

AR

annual report

December, 31st 2005



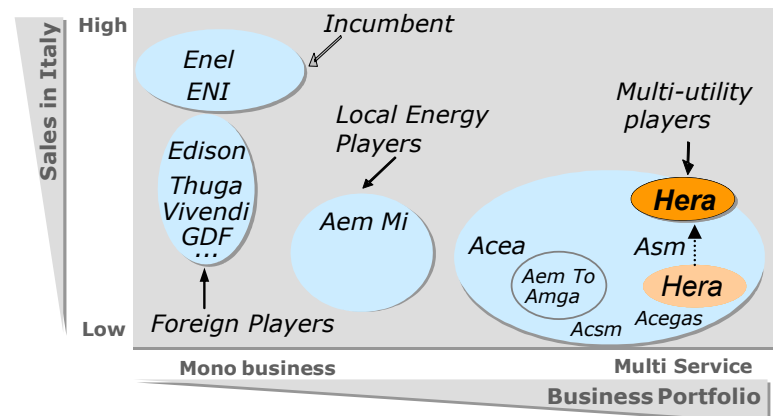
Introduction to Hera Group

Hera achieved Leadership through a unique consolidation process

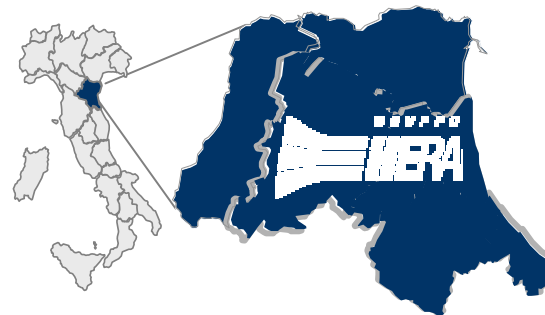
Hera is a leading and fast mover in an evolving market

- > Italian utility sector is mainly composed of small local multi-utility public-owned players which has only recently begun to react to higher competition through the search of larger dimensions.
- > In the last 3 years, Hera has quickly moved promoting the consolidation process by merging 14 local multi-utilities reaching a 70% coverage of the rich Emilia Romagna region.
- > This process has brought Hera to a leading position in all core businesses reaching a strong and defensible position.

Hera positioning in the utility sector



Hera reference territory



Milestones

Nov. 2002

Hera is created from the consolidation of 11 public utility companies in the Emilia Romagna region, a first time ever in Italy

Giu. 2003

Public offering and listing on the Italian Stock Exchange (44.5% of share capital free float)

Ott. 2003

Acquisition of 42% of Agea Ferrara S.p.A., the public utility company of the province of Ferrara

Sett. 2004

Acquisition of further 2.9% of Aspes Multiservizi (rounding the stake up to 26.9%) and **acquisition of 15% of the share capital of Calenia Energia** (Sparanise CCGT, 800MW)

Ott. 2004

Acquisition of 100% of Centro Ecologico di Ravenna; agreement between Hera and Gas Rimini Group for the acquisition by Hera of a holding of 20% in the company SGR servizi

Dic. 2004

Agea S.p.A. merged into Hera S.p.A., and the water business of Acosea S.p.A was simultaneously spun-off in favour of Hera; acquisition of 39% of the share capital of SET (Teverola CCGT, 400MW)

Dic. 2005

Meta S.p.A. merged into Hera S.p.A

Gen. 2006

Agreement on merger of Geat Gas Riccione (20.500 clients, 41 MI cm sold)

Mar. 2006

Preliminary agreement signed between Hera and Enel for the acquisition of the **electricity distribution grid** in 18 Municipalities located in the Modena Province

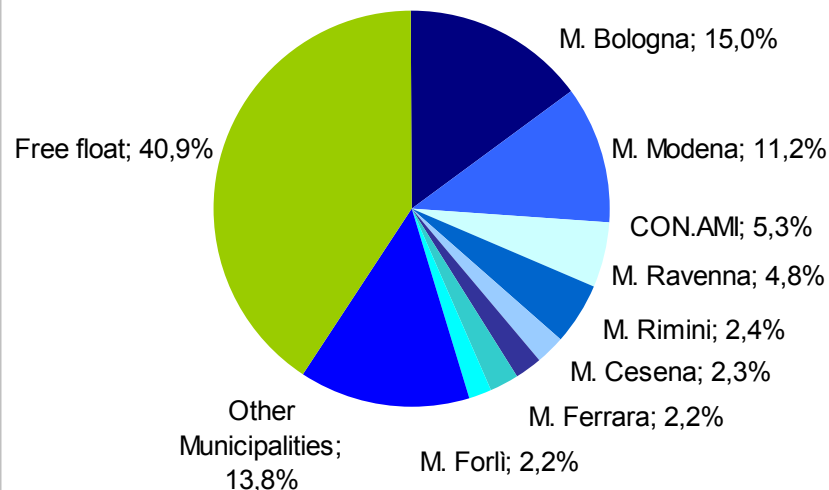
Hera model is a reference benchmarking

Hera strong competitive advantage

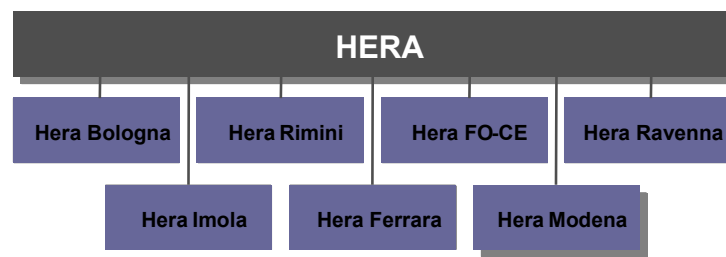
- > Hera expansion has been carried out through mergers with public shareholders committed to maintain 51% of share capital
- > Hera has become the only multi-utility with no “absolute controlling shareholder” (Bologna Municipality holds 15%):
- > Benefits in governance issues
- > Appeal for further aggregations
- > Hera has spin off the operating activities of the merged companies into 7 similar L.O.C.s, 100% owned by the Holding.
- > The L.O.C.s (Local Operating Companies) are benchmarked in order to define and share the internal best practices.

Shareholding

1,016.8 MI shares



Territorial presidium through L.O.C.s



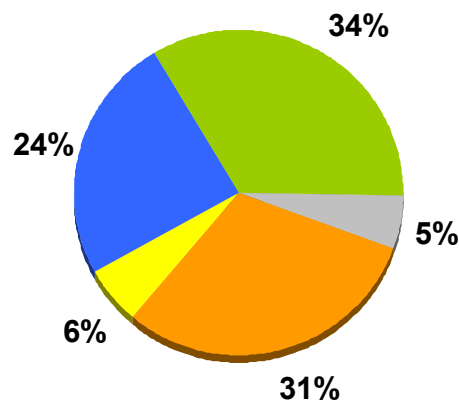
Strong asset base and balanced contribution to results

WATER	2005
Distributed (MI m ³)	228
Population served (MI unit)	2.3
Customers (K unit)	914
Pipeline (km)	23,474

WASTE	2005
Urban waste (MI tons)	1.6
Special waste (MI tons)	2.2
Population served (MI unit)	2.4

OTHER	2005
Light towers (K unit)	293
Heat distribution (Gwht)	470

GAS	2005
Volume sold (MI m ³)	2,786
Volume distributed (MI m ³)	2,399
Customers (K unit)	940
Network (km)	11,511



Group Ebitda breakdown by business

ELECTRICITY	2005
Volume sold (Gwh)	3,755
Volume distributed (Gwh)	1,507
Customers (K unit)	178
Network (km)	5,586

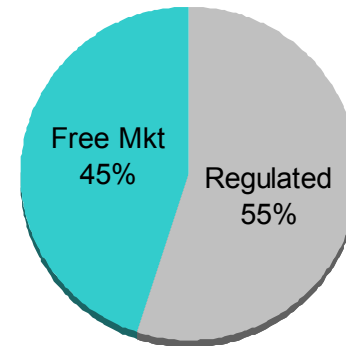
Business portfolio highlights low risk profile

Hera multi-service business portfolio highlight low risk profile:

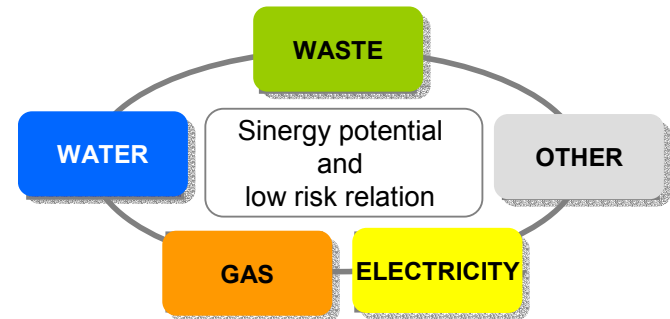
- > Balanced between regulated (with long term concessions and diversified authorities) and competitive market businesses.
- > Low inter-dependence among businesses characterize Group risk profile.

REGULATED	Waste	Water	Gas dist.	Ele. dist.
Authority	6 different Ato		Aeeg	
Climate impact on result	Low relation	Rain / no rain	Hot / Cold	Low relation
Tariff vs UE	<30%	<30%	>30%	>30%
Concession	2012	2022	2010	2030

Weight of regulated activities on Ebitda



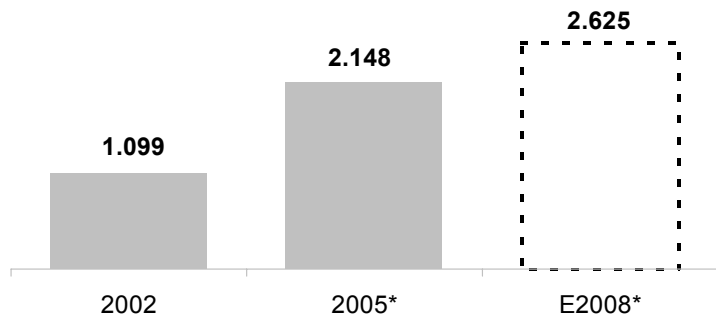
Risk relations among businesses



Revenues and Ebitda targets

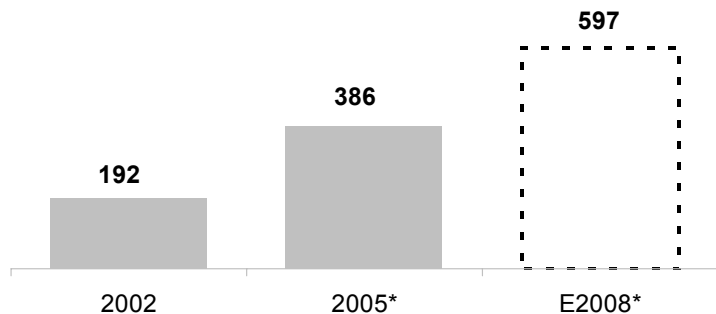
REVENUES growth

MI €



EBITDA growth

MI €



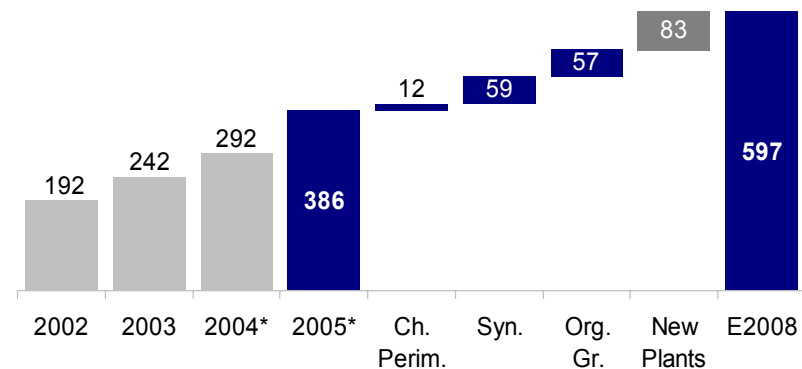
* IAS adjusted – Meta accounted since January 1st, 2005

Strategy: sustainable value for shareholders

- > Sector consolidation & Upstream integration
- > Synergies and rationalization
- > Sustainable development

2008 EBITDA Growth by Driver

MI €



Key highlights on 2005 Results

(Meta accounted since January 1st, 2005)

2005 major achievements

Meta merger	<ul style="list-style-type: none">> Meta PTO executed on 20% of Meta share capital (98 MI €)> 176,8 MI new shares issued for the Meta merger> Integration activities on track
Organic Growth	<ul style="list-style-type: none">> Significant expansion in volumes managed:<ul style="list-style-type: none">> Gas sales: up to 2.8 bl cm, including wholesale> WTE: 614 tons of urban waste treated (+36%) providing 261 GWh> Waste: 3.8 MI tons disposed (+41%)> First year of new waste and water tariffs.<ul style="list-style-type: none">> +3.0% revenue increase in water> +2.5% revenue increase in waste
2005 financials & Business Plan	<ul style="list-style-type: none">> 2005 financials presents another year of significant growth> New target set in the 2006-2008 business plan presented in November 2005> Key 2006 initiatives already achieved in 1st quarter (i.e. Enel's distribution network)

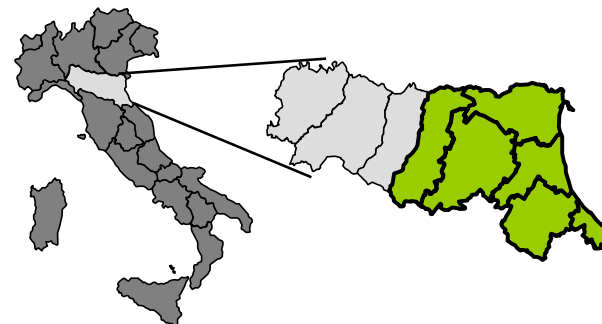
▼

2005 confirmed capabilities to deliver promised results

Meta integration progressing on track

Meta Merger

- May:** Preliminary agreement
- June:** Merger was approved by BoD
- Sept.:** Approval of shareholders
- Oct:** PTO executed on 20% of Meta
- Dec:** Merger fulfilment



Meta Integration

January 2006

- > Hera Modena LOC established
- > Organisational structure deployed
- > IT system integration scheduled in '06
- > Specific business integration structured into focused initiatives

	Meta	Hera	2005
Gas sold (MI cm)	347	2,439	2,786
Electricity sold (Gwh)	1,426	2,329	3,755
Water sold (MI cm)	27	201	228
Waste treat. ('000 ton)	507	3,268	3,775

7.5x EV/Ebitda 2005

(excluding synergy estimated in 20 MI € additional Ebitda in 2008)

Hera figures on path since 2002

Revenues **+ 41%**

- > Meta merger contribution (by 380 MI€)
- > Increase of volumes, energy prices and “W-W” tariffs

Ebitda **+ 32%**

- > +65 MI€ Meta contribution

Ebit **+ 22%**

- > 2005 figure reflecting 2004/2005 investments and Meta invested capital

ROI **8.8%**

- > 9.4% excluding Meta integration (due to higher capital employed)

Proposed Dividend **0.07€**

- > Pay out ratio about 70%

MI €	2002*	2003*	2004	2005***	Year Incr.%
Revenues	1099	1,241	1.529	2,148	41%
<i>Oper. Costs**</i>	<i>(907)</i>	<i>(999)</i>	<i>(1,237)</i>	<i>(1,762)</i>	42%
Ebitda	192	242	292	386	32%
EBIT	78	113	177	216	22%
Net profit	33	50	81	101	25%

* Figures stated following Italian accounting principles

** Net of capitalisations

*** Proforma figures; Meta accounted since January 1st, 2005

%	2002*	2003*	2004	2005***
<i>D/E</i>	29	50	53	65
<i>ROI</i>	6.9	8.4	10.9	8.8

€	2002*	2003*	2004	2005***
<i>EPS</i>	0.042	0.062	0.096	0.100
<i>DPS</i>	0.035	0.053	0.060	0.070 [§]

[§] Proposed 2005 dividend

Hera Group is today among the largest Italian multi-utility

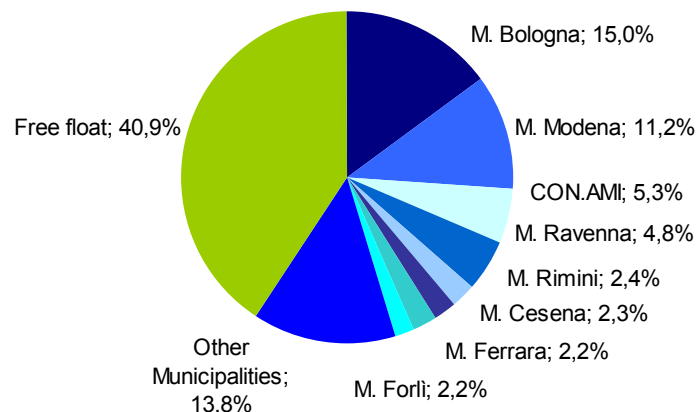
- > Hera has today about **1 MI customers** served and a portfolio focused on balanced portfolio.
- > The Group can rely upon considerable **Synergies and Organic Growth potential** to strengthen its market position.
- > The Group aims to leverage upon the **leading position** in the sector consolidation process to further create value.



Market Position in Italy

	Rank
Waste	1 st
Water	2 nd
Gas	3 rd
Electricity	6 th

Shareholdings



3Y Share capital development

MI €	2003	2004	2005
Shares	786,5	793,2	839,9
New issued shares	6,7	46,7	176,8
Total	793,2	839,9	1.016,8
	Geat	Agea	Meta

Ebitda by business

Waste

- > Development driven by full accounting of FEA and C. Ecologico (~ 18 MI€) and Organic growth (~11 MI€)
- > Ebitda margin beyond 27%

Water

- > Tariff increase fully off set a raining summer (-3 MI cm)
- > Ebitda margin +210 bps, with tariff increase above 4% for 2006-2007

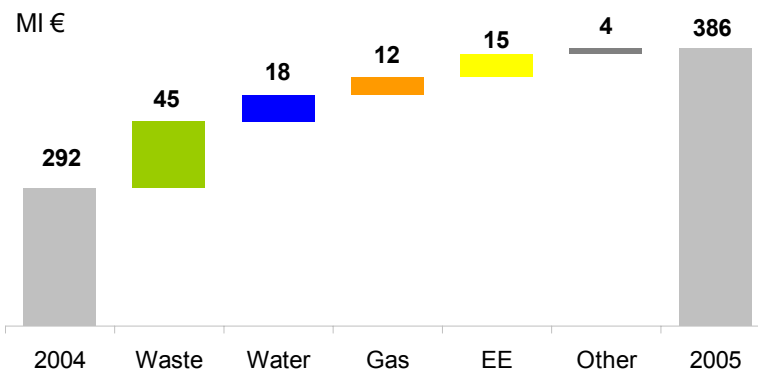
Energy

- > Cold December (+50 MI cm) and performing commercial activities allowed to top 2.8 BI cm of gas sales
- > Higher volumes allowed to balance distribution tariff reductions (-11 MI€) and margin erosion (-6 MI€)
- > Meta integration determined a remarkable contribution to electricity business (+13 MI€).

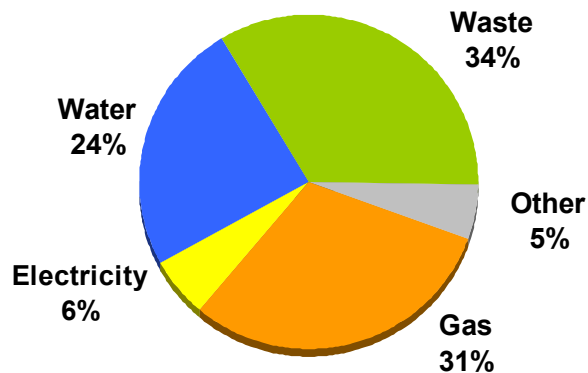
Other

- > Tower lights managed reached almost 300.000 units and district heating topped 470 GWht
- > Ebitda margin rose by 230 bps (from 13.4% to 15.7%)

2005 EBITDA Growth*



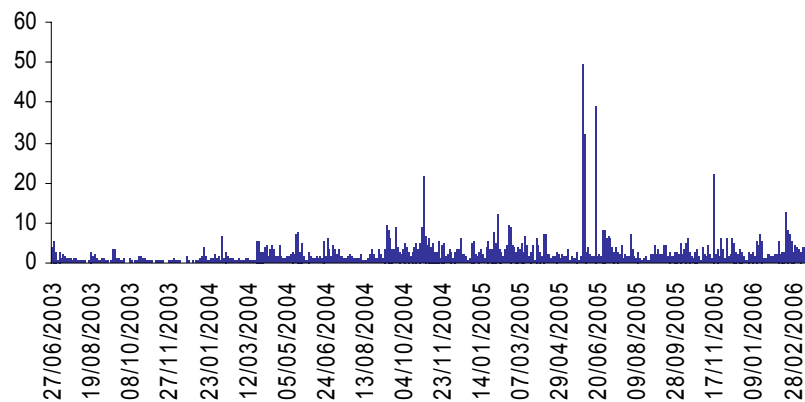
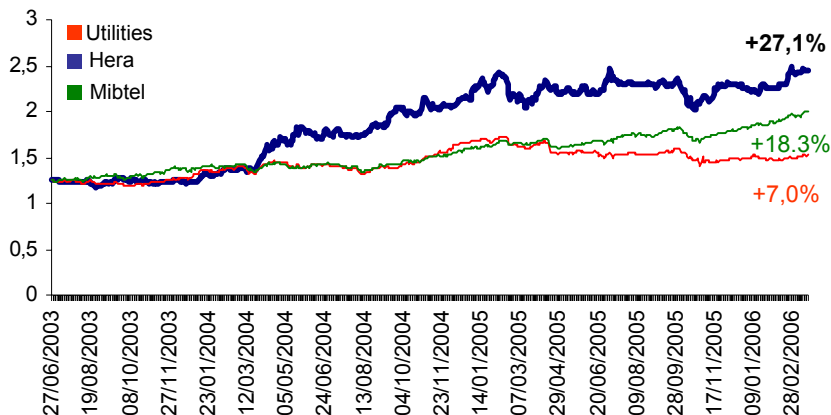
EBITDA Breakdown*



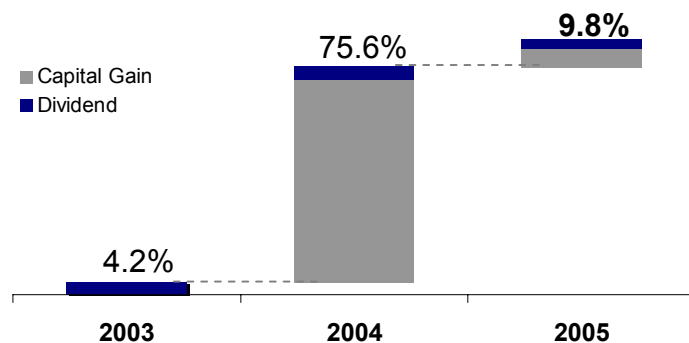
* IAS adjusted – Meta accounted since January 1st, 2005

3 years stock performance and total shareholders return

Stock performance: +27.1% Cagr since IPO



Total Shareholder's return



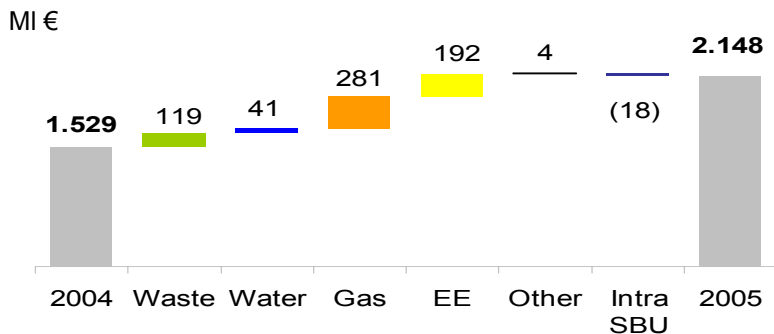
Average	2003	2004	2005
Volumes ('000)	1.022	1.335	1.451
Value (MI €)	1.3	2.5	3.3

Hera Consolidated 2005 results

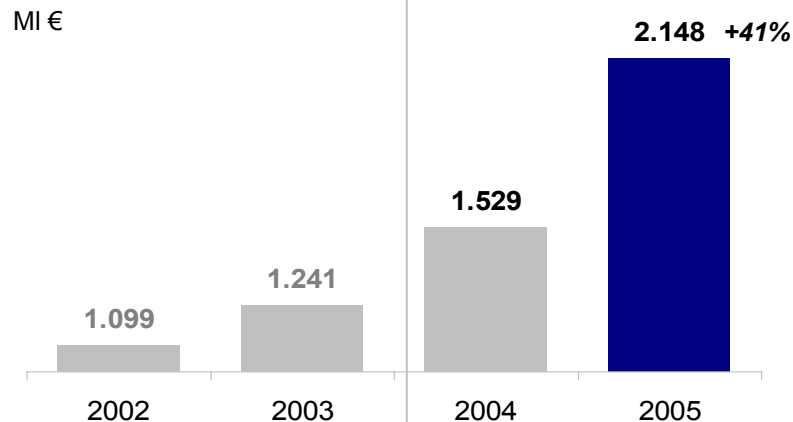
(Meta accounted since January 1st, 2005)

Major step up in Revenues driven by prices and larger company size

GROSS REVENUES Growth Breakdown



REVENUES*



REVENUES increase

- > **61%** relates to Meta contribution (380 MI€)
- > **39%** relates to the increase of energy prices and volumes (239 MI€)
- > Regulated tariff change saw a balanced effect from increase of Ato tariffs and decrease in energy distribution tariffs

3Y REVENUES DRIVERS

	2003	2004	2005
Sector cons	-	+146	+380
Org. Growth	+142	+142	+239
Total	+142	+288	+619

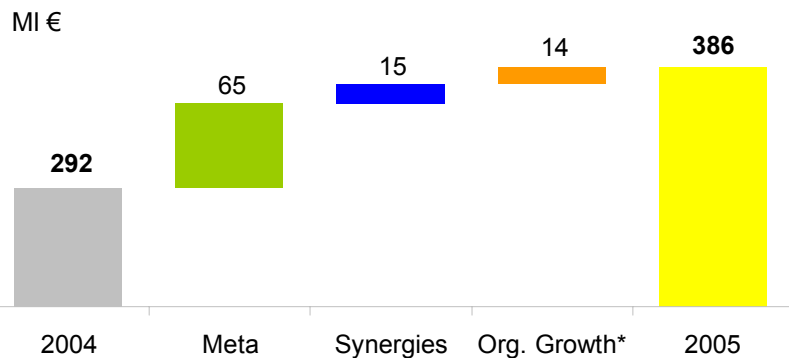
* Accounting Meta since January 1st, 2005

Ebitda development keep on benefiting from balanced contribution

2005 EBITDA increase driven by:

- > Meta contribution comes predominantly from:
 - > Gas 21 MI€
 - > Electricity 13 MI€
 - > Water 12 MI€
 - > Waste 16 MI€
- > Organic Growth limited by 11 MI€ of tariff reduction and 8 MI€ of write off, mainly in water
- > Synergies obtained from operating efficiencies

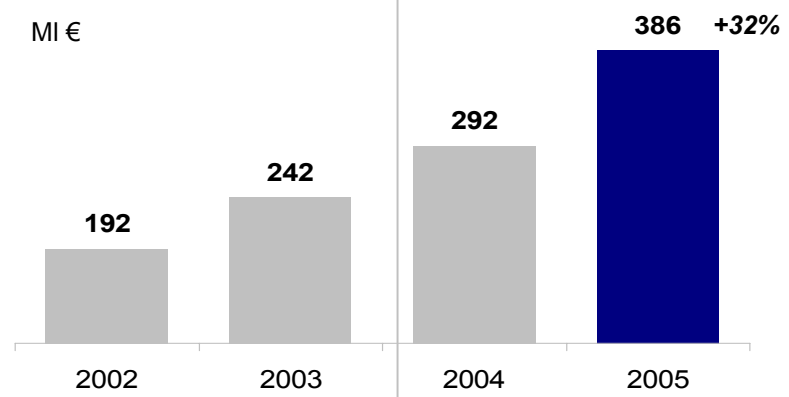
2005 EBITDA Growth by Driver



* Including write off

EBITDA**

MI €



3Y EBITDA DRIVERS

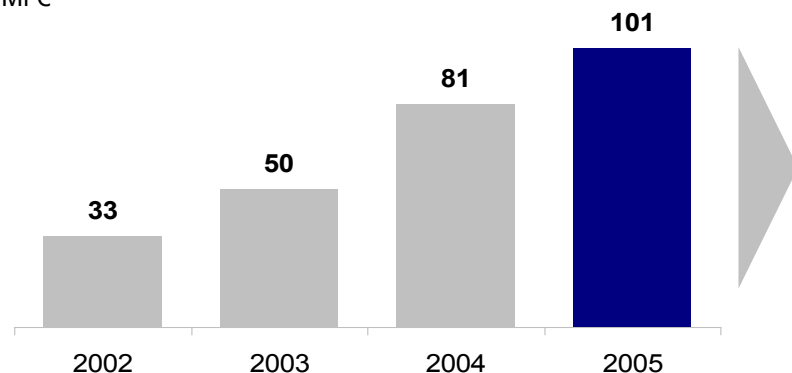
MI €	2003	2004	2005	Total	3Y
Sector cons.	-	+25	+65	+90	46%
Synergy	+23	+11	+15	+49	26%
Org. Growth	+27	+14	+14	+55	28%
Total	+50	+50	+94	194	100%

** Accounting Meta since January 1st, 2005

Net Profit and Dividends in line with expectations

NET PROFIT*

MI €



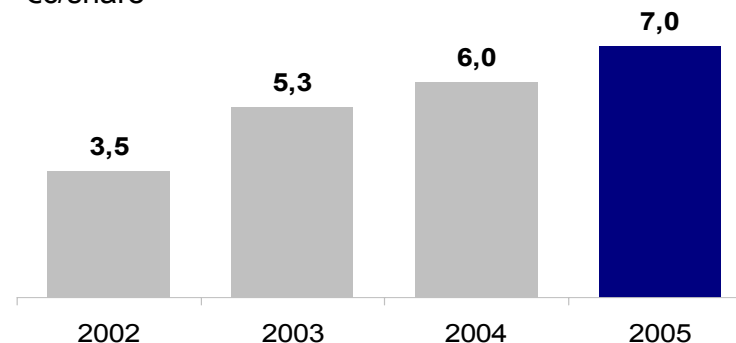
MI €	2004	2005	Inc. %
Ebit	177.3	215.7	22%
IAS adjustment**		15.5	
Net fin. charge***	(29.7)	(41.9)	
Tax	(61.1)	(80.5)	
Minorities	(5.5)	(7.4)	
Net Profit	81.0	101.4	+25%

Increasing value to shareholders

- > More than 3 times 2002 Net Profit
- > Proposed dividends of 7€ cent per share (a pay out above 70% and almost on Hera Spa)
- > 17% increase on 2004 dividend

2005 DIVIDEND PER SHARE

€/share



* Accounting Meta since January 1st, 2005

** Fixed asset value resetting as of 2004, according to impairment test

*** Including nominal financial charge on accruals (6.2 MI€)

Free Cash Flows and Net Financial Position

- > **Invested Capital** increased from 1.6 to 2.5 BI € following Meta merger and significant capex and NWC growth.
- > **Net working capital** mainly affected by delays in invoicing.
- > **D/E ratio** remains at a comfortable 0.65 whilst **D/Ebitda** moved to 2.5x

NET INVESTED CAPITAL *

MI €

	2004	2005
Net Equity	1,064.2	1,490.2
Net Debt	561.6	974.0
Invested Capital	1,625.8	2,464.2
D/E	53%	65%
D/Ebitda	1.9x	2.5x

CASH FLOWS*

MI €

	2004	2005
Net profit	86.5	108.8
Deprec. & Acc.	115.3	170.7
FFO	201.8	279.5
NWC	25.2	(208.9)
Operating C.F.	227.0	70.6
Capex & Inv.	(302,6)	(432,6)
Free C.F.	(75.6)	(362.0)
Dividends	(42.0)	(50.4)
Change in Net Debt	(117.6)	(412.4)
Net Debt	(561.6)	(974.0)

* Accounting Meta since January 1st, 2005

Cyclical Net Working Capital increase

Increase in NWC is equal to 209 mln €

Sales increase/Meta effect: 90 MI€

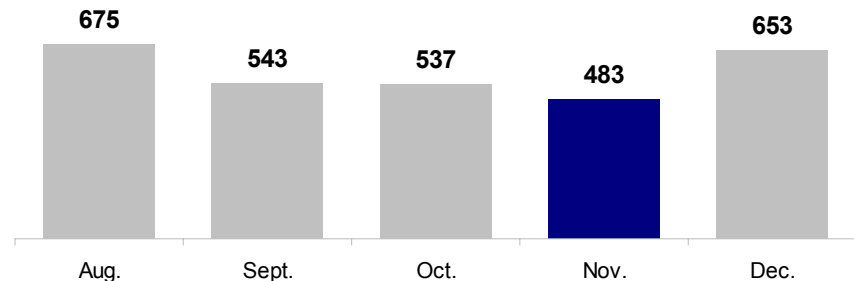
- > Increase in volume sold (+43 MI€)
- > Increase in energy prices caused higher receivables estimated around +35 MI€
- > Delays in payments related to industrial water services (+12 ml€)

Sap implementation: 119 MI€

- > Delays in invoicing occurred specifically in November caused an increase in receivables by 15 days of revenues
- > Delays relate to the deployment in Imola LOC and business clients

INVOICING

('000 invoices)



Recovery in Net Working Capital of at least 100 MI€ by June 2006

Bond issue: Hera's 500 MI € eurobond

<p>Rationale</p>	<p>Increase average debt maturity Diversification of sources Secure debt cost Access international investor base</p>	<table border="1"> <thead> <tr> <th colspan="2">Bond Highlights</th> </tr> </thead> <tbody> <tr> <td>Bookrunners</td> <td>Banca IMI, Citigroup, JP Morgan</td> </tr> <tr> <td>Issuer ratings</td> <td>S&P: A+ (Negative), Moody's: A1 (Stable)</td> </tr> <tr> <td>Issue amount</td> <td>500 MI €</td> </tr> <tr> <td>Settlement</td> <td>16th February 2006</td> </tr> <tr> <td>Listing</td> <td>Luxemburg</td> </tr> <tr> <td>Maturity</td> <td>10 years</td> </tr> <tr> <td>Coupon</td> <td>4.125%</td> </tr> <tr> <td>Reoffer price</td> <td>99.879</td> </tr> <tr> <td>Reoffer yield</td> <td>4.14%</td> </tr> <tr> <td>Reoffer spread</td> <td>Mid Swap + 47bps, DBR 3.25%+63.4bps</td> </tr> </tbody> </table>	Bond Highlights		Bookrunners	Banca IMI, Citigroup, JP Morgan	Issuer ratings	S&P: A+ (Negative), Moody's: A1 (Stable)	Issue amount	500 MI €	Settlement	16th February 2006	Listing	Luxemburg	Maturity	10 years	Coupon	4.125%	Reoffer price	99.879	Reoffer yield	4.14%	Reoffer spread	Mid Swap + 47bps, DBR 3.25%+63.4bps
Bond Highlights																								
Bookrunners	Banca IMI, Citigroup, JP Morgan																							
Issuer ratings	S&P: A+ (Negative), Moody's: A1 (Stable)																							
Issue amount	500 MI €																							
Settlement	16th February 2006																							
Listing	Luxemburg																							
Maturity	10 years																							
Coupon	4.125%																							
Reoffer price	99.879																							
Reoffer yield	4.14%																							
Reoffer spread	Mid Swap + 47bps, DBR 3.25%+63.4bps																							
<p>Settlement</p>	<p>Thanks to a demand ~4.4 times higher than the offer, credit spread was reduced from 50 basis points to 47</p>																							
<p>Advantages for Hera</p>	<p>Lower Cost of LT debt (up to -50 bps) Lower exposure to interest rate flux Maturity up to 8 years</p>																							

Capex and Investments

Operating Capex

- > Capex were up to 324 MI€ of which 54 MI€ made by Meta
- > 37% of capex related to the Waste business:
 - > 52 MI€ spread across WTEs projects
 - > 49 MI€ linked to waste plants maintenance and development

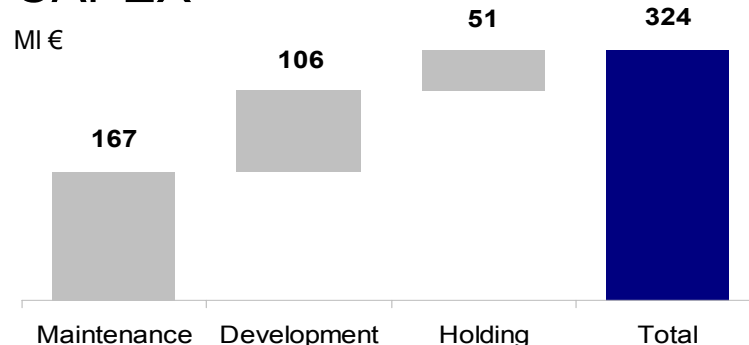
Holding

- > Capex mainly relates to SAP and real estate investments

Financial investments

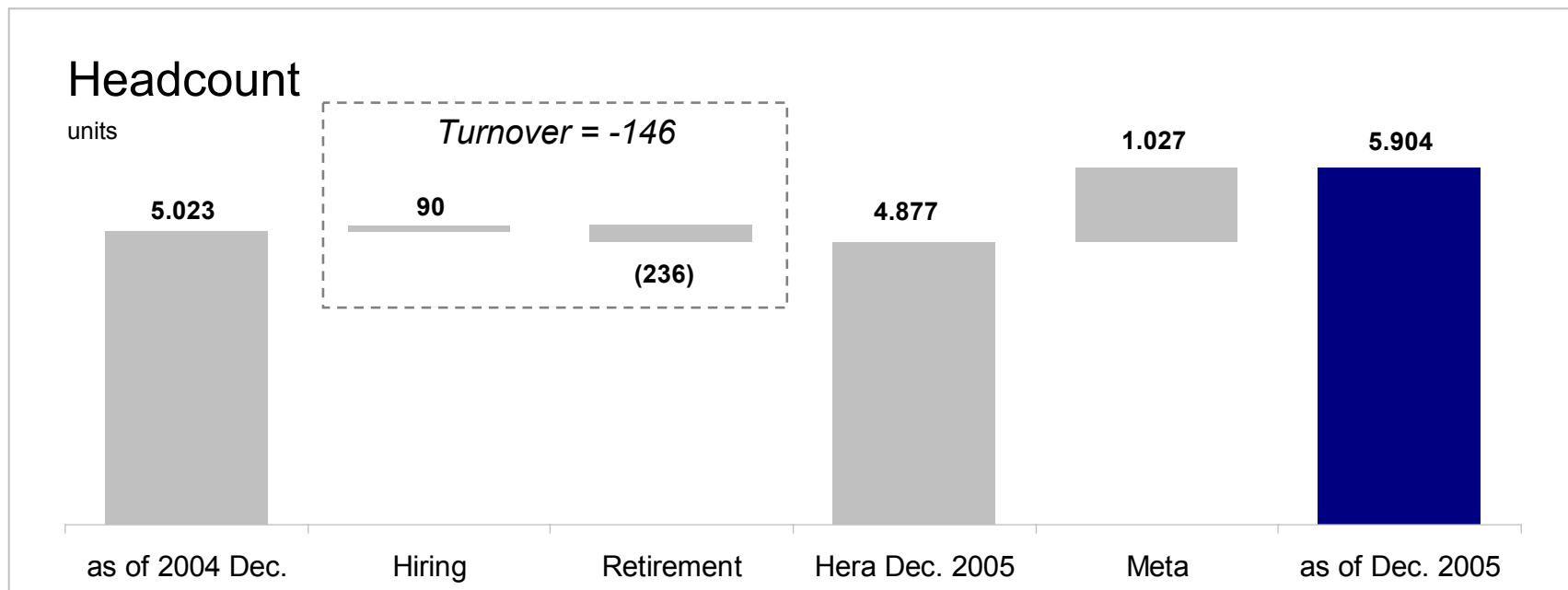
- > Financial investments relates to:
 - > PTO on Meta (about 100 MI€)
 - > M&A in Gas Business

CAPEX



	Meta	Hera	Total '05
Waste	19.0	101.2	120.2
Water	8.2	68.0	76.2
Gas	6.1	38.2	44.3
Electricity	4.5	3.9	8.4
Other	2.6	21.8	24.4
Holding	14.0	36.8	50.8
Oper. Capex	54.4	269.9	324.3
Financial	-	108.3	108.3
Total	54.4	378.2	432.6

Personnel



Ebitda per employee

58,200 €



65,400 € (+12.4%)

Net profit per employee

16,100 €



17,100 € (+6.2%)

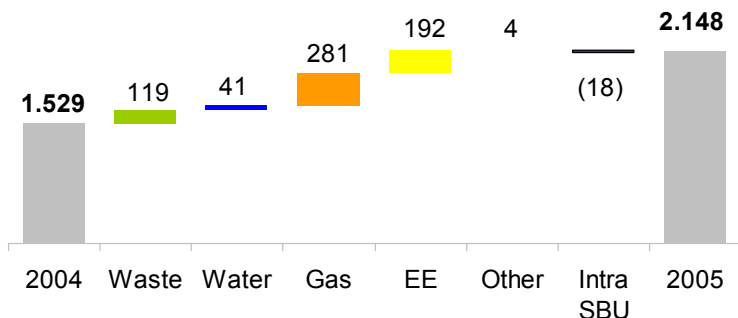
Breakdown of Group Results

(Meta accounted since January 1st, 2005)

Meta merger and organic growth strengthened all businesses

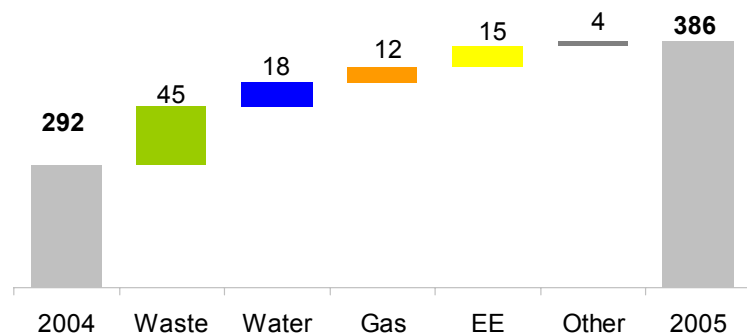
REVENUES Growth Breakdown

MI €



2005 EBITDA Growth by Business

MI €



Waste

- Leadership in profitability contribution came from good combination of plant performance and market consolidation

Energy

- Meta merger has significantly strengthened electricity distribution business (6th in Italian ranking).

2005 EBITDA Growth Breakdown

MI €	Total 2004	Meta	Internal Growth	Total 2005
Waste	86	16	29	131
Water	76	12	6	94
Gas	106	21	-9	118
Electricity	7	13	2	22
Other	17	3	1	21
Total	292	65	29	386

Waste recorded outstanding performance

- > WTE of Bologna and Ravenna contributed on full year basis
- > Hera asset base reached 72 treatment plants
- > Ebitda margin above 27% (up by +340 bps)
- > Volume disposed achieved 3.8 MI tons of which 2.2 of special waste with an increase of +60%

CAPEX

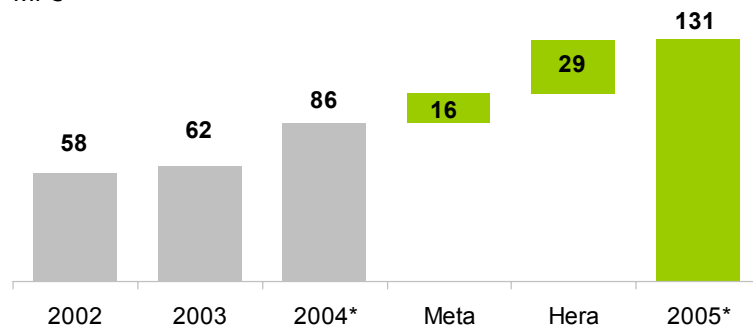
MI €

	2004*	2005*
Treatm. plants	27.8	48.8
FEA	12.3	20.0
WTE Ferrara	1.1	13.2
WTE Modena	-	15.6
Other WTE	1.0	2.6
W. collection equip	18.0	20.0
Total	60.2	120.2

* IAS adjusted, Meta accounted since January 1st, 2005

EBITDA build up

MI €



Ebitda increase by **+52%**

- > Meta **+16 MI€**
- > FEA and CE **+18 MI€**
- > ATO Tariff **+ 4 MI€**
- > Other **+ 7 MI€**

“Take off” in profitability recovery

- > Ebitda margin moved from 25 to 27%
- > In 2005 additional sewerage service was included to complete the integrated water service in the territory.
- > New accounting principles for revenue accruals determined a write off on historical values by 8 MI € basically in Bologna
- > 2006-2007 will provide tariff increase above 4% per year.

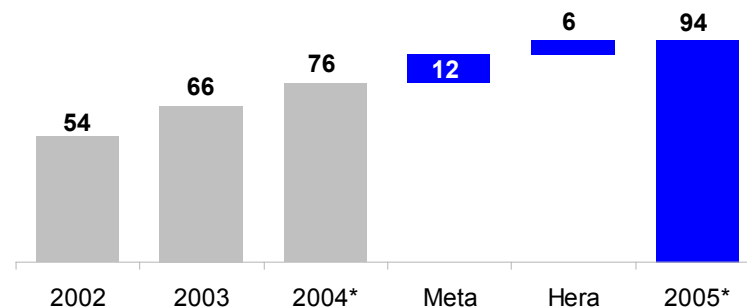
CAPEX

MI €

	2004*	2005*
Aqueduct	43.2	48.4
Depuration	13.4	13.2
Sewerage	10.5	14.6
Total	67.1	76.2

EBITDA build up

MI €



Ebitda increase by **+23%**

- > Meta **+12 MI€**
- > ATO Tariff **+10 MI€**
- > Other (incl. write offs) **(4) MI€**

* IAS adjusted, Meta accounted since January 1st, 2005

Growth overcame distribution tariff reduction (2005-2007)

- > Competition caused churn rate of about 16,000 customers (-0.8% in term of volumes) whilst organic growth provided additional 11,000 clients.
- > Increase in volumes (+18%), reaching 2.8 Bl cm, related to Meta merger, cold winter and market expansion
- > Organic growth and Meta more than off set distribution tariff decrease (11 MI€); no further reduction is expected till 2007.

CAPEX

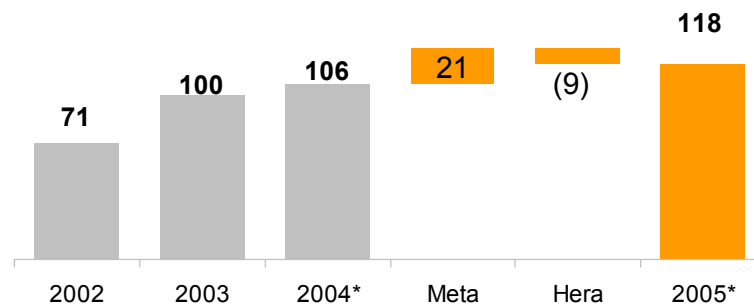
MI €

	2004*	2005*
Network maintenance & development	23.4	28.0
Network acquisition		16.3
Total	23.4	44.3

* IAS adjusted, Meta accounted since January 1st, 2005

EBITDA build up

MI €



Ebitda increase by **+12%**

- > Meta **+21 MI€**
- > Tariff **(11) MI€**
- > Other **+2 MI€**

Tripled Ebitda from regulated revenues

- > Meta merger increased customer base up to 177,000
- > About 80% of Ebitda related to regulated activities
- > 3 Twh (+1Twh vs. 2004) to liberalised market
- > Procurement coverage only through long term contract (Atel) and Electricity Pool/annual bilateral contracts.

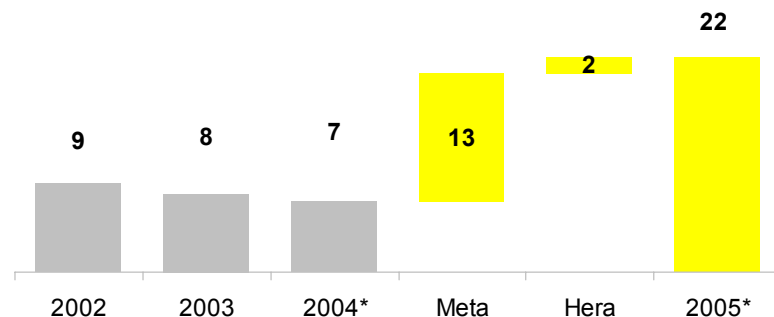
CAPEX

MI €

	2004*	2005*
Network	2.3	7.4
CCGT Imola	1.5	1.0
Total	3.8	8.4

EBITDA build up

MI €



Ebitda increase by **+207%**

- > Meta **+13 MI€**
- > Other **+2 MI€**

* IAS adjusted, Meta accounted since January 1st, 2005

Keep on growing

- > Significant business extension in Public Lighting (almost 300,000 lighting towers) thanks to Meta
- > District Heating achieving 470 Gwht on track with 2008 targets
- > Enhancement in profitability by 230 bps

CAPEX

MI €

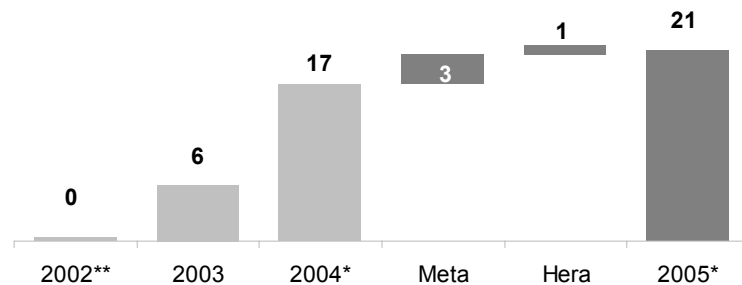
	2004*	2005*
District Heating	8.9	10.8
Communication assets	9.8	4.4
Public Lighting	2.8	3.4
Other	7.9	5.8
Total	29.4	24.4

* IAS adjusted, Meta accounted since January 1st, 2005

** 2002 figure does not include District Heating and Public Lighting

EBITDA build up

MI €



Ebitda increase by **+22%**

- > Meta **+3 MI€**
- > Portfolio rationalisation **(3) MI€**
- > Other **+4 MI€**

Closing remarks

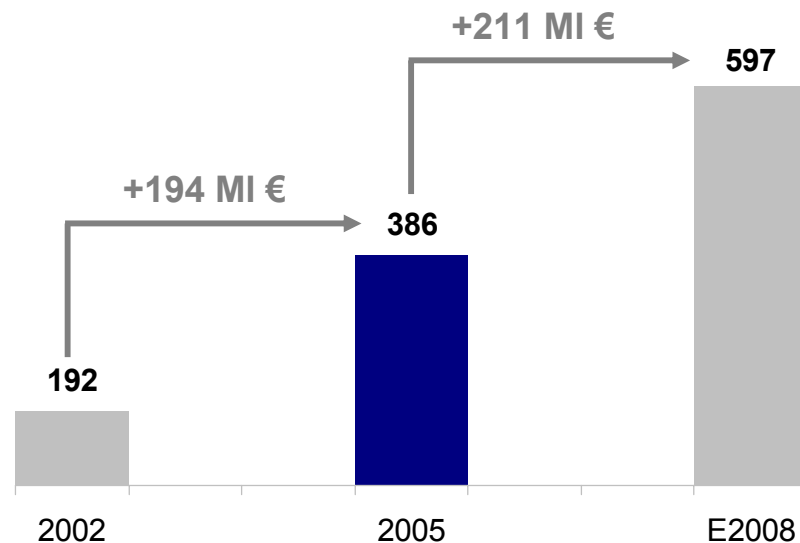
Historical growth and further achievements in 2006 give visibility on 2008 targets

- > In 3 year Ebitda doubled balancing internal and external growth
- > Further 211 MI€ EBITDA increase is expected in the next 3 years, mainly related to internal growth.
- > 2008 targets based only on on-going initiatives (WTE's and organic growth)
- > In 1st quarter 2006 tangible achievements
 - > Geat Gas merger
 - > Agreement on Enel Network acquisition

3Y EBIDTA GROWTH

Historical and Expected

MI€



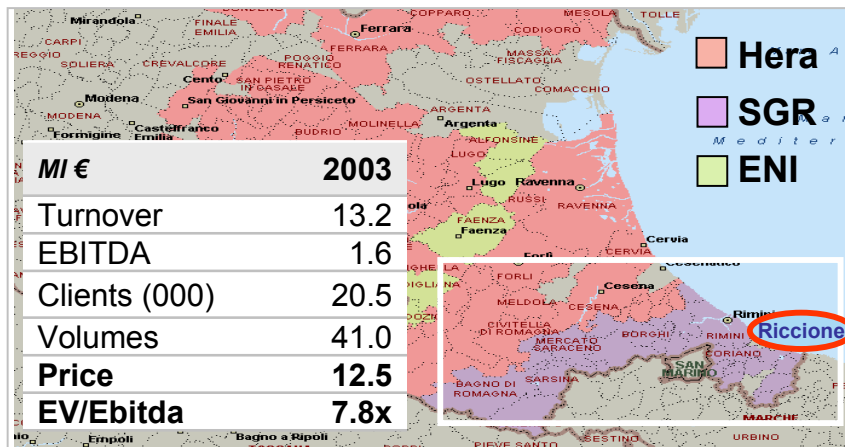
1Q 2006 M&A

100% merger of GEAT GAS

- > **Gas downstream** (distribution and sales) in the touristic area of Riccione.
- > Strengthening of Hera presence in a key area.
- > Complementary to SGR Servizi in which Hera has 20% stake.
- > Agreed consideration: 12.5 MI€ EV/Ebitda 7.8x)

100% acquisition of ENEL network (Modena Province)

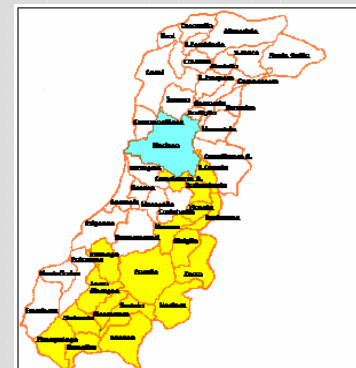
- > Unique opportunity to strengthen electricity business (concession up to 2030)
- > 4 services in the Modena area
- > 5th position by customers in the Italian landscape
- > 107.5 MI € cash upfront
- > Fiscal cost (of goodwill) burned by Hera (spread over 18 years)



Modena Province

MI €	2004
Turnover	51
EBITDA	13
Clients (000)	80
Volumes (GWh)	650
Price x client (€)	1,500
Cashout/Ebitda	8,4x

Network



Future initiatives on Upstream and Sector Consolidation

Up Stream Integration gas

- > Negotiation among the parties started to increase share capital of Galsi SpA up to 30 MI € to fund next project steps and to update by-laws
- > Gas Supply preliminary contracts under negotiation with Sonatrach

Up Stream Integration e.e.

- > Closely watching industry restructuring (PTO Gas Natural, Enel-Suez) to eventually take advantage to secure around 400 MW (to balance planned supply position)
- > Final stage of negotiation for a majority stake in 65 MW Wind farm (Apulia region)
- > New initiative in biomass (20 MW) in the preliminary feasibility stage

Sector Consolidation

- > Watching 2 public tenders of minority stakes in small-mid sized municipalities
- > Negotiation for single multi-utility in Pesaro Province still alive and progressing
- > Preliminary valuation on larger sized operation ongoing and to be targeted in 2007

Opportunities consistent with strategic growth guidelines

Continuing double digit growth

2005 results

- > Growth performed in line with expectations maintaining a double digit growth rate
- > Regulatory impact on results was overcome
- > Meta integration completed by year-end

Future

- > 2008 target confirmed
- > Normalisation of NWC expected by June '06
- > Ready to catch new business development opportunities

Dividends

- > 2005 proposed Dividend increase by +17%
- > +15% plus dividend policy confirmed for next future

3Y CAGR

EBITDA 26%

Net Profit 45%

Dividend 26%

Total Return since '03 85%