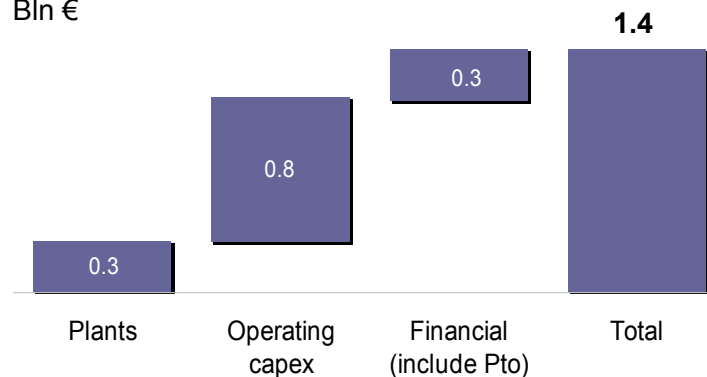
- **Plant development** capex of about 0.3 bln € provides IRR above 10%.

- **About 40% of operating capex goes to**
- **Water, fully recovered from tariff.**

- **Financial investments** of 0.3 bln € include Pto on 29% of Meta, Enel electricity Network in Modena Province and other M&A.

### E2005-E2008 Investments Breakdown

Bln €



Breakdown by business	Investm. '05-'08
WASTE	32%
WATER	21%
GAS	10%
ELECTRICITY	17%
OTHER BUSINESS	10%
<b>Subtotal</b>	<b>90%</b>
PTO on 29% of Meta	10%
<b>TOTAL (investm. 1.4 bln €)</b>	<b>100%</b>

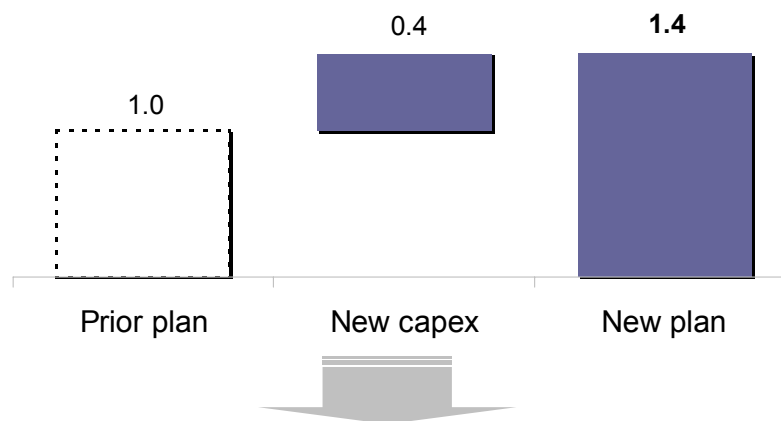
## Investments increase mainly related to Meta Merger

- The investment plan increase by 0.4 bln € mainly following Meta merger.
- PTO on 29% of Meta estimated investment of 141 Mln €.
- Hera-Modena capex plan and Enel network acquisition in Modena Province total 280 Mln €.
- CCGT of Teverola and WTE of Modena adding 70 Mln €.
- Different capex allocation and savings with respect to previous plan reduces Group efforts by 45 Mln €.

*ROI increase from 11% to 15%*

### New investments breakdown

Bln €



New capex Break down	Mln €
PTO on 29% of Meta	141
Enel Network and Hera-Modena Operating Capex	280
New plants (WTE Modena and CCGT Teverola)	70
Different capex allocation and dismissions compared to prior plan	(45)
<b>New capex in 2005-2008 business plan</b>	<b>446</b>



## Cash balanced growth assure attractive dividend policy and comfortable gearing

Operating cash flows expected to fund capex plan.

### D/E Ratio

2008 D/E ratio at 0.6x in line with 2004. Debt will peak in 2006 following significant capex ranging between 1.0-1.1 bln €.

### ROI

Expected to increase from 11% to 15% thanks to efficient Capex allocation and enhanced profitability.

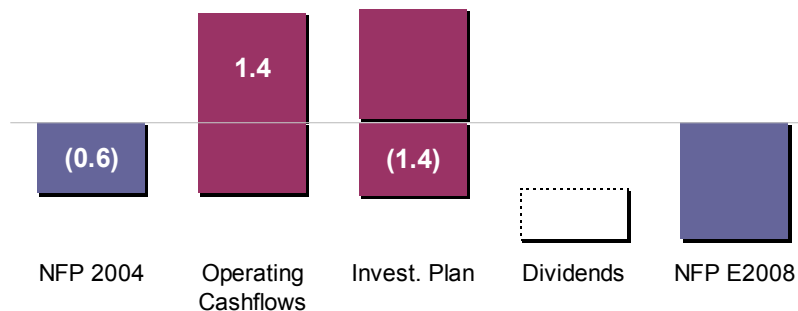
Comfortable financial leverage allows to fund further external growth opportunities

Hera Group	2004*	E2008
Net invested capital (bln €)	1.6	2.5
ROI	11%	15%
ROE	8%	12%
D/E	~0.5	~0.6
Dividend Cagr	+13%	~+15%

\*Restated on IAS adjusted figures

### Cumulated cash flows E2005-E2008

Bln €





In summary

## In summary

- Accomplishments of 2003-2005 has strengthened Hera leadership in the local multi-utility business.
- Meta deal has been completed in record time, optimizing capital structure and strengthening the business portfolio structure.
- Future strategic development is fully consistent with previous plan.
- Clear targets for 2008, achievable with balanced contribution from drivers that are significantly secured.
- Investment plan fully self-funded with further room for additional gearing to complete possible M&A / Consolidation.
- Sound balance sheet structure strengthened also by the upcoming bond
- Rising returns for shareholders.



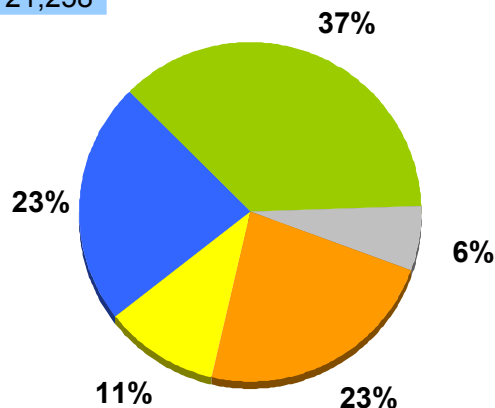
## Business portfolio overview

## Group portfolio

WATER	2004*
Distributed (mln m <sup>3</sup> )	231
Population served (mln unit)	2.2
Customers (K unit)	930
Pipeline (km)	21,258

WASTE	2004*
Urban waste (mln tons)	1.6
Special waste (mln tons)	1.4
Population served (mln unit)	2.4

Ebitda E2008:  
597 mln €



OTHER	2004*
Light towers (K unit)	280
Heat distribution (Gwht)	406

ELECTRICITY	2004*
Volume sold (Gwh)	3,051
Volume distributed	1,471
Customers (K unit)	169
Network (km)	5,586

GAS	2004*
Volume sold (mln m <sup>3</sup> )	2,381
Volume distributed (mln m <sup>3</sup> )	2,271
Customers (K unit)	941
Network (km)	11,511

\*2004 Combined Hera – Meta proforma data

## Sector and perspectives

URBAN

- Law increase of tariff not fully applied all over in Italy implying remuneration below legal terms.
- Few Italian players with insufficient plant capacity.

**Hera benefit from agreed an yearly +2.5% tariff increase and from additional WTE capacity**

SPECIAL

- Structural deficit in plant capacity in Italy.
- High prices paid to treat waste abroad.
- Further demand expansion is expected.

**Benefit of an “unique” treatment capacity**

## Strategy and Opportunities

**Hera benefit from plant leadership in the Italian market**

URBAN

- Develop high profitable plant (WTE) to expand capacity, maintain landfills capacity and benefit from incentive tariff (CIP6, Green Cert, CO2).
- Long term concessions (2012).

SPECIAL

- Deploy unique plant capacity on expanding market (new UE directives).

## Ebitda 2004 and E2008

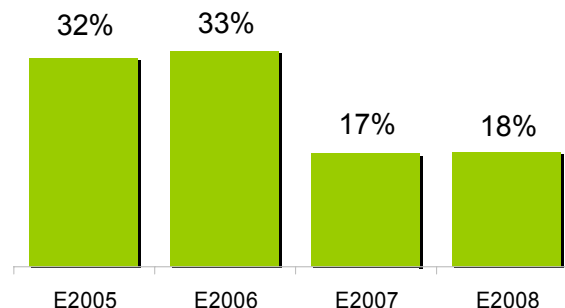
Waste	2004*	%	E2008	%	Cagr %
Value of Prod.	364	100%	609	100%	+13.7%
Ebitda	84	23.1%	221	36.3%	+27.4%

\*Restated in accordance with IAS principle

**Fast growing, profitable with a low risk profile**

Capex E2005-E2008:

460 mln€

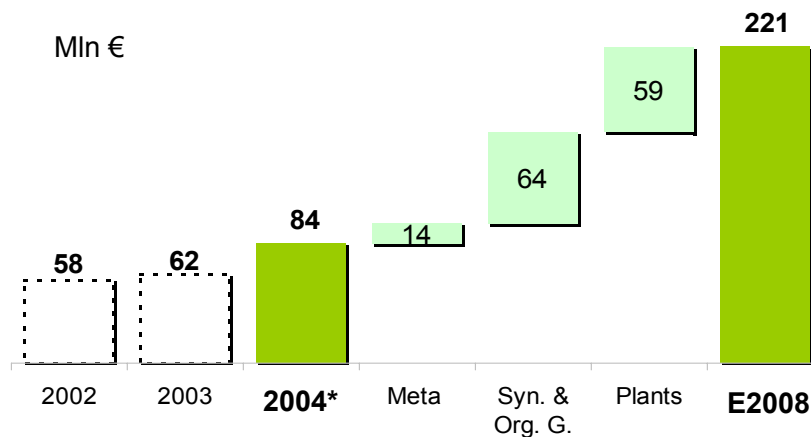


## Main Growth Drivers

Ebitda increase of **+137 Mln €:**

- **Meta contribution** **14 Mln €**
- **Organic Growth and Synergies** **64 Mln €**  
*of which Tariff Growth* **25 Mln €**
- **New WTE Plants** **59 Mln €**

## Ebitda 2004-E2008

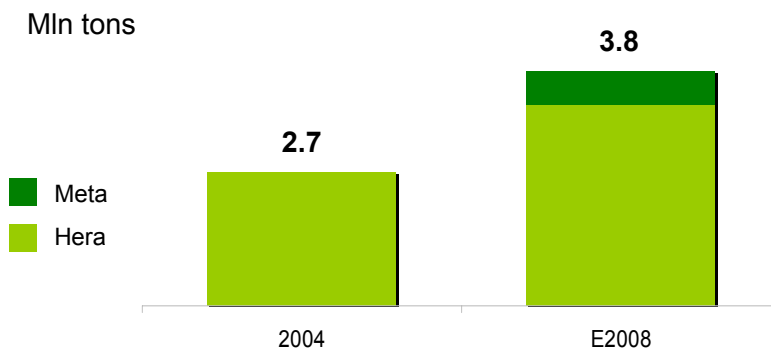


\*Restated in accordance with IAS principle

## Key Strengths

- 3 of the 4 new WTE plants are already authorised
- Upward trends in oil prices impact positively on electricity margins of WTE plants
- Last 10 year waste volume treated by Hera confort on future growth
- Italian shortage in treatment capacity
- Unique asset base

## Waste volumes



## Sector and perspectives

- Fragmented market among players with inefficient dimension.
- National inefficient network (leakage above 40%).
- Returns on invested capital below law standards due to late ATO establishment.
- Tariff 30% below CEE average.
- Long-term concessions.

Hera perspective to enhance returns thanks to agreed +3.5% tariff increase and full application of Galli Law by 2008

## Strategy and key strengths

- Operating efficiency, best practices sharing, cost savings and water adduction/purchase mix optimisation potentials.
- Second Italian player (2,2 mln inhabitants and additional 3 mln summer residents).
- Efficient network with leakage at European standards.
- Agreed tariff scheme by +3.5% per year.
- Long-term concessions (2022).

**Low business risk**

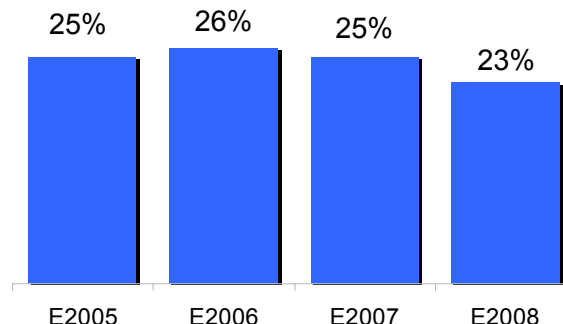
## Ebitda 2004 and E2008

Water	2004*	%	E2008	%	Cagr %
Value of Prod.	376	100%	464	100%	+5.4%
Ebitda mln €	77	20.5%	140	30.2%	+16.1%

\*Restated in accordance with IAS principle

## Secured tariff and profitability growth

Capex E2005-E2008: 310 Mln €





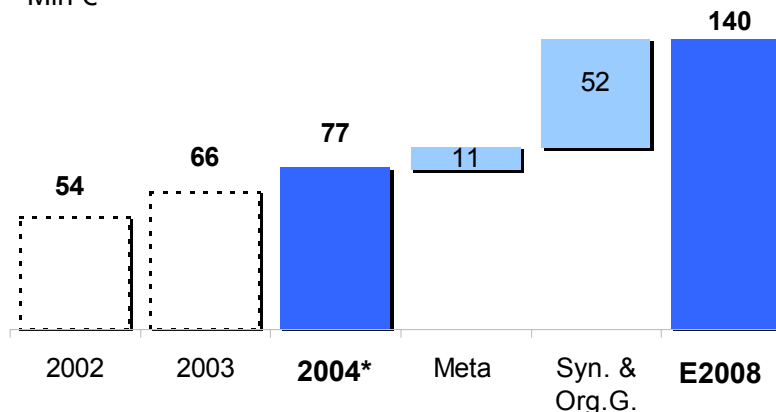
## Main Growth Drivers

Ebitda increase of **+63 Mln €:**

- **Meta contribution** **11 Mln €**
- **Organic Growth and Synergies** **52 Mln €**  
*Of which tariff increase* **40 Mln €**

## Ebitda 2004-E2008

Mln €



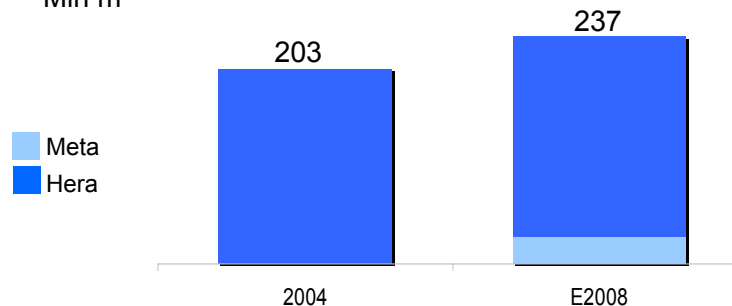
\*Restated in accordance with IAS principle

## Risk and Opportunities

- Upward trends in oil prices impact negatively on margins (rise of water adduction costs).
- Significant opportunities to reduce leakages in Ferrara and Modena networks.
- Opportunities to integrate provincial networks.

## Water volumes

Mln m<sup>3</sup>



## Sector and perspectives

- Increased competitive pressure in sales activity from national player causes pressure on margins.
- Dual Fuel proposal offer is a key competitive advantage.
- Commodity cost and availability become crucial.
- 30% higher prices vs European countries due to delay in up stream liberalisation.

**Low historical churn rates and promising Upstream perspectives in Gas procurement**

## Strategy and key Strengths

- Exploit growth opportunities in the territory and selectively penetrate surrounding areas.
- Further balance procurement sources leveraging upon international partnerships, larger market size and trading know how.
- Churn rate below 1.5% after 12 month competition.
- Advantage from leadership in reference territory.

**Diversified procurement sources and dual fuel proposal represents Hera strengths**

## Ebitda 2004 and E2008

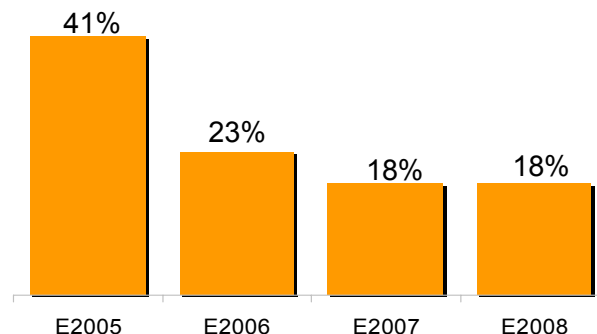
Gas	2004*	%	E2008	%	Cagr %
Value of Prod.	592	100%	772	100%	+6.9%
Ebitda	106	17.9%	135	17.5%	+6.2%

\*Restated in accordance with IAS principle

**Hera sustained successfully competition against incumbent national player**

Capex E2005-E2008:

140 Mln €



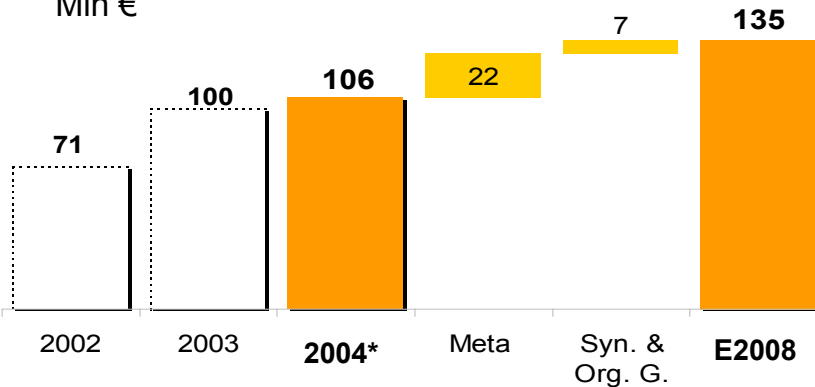
## Main Growth Drivers

### Ebitda increase of +29 Mln €:

- **Meta contribution** **22 Mln €**
- **Organic Growth and Synergies** **7 Mln €**
  - Of which:*
  - volume increase* **21 Mln €**
  - distribution margins and synergies* **(28) Mln €**

## Ebitda 2004-E2008

Mln €



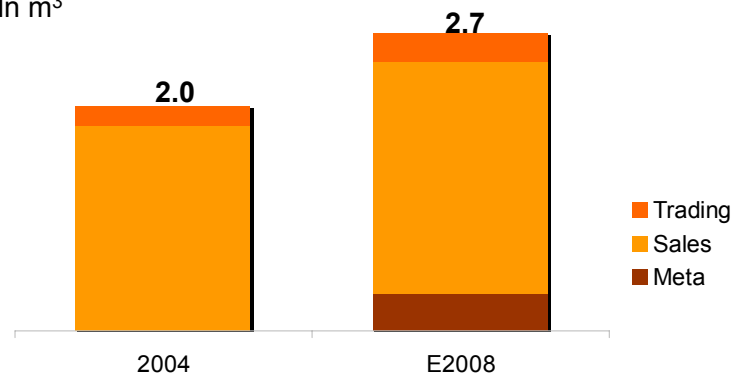
\*Restated in accordance with IAS principle

## Risk and Opportunities

- New Authority directives pending.
- Loyal customer base.
- High consumption per customer in surrounding area.
- Stake held in Galsi

## Gas volumes

Bln m<sup>3</sup>



## Sector and perspectives

- In 2008-2009 sufficient production capacity is expected to come on stream creating a more liquid market.
- Strong competition from national foreign players.
- Long term distribution concessions.
- ENEL is the incumbent player controlling a significant market share.

**Loyal gas customer base in Hera reference territory allows to continue fast market share expansion**

## Strategy and key strengths

- Exploit market potential of dual fuel leveraging upon customer base.
- Actively develop a balanced portfolio of generation initiatives increasing profitability.
- Leverage upon partner expertise in generation / trading.
- Long term distribution concession (2030).

## Ebitda 2004 and E2008

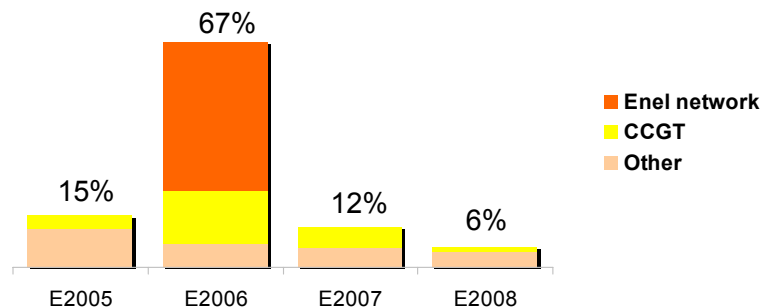
Electricity	2004*	%	E2008	%	Cagr %
Value of Prod.	180	100%	715	100%	+41.2%
Ebitda	8	4%	63	8.8%	+67.5%

\*Restated in accordance with IAS principle

**Defend gas margins and  
Developing the business**

Capex E2005-E2008:

240 Mln €



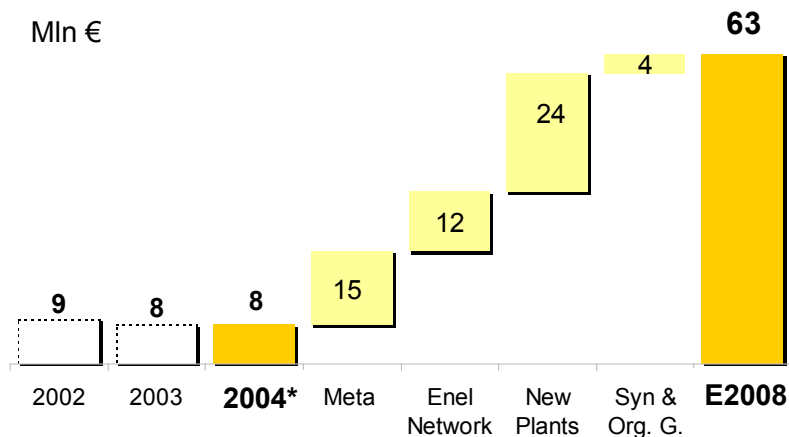
## Main Growth Drivers

Ebitda increase of **+55 mln€:**

- **Meta contribution** **15 Mln €**
- **Plants** **24 Mln €**
- **Enel Network** **12 Mln €**
- **Organic Growth (volume sold)** **4 Mln €**

## Ebitda 2004-E2008

Mln €



\*Restated in accordance with IAS principle

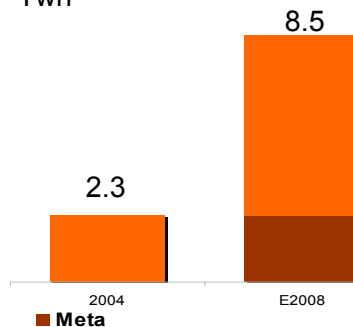
## Risk and Opportunities

- Strong competition from market consolidation.
- Regional consumption above 25 Twh.
- Possible new opportunities on electricity procurement from new plants and re-shaping players.

## Electricity volumes

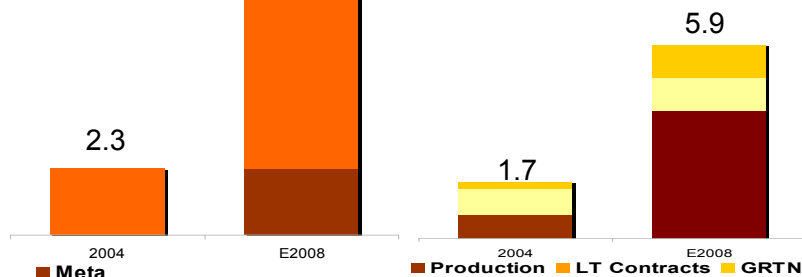
### Sales in volumes

Twh



### Procurement mix

Twh



## Sector and perspectives

- District Heating is a capital intensive business. Tariffs follow gas trends.
- Hera is among Top 3 players in District Heating (heating generation also by geothermic sources).
- Co-leader in Public Lighting, a business run on long term basis.

**Focus to strengthen Leadership.**

## Strategy and key strength

- Focus on exploit synergies and develop network in district heating (leveraging also on WTE/CCGT).
- Focus on cost cutting and efficiency gains (low energy consumption light towers) in Public lighting.

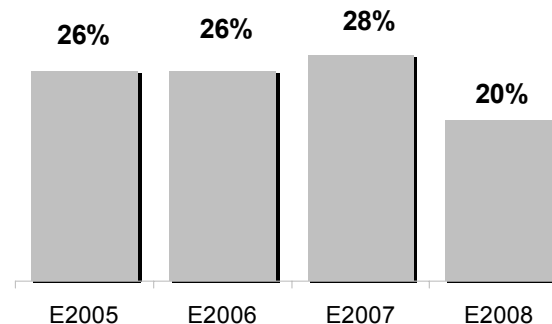
## Ebitda 2004 and E2008

Other	2004*	%	E2008	%	Cagr %
Value of Prod.	127	100.0 %	175	100.0 %	8.3%
<b>Ebitda</b>	17	13.4%	37	21.1%	<b>21.4%</b>

\*Restated in accordance with IAS principle

**Rationalisation and  
profitability improvement**

**Capex E2005-E2008: 145 Mln €**



## Main Growth Drivers

**Ebitda increase of +20 mln€**

*(of which 4 related to Agea):*

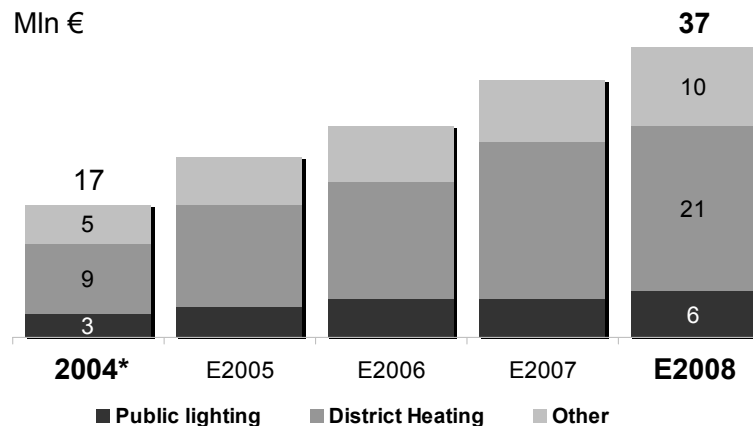
- **District Heating +13 mln€**  
Volume increase and efficiency gains
- **Public Lighting +5 mln€**  
Optimization of commercial activities  
Investment allows to increase energy and operational efficiency
- **Other business +2 mln€**  
Enhanced profitability on Municipal Services and rationalisation

## Risk and Opportunities

- Change in regulation per District Heating.
- Long term lock-in of customers in District Heating.
- Need for change in Municipalities for Public Lighting.

## Ebitda 2004-E2008

Mln €



\*Restated in accordance with IAS principle

## Volumes

