



annual results
2006

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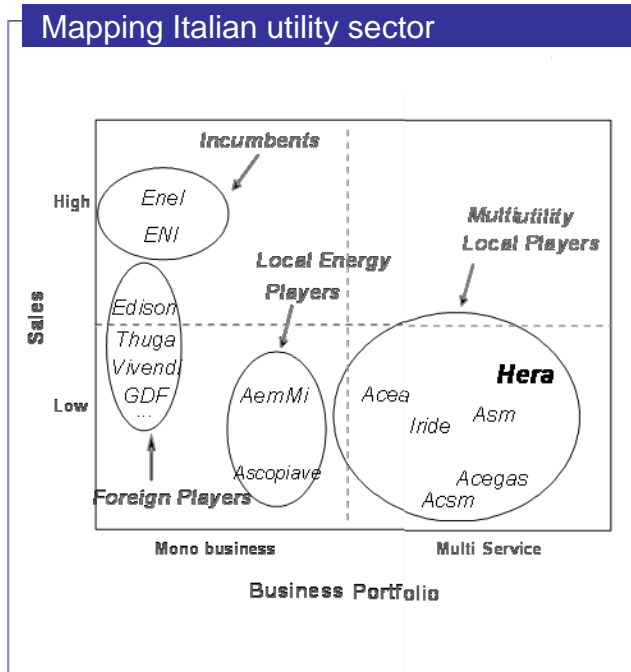


1. Introduction to Hera Group

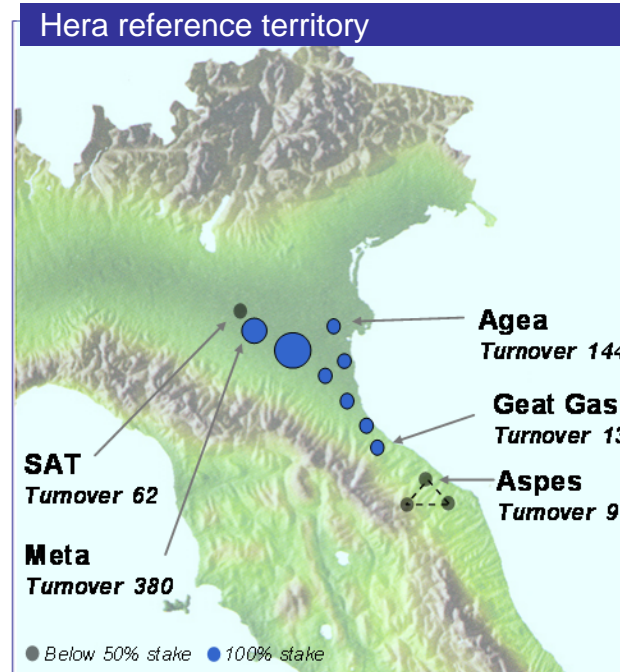


(Teverola plant)

Local multi-utility consolidation process is speeding up



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

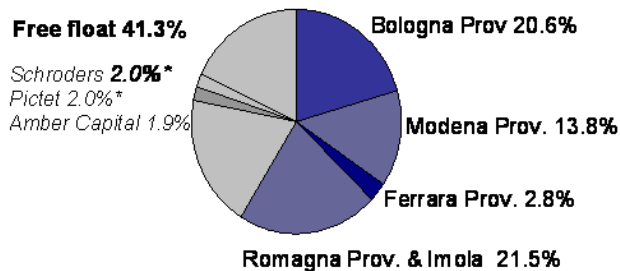


Hera Group has so far primarily expanded in Emilia Romagna, one of the most wealthy Italian region.



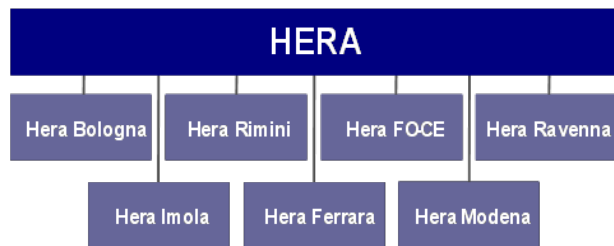
Hera leadership founded on unique governance and operating model

Shareholdings: 1,016.8 m shares



* Included in free float

Area presence through L.o.c.



Hera growth based on “balancing”

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

A 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 few divisions.

The holding concentrates all corporate functions whereas 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

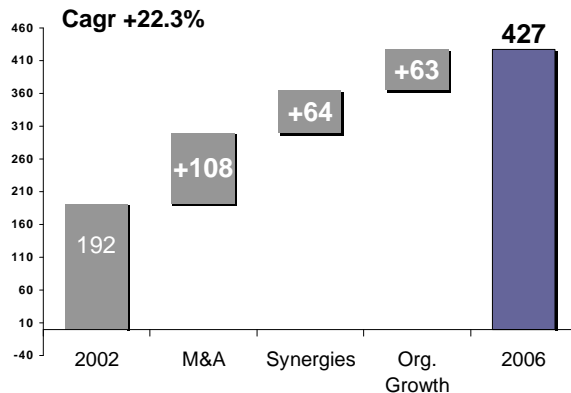


Sharp, continuous and sustainable growth achieved

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% |
| | 2002 | 2003 | 2004 | 2005 | 2006 | Cagr % |
| 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% |

4Y Ebitda Growth Drivers (M€)



Ebitda Doubled and net profit tripled.

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

Dividends increased significantly, maintaining comfortable debt levels.

ROI rose by 170 basis points.

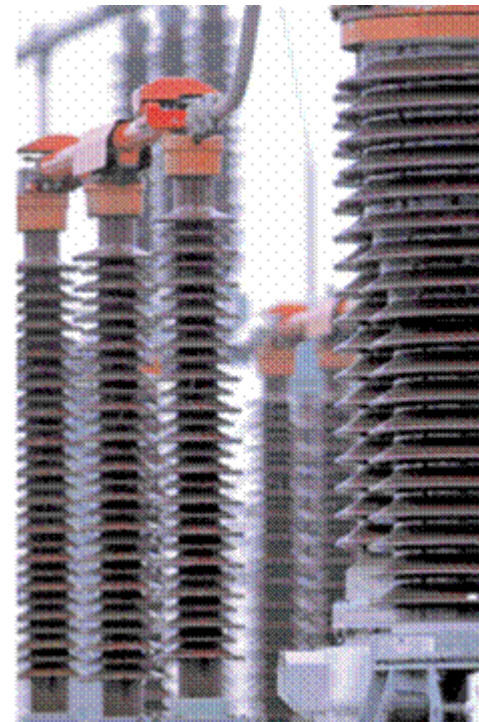
Ebitda growth drivers:

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

46% contribution of the merged companies.



2. 2006 Group results



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%) |
| <i>of which minorities</i> | <i>7,4</i> | | <i>10,1</i> | | |

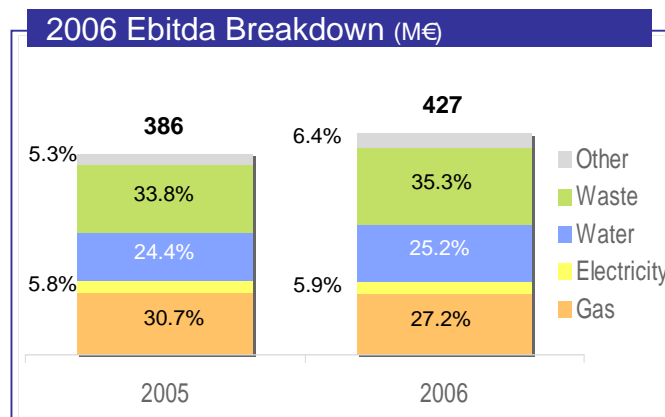
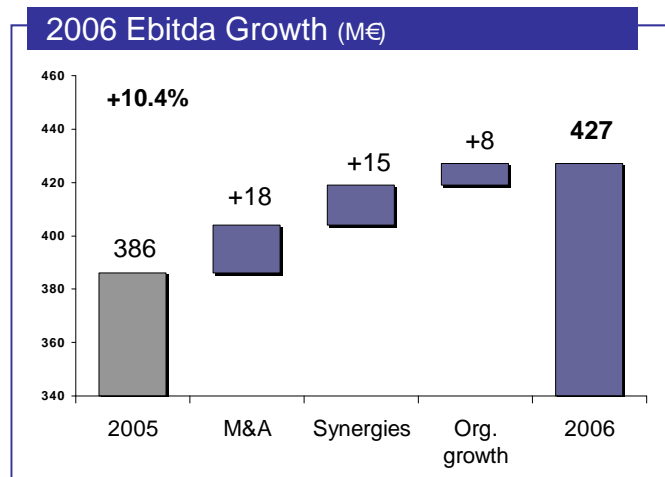
2005 benefit by non recurring contribution on asset (15 m€ pretax).

2006 Dividend

8 c€ p.s.

Proposed dividend increase in line with business plan targets.

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).



Asset Base Strengthening: WTE

New WTE Ferrara

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



New WTE Forlì

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



New WTE in Modena

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



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.



Asset Base Strengthening: CCGT

CCGT Teverola

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



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.) | 0.9 TWh |
| Start operations | Next May |



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.



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) | 106,6 |
| | SAT (46% stake) | 34,5 |
| | Aspes (49.7%) | 16,6 |
| | Geat (100% stake) | 14,5 |
| | SET | 7,1 |
| | Calenia Energia | 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



Closing remarks

Hera growth perspective to 2009

2005-E2009 industrial targets

| | 2005 | E2009 | Cagr |
|-------------------------|-------|---------|--------|
| Power gen. (Gwh) | 906,0 | 4.916,0 | +52,6% |
| Electricity sales (Twh) | 5,5 | 9,1 | +13,4% |
| Gas sales (bcm) | 2,7 | 2,9 | +1,8% |
| WTE capacity (000/ton) | 581,0 | 970,0 | +13,7% |
| District H. (Gwh) | 458,0 | 675,0 | +10,2% |

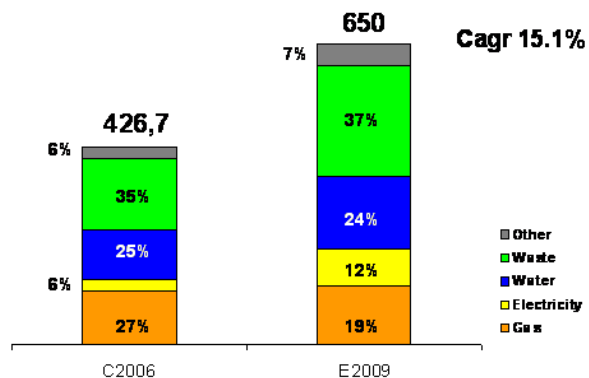
Hera is currently among the largest player in the local utility sector and 2009 business plan aims at further strengthening all main core business value drivers.

2005-2009 plan envisages internal growth targets above sector average.

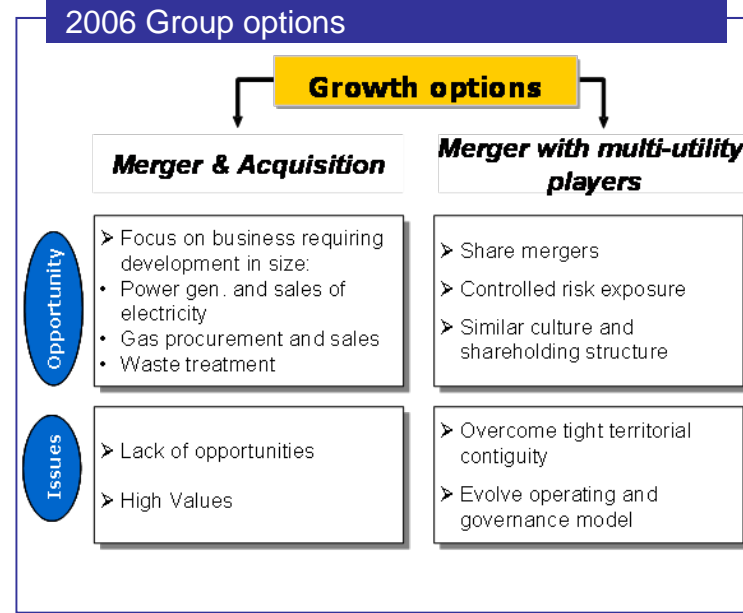
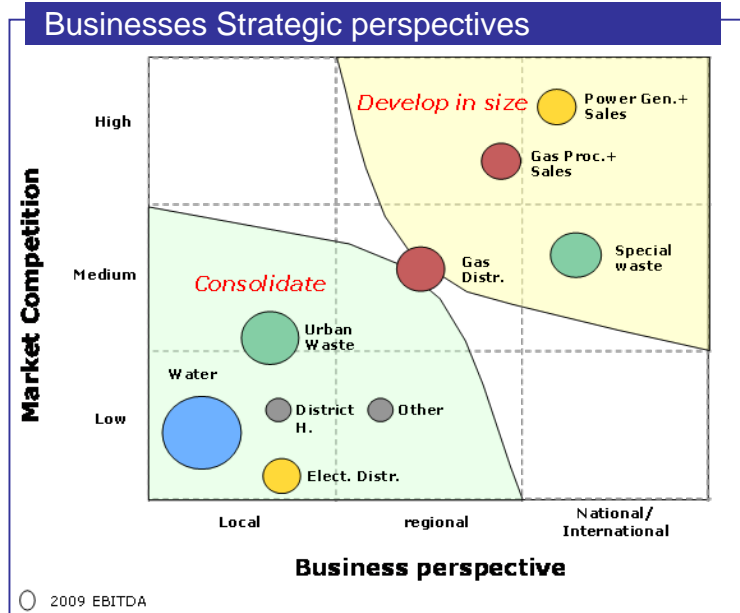
Hera growth opportunities, on a stand alone basis, beyond those sets for 2009 are:

1. Develop Power gen. to close the gap with estimated sales;
2. Further diversify gas procurement activities (through investments in LNG and storage facilities);
3. Sector consolidation on small sized surrounding multi-utilities;
4. Develop renewable generation units.

2006-E2009 Ebitda Growth (M€)

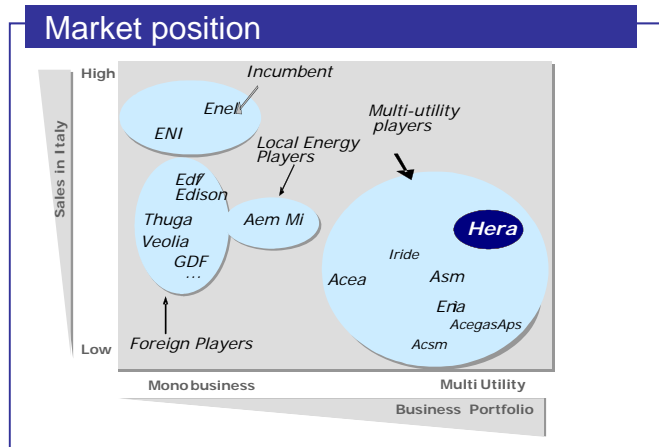
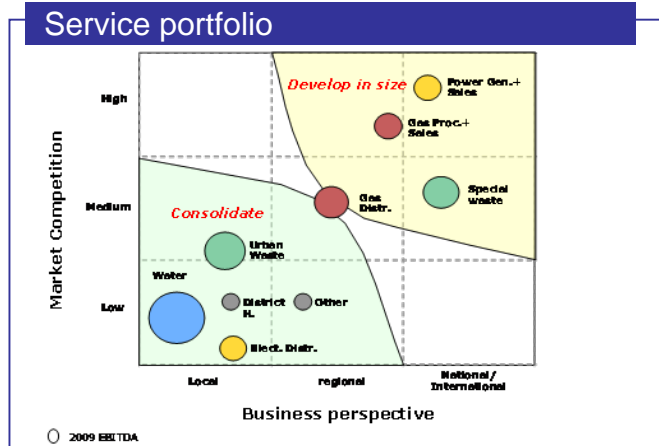


Business portfolio at 2009 and development option



To further strengthen business portfolio the most viable options are based on mergers with other multi-utility player

Industrial criteria to be considered



Looking to players with:

- > Significant and balanced electricity business
- > Main player on gas procurement and sales
- > Territorial proximity and infrastructure in Waste management
- > Balanced multi-business portfolio



Closing remarks

Key targets to drive growth

| Service portfolio | Looking forward 2010 |
|--------------------------------------------------------------------|--------------------------------------------------------------|
| 1 Customer Base: 2 Million clients | ➔ To gain optimal efficiency to assure competitive advantage |
| 2 Power generation mkt Share equal to 3/5% (12-15 Twh) | ➔ To make presence in electricity market sustainable |
| 3 EBITDA: 1 Billion Euro | ➔ To underpin investments in key infrastructure |
| 4 Market Cap. above 5 Billion Euro | ➔ To gain visibility and mobilize financial resources |
| 5 Further expansion opportunities up stream and down stream | ➔ To maintain shareholders value growth |

Sector highlights a positive momentum towards the consolidation process. Market opportunities are available and Hera has set 5 key target to pursue taking into consideration the possible sector developments.



Hera Sustainable Growth



Mission, Ethics & Strategy are focused on Sustainability

Hera sustainable nature

- > Hera main shareholders are public entities which promoted since beginning a sustainable approach towards all stakeholders, which is the core of the **Group Mission**.
- > Hera **strategy** is focused on exploiting all growth opportunities (internal and external) enhancing financial as well as social and environmental performances to continue past “sustainable” growth path.
- > The Mission and the strategy are pursued applying the **ethical code** binding all stakeholders to respect Hera fundamental principles. Communication and controlling procedures and/or contractual clauses are set in place in order to avoid actions not compliant with the code by stakeholders.

Group Strategy focus on Sustainability



Creating & communicating values

- > Ethical code guarantees transparency, equal opportunities and respect of ethical values in the management of all activities. Hera Core Values:
 - > **Integrity**
 - > **Transparency**
 - > **Individual responsibility**

Citizenship

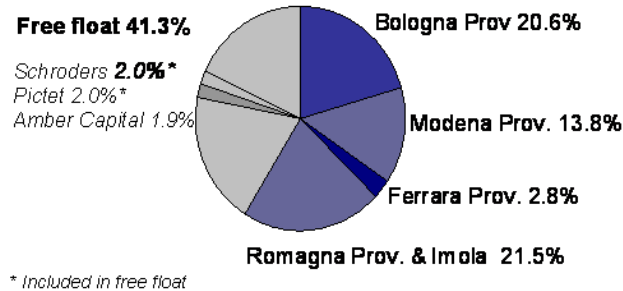
- > Hera acts as an relevant economic and social entity with the responsibility of managing significant environmental and social sources of its reference territory.
- > Hera is committed to use natural sources (earth, water, air) in a proper manner: delivering services to people reducing negative environmental effects (CO2 emissions, water and soil pollution) through efficiency gains, R&D on innovative processes and real time control systems.
- > Hera is as well committed to promote social enhancement through promotion of values, respect of people, listening and speaking to all stakeholders
- > This citizenship has a significant impact on how Hera people effectively think, organize, act and manage relations with personnel, customers, suppliers shareholders, the environment and the other stakeholders.

3Y positive trend of all main KPI

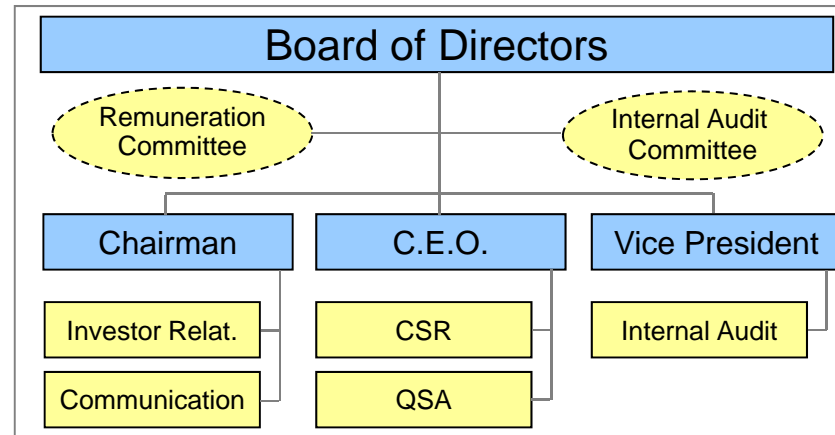
| | 2004 | 2005 | 2006 |
|-------------------------------------------------------------------------------|-------|-------|---------|
| Economic responsibility | | | |
| Value added (ml €) | 552.4 | 762.9 | 838.8 ↑ |
| Ebitda per employee (K€) | 58.2 | 65.4 | 68.6 ↑ |
| Social responsibility | | | |
| Hiring on an indefinite basis (no.) | 51 | 48 | 73 ↑ |
| Training for employee (per capita h/year) | 17.2 | 18.5 | 20.1 ↑ |
| Workforce attending at least 1 training c. | 79.2% | 82.2% | 90.8% ↑ |
| Accident frequency index (number of accidents/hours worked x 1,000,000) | 56.8 | 50.1 | 47.5 ↓ |
| Internal climate index (score 0-100) | - | 50 | - ↑ |
| Customer satisfaction index (score 0-100) | 67 | 67 | - ↑ |
| Avg call center response time (sec) | 102.9 | 70.2 | 34.5 ↓ |
| Avg branch operator waiting time (min) | 33.8 | 39.5 | 35.8 ↓ |
| Total return for shareholders since IPO | 79.8% | 89.6% | 1.37x ↑ |
| ISO9001 certified suppliers (%) | - | 1.046 | 1.400 ↑ |
| Environmental Responsibility | | | |
| % Energy produced from renewables | 39.6% | 44.1% | 47.7% ↑ |
| Compliance of treated water with legal limits (optimal value 0%) | 32.7% | 30.0% | 31.7% ↑ |
| Compliance with Kyoto Protocol | - | 93% | 95% ↑ |
| Water grid loss (real and procedural)* | 23% | 24.9% | 23.4% ↓ |
| Separate waste collection | 30.4% | 31% | 33.5% ↑ |
| % Low environmental impact vehicles | 13.9% | 14.2% | 25.4% ↑ |
| Solid waste collected disposed in landfill with pre-treatment (% total waste) | 58.5% | 59.1% | 76.0% ↑ |

Governance for a integrated multi-stakeholder approach

Shareholding



Organizational structure



- > 58% shareholdings is build up by public entities (tied in a pact 51% of shares)
- > Each private shareholder has max. 2% voting rights
- > Since flotation (2003) the Group has changed governance in order to guarantee minority shareholders' interests

- > BoD include 18 non-executive members of which 4 representatives of minority shareholders.
- > Internal BoD Committees in place
- > CSR and QSA and IR functions directly in line to Top management guaranteeing continuous feed back from stakeholders

Personnel

Hera's most relevant stakeholder

- > A continuous internal communications system is having success (meetings, House organ, intra-net site, television screens)
- > At Hera all relevant matters are shared with employees starting from the discussion on the new mission, new business plan etc.
- > In 2005 the first survey on personnel satisfaction yielded positive results
- > A Balance score Card system was introduced to guarantee a fair valuation of results and bonuses (493 people received a bonus in '06)
- > Hera is implementing a "Student program" to hire and educate 151 people coming out from university.
- > Hera commitment is to improve education and know how sharing. Training activities performed obtained positive feed back from personnel (1.0 ml€ spent in training in 2006)

Personnel Breakdown

| | 2004 | 2005 | 2006 |
|-----------------------------|--------------|--------------|--------------|
| Senior Manager | 84 | 93 | 106 |
| Manager | 192 | 245 | 268 |
| Clerks | 1,987 | 2,458 | 2.629 |
| worker | 2,760 | 3,108 | 3.224 |
| Total head count | 5,023 | 5,904 | 6.227 |
| Avg Age (years) | | 43.8 | 44.4 |
| Seniority in Hera (years) | | 13.7 | 14.3 |
| Female on total (%) | 21% | 21% | 21% |
| Female on executives | 40% | 41% | 40% |
| Protected categories (unit) | 246 | 273 | 272 |
| Litigations | 33 | 21 | 24 |
| Strikes (hours pro capite) | 4.3 | 4.0 | 4.8 |
| Persons awarded with bonus | | 414 | 493 |

Personnel (2)

Hera actions and commitments on social responsibility

- > Hera commitments to improve its social responsibility are stated in the business plan 2006-E2009
- > Hera will invest in training employed people to share best practices and promote internal carriers replacing natural retirement
- > Above 3 M€ investments are planned to improve training courses to employees in next 3 years.
- > Safe and security on work place will be enhanced with Ohsas 18001 certification planned within 2007
- > Balance Score Card system will be extended to 100% of managers within 2007
- > Facilities will be built in order to meet family needs of workers (e.g. Kinder garden within 2006)

Commitments 2006-2009

| | 2006 | E2009 | Increase |
|--------------------------|-------|-------|------------------|
| N. employees | 5.884 | 5,586 | (5.8%) |
| Avg Personnel cost (K€) | 47.6 | 51.9 | +2.3% ↑ |
| Training (h. per capita) | 20.1 | 23.3 | +7.0% ↑ |
| Incidents on Job* | 67.6 | 45.0 | (33.0%) ↑ |
| Gravity of damage** | 1.6 | 1.0 | (37.5%) ↑ |

Social Responsibility KPI 2004-2006

| | 2004 | 2005 | 2006 |
|-------------------------------------------------------------------------|-------|-------|---------|
| Hiring on an indefinite basis (no.) | 93 | 115 | 73 ↑ |
| Training for employee (per capita h/year) | 17.2 | 18.5 | 20.1 ↑ |
| Workforce attending at least 1 training c. | 79.2% | 82.2% | 90.8% ↑ |
| Accident frequency index (number of accidents/hours worked x 1,000,000) | 56.8 | 50.1 | 47.5 ↑ |
| Internal climate index (score 0-100) | - | 50 | - |

Customer

Customers represent Hera focus

- > Customer satisfaction survey in 2005 highlighted a significant degree of satisfaction (67 points achieved on a max of 100)
- > Loyalty of customers is highlighted by low churn rates in liberalized activities (such as gas sale: 0.8% churn rate)
- > In order to meet the commitment to improve the customer care Hera is implementing:
 - >An integrated SAP IT system (CRM and one invoice for different services)
 - >Working out a quality standard card for all provinces
 - >Several projects aiming at enhancing customer care activity (in 3 years dedicated personnel increased by above +100%)

2006-2009 Commitments to better

- > Develop web-site potentials to favour customers
- > Reduce response time on claims
- > Work out a welcome kit for new customers

| | 2006 | E2009 | Increase |
|--------------------------------------|-----------|---------|----------|
| Interruptions in electricity service | 98 min | 80 min | +18% ↑ |
| Avg waiting time shops | 35.8 min. | 25 min | +44% ↑ |
| Avg waiting time teleph | 34.5 sec. | 20 sec. | +33% ↑ |

2004-2006 KPI

| | 2004 | 2005 | 2006 |
|-------------------------------------------|-------|------|--------|
| Customer satisfaction index (score 0-100) | - | 67 | - |
| Avg call center response time (sec) | 102.9 | 70.2 | 34.5 ↑ |
| Avg branch operator waiting time (min) | 33.8 | 39.5 | 35.8 ↑ |

Suppliers

Suppliers considered partners

- > Hera deals with 16k suppliers
- > 66% in reference territory
- > A qualification system introduced on certification basis
- > Ethical Code in contract clauses

Commitments for the future

- > Improve ethical code knowledge among suppliers
- > Increase share of supplier certified Ohsas 18001, SINAL, SIT and SA 8000
- > Improve web-site information dedicated to suppliers

2005-2006 Suppliers data

| | 2005 | 2006 |
|------------------------------------|---------------|---------------|
| Materials | 9,143 | 9,337 |
| Services | 9,387 | 9,886 |
| Workes | 1,080 | 1,197 |
| Total suppliers | 15,815 | 16.170 |
| Resident in reference territory | 65% | 66.5% |
| Resident in other regions | 34% | 32.5% |
| Resident outside Italy | 1% | 1% |
| Total | 100% | 100% |
| Value of supplies certified | | |
| ISO 9001 | 1.046 | 1.400 |
| SOA | 277 | 418 |
| ISO 14001 - EMAS | 100 | 155 |
| SINAL | 23 | 29 |
| OHSAS | 10 | 18 |

Environment

- > Hera waste management, water services and energy production activities have an intense use of environmental sources.
- > The commitments regarding low environmental impact of these activities highlights positive results in past 3 years in term of CO2, exploitation of waste recycling, water leakage.
- > In electricity production, Hera is active mainly with WTE plants, district Heating and biogas (100% renewable sources) which have low environmental impact and benefit from incentive schemes (CIP6 tariff and Green certificates).
- > Hera is respecting all national and Kyoto protocol standards regarding CO2 emissions and laws on pollution in general.
- > 10% of 2006 Ebitda was related to benefits coming from Hera environmental low impact.

2004-2006 Electricity Production

| GWh | 2004 | 2005 | 2006 |
|-------------------------------|--------------|--------------|---------------|
| WTE | 158.4 | 260.5 | 306.1↑ |
| Cogeneration | 124.6 | 102.2 | 94.6↑ |
| Biogas (landfill) | 20.4 | 22.6 | 15.3↑ |
| Turbo expansion plants | 11.1 | 16.6 | 9.8 |
| Biogas from depuration plants | 2.6 | 2.6 | 1.6 |
| Hydro | 1.2 | 1.5 | 0 |
| Total | 318.3 | 406.0 | 427.4↑ |

2004-2006 KPI

| | 2004 | 2005 | 2006 |
|-------------------------------------------------------------------------------|-------|-------|--------|
| Environmental Responsibility | | | |
| % Energy produced from renewables | 39.6% | 44.1% | 47.7%↑ |
| Compliance of treated water with legal limits (optimal value 0%) | 32.7% | 30.0% | 31.7%↑ |
| Compliance with Kyoto Protocol | - | 93% | 95%↑ |
| Water grid loss (real and procedural)* | 23% | 24.9% | 23.4%↑ |
| Separate waste collection | 30.4% | 31% | 33.5%↑ |
| % low envir. impact road vehicles | 13.9% | 14.2% | 25.4%↑ |
| Solid waste collected disposed in landfill with pre-treatment (% total waste) | 58.5% | 59.1% | 76.0%↑ |

Environment (2)

- > Hera is committed to enhance the outstanding position in WTE (building 4 new plants).
- > Waste management will focus on recycling in order to reduce landfill treatments.
- > Investments in Water services aims to
- > CO2 emissions will have a positive balance in 2009.
- > Increase Cogeneration (district heating) plants
- > R&D will focus on alternative energy sources (fuelcell, solar) and on solving CO2 emission issues through innovative technologies
- > Hera is committed to increase up to 20% the portion of E2009 Ebitda coming from benefits of low environmental impact.

KPI expected enhancement in E2009

Electricity Production

| | 2006 | E2009 | Incr. |
|------------------------------------|-------|-------|-------|
| Energy from renewable (GWh) | | | |
| Cogeneration | 94.6 | 808 | ↑ |
| WTE | 306.1 | 709 | ↑ |
| Geothermic | 66.6 | 90 | ↑ |
| Biogas | 2.6 | 62 | ↑ |

| | 2006 | E2009 | Incr. |
|------------------------|-------|-------|-------|
| Environment | | | |
| Sorting Waste | 30.9% | 35.0% | ↑ |
| Waste sent to Landfill | 35.6% | 15.0% | ↑ |
| Water net work leakage | 23.4% | 20.0% | ↑ |
| Kyoto Standards (Co2) | 95% | 118% | ↑ |