



Annual Report

2007

2007 Annual Report

Analyst Presentation, 27th March 2008



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Società
e Grandi Imprese

WINNER
2007

Year 2007 in a nutshell

- Hera has approved the **5th annual report** with a positive growth implying over the last 5 years +18.8% Ebitda cagr and +23.9% Net Profit cagr.
 - **2007 Organic Growth** was driven by **tariff progression** (in Water and Waste businesses), by successful electricity **cross selling** and by **energy trading activities** enhancement.
 - **Synergy and efficiency** gains have been in line with expectations also thanks to past mergers.
 - **Internal growth** drivers allowed to fully offset the “one off” negative effect of the **mild winter** of H1 and the full impact of Del. 134/06 AEEG in Gas sales prices.
- **SAT** merger, performed in 2007, will start contributing from January 1st 2008.
 - **4 New plants completion in 2007**: CCGT of Teverola (400MW), CCGT of Sparanise (800MW) and WTE of Ferrara entered into operation in 2007. WTE of Forlì was almost completed at year end and is currently entering into operations.
 - **Bottom line results enhanced** by one off benefits on deferred tax and by corporate tax rates cut.
 - BoD has proposed a **dividend** distribution in line with last year (**8 €** per share).



Organic growth and “one off” tax benefit enhanced bottom line

Revenues **+22.9%**
 Mainly relates to electricity **cross selling**, enhanced commodity **trading** activities, energy prices increase and improved **tariffs** in “WW”.

Ebitda **+6.3%**
 Internal growth drivers fully offset extraordinary mild winter climate.

Ebitda margin, adjusted for electricity trading activities, stands at 18.0%.

Ebit **(4.6)%**
 Affected by D&A related to significant operating capex and conservative provision accounting.

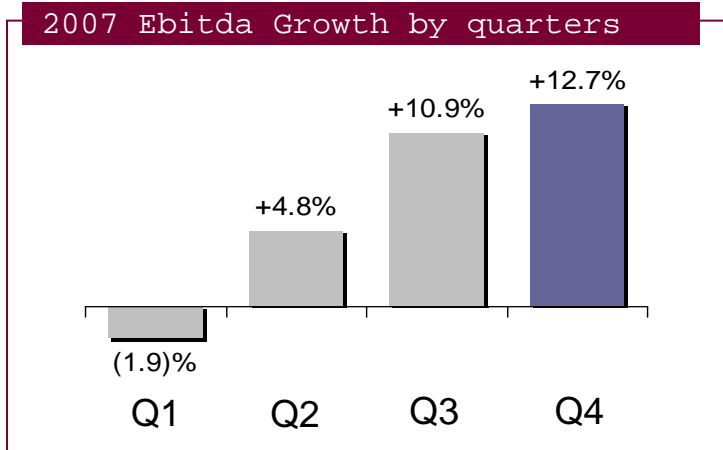
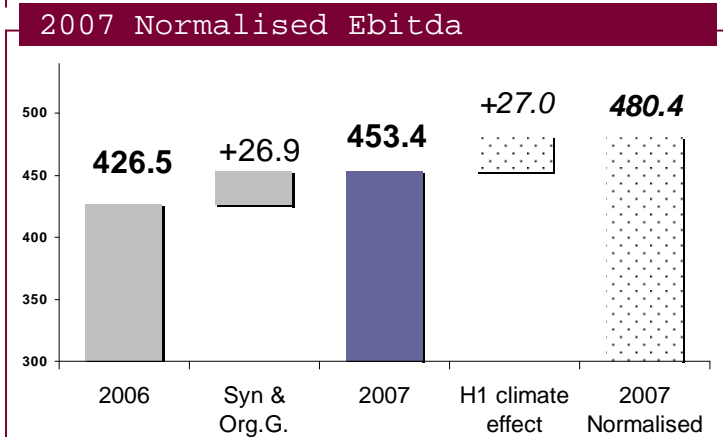
Net Profit **+9.6%**,
 Benefit from reduction in tax rates (8.3m€) and changes in deferred tax provision (24.6m€) included in the 2008 Budget Law.

2007 Group Results

M €	2006	2007	Inc. %
Revenues	2364.5	2,905.1	+22.9%
Oper.cost	(1,835.7)	(2,389.0)	+30.1%
Personnel	(296.6)	(300.9)	+1.5%
Capitaliz.	194.5	238.2	+22.5%
Ebitda	426.7	453.4	+6.3%
<i>% on sales</i>	18.0%	15.6%	
D&A	(195.4)	(232.8)	+19.2%
Ebit	231.3	220.6	(4.6%)
<i>% on Revenues</i>	10%	8%	
Financial inc/(exp)	(52.1)	(78.0)	+49.7%
Pre tax Profit	179.2	142.5	(20.5%)
Tax	(79.0)	(32.6)	(58.7%)
Net Profit	100.2	109.9	+9.6%
<i>of which minorities</i>	10.1	13.7	



H2 2007 Ebitda back to double digit growth rates



2007 growth in line with expectations

2007 results, underpinned by internal growth, highlight positive growth which would have reached +54 m€ (substantially without M&A and accounting the Del. 134/'06 on gas prices) not considering the extraordinary H1 mild winter effect (-27 m€).

SAT and Aspes Multiservizi-Megas full mergers, accomplished in 2007, will be accounted from 1st January 2008.

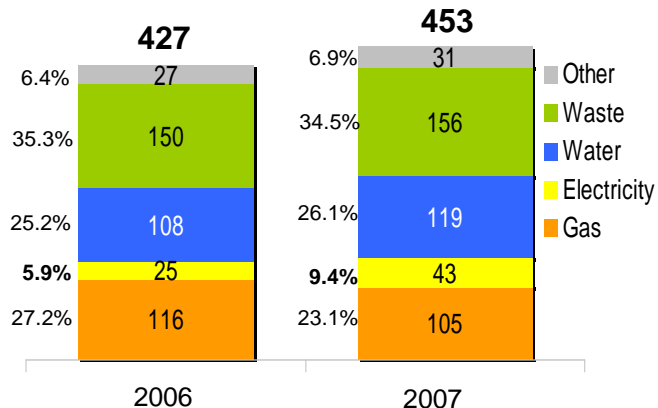
Ebitda back to double digit growth rate

H2 2007 Group Ebitda growth rates were back to track record also thanks to more “normal” weather conditions.



Electricity business performed best growth

2007 Ebitda Breakdown by business



5Y Ebitda Growth

	2002	External Growth	Internal Growth	2007	5Y Cagr
Waste	58.2	+33.6	+64.5	156.3	+21.8%
Water	53.6	+19.4	+45.5	118.5	+17.2%
EE	9.3	+24.0	+9.4	42.7	+35.6%
Gas	70.5	+30.9	+3.3	104.7	+8.2%
Other	0.4	+6.1	+24.7	31.2	+139.1%
Ebitda	192.0	+114.0	+147.4	453.4	+18.8%
% of total growth		+44%	+56%		

Electricity benefit from upstream integration

Electricity cross selling activities have taken advantage from upstream integration and market liberalisation.

All businesses highlight positive growth except for Gas affected by mild winter 2006/2007 season and Del. 134/'06.

Portfolio mix balanced: 1/3rd Waste, 1/3rd Energy and 1/3rd Water and Other businesses.

5Y Ebitda growth rate: +18.8% Cagr

Internal Growth has contributed by 56% to the growth in all business area over the last 5 years.

External Growth mainly relates to Agea, Geat, Meta and Aspes full mergers and contributed by 44% to the past 5Y growth.



Waste: Waiting for new WTE contribution

Waste Management Ebitda

M €	2006	%	2007	%	Inc. %
Revenues	539.7	100.0%	553.6	100.0%	+2.6%
oper.cost	(275.5)	(51.1%)	(289.4)	(52.3%)	+5.0%
personnel	(126.7)	(23.5%)	(129.1)	(23.3%)	+1.9%
Capitaliz.	13.0	2.4%	21.3	3.8%	+63.8%
Ebitda	150.4	27.9%	156.3	28.2%	+3.9%

Ebitda Drivers

Data	2006	2007	Inc. %
Urban W. Revenues	310	338	+9.0%
Inhabitants served (K unit)	2,436	2,462	+1.1%
Revenues (€/habitants)	127.2	137.1	+7.8%
Urban W. Volume (Kton)	1,678.2	1,666.5	(0.7)%
Special W. Volume (Kton)	1,823.5	1,770.3	(2.9)%
Internal W. Volumes (Kton)	1,014.1	961.5	(5.2)%
Total Volume Treated	4,515.8	4,398.2	(2.6)%

Better tariff/prices underpin sales growth

Urban Waste tariff increase (+2.7%) and the increase of customer base (+1.1%), pushed up sales (by +28 m€). 2008 tariff increase already agreed with ATO's.

Special Waste management prices and favourable change in mix partially offset volume decrease.

Ebitda

Efficiency gains, better tariff/prices and change in mix toward high value added Special Waste treatments offset:

- ✦ CIP6 contracts expiry (WTE Rimini, and C.E. Ambiente in Ravenna for about -7 m€);
- ✦ Delay in authorisation for landfill treating Special Waste.

Ebitda margin increase by +30bp.



Water: progression in Ebitda margins

Water Management Ebitda

M €	2006	%	2007	%	Inc. %
Revenues	398.4	100.0%	407.6	100.0%	+2.3%
oper.cost	(319.2)	(80.1%)	(342.0)	(83.9%)	+7.1%
personnel	(85.3)	(21.4%)	(89.8)	(22.0%)	+5.3%
Capitaliz.	113.6	28.5%	142.7	35.0%	+25.6%
Ebitda	107.5	27.0%	118.5	29.1%	+10.2%

Ebitda Drivers

Data	2006	2007	Inc. %
Regulated Revenues	331	344	+4.0%
Revenue (€m³)	135.6	142.5	+5.1%
Aqueduct (m m³)	243.6	241.2	(1.0)%
Sewerage (m m ³)	215.0	216.0	+0.5%
Purification (m m ³)	216.5	216.2	(0.1)%

Tariff increase underpin Sale Growth
2007 revenues increased by +2.3% due to:

- regulated activities Sales increase (+5%);
- slightly lower volumes sold caused by drought of summer season (-2.5 mm³);
- slight reduction in other revenues (mainly related to new connections).

New agreement with Ato's are under finalization.

Ebitda

Higher tariffs is the main driver of Ebitda growth.

Operating cost (net of capitalisations) savings helped to better Ebitda Margin (up to 29.1% from 27.0%).



Gas: Warm Q1 significantly affected performance

Gas Ebitda

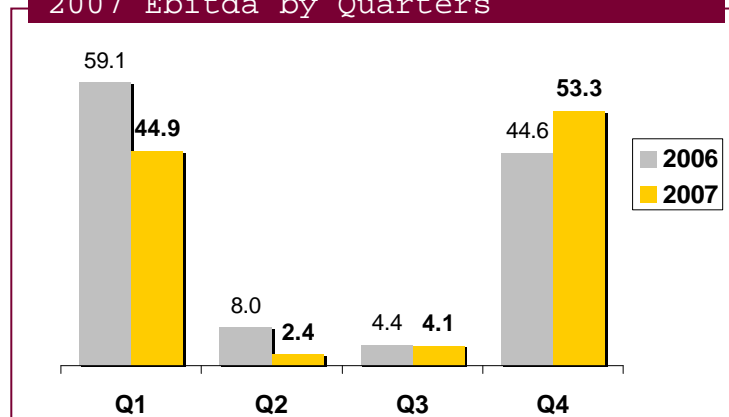
M €	2006	%	2007	%	Inc. %
Revenues	987.6	100.0%	922.0	100.0%	(6.6%)
oper.cost	(856.9)	(86.8%)	(810.5)	(87.9%)	(5.4%)
personnel	(44.1)	(4.5%)	(39.5)	(4.3%)	(10.4%)
Capitaliz.	29.5	3.0%	32.7	3.5%	+10.8%
Ebitda	116.1	11.8%	104.7	11.4%	(9.8%)

Volume affected by mild winter season

Sales are underpinned by higher gas prices and increased Distribution avg. revenues (benefiting from better price cap).

Q4 increase in volume distributed/sold reduced mild winter effect (~-160 mm³ Y/Y).

2007 Ebitda by Quarters



Ebitda

Lower volumes sold/distrib. (~-9.0m€) and Del.134/'06 AEEG effects (~-9.0m€), on full year basis, offset increased distribution tariffs and improved performance of activities.

Electricity: upstream integration boosts cross selling activities & profitability

Electricity Ebitda

M €	2006	%	2007	%	Inc. %
Revenues	389.4	100.0%	989.2	100.0%	+154.0%
oper.cost	(362.1)	(93.0%)	(945.1)	(95.5%)	+161.0%
personnel	(16.0)	(4.1%)	(20.0)	(2.0%)	+25.0%
Capitaliz.	14.0	3.6%	18.6	1.9%	+32.9%
Ebitda	25.2	6.5%	42.7	4.3%	+68.4%

Ebitda Drivers

Data	2006	2007	Inc. %
Distrib. Revenues	43.4	50.5	+16.4%
Volume distrib. (b M ³)	1,880	2,248	+19.6%
Tariff (€/m ³)	2.32	2.25	(3.0)%
N. customers (K unit)	263.7	273.2	+3.6%
Volume Sold (GWh)	3,133	4,335	+38.4%
Trading (Gwh sale side)	1,586	4,892	+208.4%

Successful cross selling activities

Sales increased mainly thanks to trading (+452.1 m€), cross selling (+140.6 m€) and distribution activities (+7.1 m€).

Volume sold to final customers reached 4.3 Twh (+38.4% y/y) backed by 1.2 Twh procured from Teverola and Sparanise plants.

Ebitda

Ebitda increase mainly relates to full year contribution of Elect. Network acquired mid 2006 (+6 m€), margins yield on procurement from Sparanise and Teverola CCGTs plants and enhanced trading performance.

Ebitda margins adjusted for trading activities bettered to 8.7% from 7.9% of last year.



Other Businesses: Efficiency gains offset mild winter effects

Other businesses Ebitda

M €	2006	%	2007	%	Inc. %
Revenues	163.1	100.0%	160.4	100.0%	(1.7%)
oper.cost	(135.6)	(83.1%)	(129.6)	(80.8%)	(4.4%)
personnel	(24.5)	(15.0%)	(22.6)	(14.1%)	(7.8%)
Capitaliz.	24.4	14.9%	23.0	14.4%	(5.7%)
Ebitda	27.4	16.8%	31.2	19.5%	+13.9%

Ebitda Drivers

Data	2006	2007	Inc. %
District Heating (Gwht)	425.9	391.5	(8.1)%
Public Lighting (K unit)	309.1	319.1	+3.3%

Revenues

Revenues substantially unchanged despite the negative impact on District Heating of mild winter season record in H1.

Micro-cogeneration units have been completed and positively contributed to year end results.

Ebitda

Positive effect of efficiency gains and organic growth (Heat management and micro generation units) more than offset District Heating lower results driving up Ebitda margins to 19.5% from 16.8%.



Tax Benefit from reduced corporate tax rate and deferred tax

Taxes

Tax (m€)	2006	2007	Effect
Taxes	79.0	32.6	(46.4)
<i>of which:</i>			
<i>Pretax profit change</i>			(13.5)
<i>Corporate tax rate cut</i>			(8.3)
<i>Substitutive tax</i>			(24.6)
Ebitda			(46.4)

2007 results benefit from:

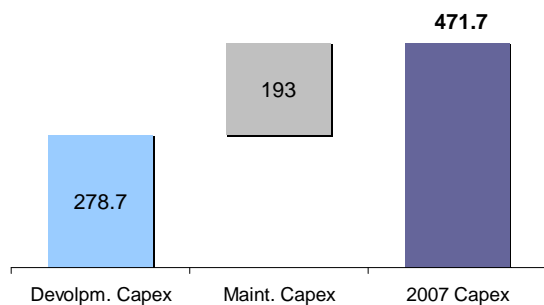
- ✦ **Reduction of corporate tax rates** (IRES from 33% to 27.5% and IRAP from 4.25% to 3.9%) will provide recurrent benefits in future. On 2007 account these reductions provide a positive result of 8.3 m€.
- ✦ 2008 Budget law provides the option to settle future tax caused by differences in civil/fiscal D&A. Hera opted to settle deferred tax due paying a "substitute tax" obtaining a positive effect of 24.6 m€ ("**Write off**" on **Deferred tax provisions** accrued in past years).
- ✦ Cash out of payments will be diluted over the next 3 years.

2007 focused on development capex

2007 Capex and Investments

M €	2006	2007
Waste	88.8	166.2
Water	100.2	131.4
Gas	25.4	31.7
Electricity	14.8	49.2
Other	35.4	35.0
Holding	56.5	50.4
Financial invest.	183.7	7.8
Capex & Inv.	504.8	471.7

2007 Maint. and Develop. capex



Operating Capex

Waste: WTE new plants are progressing (about 61% of waste capex refer to these new plants).

Water: 2007 was last year of first regulatory period with some extraordinary capex.

Gas & Electricity: capex relates to extension of the network and to Imola Co-generation plant (33.5 m€).

Other: Mainly relates to District Heating and Heat Management businesses.

Financial Investments

Financial Investment were mainly related to Teverola CCGT, Flamenergy and Galsi investments.

Positive Operating cash flow with remarkable operating capex

2007 Group Cash Flows

M €	2007
Net Profit	109.9
D&A	206.3
FFO	316.2
NWC	48.1
Provisions	(50.0)
Operating C.F.	314.3
Capex & Inv.	(471.8)
Free C.F.	(157.5)
2006 Dividends	(89.7)
Other Net Equity ch.	(3.6)
Ch. in Net Debt	(250.8)
Net Debt	(1,424.1)

**includes Hera Spa dividends (81.3 m€) and dividends distributed by Group companies (FEA e.g.).*

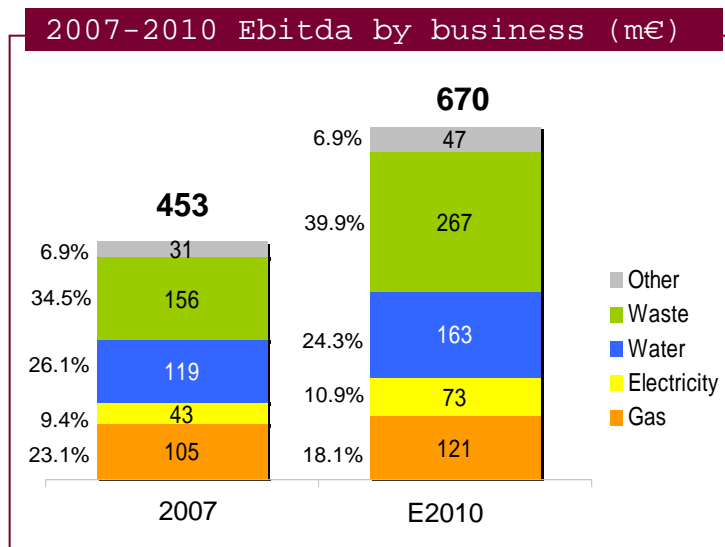
Positive cash flow from operations partially funded capex and investments (by 471.7m€).

Net Financial Debts **1.424 m€**

2007 Debt restructuring achieved primarily through the emission of 100 m€ “**Put Bond**” (Euribor -29 bp for first 3 years and 4.59% fixed rate plus credit spread Hera from the 3rd year onwards) and 200 m€ “**Extendable Put Bond**” (Euribor -45 bp for first 5 years and 4.85% fixed rate plus credit spread Hera from the 5th year onwards).

Net financial Debts is predominantly long term debt (about 10 year).

Deployment of 2010 Business Plan

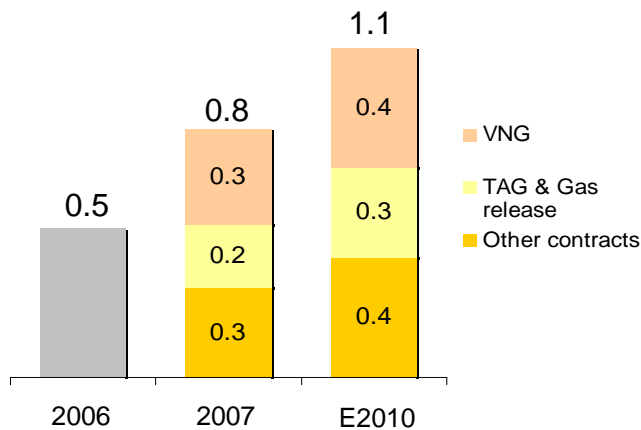


2007 achievements

- Further steps on upstream integration (energy and Waste businesses).
- Effective 2008 commercial campaign.
- New initiatives on renewables.
- Full integration of SAT and Megas.

Gas sourcing diversification on-going as well as market consolidation

Gas procurement (bm³)

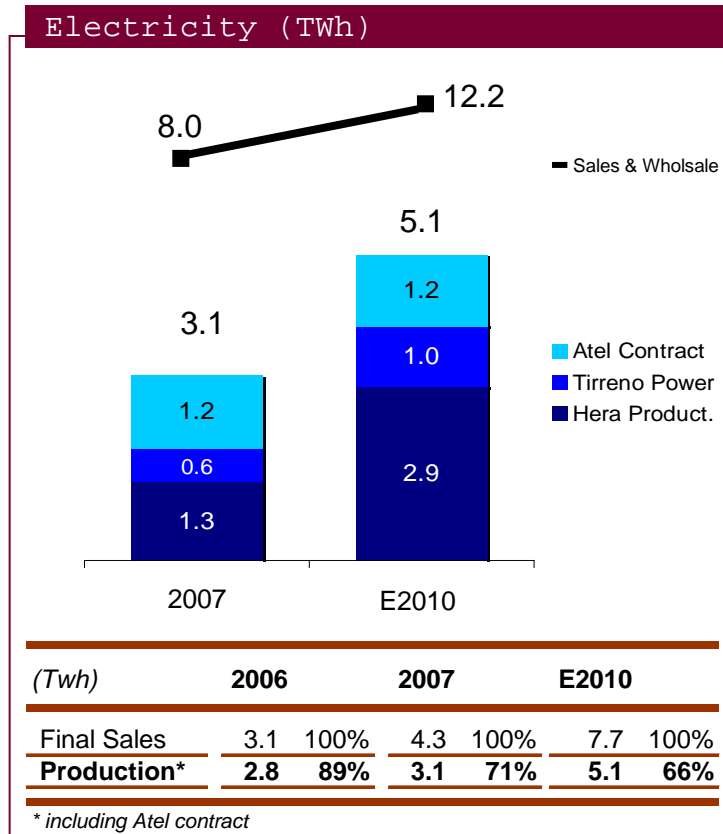


(bm ³)	2006	2007	E2010
Final Sales	2.2 100%	2.1 100%	2.4 100%
Import	0.5 24%	0.8 36%	1.1 46%

- Effective Consolidation of VNG relationship (400 ml mc³).
- TAG imports from October 2008 (~200 ml mc³ for 5 years).
- Increase on Galsi stake to 10.4%.
- E&P stake in North Sea under evaluation.
- Storage Project (Bagnolo Mella) feedback by June 2008 from MSE.
- Customer base expected to increase by +3%, reaching 2.3 bcm of gas sold by 2008 (on normalised thermal season).



Electricity – New project upcoming



- Teverola and Sparanise on commercial operation (2008 first full year).
- Napoli Levante (Tirreno Power) and Imola cogen. on stream by year end.
- New project on thermal generation (20% stake) under finalization.
- 4MW on solar production under development and new projects on vegetable oil & biomass (~60 MW – 30% stake) under finalization.
- 2008 contracted sales amount to about 5 TWh and customer base expected to increase by 3%-5%.

Achievements in Waste business

New WTE

New WTE	Capacity	Ownership
WTE Ferrara	13 MW	100%
WTE Forlì	11MW	100%
WTE Modena	19 MW	100%
WTE Rimini	11 MW	100%
WTE Modena (rev.)	6 MW	100%

New WTE	Authorisation (48 months)	Construction (avg 18 months)
WTE Ferrara	100%	100%
WTE Forlì	100%	100%
WTE Modena	100%	80%
WTE Rimini	98%	20%
WTE Modena (rev.)	100%	5%

- ◇ Ferrara WTE plant started in November 2007.
- ◇ Forlì WTE completed.
- ◇ Other new WTE are progressing (Modena WTE is progressing).
- ◇ >Agreements with ATO's on 2008 urban waste tariff.
- ◇ Sizable "Full service" contracts for Special Waste treatment are currently under finalisation.

Other recent changes

- CO2 – New allocation plan will not cause significant impacts up to 2011.
- Energy saving-2008 new targets on white certificates already achieved, including initiatives ongoing.
- Return on new Water investments from 7% to 7.2% from 2008.
- Green certificate from District Heating refer to Imola cogen. and 3-4 initiatives in the territory (requests to be submitted by year end 2008).

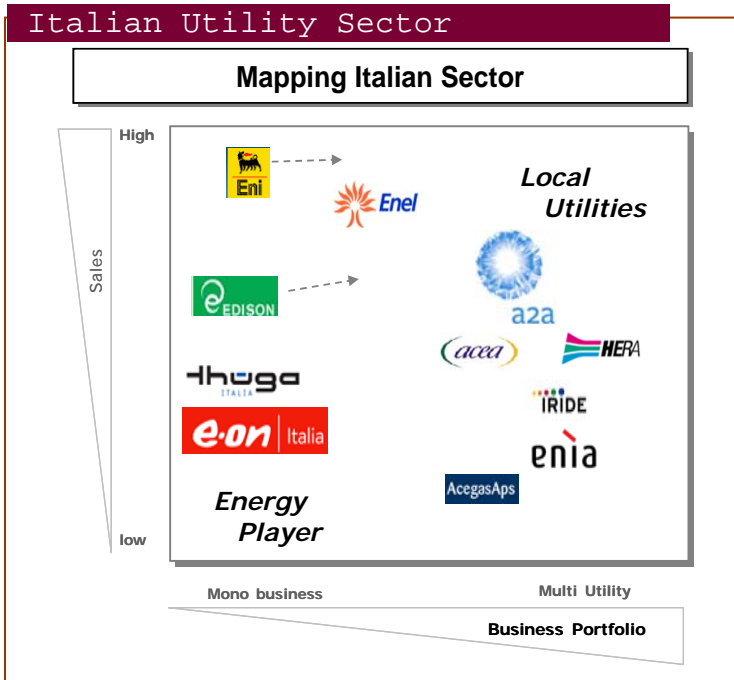
Closing remarks

- ❖ **2007 results were in line** with budgets and highlights Group portfolio mix to overcome extraordinary negative climate conditions.
- ❖ **Upstream integration strategy** improved liberalised electricity supply activities.
- ❖ **Regulated** activities were positively affected by **tariff increases** (except for electricity distribution).
- ❖ **4 new plants out of 7 have been completed.**
- ❖ **Dividend proposed confirms 8 €** per share.
- ❖ **Plan execution is progressing** and the new “2007-2011” is already in progress.

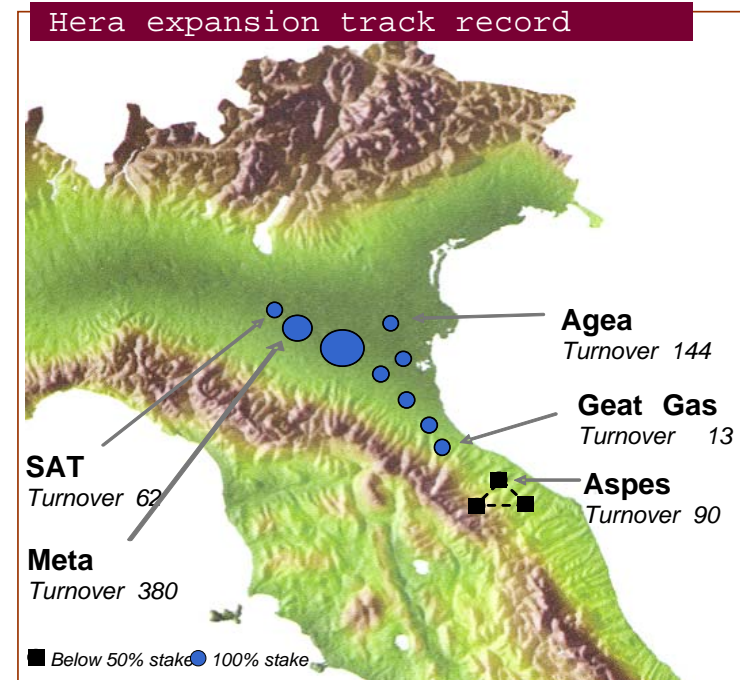


Introduction to Hera Group

Local multi-utility consolidation process is speeding up



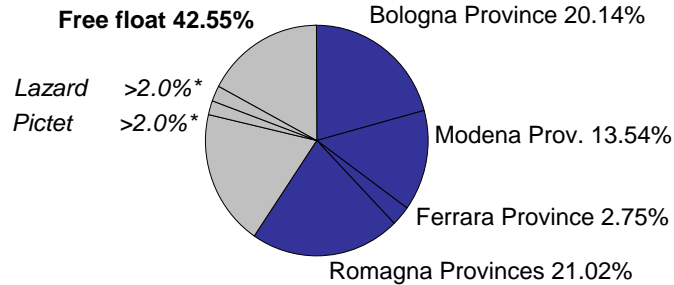
Hera has become one of the largest Italian local multi-utility following a significant consolidation process.



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

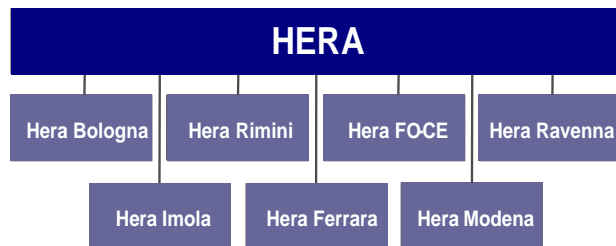
Hera leadership founded on unique governance and operating model

Shareholdings: 1,032.8 m shares



* included within "free float"

Area presence through L.o.c.



Hera's growth based on "balancing"

Expansion carried out through mergers (deals based on cash and share swaps).

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.

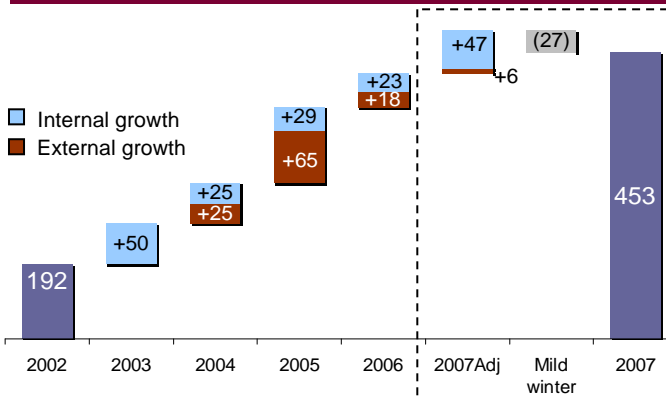
Benchmarking permit best practice sharing.

5 years of sharp, continuous and sustainable growth

5Y double digit growth

M €	2002	2003	2004	2005	2006	2007	Cagr %
Revenues	1,099	1,241	1,529	2,148	2,364	2,905	+21.5%
Ebitda	192	242	292	386	427	453	+18.8%
Net Profit	37	53	87	109	100	110	+24.3%
D/E (%)	29	50	53	65	77	93	+26.1%
DPS (c€)	3.5	5.3	6.0	7.0	8.0	8.0	+18.0%

5Y Ebitda Growth Drivers (M€)



*2007Adj. has been normalised not considering the extraordinary mild winter effects record in the first part of the year.

Ebitda more than doubled; net profit tripled.

Dividends increased significantly, maintaining comfortable debt levels.

DPS increased by +18% cagr.

Ebitda growth drivers:

56% Internal Growth (Synergies and Organic Growth);

44% contribution of M&A.

