Equity Research

Enia / Hera / Iride

Utilities: Neutral

10 October 2008

Initial coverage

Enia	**Neutral** (Target price: EUR6.8)
Hera	**Neutral** (Target price: EUR2.3)
Iride	**Neutral** (Target price: EUR1.9)

To be or not to be a big utility

► **We initiate coverage of three mid-sized Italian utilities, Enia, Hera and Iride**

We rate all three stocks Neutral. Their upside is in line with the sector average (40-50%) and it is uncertain what form the consolidation will take. All three are multi-utilities, deeply rooted in their regions and part owned by their local municipalities.

► **Consolidation will take place in some shape or form**

In September, exclusive three-way merger talks foundered on two stumbling blocks: the share exchange ratio and corporate governance. A two-way tie-up between Hera and Enia is the most feasible, as their networks are close and Enia is much smaller. If no agreement is found before the end of October, the consolidation will be delayed for at least six months because of the elections.

► **Enia, Hera and Iride versus A2A**

A merger of three would create a local champion second only to A2A in terms of market cap (EUR3.3bn at current prices vs EUR4.4bn for A2A) and free float (43%). However, the newco would be different from the more national/international A2A, which has a power generation bias. It would have greater exposure to regulated activities and closer ties with the regions where the players operate. Synergy potential would be on a par to that expected at A2A (7% of combined EBITDA). The new entity would also face similar corporate governance issues.

► **Absolute upside is in line with sector on attractive relative multiples**

Absolute upside is in line with the sector average for all three companies. We highlight that our valuation implicitly assumes the credit markets are back to normal. We factor in a 10-15% discount for their lower liquidity and the merger uncertainties. This discount may shrink if they merge. On a relative basis on 2009e EV/EBITDA, Enia is trading at 4.6x, Hera at 5.4x and Iride at 5.3x, showing steep discounts to the 7.0x sector average.

Enia (=)

Italy

Price*: EUR4.8 ▪ TP: EUR6.8 ▪ Upside: 42.4%

	12/07	12/08e	12/09e	12/10e
Adjusted EPS (EUR)	0.25	0.33	0.38	0.45
P/E (x)	43.8	14.4	12.6	10.7
P/BV (x)	1.7	0.7	0.7	0.7
Net yield (%)	1.8	4.9	5.6	6.4
FCF yield (%)	(5.0)	(4.2)	(6.7)	0.0
EV/Sales (x)	1.1	0.6	0.6	0.6
EV/EBITDA (x)	8.2	4.7	4.6	4.2
EV/EBIT (x)	17.1	9.3	9.1	8.1
Adj. net debt / EBITDA (x)	2.8	2.9	3.0	2.8

Hera (=)

Italy

Price*: EUR1.5 ▪ TP: EUR2.3 ▪ Upside: 51.9%

	12/07	12/08e	12/09e	12/10e
Adjusted EPS (EUR)	0.10	0.13	0.17	0.20
P/E (x)	32.7	11.4	8.9	7.6
P/BV (x)	2.1	1.0	1.0	0.9
Net yield (%)	2.6	6.1	7.1	8.2
FCF yield (%)	(5.2)	0.9	6.2	11.4
EV/Sales (x)	1.7	1.1	1.0	1.0
EV/EBITDA (x)	10.6	5.9	5.4	4.9
EV/EBIT (x)	21.8	10.6	9.1	8.0
Adj. net debt / EBITDA (x)	3.2	2.8	2.5	2.2

Iride (=)

Italy

Price*: EUR1.3 ▪ TP: EUR1.9 ▪ Upside: 51.5%

	12/07	12/08e	12/09e	12/10e
Adjusted EPS (EUR)	0.13	0.13	0.15	0.16
P/E (x)	20.1	9.6	8.5	7.7
P/BV (x)	1.5	0.7	0.7	0.6
Net yield (%)	3.2	7.0	7.2	7.4
FCF yield (%)	(4.1)	(8.0)	(2.2)	4.5
EV/Sales (x)	1.2	0.8	0.8	0.8
EV/EBITDA (x)	9.3	5.7	5.3	5.0
EV/EBIT (x)	14.8	9.0	8.3	7.7
Adj. net debt / EBITDA (x)	3.6	3.5	3.3	3.1

** Priced at 9 October 2008*

Nicola Porcari, CFA
(+33) 1 42 99 52 43
nicola.porcari@exanebnpparibas.com

Benjamin Leyre (+33) 1 42 99 24 72
José Javier Ruiz Fernandez (+44) 207 039 9471
Yohann Terry (+33) 1 44 95 58 62
utilities@exanebnpparibas.com

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Investment case

We initiate coverage of Enia, Hera and Iride with Neutral ratings. Our target prices are EUR6.8 per share for Enia, EUR2.3 for Hera and EUR1.9 for Iride, yielding upside of 40–50%, in line with the sector. We highlight that our valuation implicitly assumes the credit markets are back to normal.

Why we dare to rate all three Neutral

The three companies are in close negotiations for a merger that would create a leading local utility with market capitalisation potential of EUR3.1bn. The resulting company would be distinctly different from A2A, as it would be more leveraged to regulated activities and have stronger roots in its area of operation.

All three stocks offer significant upside on a stand-alone basis. They have been severely impacted by the recent sell-off, especially given their limited free float.

Figure 1: Round-up on Enia, Hera and Iride

EURm	Enia	Hera	Iride
Market cap	523	1,653	966
2008e EV	782	3,398	2,180
% regulated	64	65	52
2009e EV/EBIT (x)	9.2	9.5	8.5
2009e EV/EBITDA (x)	4.6	5.4	5.3
2009e ROCE (%)	6.1	6.9	6.4
2009 Dividend yield (%)	5.5	6.6	6.9
2009e FCF/Dividend (%) *	(120)	80	(30)
2009e Net debt/EBITDA (x)	3.0	2.5	3.3
EPS CAGR 2007/2012 (%)	20.6	28.2	7.8

** NB. Hera is the only company that seems able to support a dividend through free cash flow.*

Source: Exane BNP Paribas estimates

Dividend sustainability and leverage of the three companies

We understand that Hera has net debt of about EUR200m maturing in 2012. To support this, the company has recently issued a fixed-rate 10-year bond maturing in 2031. Consequently, the risk on leverage is limited, in our view.

Enia does not have any debt maturing in the next few years, based on available information. In addition, the company recently issued EUR150m in debt at variable rates maturing in 13 years. The company seems to be the most exposed of the three to floating rates, with 64% of debt on variable rates.

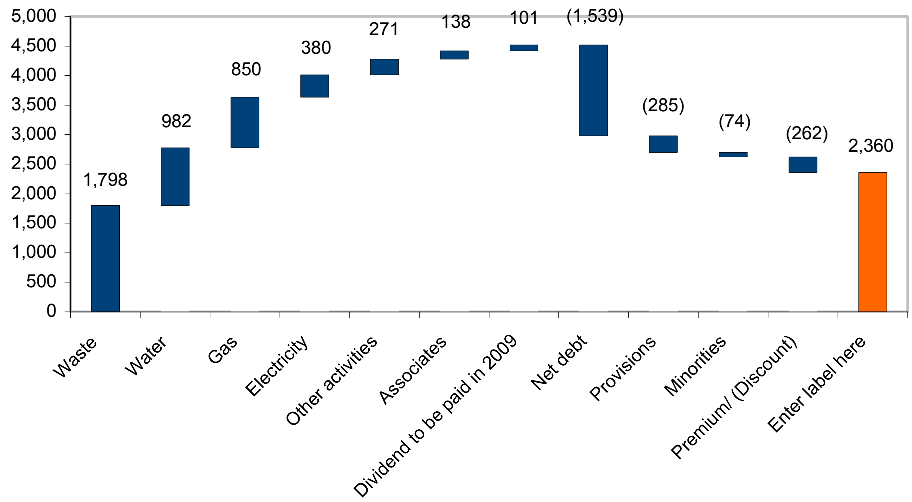
Iride has 82% of its debt on long term contracts with none maturing in the next few years, again based on available information.

With regard to capex, we believe that Iride has the most flexible plan and can therefore cut capex if necessary. The other two companies, being more regulated, have capex commitments in exchange for tariff increases.

We prefer Hera on a standalone basis

On a stand-alone basis, because Hera is the biggest and is projected to generate the fastest growth, it emerges as our preferred stock. Leader in waste, with a significant contribution from the agreed water tariff increase, the value of Hera is well supported in our view. We are currently using a 10% discount in our SOP to factor in the uncertainties regarding a merger and the company's low liquidity.

Figure 2: Hera's SOP waterfall

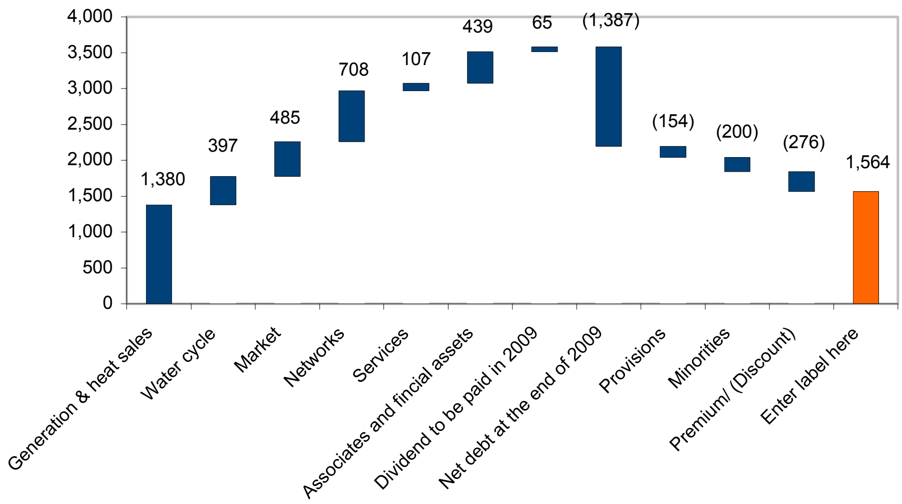


Source: Exane BNP Paribas estimates

Of the three stocks, Iride is the most leveraged to generation with half of its capacity in attractive, profitable hydro generation and significant projects in cogeneration (Torino Nord plant and re-powering of Moncalieri unit), driving future growth.

In addition, Iride holds hefty stakes in Edipower (10%), booked under the associates line, and Tirreno Power (5.5%), recorded under financial assets. We apply a 15% discount to our SOP, higher than the discount used for the other two, given the perceived tension between the reference shareholders and management

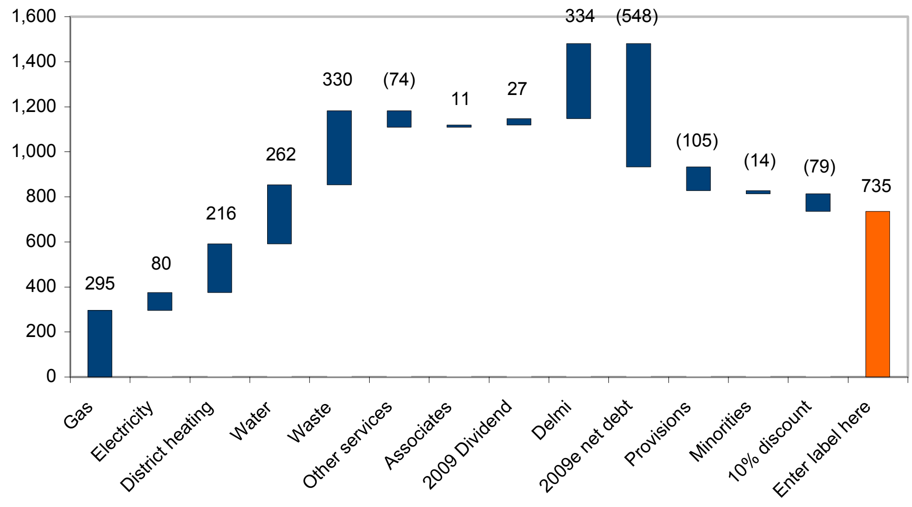
Figure 3: Iride's SOP waterfall



Source: Exane BNP Paribas estimates

Enia is the smallest of the three utilities and is the more natural prey for M&A activity, with an attractive strategic holding in Delmi (15% stake).

Figure 4: Enia SOP waterfall



Source: Exane BNP Paribas estimates

Delmi is the Italian holding company controlled by A2A (51%) that has a stake equal to EDF's in Transalpina di Energia (TdE), the vehicle that controls 61.3% of Edison. In our SOP, we apply a 10% discount, as we did for Hera.

The stock offers similar absolute upside on a stand-alone basis in line with our current average upside in the sector.

In addition the uncertainty as to the terms of a potential Enia-Hera-Iride consolidation (effective corporate governance), if there is one, and the share exchange ratio (ultimately a political decision) further justifies our initial Neutral ratings on these stocks.

Regulation of waste and water supports further consolidation

Our upside on a stand-alone basis factors in the regulatory framework in water and waste in Italy.

New legislation was passed on 6 August (Law 133/08) to increase competition for public services and introduce competitive bidding for concessions. It is set to take effect in the next six months. We believe it is more an opportunity than a threat to the utilities we are initiating since competitive bidding should favour larger listed utilities that can leverage on consolidation opportunities through competitive bidding.

In addition, the regulated tariffs on waste and water are well below the European average, and the framework laws (Ronchi for waste and Galli for electricity) enact a significant rise in tariffs (5-10% CAGR) as agreed with local authorities.

For the waste division, liberalisation should benefit those companies that have infrastructure in place in waste-to-energy, like A2A and Hera.

Lesson learned from Impregilo's bad experience in Naples

Risk profiles in the waste business differ according to the region of operation in Italy. It is harder to run an efficient integrated waste service business (collection, treatment and WTE) in the south due to potential conflicts with criminal organizations. Waste-to-energy plants in particular tend to be opposed by criminal organizations because they improve visibility in the treatment of waste, compared to landfills. Impregilo ran into this problem when it built up the Acerra waste-to-energy plant, now almost completed.

A2A's commitment to the Acerra plant, which should be operational next year, involves management only; it is investing no capital, and therefore incurs limited risk.

Hera and A2A have the largest WTE fleets in operation located in the central northern part of Italy and have a clear track record of managing these plants efficiently.

Three candidates to become one

A letter of intent for a three-way merger was signed on 26 May 2008 by the top managements of Enia, Hera and Iride. A steering committee composed of the chairmen and CEOs of the three utilities was put in place to negotiate the terms, with the final goal of proposing the project to the three boards and the major shareholders.

The official deadline for the negotiations was last 30 September. We understand the parties are still in negotiation, but as the exclusivity period has ended, other scenarios are now possible as well. One would be a Hera-Enia merger with interest from another group (A2A, GDF-SUEZ, E.ON, RWE or EDF) in Iride. At this stage, it is difficult to value different scenarios.

Today, all the major shareholders are members of the centre-left party in Italy. Their shared political colour should ultimately help to find a compromise, we believe.

Corporate governance and share exchange ratio: principal stumbling blocks

There have been two stumbling blocks to negotiations. The first is corporate governance, which is always a very delicate issue when municipalities are involved. The second is the share exchange ratio, which has an impact on the relative value of companies and therefore on potential future dividend streams to municipalities.

Figure 5: Share exchange ratio suggested

EUR/s	Hera	Iride	Enia	Iride/Hera	Enia/Hera
6-month historical prices*	2.77	2.21	10.5	0.80	3.79
Current price	1.63	1.31	4.85	0.80	2.98
Ratio suggested based on fair value	**2.3**	**1.9**	**6.8**	0.82	2.99
Upside on current price (%)	40	43	41	2.3	0.4

Source: Exane BNP Paribas estimates

On our suggested share exchange ratio based on our estimate of the fair value of the individual companies, because there is similar upside on the three stocks, we would not have significant relative differences: Iride shows 2.3% relative upside versus Hera and Enia shows 0.4% relative upside versus Hera.

The resulting new group would be 61% regulated with a very fragmented corporate governance structure in which the reference shareholders would be Bologna, Turin and Genoa, with about a 10% stake each.

Figure 6: A2A compared to Enia-Hera-Iride

EURm	A2A	Enia/Hera/Iride
Market cap	4,788	2,972
2009e EV	6,636	6,357
2009 EBITDA	1,332	1,206
2009 EV/EBITDA	5.0	5.3
% of regulated EBITDA	40	60

Source: Exane BNP Paribas estimates

The merged entity would be smaller than A2A and much more regulated (60% vs 40% for A2A), and would trade on a similar pro forma 2009 EV/EVITDA multiple.

With regard to corporate governance, we think Hera has the best track record, given its long history of integrating utilities and making smooth adjustments in board representation along the way, keeping substantial power in the hands of management.

There is a risk of tension surfacing between the reference shareholders of Iride and Hera, where we have seen the most friction during the negotiation process. We believe a discount is justified at this point, given the uncertainty surrounding the corporate governance of the new entity and its stability.

We estimate that synergies could be equivalent to 7% of 2009e EBITDA, within the 7-11% range of synergies achieved in local utilities mergers.

October to be a key month for the merger, if it happens

A deal must be agreed or rejected by mid-October if it is to be presented to each of the Municipal councils representing the three companies' reference shareholders in time for them to approve the deal before the end of the month .

Elections will be held next April and there is a six-month "white period" during which extraordinary operations cannot be approved by the municipal councils. As a consequence, if no deal is reached in October, the consolidation process will be delayed until April 2009.

The extraordinary shareholders' meetings (30 days are required to call EGMs) and other legal requirements would have to be executed in the final months of 2008 in order for the NewCo to start at the beginning of 2009.

Hera winner in regulated activities in Italy

Figure 7: Leadership positioning in Italy

Activity	Leadership
Waste	Hera, a leader in waste treated, with 4.4m tons, versus A2A 3.5m tons, and second in WTE after A2A
Water	Acea leader in water services in Italy, Hera second player in Italy
Gas	All three utilities show leverage to upstream gas with the Hera stake in the Galsi pipeline project, Iride's interest in the LNG of Gioia Tauro and Livorno, and Enia's stake in Edison through Delmi.
Electricity	Iride is active in hydro generation in northern Italy, and also has interests in Edipower (10%) and Tirreno Power (5.5%, the same stake as Hera) two ex generation companies that Enel was forced to sell of Enel.
District Heating	Iride is the leader in Italy, with a volume of 40ml cubic meters (40% of Turin's city area)

Source: Exane BNP Paribas estimates

Figure 8: Mid-size utilities operating territories

Source : Exane BNP Paribas

Local is key

All three utilities show strong links in their operating territories. Municipal services are vital for the communities. Dividends from local utilities are vital for the municipalities.

National vs local interests

The issue of terminating concessions for water and waste is affecting these regulated utilities. Concessions are too fragmented and current reference law requires rationalisation and a reduction in the number of operators. Future concessions will be gained through a tender process, and therefore local utilities need to be efficient, with a push towards consolidation.

There is strong opposition to legislative initiatives from local authorities, since municipalities depend on dividends from concessions – the best way to become more efficient is to consolidate among local municipal utilities, and listed ones have the critical mass to lead the consolidation process.

Common features

Water, waste collection and transport tariffs are significantly below European levels, and are expected to rise in coming years in exchange for investments in new infrastructure.

In liberalising waste markets, a key advantage is to have infrastructure already in place. Most profitable is the waste-to-energy infrastructure. Hera and A2A are best positioned.

Background on Enia

Enia was created in 2005 from the merger of AGAC, AMPS and TESA, the local municipal utilities of Reggio Emilia, Parma and Piacenza. The company was listed in July 2007 and has the smallest market capitalisation (EUR604m) of these three local utilities. Enia is 62% owned by public municipalities (the municipalities of Reggio Emilia, Parma and Piacenza together hold 43.8% of the company; other small municipalities hold 18%) and it has a free float of 38%.

Enia is a multi-utility active in water, waste, district heating, gas and electricity sales with regulated activities accounting for 64% of 2007 EBITDA. The company is characterised by its lack of leadership position in any of its activities, with its best showing in waste, where it is ranked third (behind A2A and Hera). It has some growth opportunities in district heating, electricity and waste, based mainly on projects for new waste-to-energy plants in Parma and a 20MW renewable portfolio for the electricity division to be built from scratch.

Figure 9: Enia's EBITDA by division

(EURm)	2007	2008e	2009e	2010e	CAGR (%)
Gas	38	41	44	47	7.1
Electricity	20	15	15	17	(3.9)
District heating	22	24	25	27	7.6
Water Cycle	34	42	47	60	20.7
Waste	42	41	43	49	5.3
Other services	4	4	4	5	5.5
Total	**159**	**166**	**180**	**204**	**8.7**
EBITDA margin (%)	13.2	12.8	13.2	14.0	

Source: Exane BNP Paribas estimates

Enia offers the lowest EBITDA margin in its peer group of 13.2% (2007). It does, however, have some attractive characteristics in an M&A scenario:

1) Smallest size and most fragmented corporate governance of the three utilities we are initiating;

2) Lowest leverage of the three utilities included in this report;

3) Proximity of its regulated network activities with Hera's;

4) A 15% stake in Delmi, which is strategically very important. Delmi is at the core of Edison's corporate governance and A2A (which owns 51% of Delmi) has expressed an interest in buying out the minorities. We value the 15% stake in Delmi at EUR332m (included in our Enia SOP) based on our fair value of Edison of EUR1.8 per share.

Background on Hera

Hera was created in 2002 by the merger of 12 local municipal utilities operating in Italy's northern central region. The company was listed in June 2003 and has the largest market cap of the companies we are initiating (EUR1716m). The group has undergone a series of mergers (including Agea Ferrara in 2004 and merging with Meta, another listed utility in 2005). Hera is 61% controlled by public municipalities, but with a very fragmented base, while the Municipality of Bologna has only about a 20% stake. Free float is 41%.

Hera has 2 million customers and is operating in five areas of activity: waste, water, gas, electricity and other (district heating and public lighting). It has a balanced defensive portfolio geared to regulated downstream activities, representing 65% of 2007 EBITDA.

Hera offers the higher EBITDA margin of the three utilities we are initiating, and it is in a start-up phase for significant projects in WTE plants, which should be contributing by 2009.

Figure 10: Hera's EBITDA margin growth

(EURm)	2007	2008e	2009e	2010e	CAGR (%)
Waste	156	218	242	263	19.0
Water	119	136	150	160	10.5
Gas	105	119	121	121	4.9
Electricity	43	51	65	67	16.2
Other activities	31	35	40	45	13.0
Total	**453**	**559**	**618**	**656**	**13.1**
EBITDA margin (%)	14.9	18.1	19.6	20.4	

Source: Exane BNP Paribas estimates

Hera has a very solid business plan leveraged on its leading position in water services (second after Acea), waste management (first in Italy for total waste processed and second after A2A in waste-to-energy) and gas (third with high integration potential with Enia in the Emilia Romagna region).

We expect the company to benefit from the already-approved tariff increases in water, the doubling of its capacity in WTE (new Rimni plant and some re-powering) and the project to expand its equity gas (from 800 million cubic meters to 1.8bcm), through its 10% stake in the Galsi pipeline project and the acquisition of Megas trade.

Background on Iride

Iride was created in October 2006 by the merger of the listed AEM Turin and AMGA Genova, and is 58.2% controlled by the municipality of Turin and Genova (29.1%each). With a market cap of EUR1017m (27.6% free float) Iride has the best balance between regulated and unregulated activities, with 52% of 2007 EBITDA being regulated.

Figure 11: Iride's EBITDA margin growth

(EURm)	2007	2008e	2009e	2010e	CAGR (%)
Generation & heat sales	85	131	163	183	29.2
Water Cycle	54	58	63	70	9.0
Market	56	55	54	60	2.1
Networks	112	114	122	122	3.0
Services	15	15	15	15	0.7
Total	**322**	**374**	**417**	**450**	**11.8**
EBITDA margin (%)	12.9	14.2	15.3	15.9	

Source: Exane BNP Paribas estimates

Upstream generation is Iride's key strength. It has a direct portfolio of 1,329MW of generating assets, some half of which are hydro. In addition, it consolidated 800MW from its interests in Edipower (10%) and Tirreno Power (5.5%).

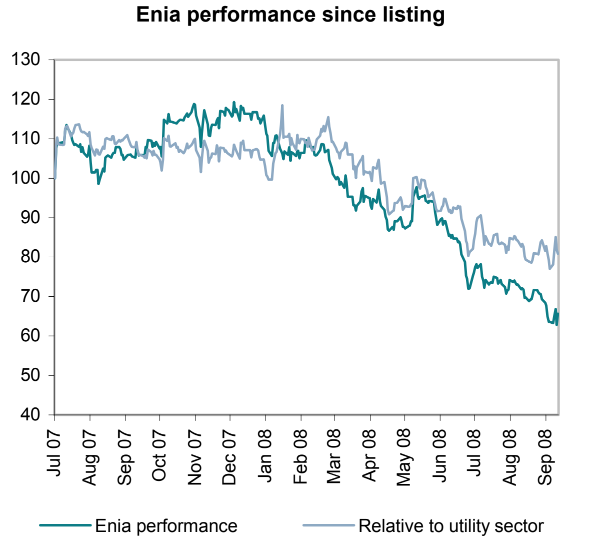
Iride's main growth drivers are the increase in its cogeneration capacity by 2011 (Turin Mirafiori Nord plant of 390MW) and its diversification of supply sources out of ENI into LNG investments through the Livorno LNG (with E.ON) and the Gioia Tauro LNG (with the CIR group), both of which have already gained the environmental authorisation.

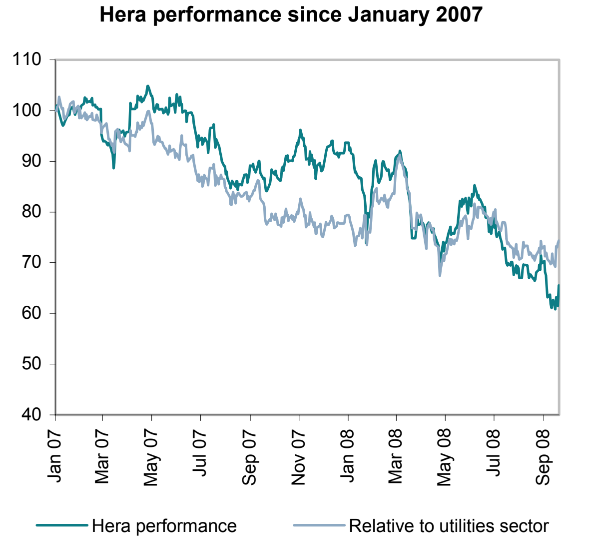
Attractive multiples due to mid cap sell off

Enia, Hera and Iride have underperformed the European utilities sector since the beginning of the year by 25%, 6% and 20%, respectively, with the most liquid, Hera, underperforming the least.

Low liquidity and uncertainty as to the outcome of the negotiations for a three-way merger have affected the performance of the three stocks, in our view.

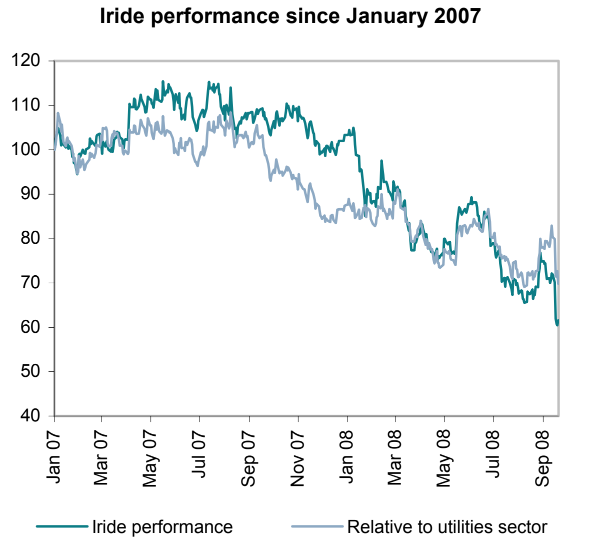
Figure 12: Stock performance, absolute and relative to the sector

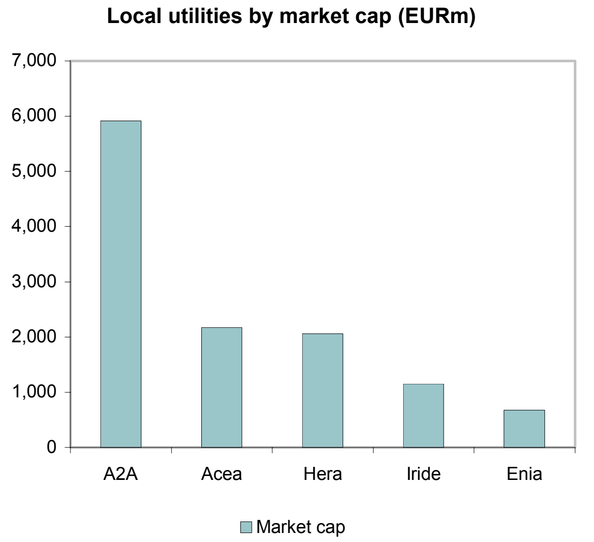




Source: Datastream

Figure 13: Stock performance, absolute and relative to the sector





Source: Datastream

Enia, Hera and Iride trade on similar 2009e and 2010e EV/EBITDA and PE, at a significant discount to sector multiples.

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Figure 14: Local Italian utilities comparison

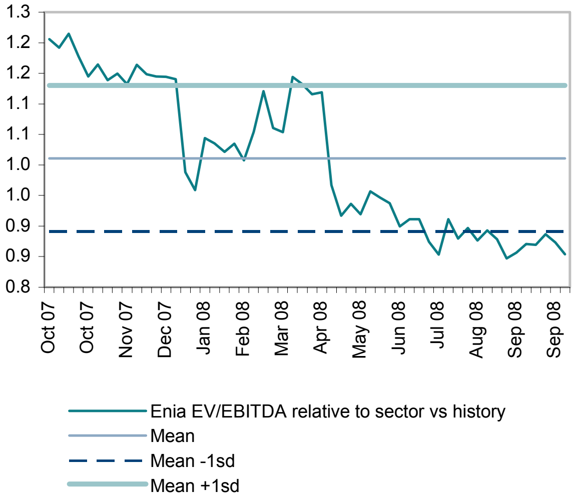
Company	Market cap	P/E (x) 2009	P/E (x) 2010	EV/EBITDA (x) 2009	EV/EBITDA (x) 2010	Net debt/EBITDA 2009	Net debt/EBITDA 2010	Dividend yield (%) 2009	Dividend yield (%) 2010
A2A	4,939	7.6	7.4	5.1	4.7	2.8	2.5	5.1	5.4
Acea	2,256	12.8	10.6	6.9	6.1	3.1	2.8	7.1	8.1
Hera	1,716	14.5	12.8	5.4	4.9	2.7	2.2	5.2	5.5
Iride	1,017	8.3	7.5	5.3	5.0	3.3	3.1	6.5	6.7
Enia	604	15.0	12.8	4.6	4.2	3.1	2.9	3.9	4.1

Source: Exane BNP Paribas estimates

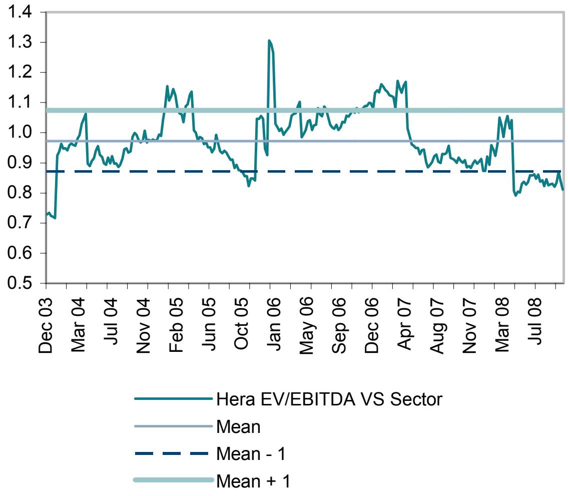
In terms of historical EV/EBITDA relative to the utilities sector, Enia and Iride show the most undemanding relative multiples, trading at close to one standard deviation below their historical mean. The relative attractiveness of these stocks on historical multiples is justified by the current uncertainties of an M&A scenario, and by the low liquidity of the three stocks.

Figure 15: Relative multiples

Enia EV/EBITDA relative to utilities versus history



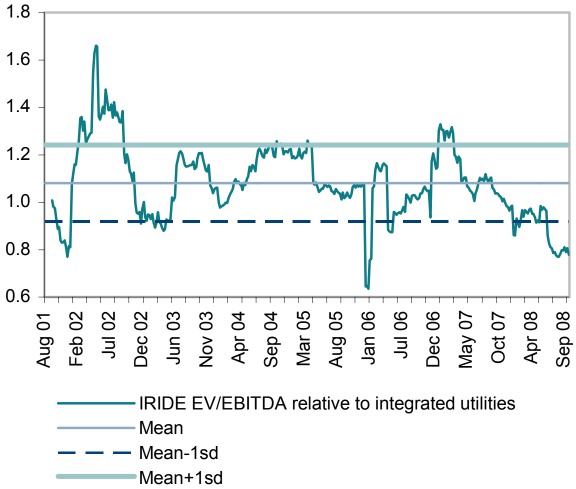
Hera EV/EBITDA relative to utilities versus history



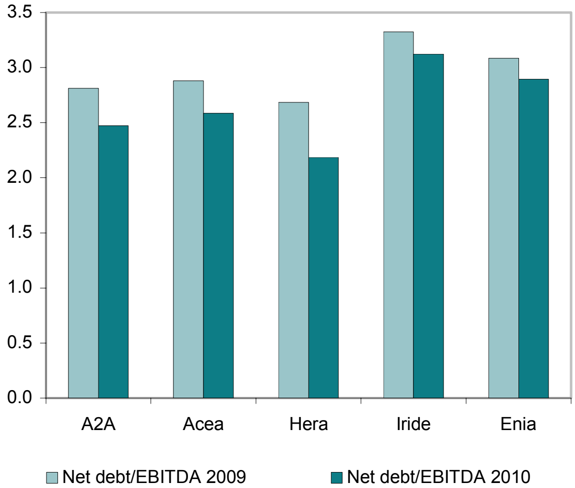
Source: Datastream

Figure 16: Relative multiples

Iride EV/EBITDA relative to utilities versus history



De-leveraging plays



Source: Datastream, Exane BNP Paribas estimates

Valuation

Similar upside, in line with sector

We value Enia using a SOP approach. Our resulting target price is EUR6.8.

Figure 17: Enia SOP

EURm	EV (EURm)	EUR/ share	2009e EBITDA	EV/EBITDA implied (x)	Methodology
Gas	295	2.7	44	6.7	DCF with 6.9% WACC
Electricity	80	0.7	15	5.1	DCF with 6.9% WACC
District heating	216	2.0	25	8.5	Peer multiple
Water	262	2.4	47	5.5	DCF, 10% discount to peer multiple 6.2x
Waste	330	3.1	44	7.5	DCF 10x discount to Hera implied multiple
Other services	(74)	(0.7)	4		DCF with 6.9% WACC
Enterprise Value	1,108	10.3	181	6.1	
Associates	11	0.1			1.5x BV
Dividend to be paid in 2009	27	0.3			
Financial assets	334	3.1			
- Delmi	332	3.1			(15% of Delmi based on Edison TP of EUR1.8)
- Other financial assets	2	0.0			1.5x BV
Net debt at end 2009	(548)	(5.1)			
Provisions	(105)	(1.0)			
Minorities	(14)	(0.1)			
Premium/ (Discount)	(79)	(0.7)			
Equity value	734	6.8			
No of shares	108				
Fair value per share (EUR)	6.8				

Source: Exane BNP Paribas estimates

For the district heating division, we have taken the same multiples we use for GDF-Suez's and Veolia's energy services activities. For the waste division, we apply a 10% premium to the average waste service business for Veolia and Suez Environment, because of the appeal of the WTE business, even though they are significantly smaller than Hera and A2A.

For the water division, we include a 10% discount to the peer multiple for water activities in Italy of smaller size. We value the 15% Delmi stake at EUR332m (included in our Enia SOP), based on our fair value of Edison at EUR1.8 per share. At Edison's current price (EUR1 per share), the impact on Enia's SOP would be EUR1.3 per share

The assumptions underlying our WACC estimate are shown below:

Figure 18: Enia's WACC estimate

WACC	%
Debt/(Debt + Equity) (%)	44
Debt/Equity	78.8
Cost of debt pre tax (%)	5.1
Cost of debt after tax (%)	3.3
Risk free rate (%)	4.3
Spread (%)	0.80
Cost of equity post tax (%)	9.8
Cost of equity before tax (%)	16.0
Equity risk premium (%)	5.5
Beta levered	1.0
Beta unlevered	0.7
Tax shield (%)	35.0
Inflation (%)	2.0
Tax rate (%)	39.0
Nominal WACC after tax (%)	6.9

Source: Exane BNP Paribas estimates

We value Hera using a SOP approach. Our resulting target price is EUR2.3.

Figure 19: Hera SOP

	EV (EURm)	EUR/ share	2009e EBITDA	EV/EBITDA implied (x)	Methodology
Waste	1,798	1.7	218	8.2	DCF with WACC 6.7%
Water	982	1.0	140	7.0	DCF with WACC 6.7%
Gas	850	0.8	121	7.0	DCF with WACC 6.7%
Electricity	380	0.4	65	5.9	DCF with WACC 6.7%
Other activities	271	0.3	40	7.0	DCF with WACC 6.7%
Enterprise Value	**4,281**	**4.1**	**584**	**7.3**	
Associates	138	0.1			Tirreno Power and Galsi
Dividend to be paid in 2009	101	0.1			
Net debt at the end of 2009	(1,539)	(1.5)			
Provisions	(285)	(0.3)			
Minorities	(74)	(0.1)			
Premium/ (Discount)	(262)	(0.3)			(10%)
Fair value	**2,361**	**2.3**			
No of shares	1,033				
Fair value per share (EUR)	**2.3**				

Source: Exane BNP Paribas estimates

For each of Hera's divisions, we use a DCF approach based on a WACC equal to our estimate of the company's WACC of 6.7%. The associates are the Tirreno Power 5.5% stake, and the investment in Galsi valued at investment.

We apply a discount to our valuation due to the uncertainty surrounding potential deals in which Hera is most likely to share control. The main uncertainty would be corporate governance of the new group.

The assumptions underlying our WACC estimate are shown below.

Figure 20: Hera's WACC estimate

WACC estimate	%
Debt/(Debt + Equity) (%)	0.52
Debt/Equity	107.1
Cost of debt pre tax (%)	5.1
Cost of debt after tax (%)	3.3
Risk free rate (%)	4.3
Spread (%)	0.80
Cost of equity post tax (%)	10.3
Cost of equity before tax (%)	16.9
Equity risk premium (%)	5.5
Beta levered	1.1
Beta unlevered	0.7
Tax shield (%)	35.0
Inflation (%)	2.0
Tax rate (%)	39.0
Nominal WACC after tax (%)	**6.7**

Source: Exane BNP Paribas estimates

We value Iride using a SOP approach. Our resulting target price is EUR1.9.

Figure 21: Iride SOP

	EURm	EUR/ share	2009e EBITDA	EV/EBITDA implied (x)	Methodology
Generation & heat sales	1,380	1.7	163	8.5	DCF plant by plant
Water cycle	397	0.5	63	6.3	DCF with WACC 6.9%
Market	485	0.6	54	9.0	DCF with WACC 6.9%
Networks	708	0.9	122	5.8	DCF with WACC 6.9%
Services	107	0.1	15	7.0	DCF with WACC 6.9%
Enterprise Value	3,076	3.7	417	7.4	
Associates	439	0.5			Edipower (10%) Tirreno Power (5.5%) and OLT LNG
Dividend to be paid in 2009	65				
Net debt at the end of 2009	(1,387)	(1.7)			
Provisions	(154)	(0.2)			
Minorities	(200)	(0.2)			
Premium/ (Discount)	(276)				(15%)
Equity value	1,564	1.9			
No of shares	832				
Fair value per share (EUR)	1.9				

Source: Exane BNP Paribas estimates

For generation assets, we use our DCF plant-by-plant approach, while a DCF approach with our estimate of company WACC of 6.9% is used for the other divisions.

We include a 15% discount in our valuation, due to uncertainty regarding the merger and specific issues in the corporate governance of Iride, with rumoured tensions between one of the major shareholders (the mayor of Turin) and the company's top management. The term of the current board, including the Executive Chairman and CEO, ends next year.

The assumptions underlying our WACC estimate are shown below.

Figure 22: Iride WACC estimate

WACC estimate	%
Debt / (Debt + Equity) (%)	0.49
Debt / Equity (%)	94.8
Cost of debt pre tax (%)	5.1
Cost of debt after tax (%)	3.3
Risk free rate (%)	4.3
Spread (%)	0.80
Cost of equity post tax (%)	10.3
Cost of equity before tax (%)	16.9
Equity risk premium (%)	5.5
Beta levered	1.1
Beta unlevered	0.7
Tax shield (%)	35.0
Inflation (%)	2.0
Tax rate (%)	39.0
Nominal WACC after tax (%)	6.9

Source: Exane BNP Paribas estimates

Regulation supporting margin expansion

Water regulation set for margin increases

Regulation of the water sector in Italy is fragmented among 99 approved area plans; of these, 15 are short term and the remaining are long term. Some 90% of the population of Italy, including 6,703 municipalities, is covered by regulation.

Law 36/94, the so-called Galli law, named after its author, envisages rationalisation of the water sector and effective competition through:

– identification of the *Ambito Territoriale Ottimale*, (ATO – optimum areas of operation);

– integrated management of the entire water cycle ("Servizio idrico integrato" – SII).

The law also promotes the stability and predictability of returns by giving 25-30 year concessions and establishing a framework for returns based on the regulatory asset base (RAB), with an allowed real rate of return of 7% before tax and an operating efficiency target established with each ATO by the relevant authority.

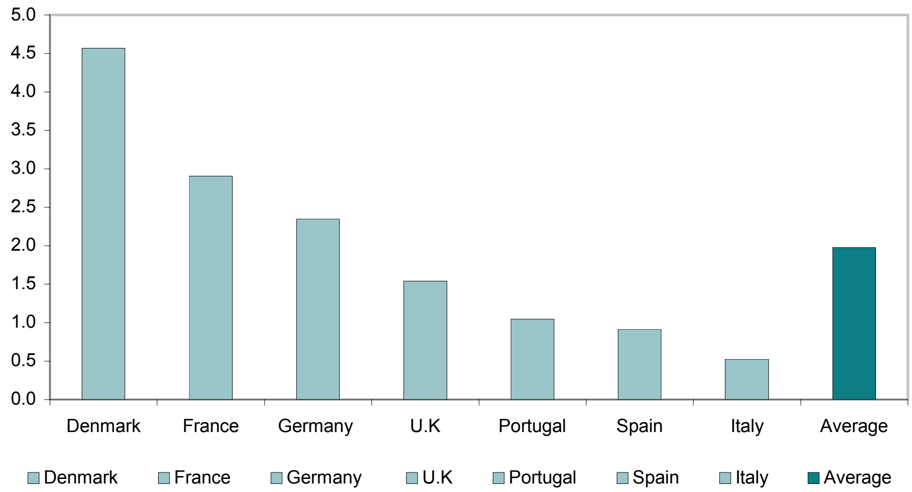
The reform of the Electricity and Gas Authority, which is currently being debated in the Italian parliament, calls for the expansion of the authority's ruling to encompass the water services business, which would strengthen enforcement of the Galli Law.

Comparison of water tariffs in Europe

Average water tariffs in Italy are well below European levels. In 2006, the average tariff was EUR1.03/m3, half the European average (the data are not fully consistent across countries, as some include taxes in reported tariffs and others do not). Water tariffs have been very political in Italy, with the consequences being a lack of investment in the network and the creation of a huge problem of water loss, well above average European levels.

Water loss from the network amounts to some 40%, the highest in Europe. Within Italy the proportion varies by region, from 25% (the European average) in some regions in the north to 70–80% in the south.

Figure 23: Average 2007 water tariff (EUR/cubic meter)



Source: Exane BNP Paribas estimates

Hera and A2A to benefit from liberalization of waste services as they have significant infrastructure in place

Waste activities are divided into two categories: urban waste and special waste. Hera's urban waste activities are fully regulated, with concessions lasting up to 2012. Hera holds a virtual monopoly on urban waste, with assets of an average life of 20 years for 70% concessions for the territory of Emilia Romagna, while Enia holds the remaining 30%.

Regulation for urban waste sustain tariff increases

The regulated activity consists in the obligation of placing the disposal containers set by the local authorities - ATOs (*ambito territoriale ottimale*). ATOs require collection, transport and treatment services.

The legislative framework is centred on the so-called **Ronchi decree** (Legislative Decree 22 issued 5 February 1997). It fixes the regulation of tariffs for waste activities: tariffs are determined by the local authorities for covering 100% of costs plus real pre-tax remuneration of 6% on capital employed, adjusted for inflation with an efficiency factor of 0.5%.

On 3 April 2006, legislative decree 152 came into effect with the objective of bringing together all issues related to the environment and the water cycle in the form of a consolidated act. The technical regulations for application of this legislative decree are still to be enacted, while the "*Testo unico su materia ambientale*" should be applied for 2009 tariffs retroactive from 2008 to 2010.

In Italy, tariffs for collection transport and treatment of urban waste are some EUR200/ton less than half the average of European Union tariffs. For treatment, there is no return on capital employed (which is owned 100% by the utility), but rather a tariff based on waste treated. Italy is characterized by a low intensity of infrastructure in waste management due to a lack of private capital investments. Companies that have significant treatment infrastructure in place, like Hera and A2A, should be benefiting for increasing competition on concessions. The European Waste directive calls for less than 50% waste into landfills.

We expect positive trends in tariff increases related to already agreed increases with ATOs in exchange for investment in increasing service quality. Hera will see an average increase in tariffs of about 3% CAGR up to 2010.

Waste-to-energy real value added on the waste service chain

Waste-to-energy plants are owned by utilities. Hera has 7 WTE plants, six of which are dedicated to urban waste and one to special waste. Waste-to-energy plants produce heat and electricity where waste is the main fuel for the plant, and there are no additional costs.

On average, one tonne of waste is equal to 0.6-0.8MWh of electricity produced (depending on the size of the plant) sold at market price, plus the green certificate price (currently EUR80MWh), or a CIP6 price (overall, approximately EUR220MWh ending by 2012) for the electricity assimilated to renewables.

The production of electricity from waste is regarded as renewable and is warranted to receive a green certificates price. Currently, it is not a reference price, since volumes traded are very thin and the green certificates have a multi-annual value. A number of wind-plant projects are based on project finance. The credit crunch is likely to scale down the pipeline of renewable projects in Italy supporting green certificate prices in the medium term.

For European legislation, production of clean energy should total 12% by 2012, with an increase from the current requirement of 3.5% of total production.

The 2008 Italian budget law has increased the percentage required from renewable resources by 0.75%, from 3.5% to 4.25%, and has determined that electricity producers should increase from the 4.25% basis, by 0.75% every year. Renewable is identified as electricity generated from hydro, wind, biogas or waste, and is reviewed every 3-4 years.

2008 budget law has also fixed the reorganisation of the subject with a number of certificates of 1 per MWh produced from wind, and 1.1 per MWh produced from waste, but only biodegradable (which excludes plastic cardboard), representing an average of 50% of the total. The duration of the rights is lengthened from 12 to 15 years. This legislation applies only to infrastructure not already authorised before end-2007, and therefore is not applicable to the existing capacity of Hera and A2A.

We expect green certificate prices to be supported in Italy by the decreasing pipeline of wind plants and to benefit companies with significant infrastructure already in place, such as Hera and A2A.

Special waste has high barriers to entry

Special waste is sensitive to economic growth. In Italy, however, there is a shortage of treatment capacity for special waste. Clients are companies whose activity is not regulated. Clients call the utility for the collection and treatment of their special waste, based on free negotiations (e.g. pharma waste, oil derivatives, chemical products). Hera and A2A are the leaders in Italy in terms of volumes treated and processing capacity, with significant market power and added value. Volumes are rising at a very high rate, with price increases of more than 10% per year. For some very hazardous products, collection and treatment tariffs could total EUR500/ton. There are only two WTE plants capable of processing highly specialised industrial waste, and they belong to A2A and Hera.

Limited regulatory risk from the new competition law

On 6 August, Italian government decree 112/08 was transposed into law 133/08. This public services reform is designed to fuel “economic development, simplification and competition”. Article 23 *bis* applies to “local public services that are economically relevant”, with specific reference to integrated water services.

The key points of the new law are:

– competitive procedures with ‘public evidence’ (i.e., transparent) are envisaged for concession of the management of local public services (article 2);

– exemption from market conditions in the case of peculiar social/environmental characteristics for the relevant territorial area (article 3).

– local authorities can define the reference areas for tenders to exploit economies of scale to increase efficiency and efficacy in delivering public services (article 7).

– all integrated water service concessions not allocated with “public evidence” are meant to end by 31 December 2010 (article 8), with the exception of concessions awarded in accordance with Article 3.

– parties managing local public services not awarded with competitive procedures cannot be awarded management of other public services or in other territorial areas, with the exception of public listed utilities (article 9).

The Italian government is expected to set the regulations for application of the law within six months; we estimate they will be implemented in February 2009.

We believe the law holds more opportunities than threats

We expect no particular impact on listed utilities from the application of this law. Article 9 allows listed utilities to bid for concessions in other areas (*ATOs*). Given the listed utilities' relative size and their local presence compared to unlisted utilities, they will most likely win concessions in their own areas. We therefore expect the law to drive further consolidation, which should benefit local listed utilities.

Low risk from networks regulation

Electricity

The regulatory framework for electricity distribution for the 2008–11 regulatory period was approved at the end of last year. This is a price-cap methodology based on a regulatory asset base with an allowed rate of return at 7% (real pre-tax), slightly higher than the 6.8% of the previous regulatory period.

Assets are revalued every year taking inflation into account, and with an efficiency factor of 1.9% applied to opex and an investment incentive of 2% on top of the allowed return, for a minimum of eight years on specific investments (quality and efficiency).

Gas

On 22 September the Electricity and Gas Authority published the third consultation document (30/08) on the regulation of gas distribution activities for the third regulatory period, 2008-2012. The final document should be approved by 30 October.

The Authority is proposing to shift the regulation for gas distribution from thermal year to calendar year, with the third regulatory period staring January 2009 and ending by December 2012 (4 years)

Currently, a price-cap methodology is used, based on a regulatory asset base with an allowed rate of return of 7.5% (real pre-tax), which should be slightly augmented to 7.6% (as proposed in the consultation document) for the third regulatory period. In the first regulatory period (2000-2004), the allowed real, pre-tax rate of return was 8.8%.

Assets are revalued every year taking inflation into account, and with an efficiency factor of 3.2% applied to opex and depreciation and an investment incentive of 2% on top of the allowed return, for a minimum of eight years on specific investments (quality and efficiency).

Given that most concessions end in 2010/2011, we do not believe the parameters of the regulation will be changed to provide visibility for investments in the network.

H1 08 Results analysis

On 28 August Enia reported H1 08 results. These were followed on 29 August by Hera's and Iride's H1 08 results. In terms of EBITDA, there was no major upside.

Figure 24: H1 08 results

EURm	Enia	Iride	Hera
Revenues - H1 08	682.4	1,193.1	1,752.4
Revenues - H1 07	590.6	1,102.0	1,344.9
Change yoy (%)	*15.5*	*8.3*	*30.3*
EBITDA - H1 08	93.8	197.1	257.6
EBITDA - H1 07	89.5	170.8	210.7
Change yoy (%)	*4.8*	*15.4*	*22.2*
EBIT - H1 08	49.2	133.0	142.7
EBIT - H1 07	48.5	111.6	113.8
Change yoy (%)	*1.4*	*19.3*	*25.4*
Net Profit - H1 08	27.3	89.8	49.6
Net Profit – H1 07	19.6	67.4	44.0
Change yoy (%)	*39.3*	*33.3*	*12.7*
Net debt - H1 08	595.2	1,314	1,750
Net debt - H1 07	440	1,083	1,323
Change yoy (%)	*35.2*	*21.3*	*32.2*
Capex - H1 08	54.8	138	185
Capex - H1 07	51.7	67	185
Change yoy (%)	*6.0*	*106.0*	*0.1*

Source: Exane BNP Paribas estimates

Enia sees mixed results (at the EBITDA level) with bottom line boosted by one-off tax effects

Enia's H1 08 EBITDA was in line with consensus expectations, positing a 4.8% increase to EUR93.8m (+8.9% adjusting for the accounting effect of Italy's reform on severance indemnities, "TFR").

Positive contributions came from the gas and integrated water cycles due to growth in volumes and clients for gas sales and distributed and the approval of the local water service management plan ("Piano d'Ambito") for water.

These were partly offset by the negative contribution from electricity, district heating and environment activities due to perimeter effects (spin-off of Blumet/-300GWh) and distribution tariff declines in electricity, fuel cost impacts in district heating, and early maintenance work and expansion of the residential collection system in the environment division.

Positive net profit growth was due to the contribution from non-recurring income taxes for EUR10.2m related to the impact of the 2008 budget law reform on the tax rate. The impact of the Robin Hood tax was not taken into account in H1 08 and should affect the bottom line in the second half of the year by an estimated EUR700/800k.

Iride shows strong EBITDA growth with some help on the bottom line from one-off tax

Iride reported strong 15.4% EBITDA growth in H1 08 with a major contribution from the market segment both on gas and sales & generation activities, held back by outages in some plants in Valle Orco for hydroelectric production that was fully operational by end-H1 08.

District heating contributed positively to the network's EBITDA growth of 11%, for a positive volumes effect linked to the expansion of the district heating network related to completion of the Torino Centro portion and a positive weather effect.

Net profit growth benefited from one-off tax benefits of EUR21m for the tax re-alignment of assets at statutory value, in accordance with Article 1 of Law 244 of 24 December 2007. Tax already accounts for the impact of the Robin Hood tax on the production and sale of electrical energy and gas.

Hera shows strongest EBITDA growth with most conservative reporting

Hera reported EBITDA growth of 22.2% to EUR257.6m from the contribution of all businesses, the change in perimeter, and plant start-ups.

In the gas division, the positive volume effect (+18% to 1,478 cubic meters of natural gas sales) was driven by weather and the consolidation of SAT Sassuolo (distribution) and Marche Multiservizi, as well as good performance in trading and procurement.

In electricity, the increase in sales and trading activities more than offset the tariff reduction in electricity distribution, while the start-up of the Teverola and Sparanise generation plants at end-2007 also helped the year-on-year comparison.

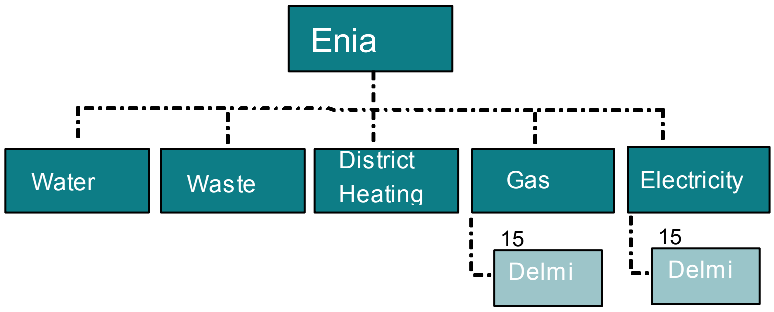
In Water, the business integration of ATO of the Sassuolo and Urbino areas and tariff adjustments defined for 2008 offset the decrease in consumption. In Waste, 2.4m tons were processed by Hera in H1 08, and completion of the Ferrara and Forli waste-to-energy plants was registered.

In terms of net profit, there was no one-off tax adjustment, and the company accounted for the full impact of the Robin Hood tax, contrary to Enia.

Shareholding structure and main operating activities

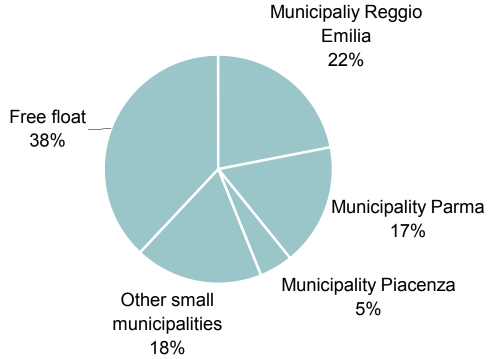
Enia at a glance

Figure 25: Enia's divisional breakdown



Source: Company

Figure 26: Enia's shareholding structure



Source: Company

Management

Chairman Andrea Allodi – also Chairman of the board of Albacom.Amps S.p.A. and Director at Delmi S.p.A. and Gran Milano S.p.A – has been Chairman of Enia since January 2004, and managed the listing in July 2007. He also served as General Manager at Big Dutchman and as Chief Executive Officer at Barilla S.p.A.

Enia CEO Andrea Viero (44) has been general manager for Friuli Venezia Giulia since June 2008. He has served in managing director roles in the Municipality of Gorizia (in 2002 following the creation of Iris-Reti Integrate e Servizi Spa, a multi-utility created in May 2003 from the merger of three utilities in Gorizia province: AMG Spa of Gorizia, [AMI Spa and Enam]; in Milan [Planning and control in 2001]; and in Trieste [1996 – working on concessions to Acegas and preparing its listing in 2000]). He is also Professor of Public Administration at Bocconi University in Milan.

Corporate Governance

The Board of Directors consists of 11 directors with terms of three years expiring upon the approval of the financial statements for fiscal year 2010. The municipalities of Reggio Emilia, Parma and Piacenza appoint a numbers of directors proportional to their interest in the group. Two of the 11 members are executive (Chairman and CEO).

According to Article 15.2 of the company bylaws, the Board of Directors has the power to change the bylaws in accordance with changes in the law, approve merger or split operations (in accordance with articles 2505, 2505 *bis* and 2506 *ter* of the Civil Code), and approve public tender offers or swaps (in accordance with Article 103, Legislative Decree 58 of 24 February 1998)

Article 7.1 of the company bylaws states that a least 50.01% of Enia's capital must be owned by public entities, and for shareholders other than public entities, the maximum allowable stake is 5% (Article 8).

Enia's 2008-2012 business plan

Enia's growth strategy is focused on four growth drivers:

– Renewal of concessions in gas, water and waste, with opportunities for consolidation

– Expansion in water, waste (new WTE plants), development of renewables and district heating

– Deployment of synergies from integration (external costs, rationalisation, internal productivity)

– Development of free market initiatives (procurement, dual fuel offering)

Figure 27: Enia's capex guidance

Capex (EURm)	2007	2008e	2009e	2010e	2011e	2012e
Gas	16	12	12	12	12	12
Electricity	11	22	22	22	22	22
District heating	13	20	12	12	12	5.0
Water Cycle	51	62	62	62	62	62
Waste	12	31	63	47	40	14
Other services	25	10	10	10	10	10
Adjustments/ Eliminations	(14)	(14)	(14)	(14)	(14)	(14)
Total	**113**	**143**	**166**	**150**	**143**	**111**

Source: Exane BNP Paribas estimates

Water concessions risk in Piacenza and Reggio Emilia

In water, Enia is the 8th-largest operator. The company plans to invest between EUR212 and 382m over 2008/12 in expectation of tariff increases of 5-8% CAGR. We believe that the middle scenario of EUR311m capex initiatives, based on a 7% CAGR increase in tariffs, is the most credible solution, given agreements already in place warranting water distribution to a total of 91m cubic meters, from the current 86m. In water, Enia faces the issue of expiring concessions: 2011 for Piacenza, and Reggio Emilia, while Parma concessions last until 2025.

Waste focused on start-up of new Parma WTE plant (2011)

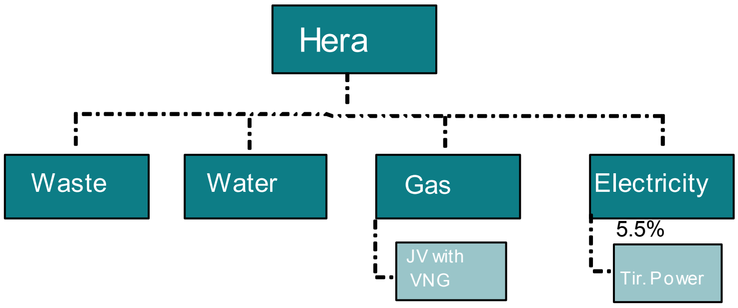
As the third-largest waste operator after Hera and A2A, Enia is investing EUR130m to increase its capacity in waste-to-energy. The new WTE in Parma is the largest project, with expected first start by end-2011, and is included in the Provincial management waste plan. Final authorisation is still to be achieved. According to the business plan, Enia should grow to 1mtons of waste processed (340,000 tons of which are in WTE). New WTE in Parma, in addition to the Edipower plant in Piacenza, will contribute to cheap heating for the district heating division.

Gas & electricity marginal contribution in the business plan

As the third-largest local utility in gas distribution and 8th-largest local player in electricity distribution, Enia is focused on optimisation of the gas network, with the main risk represented by renewal of the concessions ending in 2011. For the Electricity division, Enia plans to invest EUR57m in 2008-2012 to enter renewable generation with a target installed capacity of 20MW.

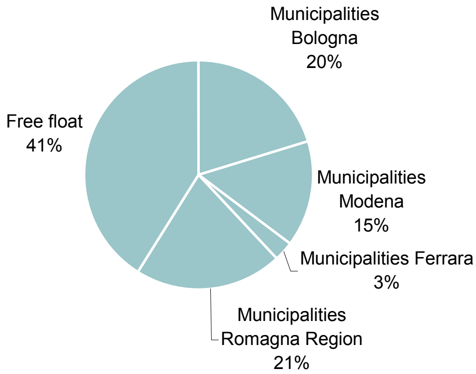
Hera at a glance

Figure 28: Hera's divisional breakdown



Source: Company, Exane BNP Paribas

Figure 29: Hera's shareholding structure



Source: Company

Management

Chairman Tomaso Tommasi di Vignano – (61) He began his career at Sip S.p.A. assuming the position of Personnel Director in 1989. From 1994 to 1997 he was General Manager of Telecom Italia. In 1997, as Managing Director of STET, he completed the merger with Telecom Italia. From 1997 he assumed the role of Managing Director of Telecom Italia and led the Group through the complete privatization process. He was Managing Director of the multi utility company ACEGAS S.p.A. in the period 1999-2002 managing its privatization and floatation. Since November 2002 he has been at the helm of Hera Group and as its Chairman he has managed the company's floatation, which took place in June 2003.

CEO Maurizio Chiarini (58). He has many years experience as a public administrator, having headed the Budget and Municipal Companies Department of Ferrara City Council between 1983 and 1995 during which time he managed the merger of the municipal companies AMIU and AMGA into Agea. In 1999, he became the Managing Director of Agea S.p.A., the multi-service company belonging to Ferrara City Council, which joined the Hera Group on January 1, 2005. Following the merger of Agea with Hera S.p.A., he was appointed Director of Operations coordinating Area Operating Companies.

Corporate Governance

The board is composed of 18 members whose term ends after three years upon the approval of 2010 financial earnings. Following the IPO (October 2003), the shareholders meeting increased the number of directors from 10 to 13 to include members nominated by "non public entity" investors. The merger with Agea at the end of 2004 then led to a further increase in the number of directors from 13 to 14. Finally following the merger with Meta (2005) the total number of directors reached 18. The Chairman and the CEP are the only two executive directors on the Board.

Article 7 of the Company articles of association stipulate that "the share capital of the company must be the ownership, for at least 51% of municipalities, provinces and consortia incorporated in accordance with article 31 of Legislative decree 267/2000". Article 14.2 stipulates that the resolutions of extraordinary shareholders meetings having the purpose of modifying article 7 (public majority shareholding) require approval by ¾ of the share capital present at the shareholder's meeting.

Hera's 2007-2010 business plan

Hera's business plan is based on cross selling expansion, vertical integration in upstream (gas & electricity), investments in waste management, expected increase in tariffs keeping a conservative business plan with target year 2010 focused on waste, water its main areas of activity.

Figure 30: Hera's capex guidance

EURm	2007	2008e	2009e	2010e
Waste	166	130	100	75
Water	131	130	124	90
Gas	32	40	32	30
Electricity	49	40	45	55
Other activities	35	30	30	30
Total	**414**	**370**	**331**	**280**

Source: Exane BNP Paribas estimates

Water leader in Central Northern Italy with tariffs increases agreed

Hera is the second largest operator in water services in Italy (after Acea). Hera is managing integrated water services in 7 ATOs. Total network of Hera represents 70% of Emilia Romagna region. The network is quite efficient (24% water losses) nonetheless Hera has committed to invest in coming years to increase this even further. Tariff increases have been agreed with local authorities up to end of the business plan excluding M&A activity and assuming constant volumes of water distributed.

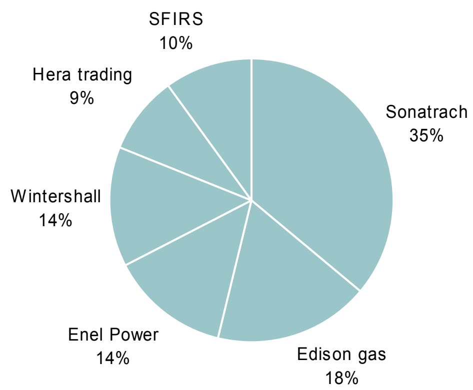
Significant projects in WTE to double its capacity by 2010

Hera also has a leading position in waste shared with A2A and is the leader in terms of volumes collected and treated (4.4million tons compared to A2A 3.5 million). Hera has 72 collection and treatment plants with 7 WTE plants compared to A2A 5 but of larger size (2000k tons of waste processed for A2A, 600k tons for Hera currently). Hera is in the process of doubling its WTE capacity with two plants starting up in 2008 (Forli' and Ferrara) some re-powering (Modena) and two new WTE to be contributing by 2010 (Rimini and Modena 2). Other projects not included in the business plan include Bologna and Firenze. The company is also participating in bidding for Salerno new WTE plant (where IRR of 13-14% is expected). Hera has issued a bond at cost of 4.3% to finance new plants. The total amount is of EUR500ml fixed for ten years. Salerno could cost EUR80-100ml.

Asset base growth and increased vertical integration in gas

Hera is a leading operator in gas and is involved in important infrastructural projects. It owns 70% of the network in Emilia Romagna region (rest Enia) distributing 2150m cubic meters of gas, and the acquisitions of SAT (116m cubic meters per year) and Megas (78m cubic meter per year) are contributing to strengthen its position in gas distribution. Hera has a partnership for gas procurement with VNG (German natural gas wholesaler) with which also it has a project to develop a storage facility (JV at Bagnolo Mella). The recent acquisition of Megas Trade in July 2008 (Marche region) added 36 thousand clients to the current client base in gas of 1 million. In addition the participation in the Galsi pipeline project (10.4% stake) to import gas from Algeria for 8bcm starting 2012/2013 should also contribute to double its equity gas from current 800million cubic meters.

Figure 31: Shareholding structure of Galsi



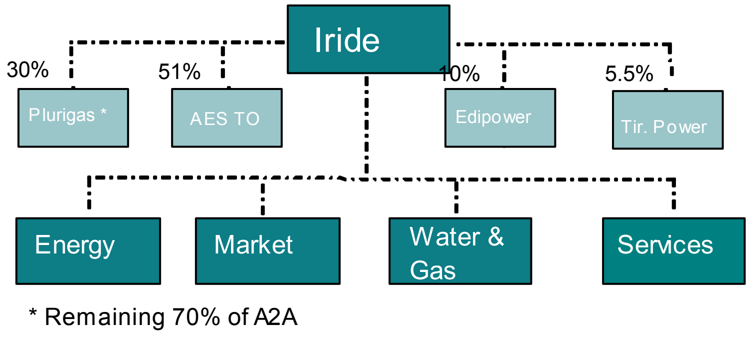
Source: Edison

Maximise strategic positioning in electricity generation

In electricity Hera operates in distribution, sales and electricity generation combining electricity with gas in its dual offer strategy towards its customer base (1 million). The generation portfolio is scheduled to reach 350MW and should contribute to about 40% of divisional EBITDA by 2010 from the three new CCGT plants of Teverola (400MW 39% stake, remaining Ratia Energie AG, operational since end of 2007), Sparanise, (800MW 15% stake 85% EGL, operational 2007) and the Imola CCGT plant (80MW, 100% stake, to be operational by 2009). In addition the company has a stake of 5.5% in Tirreno Power consolidated under the equity method.

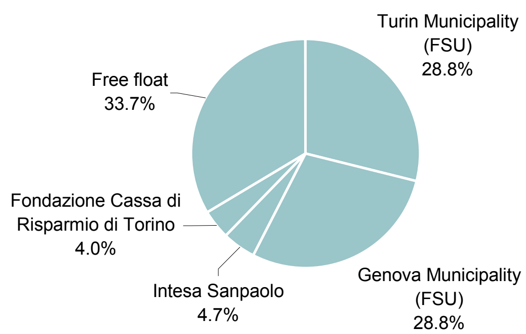
Iride at a glance

Figure 32: Iride's divisional breakdown



Source: Company, Exane BNP Paribas estimates

Figure 33: Iride's shareholding structure



Source: Company

Management

Chairman Roberto Bazzano (64), is currently also CEO of IRIDE Acqua Gas S.p.A. (October 2006) and CEO of IRIDE Mercato S.p.A. He has also been a member of the board of directors of Plurigas S.p.A. since 2000 where he was Chairman from 2004-2007. He started his career as plant manager and then general manager of Grondona S.p.A of Genoa (mechanical-metallurgical company), 1972-1980. He was then General Manager of the Municipal Gas and Water Enterprise of Genoa, 1980-1995. CEO and General Manager of Azienda Mediterranea Gas e Acqua S.p.A of Genoa from 1996 until 30 October 2006. CEO of Genova Acque S.p.A from 1999 and then of the merging company, Mediterranea delle Acque S.p.A., until September 2006. - CEO of AMGA Commerciale S.p.A. from 2000 until October 2006.

CEO Roberto Garbati is currently also CEO and General Manager of IRIDE Energia S.p.A, CEO of IRIDE Servizi S.p.A and Chairman of AES Turin. He started his career as Manager at AEM Turin in 1984 where in 1997 he was appointed General Manager. In 2000 he became Chairman of SIET and in 2002: CEO of AEM Torino Distribuzione S.p.A. In 2005 General Manager of AEM Turin with duties previously assigned to the Chairman/CEO

Corporate governance

The Board of Directors is made up of 12 Directors for a term of three years that ends with the approval of 2008 financial earnings. Resolutions are passed with the favourable vote of at least nine Directors.

The new company articles of association have been approved with a resolution passed by AEM Torino shareholders at the extraordinary meeting of the 2 May 2007 and has been modified further following the share issue from the financial year ending 30 June 2008 and registered on 15 July 2008.

According to Article 5.1 of the company articles of association the municipality of Turin and Genova must hold not less than 51% of the share capital, through a specific jointly controlled company (the Parent i.e. Finanziaria Sviluppo Utilities, FSU). Article 8 of the company articles of association stipulates that individual shareholders, other than the Parent, may not hold an investment of over 5% in the company share capital. The quorum required for extraordinary shareholders meetings is 50% of the company share capital as in accordance with the law (Article 13 of company articles of association).

Iride 2008-2012 business plan

Upstream generation is the key strength of Iride: it has a direct portfolio of assets with installed capacity of 1.1GW (of which 470MW hydro, and the rest cogeneration gas fired capacity) with additional 800MW from participations in Edipower (10%) and Tirreno Power (5.5%). Electricity and heat generation contributed by 26% to 2007 full year reported EBITDA.

Figure 34: Capex guidance

Capex (EURm)	2007	2008e	2009e	2010e	2011e	2012e
Generation & heat sales	95	130	100	120	120	40
Water Cycle	30	30	30	30	30	30
Market	8	60	40	22	22	22
Networks	61	66	83	66	56	56
Services	8	40	40	3.2	3.2	3.2
Total	**202**	**326**	**293**	**242**	**232**	**152**

Source: Exane BNP Paribas estimates

Generation & heat sales to double its own thermal production (target of 7.1TWh)

Iride has laid out a strategy of growth in its cogeneration capacity by 2012 with the re-powering of the Moncalieri 2nd unit into CCGT in H208 and the investment on the new Turin North CCGT plant (390MW) which should be coming on stream by 2011 and will allow for the expansion of district heating and cogeneration activities in the Turin area.

The Moncalieri plan will be receiving green certificates on a portion of the heat supplied by both the 3rd and 2nd unit to the district heating network. Iride is in the start up phase in hydro generation with its Point Ventoux plant (150MW), one of the largest projects in hydro recently developed.

Gas strategy focused upstream

Iride is distributing gas both in the Genova area directly (1128mcm) and in Turin through its 51% stake of AES Turin (49% Italgas) carrying 633mcm of natural gas.

Iride is planning to increase its own gas sources (within market division) with the target of procuring 2.9bcm by 2012 (2.2bcm currently) of which 2.5bcm should be covered by internal sources (1.1bcm currently coming from the 30% stake in Plurigas, consolidated by the equity method since the beginning of 2008, before which it was consolidated proportionally).

Last 25 September Iride announced the signing of an agreement with A2A and Gazprom for the creation of a joint venture (50% Gazprom stake, appointing the Chairman and the remaining 50% split 70% to A2A and 30% to Iride, appointing the Managing Director) that will operate on the Italian natural gas market and a long term contract to supply natural gas to the joint venture until 2022 with initial volumes of 900mcm with the contract taking effect from October 1 2008.

In addition Iride is a partner in two LNG projects already authorized: the OLT (offshore Livorno with capacity of 4.7 bcm and 3.75 bcm authorized where Iride has 50% stake i.e.1.9bcm), with the rest belonging to E.ON (20% granted for third party access, TPA) and the Medgas (Gioia Tauro LNG, 12bcm of capacity, 20% TPA and 45% Iride stake 4.3bcm, remaining Sorgenia partner in Fingas). The Gioia Tauro LNG is not included in the business plan; if it were gas sources could reach 6.9bcm.

Water tariff increases agreed in the Genova ATO

Iride is planning to develop Genoa ATO with a new capex plan agreed with local authorities. Concessions end in 2025 for Mediterranea delle Acque and for Idrotigulio concessions run up to 2050. The company has already agreed tariff increases with relevant local authorities in all the ATOs of operation with the aim of achieving, by the of the business plan, the 7% (real pre tax) return on the invested capital fixed by the Galli Law. In addition synergies from the integration of waterworks in the Genova area and the alliance with SMAT (controlled by Turin municipality) for the development of Acque Potabili (31% stake Iride) should drive further EBITDA growth given the awarding of the ATO Palermo concessions that run for 30 years.

Update on the three-way merger negotiations

Negotiations on the three-way merger have not yet produced a clear outcome

A letter of intent for a three-way merger was signed on 26 May 2008. The respective Chairmen of the three utilities have fixed a deadline for ending negotiations by September 2008 in order to finalise the merger by the end of the year. This deadline, which was confirmed in H1 08 conference calls, has been now past.

Corporate governance and the share exchange ratios have been the main stumbling blocks to the realization of the three-way merger and the parties involved (political shareholders) have apparently not agreed on terms.

Hera and Iride have been the most vocal during the process with different views on both factors:

– On corporate governance, Hera has been pushing for a dual governance system (as for A2A) with public shareholders maintaining a majority of the group. Iride has been more in favour of a traditional single-board corporate governance structure reducing public ownership to a minority stake in the new group.

– On the share exchange ratios, Hera has been pushing towards taking market prices as the basis, in which case it would represent about 50% of new group. Iride has been more willing to base the exchange ratio on overall value with the inclusion of forthcoming projects.

– Enia, given its relative size and potentially limited weight in the new group's corporate governance, has not presented any strong views blocking the merger negotiations.

Other scenarios are now possible

The end of September deadline has passed. The three-way merger project is very ambitious, and given the recent market turmoil, it could take bit more time to see the light of day. The market has so far penalized all three stocks for the uncertain outcome of the negotiations. The end of the exclusivity period means alternative scenarios may now arise:

– A two-way merger between Enia and Hera with synergies in regulated activities given the proximities of networks;

– Interest from other larger utilities in the individual companies. For example, the chairman of the management board of A2A recently expressed an interest in Enia, in particular in the 15% stake it owns in Delmi. Other interested parties might be GDF-Suez/E.ON/RWE/EDF potentially interested in minority stakes in Enia or Iride. We believe that given Hera's own history as aggregator, it is the least likely to be targeted by other players.

Our view on the three-way merger

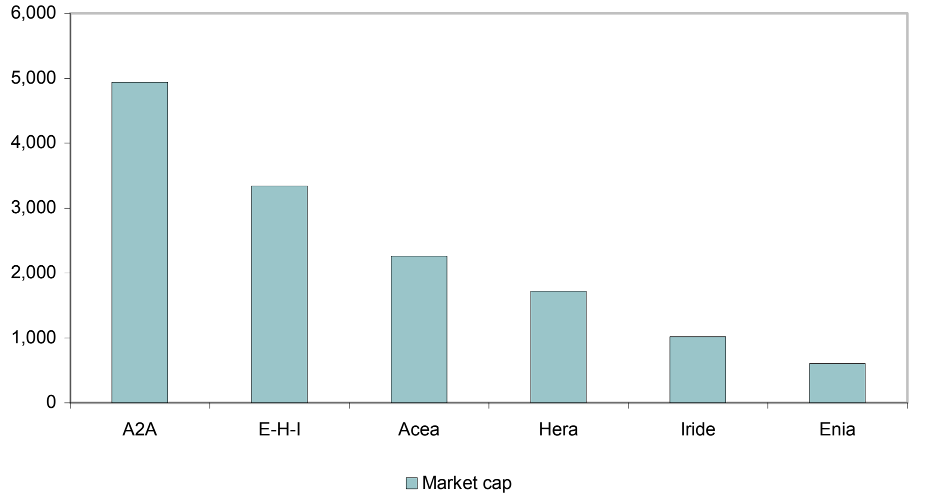
We cannot rule out a three-way merger scenario. We have no visibility on the potential terms, which depend on political discussions. But we know that friction between Iride and Hera could introduce tension in the new group's corporate governance. We are basing our three-way merger scenario on our fair value of the stocks (including a 10% discount on Hera and Enia and a 15% discount on Iride).

We expect an official announcement by the middle of the month at the latest since the Municipal councils would need to approve an extraordinary merger operation before the end of the month of October, i.e. six months before the political elections next April.

Profile of the Enia Hera Iride (EHI) group

E-H-I would have market cap of EUR4bn, at current prices, ranking second behind A2A (EUR5.9bn)

Figure 35: Italian local utilities by market cap



Source: Datastream

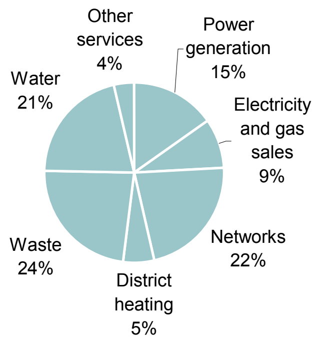
The potential client base would reach six million citizens, the group would be leader in waste management with 5.3m tonnes of waste processed (A2A 3.5 million tonnes) and leader in district heating with 2.4TWh sold.

In the water service the newco would be the second player after Acea with total network water injected of 450m of cubic meters and among the leaders in electricity generation with 2500 MW of capacity installed and 20TWh of electricity sold.

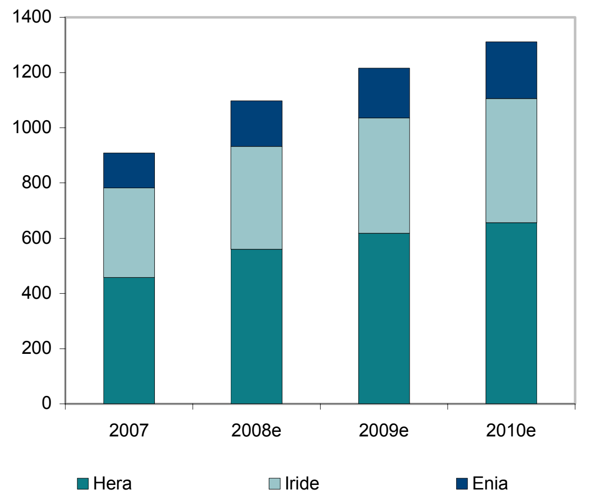
Geographically it would operate in the centre, north and western regions of Italy, just between the operating territories of A2A and Acea.

Figure 36: Newco

2009e EBITDA by division (EUR1216m)



Newco EBITDA by contributor



Source: Exane BNP Paribas estimates

Overall pro forma 2009e EBITDA would total EUR1,216m 70% of which is regulated. Hera would contribute 51% of the newco's entire pro forma EBITDA in 2009.

Share exchange ratio

The potential share exchange ratio will be decided in the end by shareholders, i.e. politicians. We have no visibility on this matter and we are therefore using for our three-way merger scenario a share exchange ratio based on our estimate of the fair value of the individual companies.

Figure 37: Share exchange ratio suggested with discount on Hera and Iride

EUR/s	Hera	Iride	Enia	Iride/Hera	Enia/Hera
6-month historical prices*	2.77	2.21	10.5	0.80	3.79
Current price	1.63	1.31	4.85	0.80	2.98
Ratio suggested based on fair value	2.3	1.9	6.8	0.82	2.99
Upside on current price (%)	40	43	41	2.3	0.4

Source: Exane BNP Paribas estimates

– On a fundamental stand-alone basis (including a discount of 10% for Hera and Enia and of 15% for Iride), all three stocks offer similar upside of 40%, in line with rest of the sector.

– The share exchange ratio based on our estimates of the fair values of the three companies indicates the three stocks offer limited relative advantages, given their similar absolute upsides.

– If we were to apply no discount to Hera and Iride, there would be an 8% relative upside on Iride versus Hera.

Figure 38: Revised suggested share exchange ratio with no discount

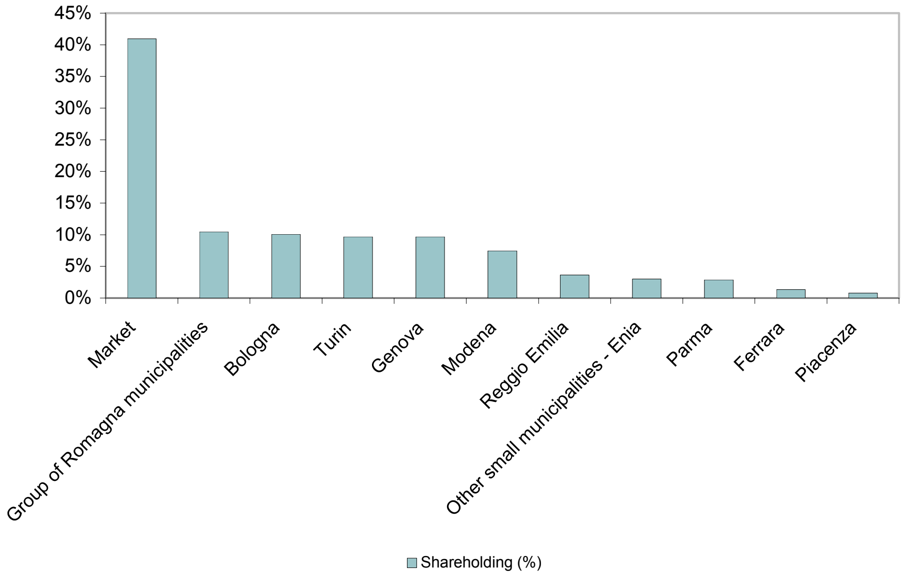
EUR/s	Hera	Iride	Enia	Iride/Hera	Enia/Hera
6 months historical prices*	2.77	2.21	10.5	0.80	3.79
Current price	1.63	1.31	4.85	0.80	2.98
Ratio suggested based on fair value	2.5	2.2	7.6	0.87	2.98
Upside on current price (%)	56	69	56	8.3	0.1

Source: Exane BNP Paribas estimates

Shareholding structure and corporate governance

With the share exchange ratio based on our fair values, the shareholding structure of the company would be as follows:

Figure 39: New group shareholding



Source: Exane BNP Paribas estimates

Bologna Turin and Genova would be the main individual shareholders in the newco with 10% each. The remaining part of the shareholding base would be highly fragmented and therefore secure some stability for minority holders with an estimated share of 41% of combined capital.

Merger synergies - historical comparison

A merger should benefit all three companies in terms of synergies opportunities.

Figure 40: Synergies comparison

Company	Business plan	Total EBITDA synergies (EURm)	As % of EBITDA
H-I-E (Hera - Iride - Enia)	expected	85	7
A2A (AEM Milano- ASM Brescia - AMSA)	2008-2012	110	10
Hera (Meta Modena, SAT)	2008-2010	49	11
IRIDE (AEM Torino AMGA Genova)	2007-2011	30	9

Source: Exane BNP Paribas estimates

– Greater proximity between Hera’s and Enia’s networks, particularly in gas and waste, with synergy potential representing 3% of 2009 combined EBITDA.

– Potential cross selling (electricity, gas, water, heat) with potential synergies representing 1% of 2009 combined EBITDA.

– Procurement of gas &heat - 2% of 2009 combined EBITDA.

– Overall 7% of 2009 combined EBITDA, within the 7-11% range of synergies in local utilities mergers.

A2A versus the new group

Figure 41: E-H-I, A2A comparison

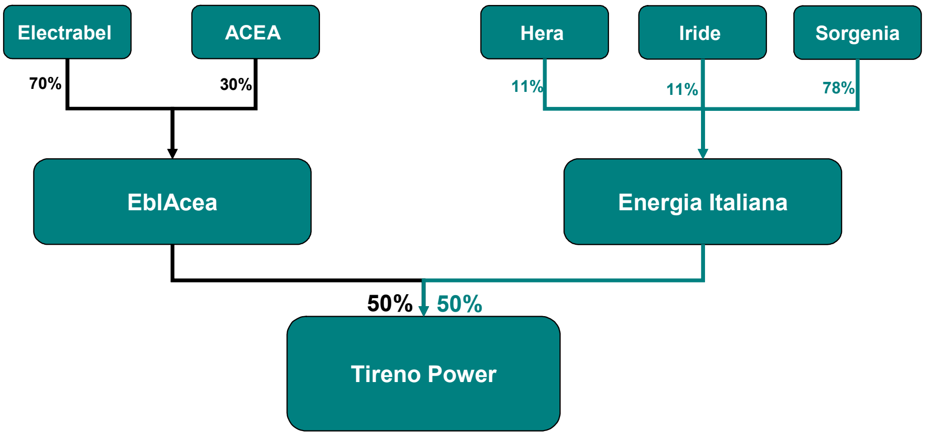
Themes	E-I-H	A2A	Note
Corporate governance:	+/-	-	More fragmented public ownership could guarantee more stability to management in new entity versus A2A initially
Different political colour:	-	-	Both groups belong to the same political party (A2A centre right, Iride Centre left). However, local interests seem to wield a stronger influence than political colour, complicating corporate governance.
Business model:	=	+	A2A, more upstream oriented (60% of 2009e EBITDA from generation and unregulated waste) controlling Edison with EDF and international ambitions. EHI more local, regulated (61% of pro-forma 2009 EBITDA) and downstream oriented
Competition in Waste to Energy:	+	+	A2A and H-I-E really competing in liberalising WTE market: A2A 5WTE plants with higher critical mass / Hera 7 WTE plants smaller size. Only two significant operators in Italy, they should both benefit from current environment
Links between A2A and H-I-E	=	=	Enia owns 15% of Delmi 51% controlled by A2A. Iride owns 10% of Edipower, remaining 50% owned by Edison and 20% by A2A

Source: Exane BNP Paribas estimates

Appendices

What is Tirreno Power?

Figure 42: TIrreno Power shareholding structure



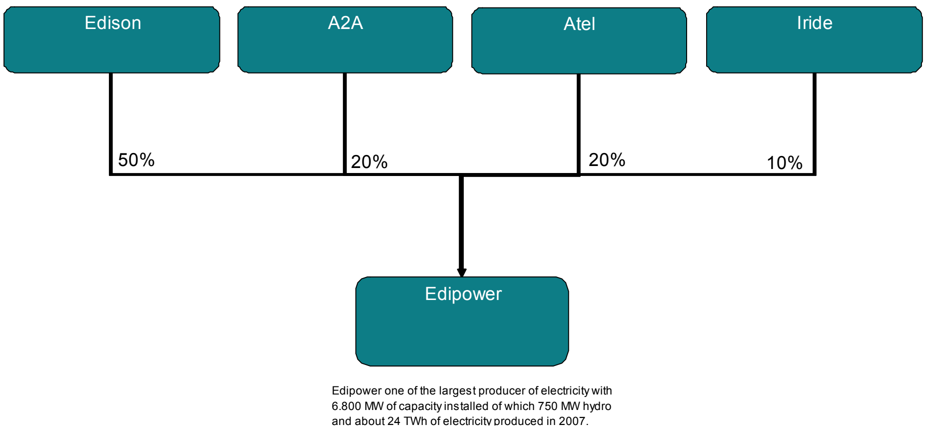
Source: Sorgenia, Tirreno Power

Tirreno Power is one of Enel's former 'Gencos', with installed capacity of 2893MW and electricity production of 15 TWh in 2007. The Authority for Electricity and Gas (AEEG) authorized EBL Acea and Energia Italiana to acquire it at end-2002.

The company is currently controlled by two parties, Ebl Acea and Energia Italiana holding.

What is Edipower?

Figure 43: Edipower shareholding structure



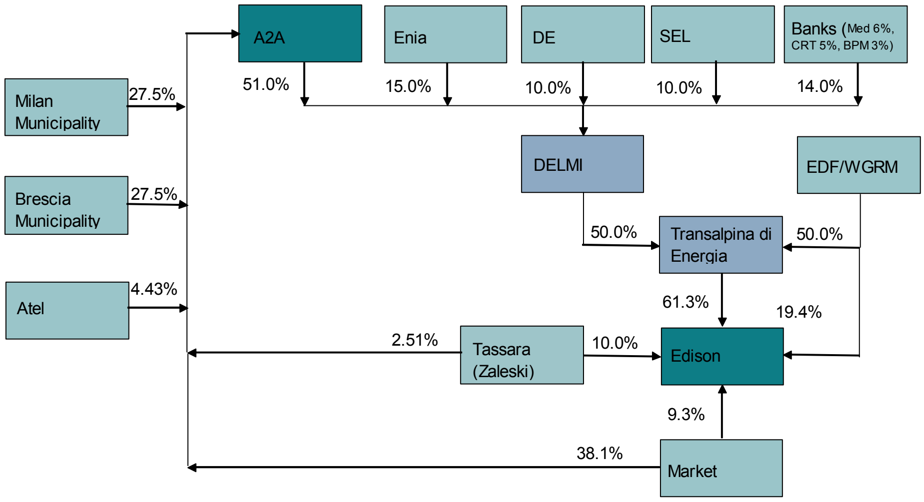
Source: A2A/Edison

Edipower is one of the largest producers of electricity in Italy with 6.800MW of capacity installed of which 750 MW hydro and approximately 24TWh of electricity produced in 2007.

One of the former gencos that Enel was forced to sell in the 1990s. The company is currently controlled and consolidated by Edison. See also the participation of Atel, the Swiss utility with a 10% stake.

Reminder of A2A/Edison shareholding structure

Figure 44: A2A/Edison shareholding structure



Source: Company, Exane BNP Paribas estimates

From the shareholding structure of Delmi, Enia could end up owning A2A shares if the parties, A2A and Delmi minorities agree to the buyout paid in cash and A2A shares. Enia entered in the agreement on Delmi with a total investment of EUR320m in 2006 which is equivalent to a price of EUR1.55 per Edison share.

Analyst location

As per contact details, analysts are based in the following locations: Paris, France for telephone numbers commencing +33; London, UK +44; Milan, Italy +39; Frankfurt, Germany +49; Geneva, Switzerland +41; New York, USA +1; Singapore +65; Zurich, Switzerland +41.

Rating definitions

Stock Rating (vs Sector)
Outperform: The stock is expected to outperform the industry large-cap coverage universe over a 12-month investment horizon.
Neutral: The stock is expected to perform in line with the industry large-cap coverage universe over a 12-month investment horizon.
Underperform: The stock is expected to underperform the industry large-cap coverage universe over a 12-month investment horizon.
Sector Rating (vs Market)
Outperform: The sector is expected to outperform the DJ STOXX50 over a 12-month investment horizon.
Neutral: The sector is expected to perform in line with the DJ STOXX50 over a 12-month investment horizon.
Underperform: The sector is expected to underperform the DJ STOXX50 over a 12-month investment horizon.
Key ideas
BUY: The stock is expected to deliver an absolute return in excess of 30% over the next two years. Exane BNP Paribas' Key Ideas Buy List comprises selected stocks that meet this criterion.

Distribution of Exane BNP Paribas' equity recommendations

As at 10/07/2008 Exane BNP Paribas covered 486 stocks. The stocks that, for regulatory reasons, are not accorded a rating by Exane BNP Paribas are excluded from these statistics. For regulatory reasons, our ratings of Outperform, Neutral and Underperform correspond respectively to Buy, Hold and Sell; the underlying signification is, however, different as our ratings are relative to the sector.
35% of stocks covered by Exane BNP Paribas were rated Outperform. During the last 12 months, Exane acted as distributor for BNP Paribas on the 2% of stocks with this rating for which BNP Paribas acted as manager or co-manager on a public offering. BNP Paribas provided investment banking services to 8% of the companies accorded this rating*.
40% of stocks covered by Exane BNP Paribas were rated Neutral. During the last 12 months, Exane acted as distributor for BNP Paribas on the 4% of stocks with this rating for which BNP Paribas acted as manager or co-manager on a public offering. BNP Paribas provided investment banking services to 6% of the companies accorded this rating*.
25% of stocks covered by Exane BNP Paribas were rated Underperform. During the last 12 months, Exane acted as distributor for BNP Paribas on the 2% of stocks with this rating for which BNP Paribas acted as manager or co-manager on a public offering. BNP Paribas provided investment banking services to 4% of the companies accorded this rating*.
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Complete disclosures, please see www.exane.com/compliance

Exane

Pursuant to Directive 2003/125/CE and NASD Rule 2711(h)

Unless specified, Exane is unaware of significant conflicts of interest with companies mentioned in this report.

Company	Investment banking	Distributor	Liquidity provider	Corporate links	Analyst's personal interest	Equity stake US Law	Equity stake French Law	Amended after disclosure to company	Additional material conflicts
Enia	NO	NO	NO	NO	NO	NO	NO	NO	NO
Hera	NO	NO	NO	NO	NO	NO	NO	NO	NO
Iride	NO	NO	NO	NO	NO	NO	NO	NO	NO

Source: Exane

See www.exane.com/disclosureequitiesuk for details

BNP Paribas

Exane is independent of BNP Paribas (BNPP) and the agreement between the two companies is structured to guarantee the independence of Exane's research, published under the brandname « Exane BNP Paribas ». Nevertheless, to respect a principle of transparency, we separately identify potential conflicts of interest with BNPP regarding the company/(ies) covered by this research document.

Potential conflicts of interest: None.

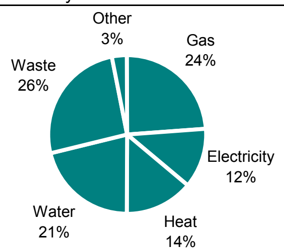
Source: BNP Paribas

Enia profile

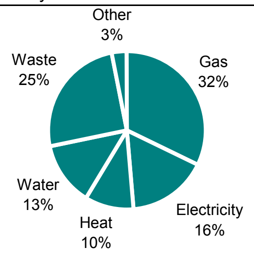
Business

Enia was created in 2005 from the merger of AGAC, AMPS and TESA, local municipal utilities of Reggio Emilia, Parma and Piacenza. It's business model is based on a multi utilities approach with Enia active in water, waste, district heating, gas and electricity sales.The municipalities of Reggio Emilia, Parma and Piacenza hold together 43.8% of the company, other small municipalities hold 18% and free float of 31.3%

2007 EBITDA by business



2007 EBIT by business



Management	
Chairman	Andrea Allodi
CEO	Andrea Viero
Investor Relations	Giulio Domma
-	

Shareholders (%)	Stake	Voting rights
Municipality Reggio Emilia	21.9	-
Municipality Parma	17.4	-
Municipality Piacenza	4.6	-
Other small municipalities	18	-
Free float	31.3	-

Sector ratings

	Rating	Price (EUR)	Target price (EUR)	Upside/ (downside) (%)
► **Large caps (Priced at 9 October 2008)**				
A2A	(+)	1.4	2.9	106
E.ON	(-)	28.3	35.4	25
EDF	(+)	39.1	77.0	97
Edison	(+)	1.0	1.8	79
EDP Renovaveis SA	(-)	4.5	5.8	30
Enagas	(+)	12.0	22.9	91
Endesa	(=)	20.1	37.1	85
Enel	(=)	5.0	7.8	55
Energias de Portugal (EDP)	(=)	2.3	4.2	83
Gas Natural SDG	(-)	22.9	35.4	55
GDF Suez	(=)	26.3	44.6	70
Iberdrola	(+)	5.8	11.2	94
Iberdrola Renovables	(-)	2.8	4.9	74
National Grid	(=)	610.0p	798.0p	31
Red Electrica	(-)	29.7	43.2	45
RWE	(-)	59.0	80.0	36
Snam Rete Gas	(=)	4.0	4.8	19
Suez Environnement	(+)	15.6	22.1	42
Terna	(-)	2.3	2.9	26
Union Fenosa	(=)	16.6	18.3	11
Veolia Environnement	(-)	23.8	37.6	58
► **Mid caps (Priced at 9 October 2008)**				
Acea	(+)	9.6	14.3	49
EDF Energies Nouvelles	(-)	27.7	37.0	33
Enia	(=)	4.8	6.8	42
ERG Renew	(-)	1.2	2.3	88
Hera	(=)	1.5	2.3	52
Iride	(=)	1.3	1.9	52
Theolia	(-)	4.3	11.0	157

Recent Exane publications

Date	Company	Type	Title	Pages
3 Oct. 2008	Acea	Report	The regulated player with French connections	22
15 Sep. 2008	Utilities	Report	Duration, duration, duration - an update	16
15 Sep. 2008	EDP Renovaveis SA	Report	Overvalued green mirage	40
24 Jul. 2008	Automotive	Report	Opportunities across the market	38

Diary

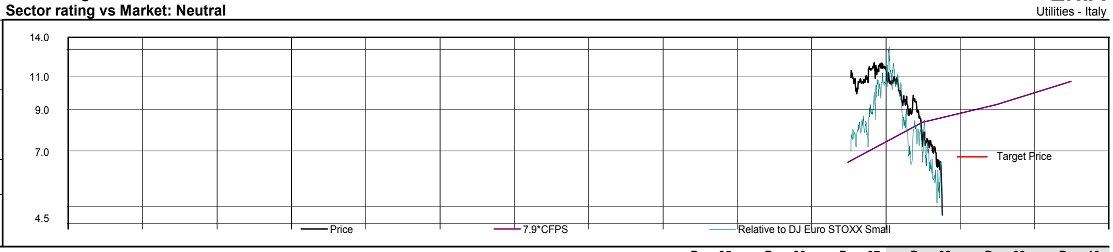
Date	Event

Price at 09/10/08: EUR 4.8
Target price: EUR 6.8 / + 42.4%

Stock rating vs Sector: Neutral
Sector rating vs Market: Neutral

ENIA
Utilities - Italy

Enterprise value (EURm)			773
Mkt cap. / Free float (EURm)			515 / 161
3m average volume (EURm)			0.73
12-mth high / low (EUR)			12.0 / 4.8
Performance	**1mth**	**3mths**	**12mths**
Absolute	(30%)	(39%)	(55%)
Rel. (Sector)	(13%)	(17%)	(30%)
Rel. (DJ Euro STOXX	(8%)	(20%)	(18%)
Reuters/Bloomberg			EN.MI / EN IM
Analyst: Nicola Porcari			
CAGR	**2006/2008**		**2008/2010**
EPS restated (*)	(6%)		16%
CFPS	(8%)		13%



PER SHARE DATA (EUR)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
No of shares year end, basic, (m)	71.400	71.400	107.500	107.871	107.871	107.871
Average no of shares, diluted, excl. treasury stocks (m)	71.400	71.400	107.500	107.871	107.871	107.871
Price (yearly avg from Dec. 07 to Dec. 07)			**11.2**	**4.8**	**4.8**	**4.8**
EPS reported	*0.01*	*0.38*	*0.27*	*0.33*	*0.38*	*0.45*
EPS restated	0.02	0.38	0.25	0.33	0.38	0.45
% change	*0.0%*	*1924.4%*	*(32.9%)*	*30.4%*	*14.0%*	*18.1%*
CFPS	0.89	1.25	0.84	1.06	1.19	1.37
Book value (BVPS) (a)	4.7	6.1	6.4	6.5	6.7	6.8
Net dividend	0.00	0.14	0.20	0.23	0.27	0.30
STOCKMARKET RATIOS — **YEARLY AVERAGE PRICES for end Dec. 07 to Dec. 07**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
P / E (P/ EPS restated)			43.8x	14.4x	12.6x	10.7x
P / E relative to DJ Euro STOXX Small			265%	167%	164%	100%
P / CF			13.3x	4.5x	4.0x	3.5x
FCF yield			(5.0%)	(4.2%)	(6.7%)	0.0%
P / BVPS			1.74x	0.73x	0.72x	0.70x
Net yield			1.8%	4.9%	5.6%	6.4%
Payout	0.0%	36.7%	78.4%	70.4%	70.4%	67.9%
EV / Sales			1.07x	0.60x	0.61x	0.60x
EV / Restated EBITDA			8.2x	4.7x	4.6x	4.2x
EV / Restated EBIT			17.1x	9.3x	9.1x	8.1x
EV / OpFCF			NC	33.5x	58.4x	15.1x
EV / Capital employed (incl. gross goodwill)			1.6x	0.9x	0.9x	0.9x
ENTERPRISE VALUE (EURm)			**1,297**	**773**	**837**	**868**
Market cap			1,200	515	515	515
+ Adjusted net debt			441	486	548	579
+ Other liabilities and commitments			105	105	105	105
+ Revalued minority interests			11	13	14	15
- Revalued investments	0	0	459	345	345	345
P & L HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Sales	**1,208.1**	**1,226.0**	**1,208.1**	**1,294.9**	**1,362.5**	**1,459.0**
Restated EBITDA (b)	**95.1**	**143.2**	**159.0**	**165.8**	**180.7**	**208.0**
Depreciation	(63.6)	(75.4)	(83.2)	(83.0)	(89.2)	(101.2)
Restated EBIT (b) (*)	**31.4**	**67.8**	**75.7**	**82.9**	**91.5**	**106.8**
Reported operating profit (loss)	31.4	67.8	75.7	82.9	91.5	106.8
Net financial income (charges)	(12.7)	(13.0)	(21.8)	(21.1)	(23.3)	(26.3)
Affiliates	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.7	2.0	0.0	0.0
Tax	(15.6)	(23.8)	(24.3)	(24.1)	(26.3)	(31.2)
Minorities	(1.8)	(3.9)	(2.9)	(1.8)	(1.0)	(1.0)
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Net attributable profit reported	1.3	27.1	27.4	37.9	40.9	48.3
Net attributable profit restated (c)	**1.3**	**27.1**	**27.4**	**35.9**	**40.9**	**48.3**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
EBITDA (reported)	**95.1**	**143.2**	**159.0**	**165.8**	**180.7**	**208.0**
EBITDA adjustment (b)	**(0.0)**	**0.0**	**(0.0)**	**0.0**	**0.0**	**0.0**
Other items	84.0	(4.6)	(13.4)	0.0	0.0	0.0
Change in WCR	153.0	27.6	(48.3)	0.1	0.1	0.1
Operating cash flow	**332.1**	**166.2**	**97.2**	**165.9**	**180.8**	**208.1**
Capex	(181.6)	(110.5)	(111.4)	(142.8)	(166.5)	(150.5)
Operating free cash flow (OpFCF)	**150.5**	**55.8**	**(14.2)**	**23.1**	**14.3**	**57.6**
Net financial items + tax paid	(28.3)	(36.8)	(46.1)	(45.2)	(49.6)	(57.5)
Free cash flow	**122.2**	**18.9**	**(60.2)**	**(22.1)**	**(35.3)**	**0.1**
Net financial investments & acquisitions	(276.1)	2.0	(13.5)	0.0	0.0	0.0
Other	(546.7)	141.7	1.6	0.0	0.0	0.0
Capital increase (decrease)	0.0	0.2	196.9	0.0	0.0	0.0
Dividends paid	0.0	(12.5)	(15.0)	(23.3)	(26.9)	(30.7)
Increase (decrease) in net financial debt	**700.6**	**(150.3)**	**(109.8)**	**45.4**	**62.2**	**30.6**
Cash flow, group share	**64**	**89**	**90**	**115**	**128**	**147**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Fixed operating assets, incl. gross goodwill	763	826	890	949	1,027	1,076
WCR	51	(144)	(104)	(104)	(104)	(104)
Capital employed, incl. gross goodwill	**814**	**682**	**786**	**846**	**923**	**972**
Shareholders' funds, group share	332	437	689	704	718	735
Minorities	14	14	11	13	14	15
Provisions/ Other liabilities	94	102	105	103	103	103
Net financial debt (cash)	701	550	441	486	548	579
FINANCIAL RATIOS (%)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Sales (% change)	NS	1.5%	(1.5%)	7.2%	5.2%	7.1%
Organic sales growth		1.5%	(1.5%)	7.2%	5.2%	7.1%
Restated EBIT (% change) (*)	NS	115.8%	11.6%	9.5%	10.4%	16.7%
Restated attributable net profit (% change) (*)	NS	1924.4%	1.0%	30.9%	14.0%	18.1%
Personnel costs / Sales	7.9%	9.0%	9.3%	8.7%	8.4%	7.9%
Restated EBITDA margin	7.9%	11.7%	13.2%	12.8%	13.3%	14.3%
Restated EBIT margin	2.6%	5.5%	6.3%	6.4%	6.7%	7.3%
Tax rate	NC	43.5%	45.1%	37.8%	38.6%	38.7%
Net margin	0.3%	2.5%	2.5%	3.1%	3.1%	3.4%
Capex / Sales	15.0%	9.0%	9.2%	11.0%	12.2%	10.3%
OpFCF / Sales	12.5%	4.5%	(1.2%)	1.8%	1.1%	3.9%
WCR / Sales	4.2%	(11.8%)	(8.6%)	(8.0%)	(7.6%)	(7.1%)
Capital employed (excl. gross goodwill) / Sales	65.8%	53.8%	62.8%	63.2%	65.8%	64.8%
ROE (before goodwill)	0.4%	6.2%	4.0%	5.1%	5.7%	6.6%
Gearing	203%	122%	63%	68%	75%	77%
EBITDA / Financial charges	7.4x	10.4x	7.1x	7.8x	7.7x	7.9x
Adjusted financial debt / EBITDA	7.4x	3.8x	2.8x	2.9x	3.0x	2.8x
ROCE, excl. gross goodwill		5.8%	5.5%	6.3%	6.3%	6.9%
ROCE, incl. gross goodwill		5.6%	5.3%	6.1%	6.1%	6.7%
WACC	NC	NC	6.6%	6.9%	6.9%	6.9%
Average number of employees						

(a) Intangibles: EUR26.91m, or EUR0 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost
(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years

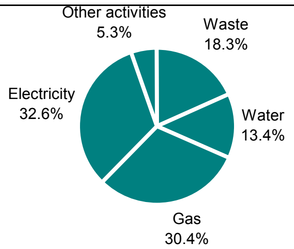
EXANE BNP PARIBAS

Hera profile

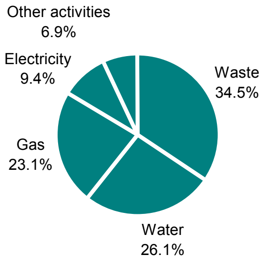
Business

Created in 2002 by the merger of 12 local multiutilities operating in Northern central Italy. The group has 2 million customers and operates in five areas with a balanced defensive portfolio geared towards regulated downstream activities: Waste management (collection and treatment with 72 plants but also 7 WTE plants), Water (distribution and sales of water and water treatment activities), Gas (distribution and sales), Electicity (distribution with concession up to 2030 and sales), Other activities (district heating and public lighting).

2007 Revenues mix



2007 EBITDA mix



Management

President	Tomaso Tommasi di Vignano
Deputy Chairman	Giorgio Razzoli
CEO	Maurizio Chiarini
Investor Relations	Jens Klint Klint Hansen

Shareholders (%)	Stake	Voting rights
Municipalities Bologna	20.3	-
Municipalities Modena	15	-
Municipalities Ferrara	2.7	-
Municipalities Romagna Region	21	-
Free float	41	-

Sector ratings

	Rating	Price (EUR)	Target price (EUR)	Upside/ (downside) (%)
► **Large caps (Priced at 9 October 2008)**				
A2A	(+)	1.4	2.9	106
E.ON	(-)	28.3	35.4	25
EDF	(+)	39.1	77.0	97
Edison	(+)	1.0	1.8	79
EDP Renovaveis SA	(-)	4.5	5.8	30
Enagas	(+)	12.0	22.9	91
Endesa	(=)	20.1	37.1	85
Enel	(=)	5.0	7.8	55
Energias de Portugal (EDP)	(=)	2.3	4.2	83
Gas Natural SDG	(-)	22.9	35.4	55
GDF Suez	(=)	26.3	44.6	70
Iberdrola	(+)	5.8	11.2	94
Iberdrola Renovables	(-)	2.8	4.9	74
National Grid	(=)	610.0p	798.0p	31
Red Electrica	(-)	29.7	43.2	45
RWE	(-)	59.0	80.0	36
Snam Rete Gas	(=)	4.0	4.8	19
Suez Environnement	(+)	15.6	22.1	42
Terna	(-)	2.3	2.9	26
Union Fenosa	(=)	16.6	18.3	11
Veolia Environnement	(-)	23.8	37.6	58
► **Mid caps (Priced at 9 October 2008)**				
Acea	(+)	9.6	14.3	49
EDF Energies Nouvelles	(-)	27.7	37.0	33
Enia	(=)	4.8	6.8	42
ERG Renew	(-)	1.2	2.3	88
Hera	(=)	1.5	2.3	52
Iride	(=)	1.3	1.9	52
Theolia	(-)	4.3	11.0	157

Recent Exane publications

Date	Company	Type	Title	Pages
3 Oct. 2008	Acea	Report	The regulated player with French connections	22
15 Sep. 2008	Utilities	Report	Duration, duration, duration - an update	16
15 Sep. 2008	EDP Renovaveis SA	Report	Overvalued green mirage	40
24 Jul. 2008	Automotive	Report	Opportunities across the market	38

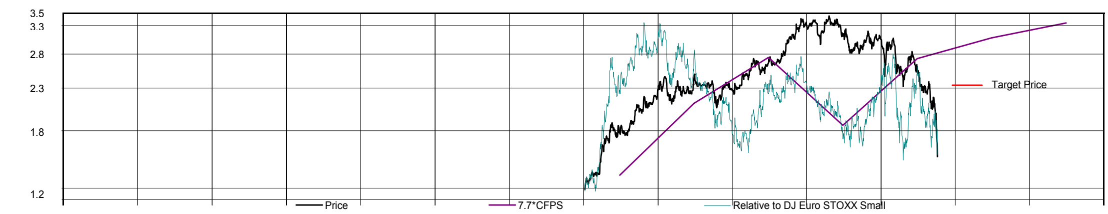
Diary

Date	Event

Price at 09/10/08: EUR 1.5 | **Stock rating vs Sector: Neutral**
Target price: EUR 2.3 / + 51.9% | **Sector rating vs Market: Neutral**

HERA
Utilities - Italy

Enterprise value (EURm)			3,277
Mkt cap. / Free float (EURm)			1,533 / 628
3m average volume (EURm)			4.65
12-mth high / low (EUR)			3.2 / 1.5
Performance	**1mth**	**3mths**	**12mths**
Absolute	(26%)	(38%)	(46%)
Rel. (Sector)	(8%)	(16%)	(15%)
Rel. (DJ Euro STOXX	(2%)	(19%)	(0%)
Reuters/Bloomberg			HRA.MI / HER IM
Analyst: Nicola Porcari			
CAGR	**2005/2008**		**2008/2010**
EPS restated (*)	28%		23%
CFPS	9%		11%



PER SHARE DATA (EUR)	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
No of shares year end, basic, (m)	835.000	1 024.000	1 012.500	1 012.500	1 012.500	1 012.500	1 012.500
Average no of shares, diluted, excl. treasury stocks (m)	835.000	1 024.000	1 012.500	1 012.500	1 012.500	1 012.500	1 012.500
Price (yearly avg from Dec. 04 to Dec. 07)	**1.7**	**2.3**	**2.7**	**3.1**	**1.5**	**1.5**	**1.5**
EPS reported	*0.10*	*0.09*	*0.10*	*0.13*	*0.17*	*0.20*	*0.20*
EPS restated	0.10	0.06	0.09	0.10	0.13	0.17	0.20
% change	*0.0%*	*(34.7%)*	*40.6%*	*6.8%*	*40.0%*	*27.9%*	*17.6%*
CFPS	0.18	0.27	0.35	0.24	0.35	0.40	0.43
Book value (BVPS) (a)	1.4	1.4	1.5	1.5	1.5	1.6	1.7
Net dividend	0.00	0.07	0.08	0.08	0.09	0.11	0.12
STOCKMARKET RATIOS — **YEARLY AVERAGE PRICES for end Dec. 04 to Dec. 07**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
P / E (P/ EPS restated)	17.9x	35.5x	30.2x	32.7x	11.4x	8.9x	7.6x
P / E relative to DJ Euro STOXX Small	88%	183%	185%	198%	132%	116%	71%
P / CF	9.8x	8.3x	7.6x	13.1x	4.3x	3.8x	3.5x
FCF yield	(12.2%)	(29.4%)	(3.1%)	(5.2%)	0.9%	6.2%	11.4%
P / BVPS	1.22x	1.59x	1.84x	2.11x	1.00x	0.95x	0.90x
Net yield	0.0%	3.1%	3.0%	2.6%	6.1%	7.1%	8.2%
Payout	0.0%	110.6%	89.9%	84.2%	69.7%	63.3%	62.4%
EV / Sales	1.40x	1.96x	1.73x	1.65x	1.06x	1.04x	1.01x
EV / Restated EBITDA	7.3x	10.8x	9.6x	10.6x	5.9x	5.4x	4.9x
EV / Restated EBIT	12.0x	19.4x	17.7x	21.8x	10.6x	9.1x	8.0x
EV / OpFCF	NC	NC	NC	NC	18.6x	12.0x	8.7x
EV / Capital employed (incl. gross goodwill)	1.2x	1.3x	1.4x	1.5x	1.0x	1.0x	1.0x
ENTERPRISE VALUE (EURm)	**2,134**	**3,466**	**4,095**	**4,804**	**3,277**	**3,292**	**3,239**
Market cap	1,450	2,304	2,718	3,146	1,533	1,533	1,533
+ Adjusted net debt	708	1,060	1,223	1,464	1,537	1,539	1,471
+ Other liabilities and commitments	162	221	266	285	285	285	285
+ Revalued minority interests	28	31	40	47	60	74	88
- Revalued investments	214	150	151	138	138	138	138
P & L HIGHLIGHTS (EURm)	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Sales	**1,528.9**	**1,768.0**	**2,364.4**	**2,905.1**	**3,093.5**	**3,155.3**	**3,218.4**
Restated EBITDA (b)	**292.5**	**321.0**	**426.7**	**453.4**	**553.5**	**608.3**	**654.3**
Depreciation	(115.3)	(142.7)	(195.4)	(232.8)	(243.4)	(247.6)	(251.3)
Restated EBIT (b) (*)	**177.3**	**178.4**	**231.3**	**220.6**	**310.1**	**360.7**	**403.0**
Reported operating profit (loss)	157.7	178.4	231.3	220.6	310.1	360.7	403.0
Net financial income (charges)	(10.1)	(40.2)	(52.1)	(78.0)	(70.3)	(73.8)	(73.9)
Affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(61.1)	(66.1)	(79.0)	(32.6)	(91.5)	(101.0)	(112.8)
Minorities	(5.5)	(7.3)	(10.1)	(13.7)	(13.7)	(13.7)	(13.7)
Goodwill amortisation	0.0	15.5	0.0	0.0	0.0	0.0	0.0
Net attributable profit reported	81.0	80.3	90.1	96.2	134.7	172.3	202.7
Net attributable profit restated (c)	**81.0**	**80.3**	**90.1**	**96.2**	**134.7**	**172.3**	**202.7**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
EBITDA (reported)	**272.9**	**321.0**	**426.7**	**453.4**	**553.5**	**608.3**	**654.3**
EBITDA adjustment (b)	**19.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other items	(63.2)	93.2	23.7	(100.5)	0.0	0.0	0.0
Change in WCR	38.7	(133.6)	30.9	67.7	(7.5)	(2.5)	(2.5)
Operating cash flow	**268.0**	**280.7**	**481.2**	**420.6**	**546.0**	**605.8**	**651.8**
Capex	(377.0)	(860.3)	(515.1)	(507.5)	(370.0)	(331.0)	(280.0)
Operating free cash flow (OpFCF)	**(109.0)**	**(579.6)**	**(33.9)**	**(86.9)**	**176.0**	**274.8**	**371.8**
Net financial items + tax paid	(71.2)	(106.2)	(52.1)	(78.0)	(161.8)	(174.8)	(186.7)
Free cash flow	**(180.2)**	**(685.9)**	**(86.0)**	**(164.9)**	**14.2**	**100.0**	**185.1**
Net financial investments & acquisitions	10.1	(26.1)	(0.3)	16.7	0.0	0.0	0.0
Other	(503.9)	28.8	(9.1)	(5.5)	0.0	0.0	0.0
Capital increase (decrease)	9.7	384.3	9.4	2.0	0.0	0.0	0.0
Dividends paid	(44.1)	(52.6)	(76.8)	(89.7)	(87.5)	(101.5)	(117.7)
Increase (decrease) in net financial debt	**708.4**	**351.5**	**162.7**	**241.4**	**73.3**	**1.4**	**(67.4)**
Cash flow, group share	**148**	**277**	**358**	**241**	**356**	**402**	**438**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Fixed operating assets, incl. gross goodwill	1,661	2,401	2,751	3,082	3,209	3,292	3,321
WCR	132	213	103	67	75	77	80
Capital employed, incl. gross goodwill	**1,793**	**2,615**	**2,854**	**3,149**	**3,284**	**3,369**	**3,401**
Shareholders' funds, group share	1,187	1,453	1,476	1,492	1,539	1,610	1,695
Minorities	28	31	40	47	60	74	88
Provisions/ Other liabilities	162	221	266	285	285	285	285
Net financial debt (cash)	708	1,060	1,223	1,464	1,537	1,539	1,471
FINANCIAL RATIOS (%)	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Sales (% change)	NS	15.6%	33.7%	22.9%	6.5%	2.0%	2.0%
Organic sales growth		15.6%	33.7%	22.9%	6.5%	2.0%	2.0%
Restated EBIT (% change) (*)	NS	0.6%	29.7%	(4.6%)	40.6%	16.3%	11.7%
Restated attributable net profit (% change) (*)	NS	(20.0%)	39.0%	6.8%	40.0%	27.9%	17.6%
Personnel costs / Sales	14.1%	12.9%	12.5%	10.4%	9.8%	9.7%	9.6%
Restated EBITDA margin	19.1%	18.2%	18.0%	15.6%	17.9%	19.3%	20.3%
Restated EBIT margin	11.6%	10.1%	9.8%	7.6%	10.0%	11.4%	12.5%
Tax rate	41.4%	47.8%	44.1%	22.9%	38.1%	35.2%	34.3%
Net margin	5.7%	5.0%	4.2%	3.8%	4.8%	5.9%	6.7%
Capex / Sales	24.7%	48.7%	21.8%	17.5%	12.0%	10.5%	8.7%
OpFCF / Sales	(7.1%)	(32.8%)	(1.4%)	(3.0%)	5.7%	8.7%	11.6%
WCR / Sales	8.6%	12.1%	4.4%	2.3%	2.4%	2.5%	2.5%
Capital employed (excl. gross goodwill) / Sales	93.6%	120.4%	94.0%	90.0%	88.8%	89.8%	89.0%
ROE (before goodwill)	6.8%	4.5%	6.1%	6.5%	8.8%	10.7%	12.0%
Gearing	58%	71%	81%	95%	96%	91%	83%
EBITDA / Financial charges	11.0x	7.9x	7.9x	5.7x	7.9x	8.2x	8.9x
Adjusted financial debt / EBITDA	2.4x	3.3x	2.9x	3.2x	2.8x	2.5x	2.2x
ROCE, excl. gross goodwill	7.3%	4.4%	5.8%	6.5%	7.0%	8.2%	9.2%
ROCE, incl. gross goodwill	5.8%	3.6%	4.5%	5.4%	5.8%	6.9%	7.8%
WACC	6.6%	5.8%	5.9%	6.5%	6.4%	6.4%	6.4%
Average number of employees							

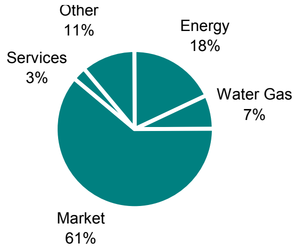
(a) Intangibles: EUR535.93m, or EUR1 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost
(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years

Iride profile

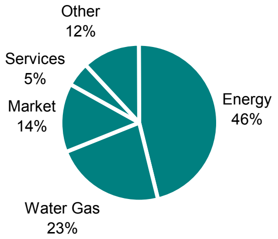
Business

Iride created in October 2006 by the merger of AEM Turin and AMGA Genova. Integrated utility, main areas: energy (generation, transmission and distribution of electricity and production of heat), water & gas (integrated water cycle management and gas distribution), retail (sales of electricity, gas and heat, trading gas purchase and management of gas storage, energy services), Services (lighting, global services and telecom infrastrucutres) Iride is controlled by Finanziaria Sviluppo Utlities (FSU - 58%) equally owned by the municipalities of Turin and Genova.

2007 Revenues mix



2007 EBITDA mix



Management

Chairman	Roberto Bazzano
CEO	Roberto Garbati
Investor Relations	Francesco Sava
-	

Shareholders (%)	Stake	Voting rights
Turin Municipality (FSU)	28.8	-
Genova Municipality (FSU)	28.8	-
Intesa Sanpaolo	4.7	-
Fondazione Cassa di Risparmio di Torino	4	-
Free float	29.6	-

Sector ratings

	Rating	Price (EUR)	Target price (EUR)	Upside/ (downside) (%)
▶ Large caps (Priced at 9 October 2008)				
A2A	(+)	1.4	2.9	106
E.ON	(-)	28.3	35.4	25
EDF	(+)	39.1	77.0	97
Edison	(+)	1.0	1.8	79
EDP Renovaveis SA	(-)	4.5	5.8	30
Enagas	(+)	12.0	22.9	91
Endesa	(=)	20.1	37.1	85
Enel	(=)	5.0	7.8	55
Energias de Portugal (EDP)	(=)	2.3	4.2	83
Gas Natural SDG	(-)	22.9	35.4	55
GDF Suez	(=)	26.3	44.6	70
Iberdrola	(+)	5.8	11.2	94
Iberdrola Renovables	(-)	2.8	4.9	74
National Grid	(=)	610.0p	798.0p	31
Red Electrica	(-)	29.7	43.2	45
RWE	(-)	59.0	80.0	36
Snam Rete Gas	(=)	4.0	4.8	19
Suez Environnement	(+)	15.6	22.1	42
Terna	(-)	2.3	2.9	26
Union Fenosa	(=)	16.6	18.3	11
Veolia Environnement	(-)	23.8	37.6	58
▶ Mid caps (Priced at 9 October 2008)				
Acea	(+)	9.6	14.3	49
EDF Energies Nouvelles	(-)	27.7	37.0	33
Enia	(=)	4.8	6.8	42
ERG Renew	(-)	1.2	2.3	88
Hera	(=)	1.5	2.3	52
Iride	(=)	1.3	1.9	52
Theolia	(-)	4.3	11.0	157

Recent Exane publications

Date	Company	Type	Title	Pages
3 Oct. 2008	Acea	Report	The regulated player with French connections	22
15 Sep. 2008	Utilities	Report	Duration, duration, duration - an update	16
15 Sep. 2008	EDP Renovaveis SA	Report	Overvalued green mirage	40
24 Jul. 2008	Automotive	Report	Opportunities across the market	38

Diary

Date	Event

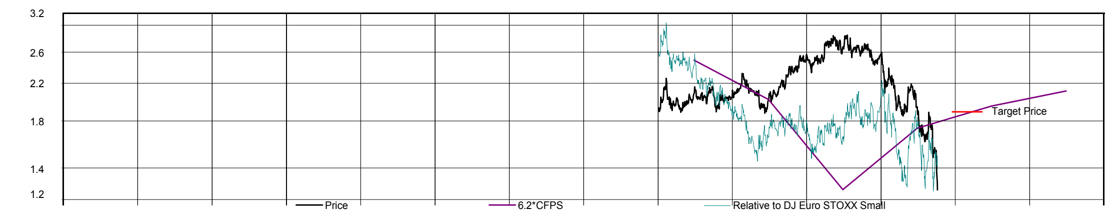
EXANE BNP PARIBAS

Price at 09/10/08: EUR 1.3
Target price: EUR 1.9 / + 51.5%

Stock rating vs Sector: Neutral
Sector rating vs Market: Neutral

IRIDE
Utilities - Italy

Enterprise value (EURm)			2,138
Mkt cap. / Free float (EURm)			924 / 274
3m average volume (EURm)			1.51
12-mth high / low (EUR)			2.7 / 1.3
Performance	**1mth**	**3mths**	**12mths**
Absolute	(27%)	(32%)	(51%)
Rel. (Sector)	(10%)	(7%)	(23%)
Rel. (DJ Euro STOXX	(5%)	(10%)	(10%)
Reuters/Bloomberg			IRD.MI / IRD IM
Analyst: Nicola Porcari			
CAGR	**2006/2008**		**2008/2010**
EPS restated (*)	(4%)		12%
CFPS	(7%)		10%



PER SHARE DATA (EUR)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
No of shares year end, basic, (m)	471.000	555.000	730.000	737.000	737.000	737.000
Average no of shares, diluted, excl. treasury stocks (m)	519.000	563.000	825.000	832.000	832.000	832.000
Price (yearly avg from Dec. 05 to Dec. 07)	**2.0**	**2.2**	**2.6**	**1.3**	**1.3**	**1.3**
EPS reported	*0.14*	*0.14*	*0.13*	*0.15*	*0.17*	*0.19*
EPS restated	0.12	0.14	0.13	0.13	0.15	0.16
% change	*0.0%*	*13.3%*	*(6.9%)*	*(0.2%)*	*13.8%*	*10.3%*
CFPS	0.41	0.33	0.20	0.28	0.32	0.34
Book value (BVPS) (a)	1.5	2.2	1.8	1.8	1.9	2.0
Net dividend	0.00	0.06	0.09	0.09	0.09	0.09
STOCKMARKET RATIOS — **YEARLY AVERAGE PRICES for end Dec. 05 to Dec. 07**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
P / E (P/ EPS restated)	16.4x	15.6x	20.1x	9.6x	8.5x	7.7x
P / E relative to DJ Euro STOXX Small	84%	96%	122%	112%	111%	72%
P / CF	5.0x	6.6x	12.9x	4.4x	3.9x	3.6x
FCF yield	5.4%	(6.0%)	(4.1%)	(8.0%)	(2.2%)	4.5%
P / BVPS	1.32x	0.99x	1.49x	0.68x	0.66x	0.63x
Net yield	0.0%	2.7%	3.2%	7.0%	7.2%	7.4%
Payout	0.0%	42.9%	65.3%	67.4%	61.0%	56.9%
EV / Sales	1.66x	0.89x	1.20x	0.81x	0.81x	0.79x
EV / Restated EBITDA	9.9x	7.6x	9.3x	5.7x	5.3x	5.0x
EV / Restated EBIT	15.1x	12.8x	14.8x	9.0x	8.3x	7.7x
EV / OpFCF	16.7x	166.9x	173.4x	66.5x	19.8x	11.3x
EV / Capital employed (incl. gross goodwill)	1.2x	1.0x	1.3x	0.9x	0.8x	0.8x
ENTERPRISE VALUE (EURm)	**1,993**	**2,239**	**2,993**	**2,138**	**2,227**	**2,244**
Market cap	955	1,213	1,913	924	924	924
+ Adjusted net debt	903	1,095	1,144	1,297	1,387	1,404
+ Other liabilities and commitments	141	181	174	154	154	154
+ Revalued minority interests		135	202	202	202	202
- Revalued investments	5	385	439	439	439	439
P & L HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Sales	**1,199.6**	**2,503.9**	**2,491.8**	**2,630.3**	**2,735.0**	**2,828.6**
Restated EBITDA (b)	**201.5**	**295.4**	**322.2**	**373.6**	**417.5**	**450.2**
Depreciation	(69.6)	(121.1)	(120.6)	(135.6)	(149.7)	(158.9)
Restated EBIT (b) (*)	**131.9**	**174.2**	**201.6**	**238.1**	**267.7**	**291.3**
Reported operating profit (loss)	131.9	173.8	199.8	238.1	267.7	291.3
Net financial income (charges)	(19.4)	(31.5)	(47.2)	(54.9)	(62.3)	(66.6)
Affiliates	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	3.2	17.9	20.0	0.0	0.0
Tax	(48.4)	(62.7)	(55.7)	(67.6)	(75.0)	(81.6)
Minorities	0.0	(4.1)	(7.4)	(7.4)	(7.4)	(7.4)
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Net attributable profit reported	64.1	78.7	107.5	128.1	123.1	135.8
Net attributable profit restated (c)	**64.1**	**78.7**	**107.5**	**108.1**	**123.1**	**135.8**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
EBITDA (reported)	**201.4**	**295.0**	**320.4**	**373.6**	**417.5**	**450.2**
EBITDA adjustment (b)	**0.0**	**0.4**	**1.8**	**0.0**	**0.0**	**0.0**
Other items	76.7	(6.2)	(39.6)	0.0	0.0	0.0
Change in WCR	(10.6)	(109.1)	(70.3)	(15.2)	(11.5)	(10.3)
Operating cash flow	**267.6**	**180.0**	**212.3**	**358.4**	**406.0**	**439.9**
Capex	(148.3)	(166.6)	(195.0)	(326.3)	(293.3)	(241.6)
Operating free cash flow (OpFCF)	**119.2**	**13.4**	**17.3**	**32.1**	**112.7**	**198.3**
Net financial items + tax paid	(67.8)	(94.2)	(102.9)	(122.5)	(137.2)	(148.1)
Free cash flow	**51.5**	**(80.7)**	**(85.7)**	**(90.4)**	**(24.6)**	**50.1**
Net financial investments & acquisitions	(0.0)	(61.3)	(8.0)	0.0	0.0	0.0
Other	(931.1)	(68.1)	92.9	0.0	0.0	0.0
Capital increase (decrease)	(3.6)	45.4	0.7	0.0	0.0	0.0
Dividends paid	(19.3)	(27.3)	(49.5)	(63.0)	(64.9)	(66.8)
Increase (decrease) in net financial debt	**902.5**	**192.0**	**49.6**	**153.4**	**89.4**	**16.7**
Cash flow, group share	**210**	**185**	**168**	**235**	**264**	**286**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Fixed operating assets, incl. gross goodwill	1,354	2,083	2,115	2,305	2,449	2,532
WCR	244	162	184	199	211	221
Capital employed, incl. gross goodwill	**1,597**	**2,245**	**2,299**	**2,505**	**2,660**	**2,753**
Shareholders' funds, group share	724	1,226	1,286	1,351	1,409	1,478
Minorities	0	128	134	142	149	156
Provisions/ Other liabilities	141	181	174	154	154	154
Net financial debt (cash)	903	1,095	1,144	1,297	1,387	1,404
FINANCIAL RATIOS (%)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**	**Dec. 10e**
Sales (% change)	NS	108.7%	(0.5%)	5.6%	4.0%	3.4%
Organic sales growth		108.7%	(0.5%)	5.6%	4.0%	3.4%
Restated EBIT (% change) (*)	NS	32.1%	15.7%	18.1%	12.5%	8.8%
Restated attributable net profit (% change) (*)	NS	22.9%	36.5%	0.6%	13.8%	10.3%
Personnel costs / Sales	6.1%	5.9%	5.4%	5.1%	5.0%	4.9%
Restated EBITDA margin	16.8%	11.8%	12.9%	14.2%	15.3%	15.9%
Restated EBIT margin	11.0%	7.0%	8.1%	9.1%	9.8%	10.3%
Tax rate	43.0%	44.0%	36.5%	36.9%	36.5%	36.3%
Net margin	5.3%	3.3%	4.6%	5.2%	4.8%	5.1%
Capex / Sales	12.4%	6.7%	7.8%	12.4%	10.7%	8.5%
OpFCF / Sales	9.9%	0.5%	0.7%	1.2%	4.1%	7.0%
WCR / Sales	20.3%	6.5%	7.4%	7.6%	7.7%	7.8%
Capital employed (excl. gross goodwill) / Sales	126.9%	83.1%	85.9%	89.2%	91.5%	91.7%
ROE (before goodwill)	8.9%	6.4%	8.4%	8.0%	8.7%	9.2%
Gearing	125%	81%	81%	87%	89%	86%
EBITDA / Financial charges	9.3x	9.4x	7.2x	6.8x	6.7x	6.8x
Adjusted financial debt / EBITDA	4.5x	3.7x	3.6x	3.5x	3.3x	3.1x
ROCE, excl. gross goodwill	4.9%	4.7%	6.0%	6.4%	6.8%	7.2%
ROCE, incl. gross goodwill	4.7%	4.3%	5.6%	6.0%	6.4%	6.7%
WACC	5.8%	6.0%	6.8%	7.0%	7.0%	7.0%
Average number of employees						

(a) Intangibles: EUR158.40m, or EUR0 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost
(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years

PARIS
Exane S.A.
16 Avenue Matignon
75008 Paris
France
Tel: (+33) 1 44 95 40 00
Fax: (+33) 1 44 95 40 01

FRANKFURT
Branch of Exane S.A.
Bockenheimer Landstrasse 23
60325 Frankfurt am Main
Germany
Tel: (+49) 69 42 72 97 300
Fax: (+49) 69 42 72 97 301

GENEVA
Branch of Exane S.A.
Cours de Rive 10
1204 Geneva
Switzerland
Tel: (+41) 22 718 65 65
Fax: (+41) 22 718 65 00

LONDON
Exane Ltd
20 St. James's Street
London SW1A 1ES
UK
Tel: (+44) 207 039 9400
Fax: (+44) 207 039 9432 / 9433

MILAN
Branch of Exane S.A.
Via dei Bossi 4
20121 Milan
Italy
Tel: (+39) 02 89 63 17 13
Fax: (+39) 02 89 63 17 01

NEW YORK
Exane Inc.
640 Fifth Avenue
15th Floor
New York, NY 10019
USA
Tel: (+1) 212 634 4990
Fax: (+1) 212 634 5171

SINGAPORE
Branch of Exane Ltd
20 Collyer Quay
08-01 Tung Center
Singapore 049319
Tel: (+65) 6210 1909
Fax: (+65) 6210 1982

ZURICH
Representative office of Exane S.A.
Lintheschergasse 12
8001 Zurich
Switzerland
Tel: (+41) 1 228 66 00
Fax: (+41) 1 228 66 40

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