

Hera Group Sustainability

**2011**



Lundquist CSR Online Awards  
Italy 2010

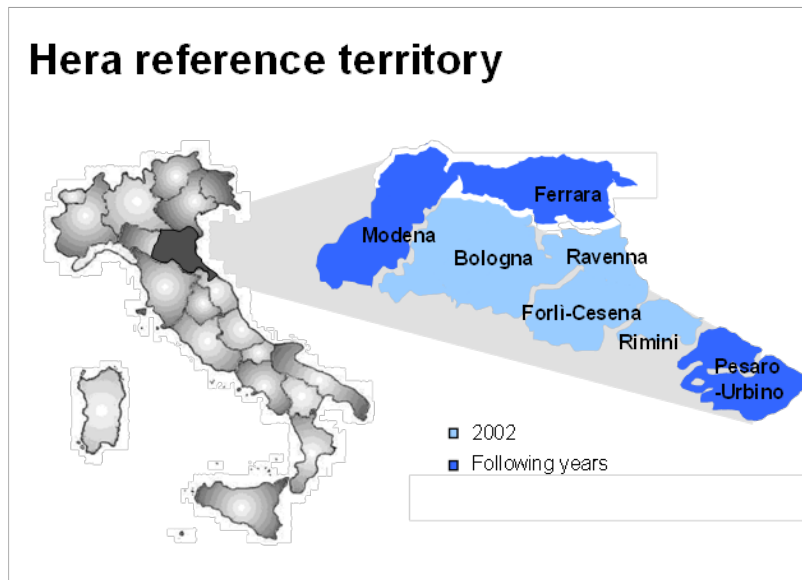
## Introducing Hera



# 10<sup>th</sup> sustainability report of Hera Group

## Italian local multi-utility company

Established in 2002, Hera Group implemented a “sustainable” growing strategy reported in 10 financial Statements and Sustainability reports.

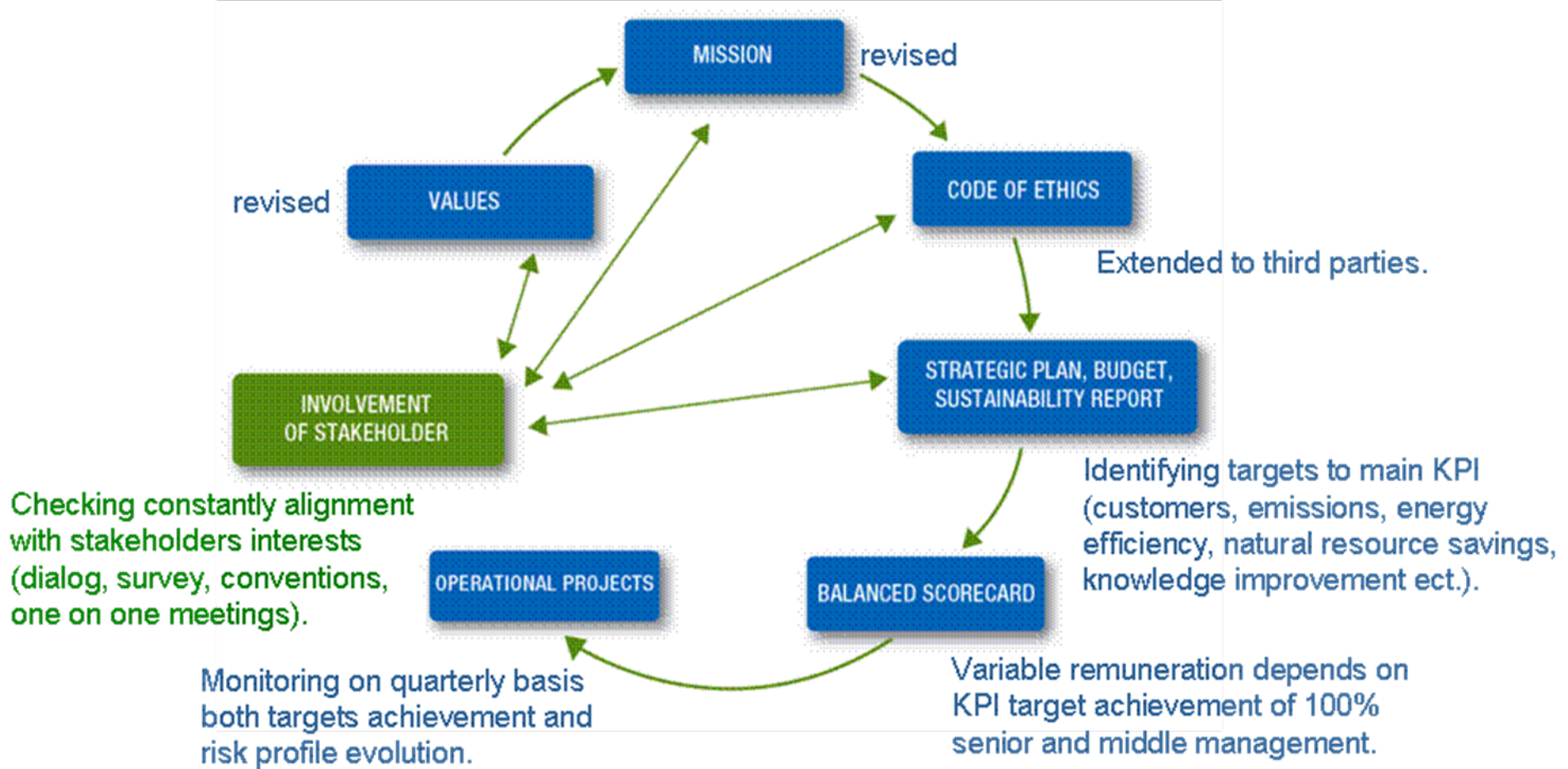


### Mission



**“Hera goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims at achieving this goal through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by **respecting the environment.**”**

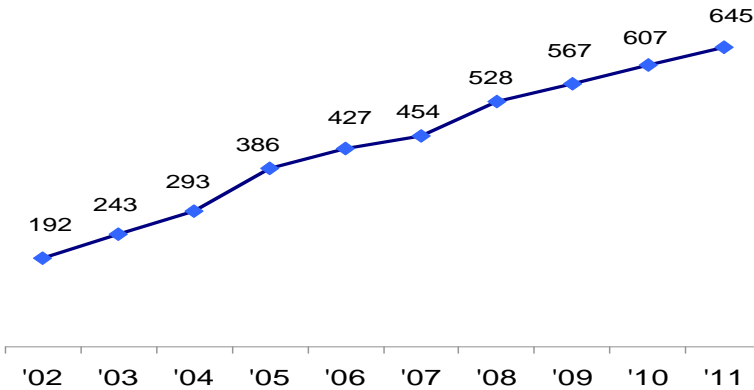
# 10Y developing a sustainable approach codified in Hera



# 10Y Ebitda growth investing in renewables

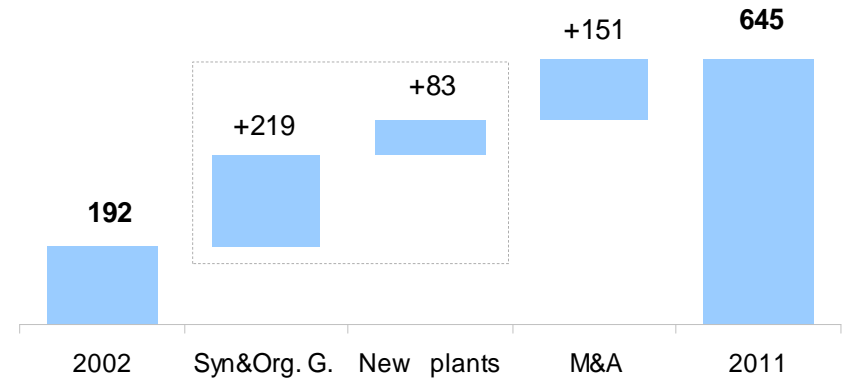
## Un-interrupted growth of Ebitda

(m€)



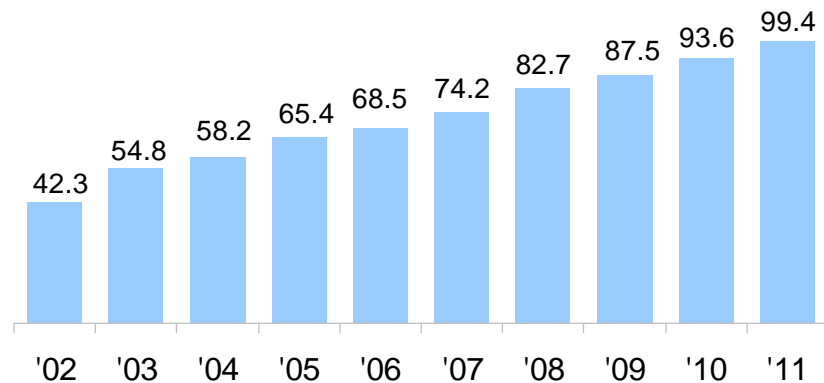
## Ebitda growth drivers: 70% internal

(m€)



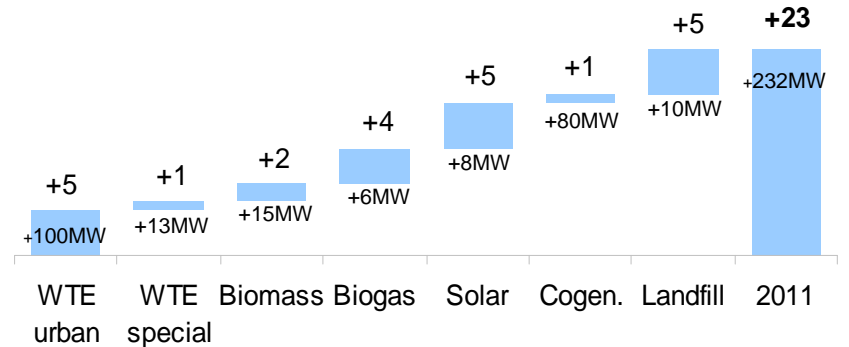
## Ebitda per employ

(€ '000)



## New Plants developed

(units)



# 10Y Ebitda growth by business: Balanced mix maintained

## Market positions

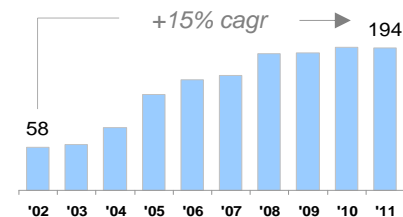
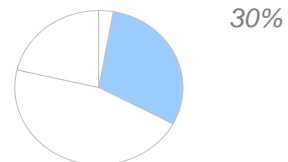
2011 Group Ebitda: 645m€

Constant Ebitda growth 2002-2011



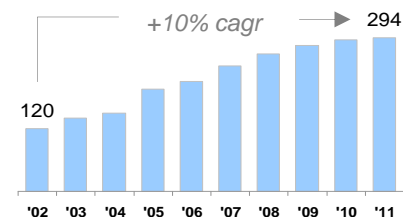
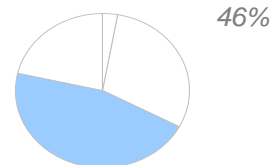
### Italian leader

80 new and efficient plants  
Full integration of value chain  
Unique expertise in Italy  
(both in building and managing plants)



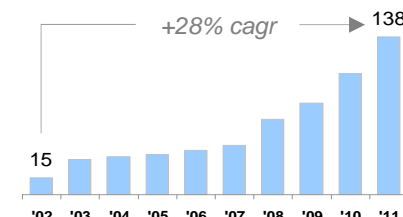
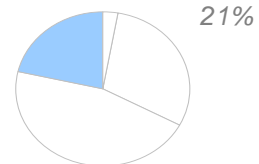
### 2° Water player in Italy 3° Gas distributor in Italy.

Small Elect. distr.  
Small D.H. distr.  
57k km of networks linked to remote control



### 4th gas supplier in Italy Top 8 Elec. supplier

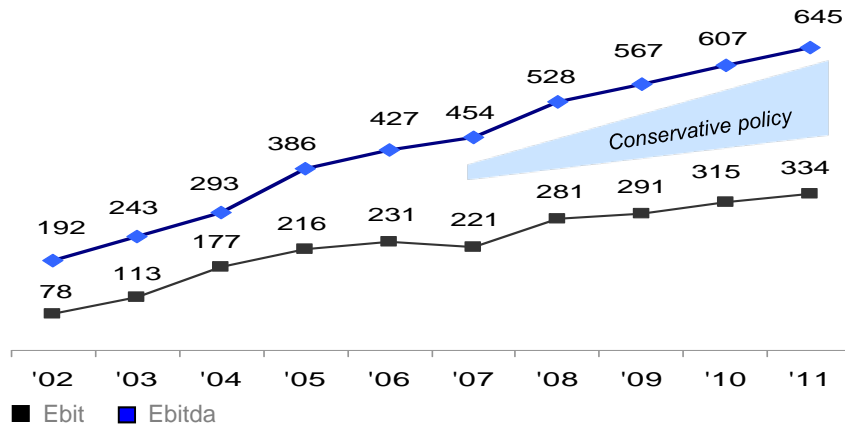
Short and flexible upstream position



# 10Y Ebit growth accounting conservative provisioning

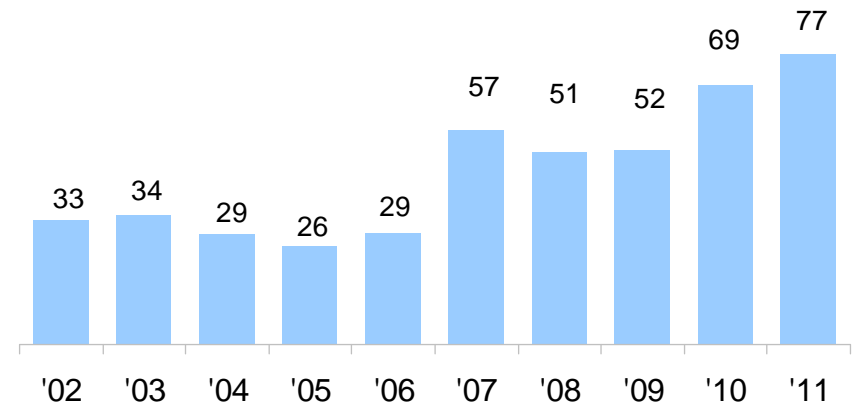
## Un-interrupted growth of operating results

(m€)



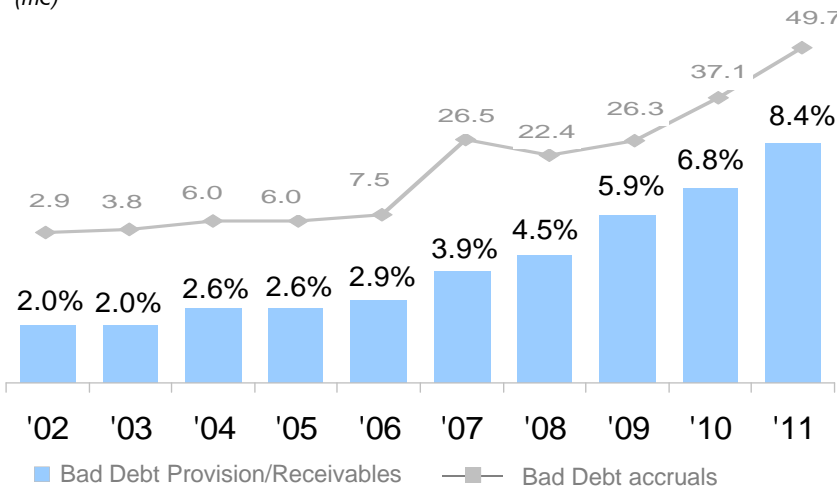
## Accruals for provisions

(m€)



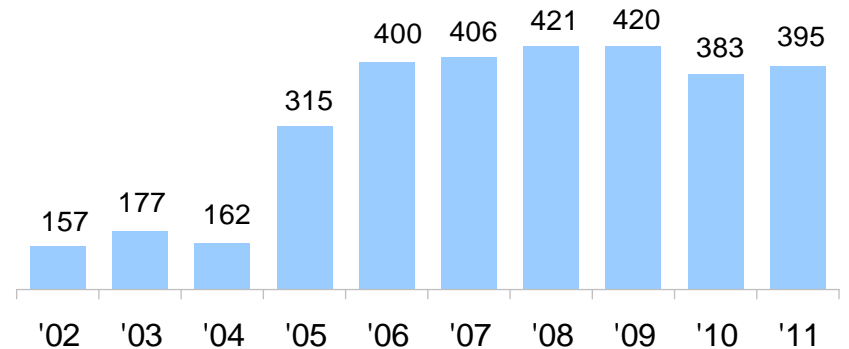
## Safe accruals to Bad Debts

(m€)



## Stable and conservative provisions

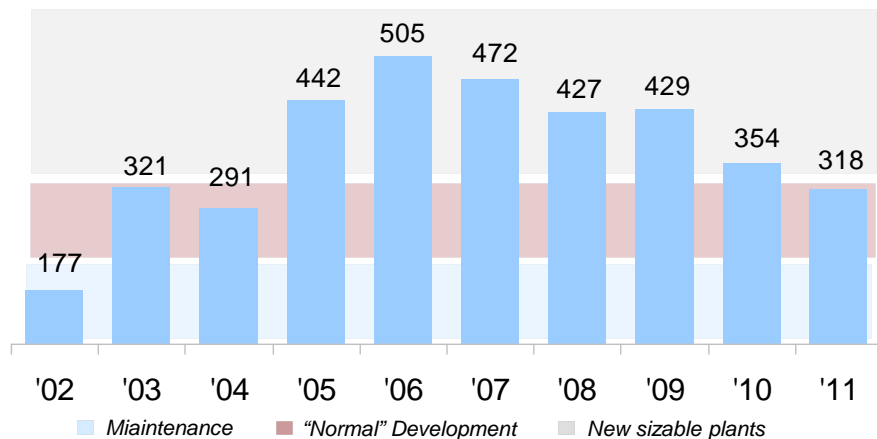
(m€)



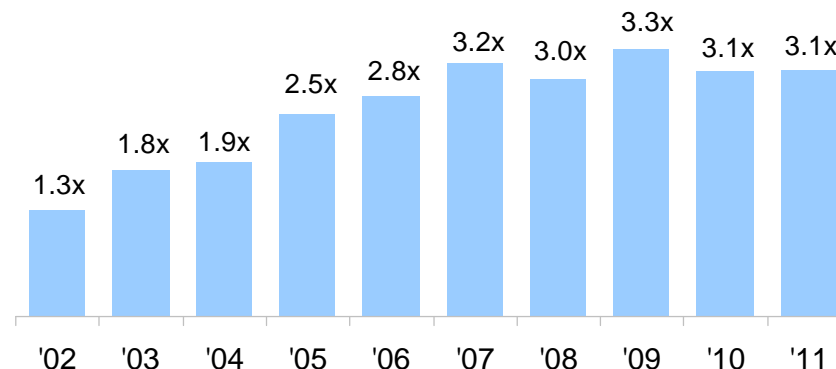
# Building up a sustainable financial profile

## Capex back to “normal” development

(m€)

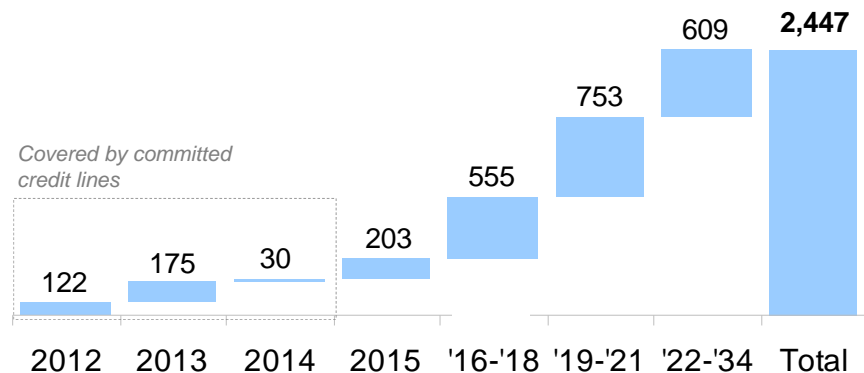


## Maintaining conservative Debt/Ebitda



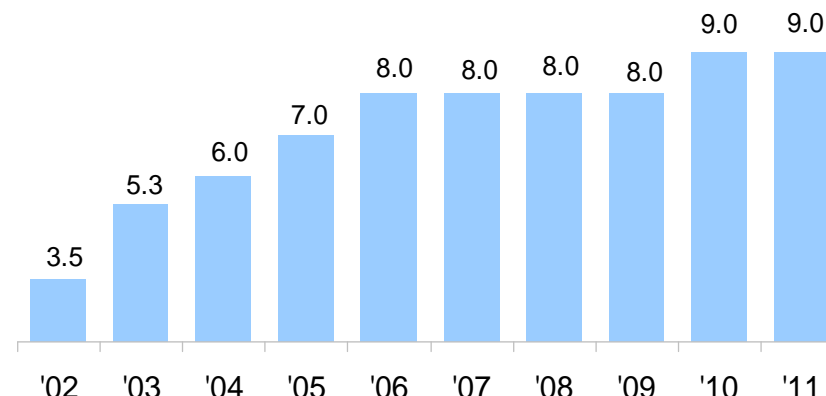
## Debt and maturities

(m€)



## Progressing and sustainable DPS

(€)



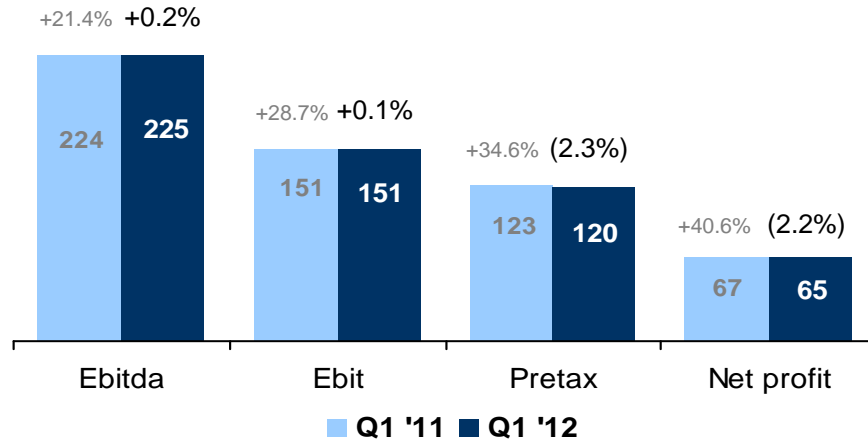


## Hera last interim report (Q1 2012)



# Q1 2012: in line with last year results despite all

## Q1 Result Highlights

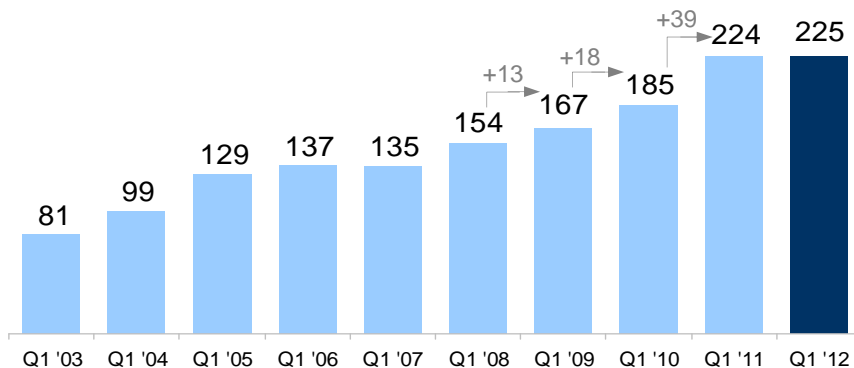


Hera unique business mix proven to effectively tackle with Italian recession confirming last year results.

**Performance in operations helped compensate higher taxes.** Net profits affected by extraordinary negative factors (~12.7m€ Cip6 incentives, expired in Nov. 2011 and changed in fair value).

**Energy commercial expansion and procurement strategies confirmed positive contribution also in Q1 2012.**

## 10Y Q1 EBITDA track record



Capex in line with Q1 '11 at ~60m€. Cash generation fully funded capex and seasonal change in working capital.

**Net debt stable at 2,006m€** in line with 2011 year end level (1,987 m€).

## Q1 '12: solid bottom line results

	Q1 '11	Q1 '12	Ch. %
Revenues	1,168.4	1,414.8	+21.1%
Ebitda	224.3	224.7	+0.2%
D&A	(73.0)	(73.4)	+0.5%
Ebit	151.3	151.4	+0.1%
<i>Financial charges</i>	(25.9)	(29.3)	+13.1%
<i>IAS (figurative)</i>	(3.8)	(3.1)	(18.4%)
<i>Financial income</i>	1.5	1.4	(6.7%)
Pre tax Profit	123.1	120.3	(2.3%)
Tax	(48.6)	(50.5)	+4.1%
Net income	74.5	69.8	(6.4%)
<i>Minorities</i>	(7.7)	(4.5)	(42.0%)
Net profit post min.	66.8	65.3	(2.2%)

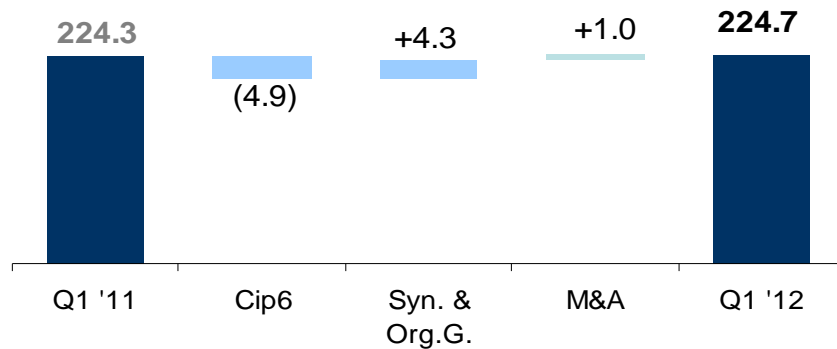
Tariffs, energy prices and market expansion

Tax increased due to higher profits of energy activities and additional Robin tax and IRAP (+2.5m€).

Higher financial charges mainly due to increase in debt and credit spreads

# Ebitda growth offsets end of Cip6 incentives

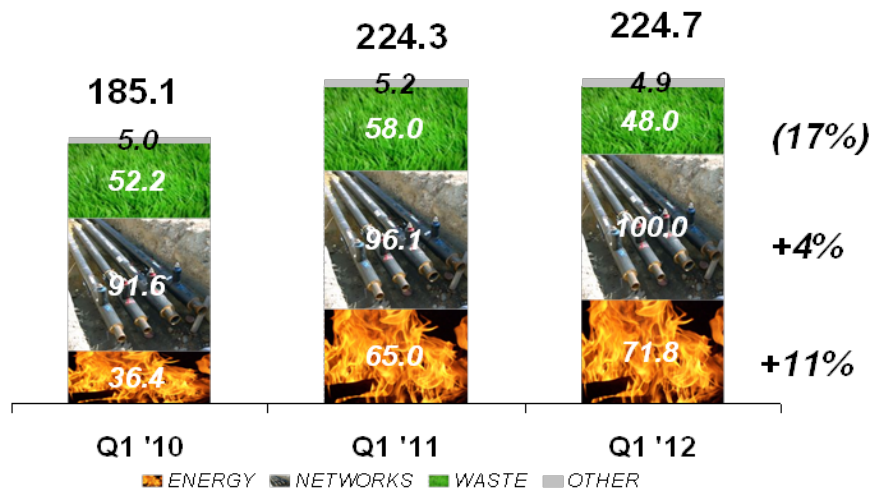
## Ebitda growth Drivers



## Ebitda slightly ahead of '11 outstanding results

- **Growth** fuelled by gas supply.
- **Market expansion progressing** reaching 500k costumers in electricity at the end of March.
- **M&A** relates to Sadori Gas (July '11) and 4MW solar plants (Feb. 2012).

## Ebitda by strategic area

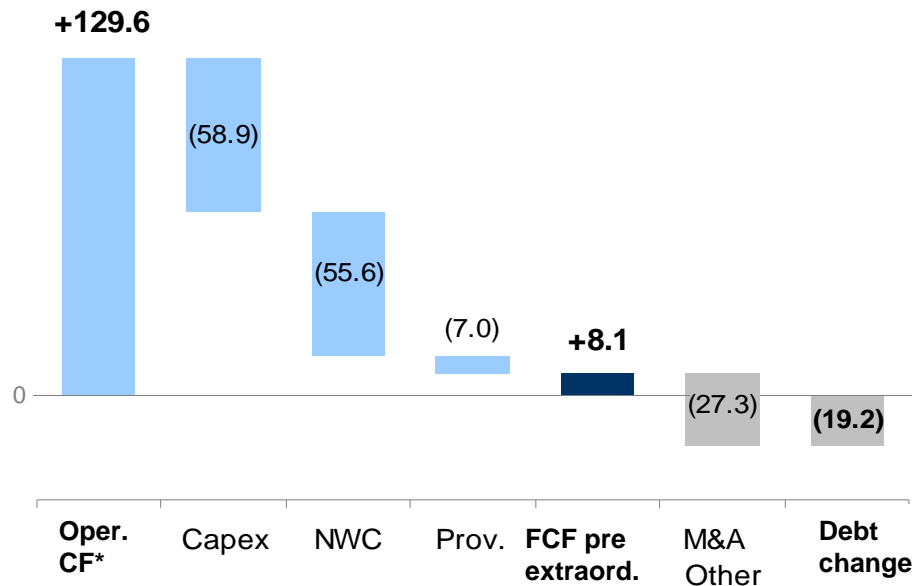


## Hera Mix, helped to absorb recession impact

- **Energy** increased contribution offsets mild winter and change in fair value.
- **Network** increased Ebitda thanks to tariffs enhancement.
- **Waste** affected by recession impact on Italian consumptions/production levels and negative one offs derived from Cip6 expiry.

# Positive operating cash flows and stable net debt

## Q1 2012 cash flows



**Q1 '12 cash generation** fully funded seasonal effects on working capital and capex.

**M&A** mainly relates to acquisition of 4 solar plants and the majority stake in a landfill in Modena (Feronia).

**Stable net debts at 2b€**

### Financial debt profile:

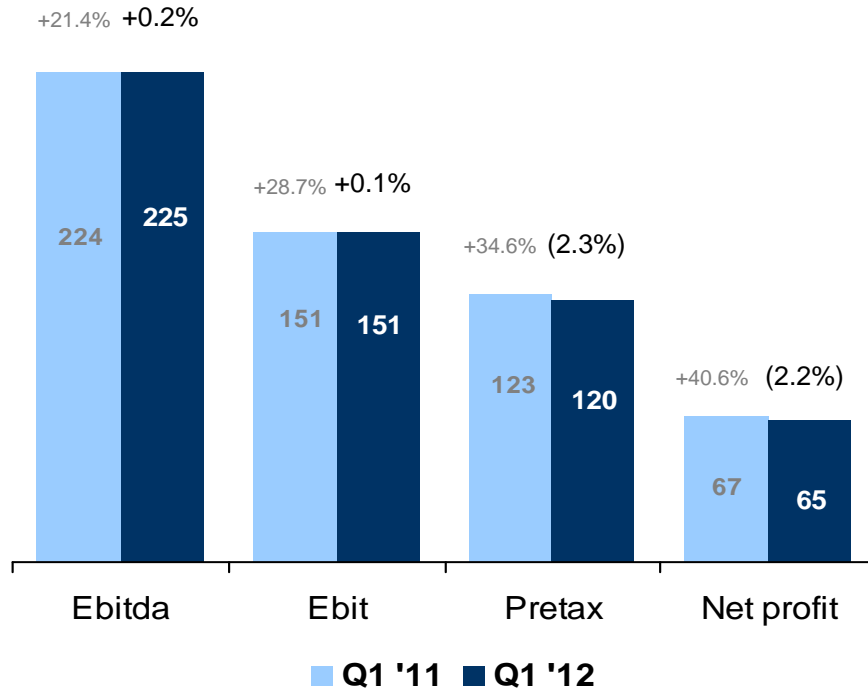
Fixed Rate: 69%

Maturities by the end of 2014: 326.4m€

Committed credit lines: 330.0m€

# Closing remarks

## Q1 Results Highlights



A “complicate” quarter turn out with confirming results compared with outstanding Q1 2011 despite one offs impact and enhanced taxes.

Performance in April show a recovery of low March gas sales and further trading opportunities.

Progress in dry fermentation plants (bio-digesters) will progress the model “*treatment-recovery-recycling*” in all reference territories.

Innovative commercial offer “Prezzo netto” launched in April.

DPS of 9 € approved by AGM and will be paid at the 7<sup>th</sup> of June.

## Hera last business plan (up to 2015)



## Sector recent issues

Energy upstream over-capacity

Competition in Energy downstream

Waste infrastructure shortage

Gas distribution tenders

New water tariff system

Robin Hood Tax

## Sector financial issues

EPS/DPS downward revision

Financial rebalancing

Portfolio rationalisation

## Hera advantages build up since 2002

Flexible Energy upstream position

Platform for cross selling and expansion

Unique & integrated asset base / expertise

Strong market share in all catchment areas

ATO tariff agreement up to end 2012

Low impact thanks to business diversification

Unique local- utility confirming DPS in '12

Financial soundness/flexibility

Presence limited to core areas

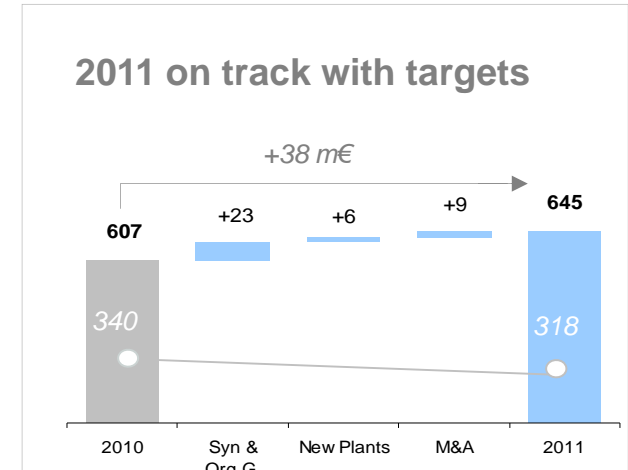
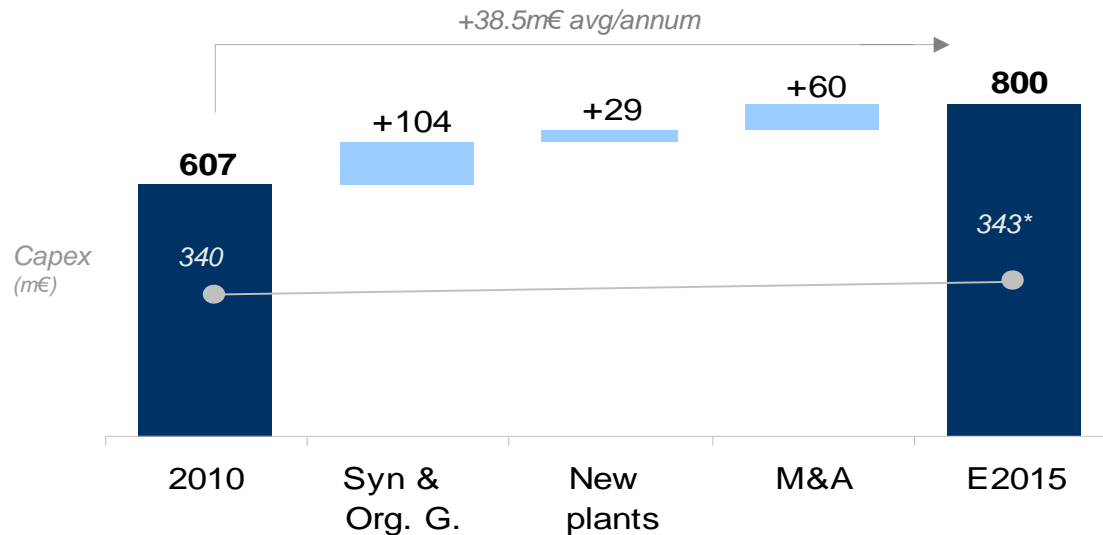


## HERA STRATEGIC PRIORITIES

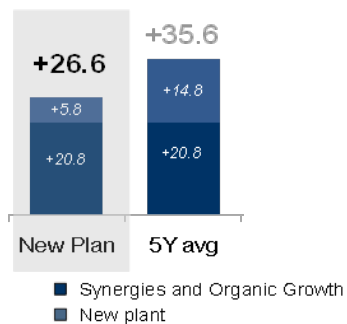
<b>1</b>	<b>Downstream expansion</b>	From 1.8 to 2.0 m customers 2.5 contracts per customer
<b>2</b>	<b>Organic growth</b>	Confirm gas distrib. in territory Extract further efficiency gains
<b>3</b>	<b>External growth opportunities</b>	Aimag consolidation Gas distribution tenders
<b>4</b>	<b>Selective asset development</b>	Focus on “sustainable” developm. New opportunities in WTE (FI)
<b>5</b>	<b>Enhance Returns and credit standing</b>	EBITDA +5.6% Cagr “A grade” ratios

# Consistent growth leveraging upon “all” drivers

## 2015 Ebitda Target



### Synergies & Organic growth

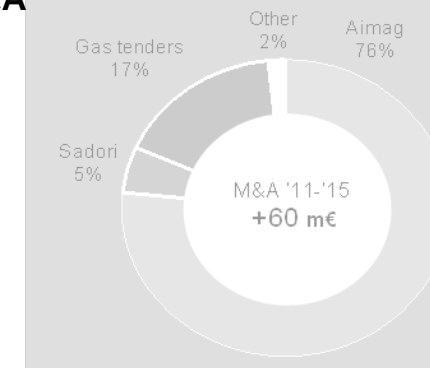


### New Plants

Biomass (Enomondo) project, desorption and sorting plants, and Bio digesters (+12m€).

Other plants to complete the value chain (+15m€).

### M&A

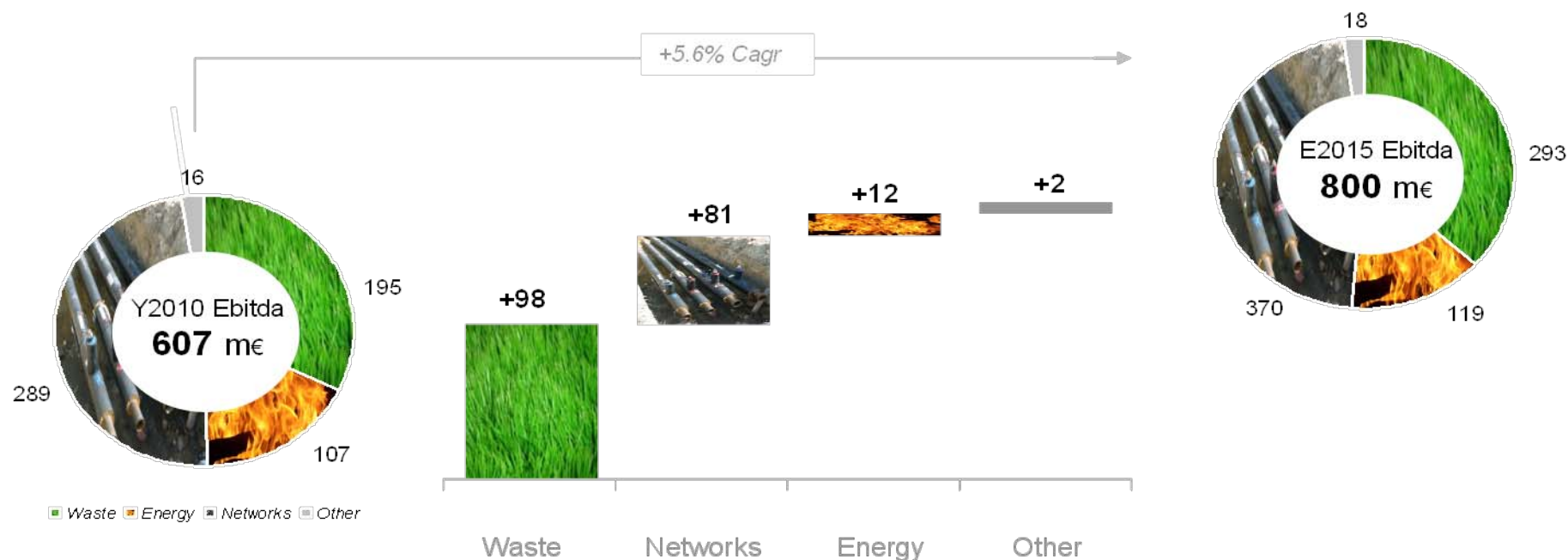


\* Including Aimag capex

# Overview on Ebitda growth by strategic areas

## Ebitda growth

(m€)



### Strategy in Waste

1. Consolidate leadership
2. Increase energy/material recovery
3. Reach proper return in Urban Coll.

### Strategy in Networks

1. Win tenders/expand gas distribution
2. Tariffs to guarantee proper return
3. Efficiency/Innovation to enhanced return

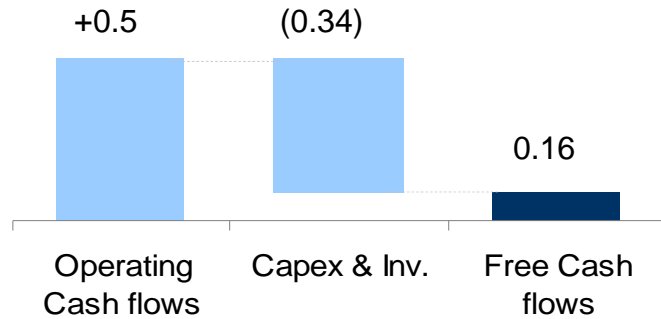
### Strategy in Energy

1. Expansion and cross selling
2. Diversify procur. mix and trading
3. Optimize cost to serve

# Capital discipline and enhanced financial structure

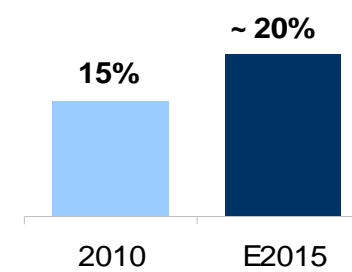
## E2015 Cash flows

(b€)

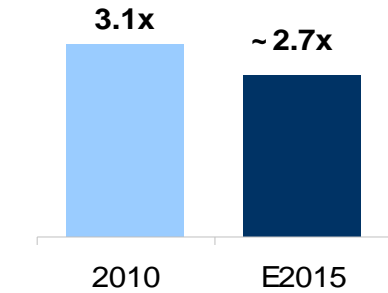


## Financial ratios

FFO/Debt

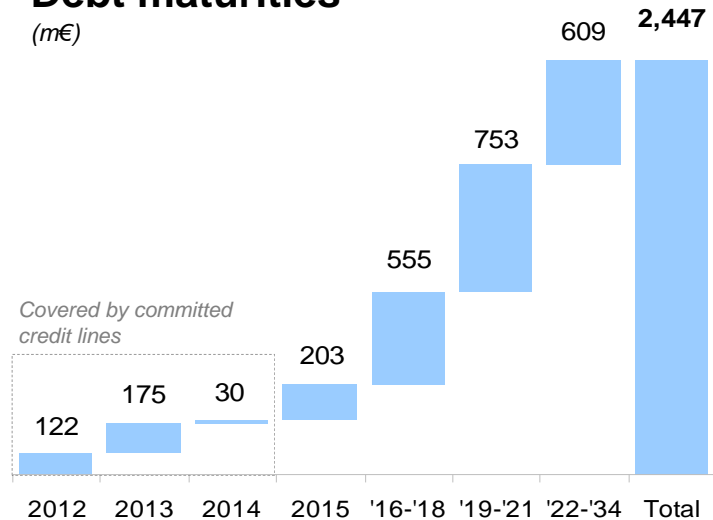


Debt/Ebitda



## Debt maturities

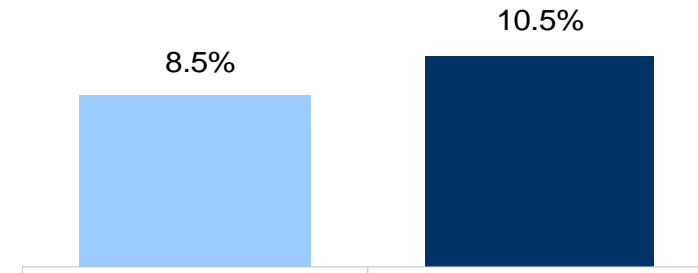
(m€)



## Returns

(%)

ROI



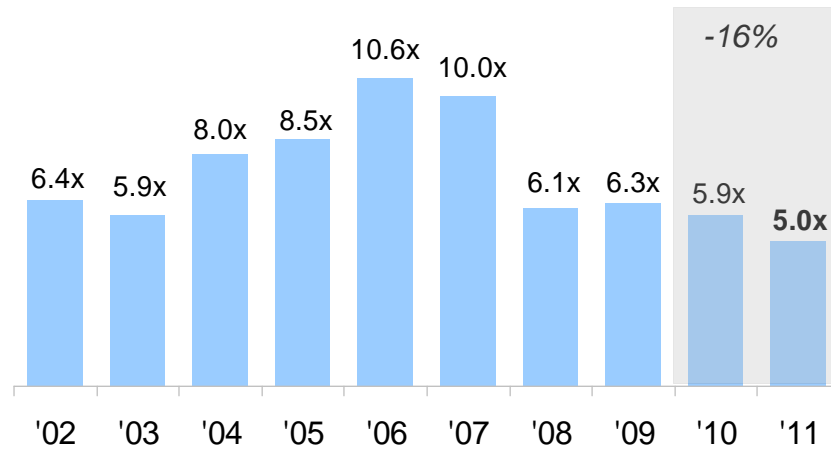
NIC\*\*  
(b€)



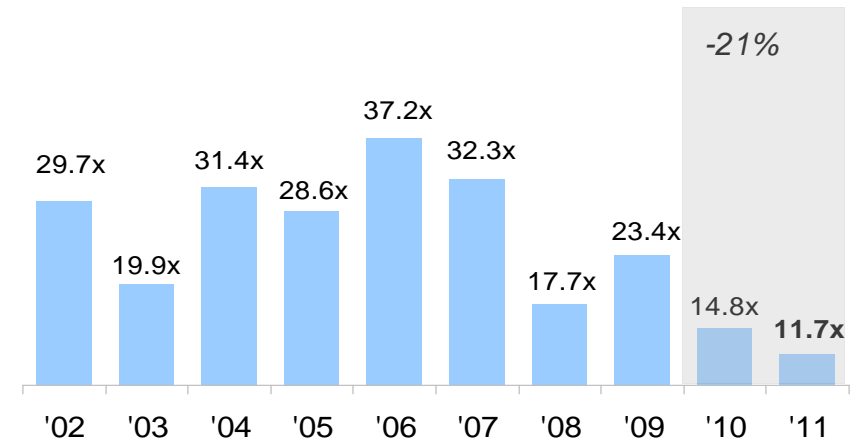
\*\*Net invested capital

# 10Y market valuation Multiples\*

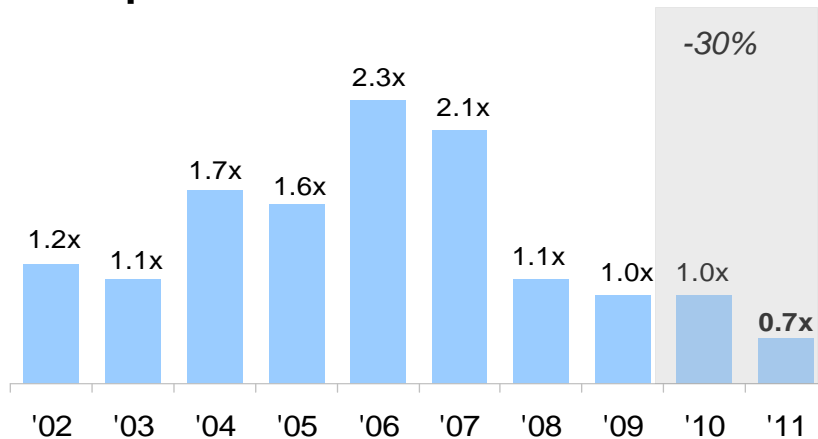
## EV/Ebitda



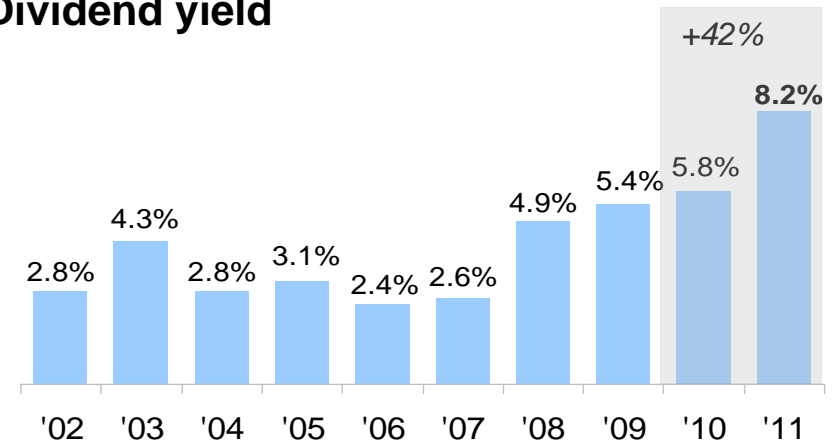
## P/E



## Mkt cap/Book value



## Dividend yield



\*multiples calculated on year end market prices of each year (in 2002 IPO price is the reference).

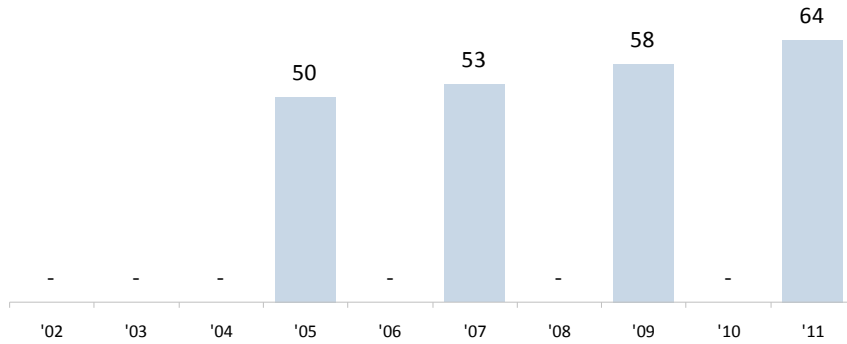
## 10Y of KPI track record



# People working in Hera

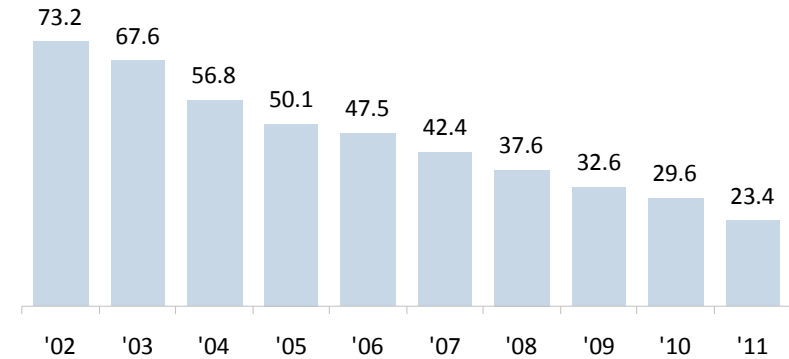
## Internal climate index

(score 0-100)



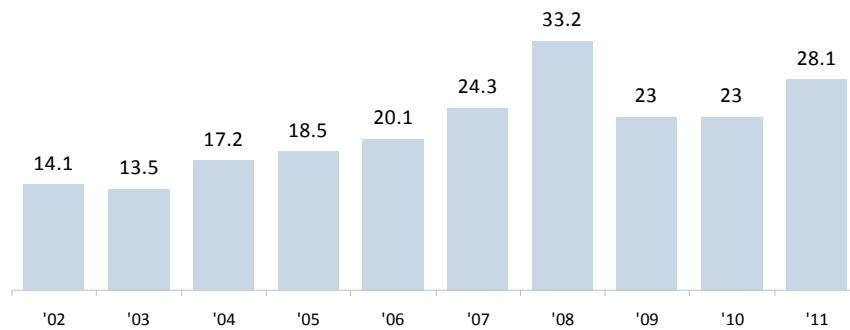
## Accident frequency index

(n. of accidents/hour worked x 1,000,000)



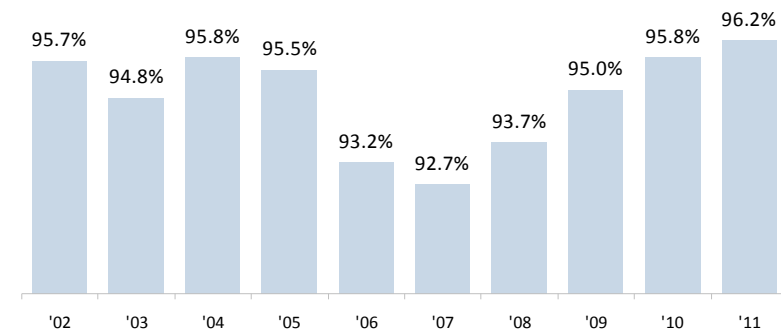
## Hours of training per capita

(hours per capita)



## Open ended contract employees

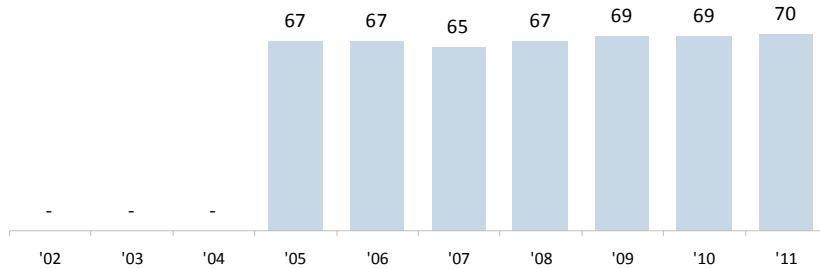
(average annual % of total workforce)



# Hera strategic strength: the customer base

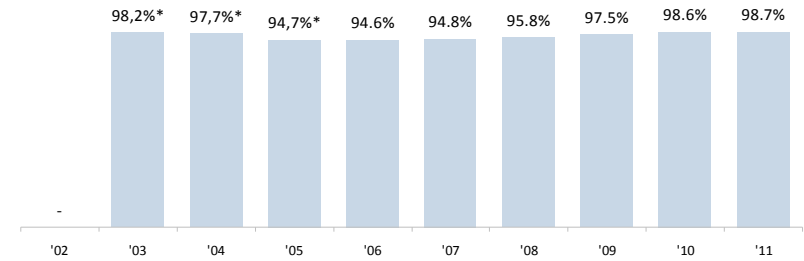
## Residential customer surveys

(score 0-100)



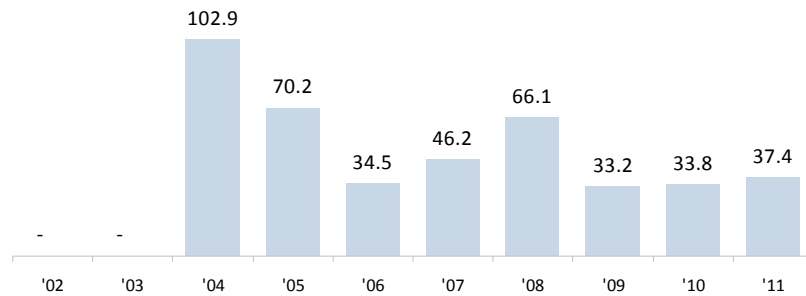
## Service quality standards

Compliance with Authority std (gas, electricity, water, district heating)



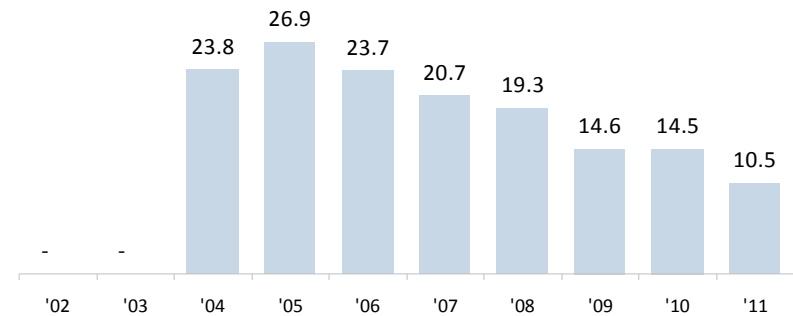
## Avg call center response time to customer

(seconds)



## Avg waiting time at Hera shops

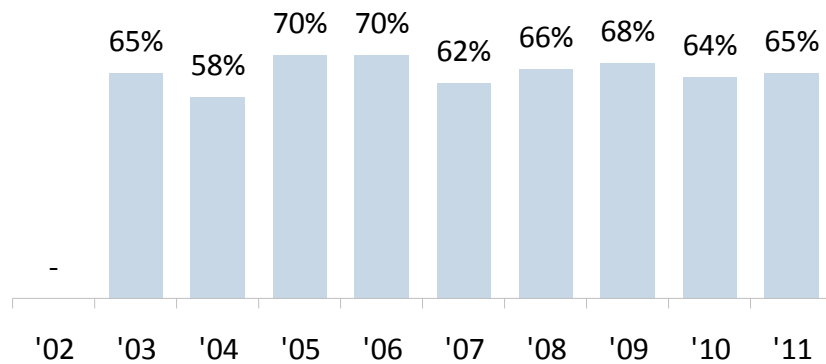
(minutes)





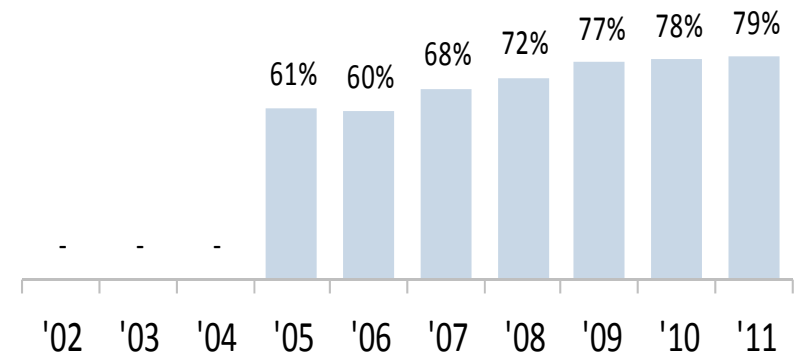
# Sustaining on reference territories

## Value of supplies from “local” suppliers



## Values of supplies ISO 9001 certified

(percentage of tota)

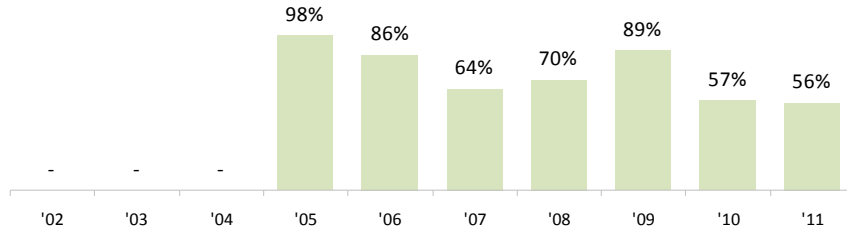


# Safeguarding the environment

## CO2 emissions vs Kyoto protocol

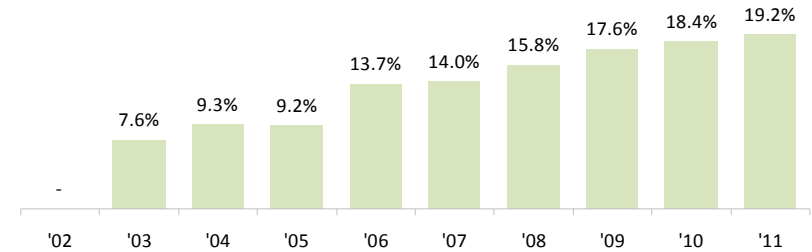
(percentage of total)

100% Kyoto protocol maximum emissions



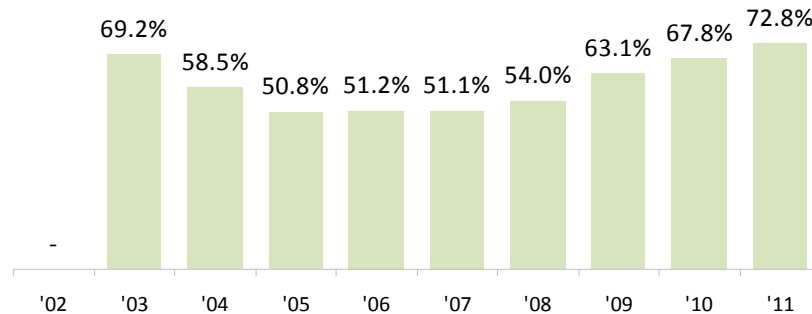
## Vehicles using low impact fuels

(Methane, LPG, Electric powered)



## Portion of renewable energy production

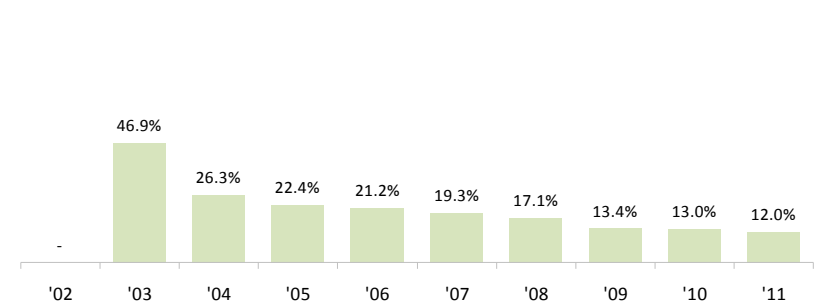
(incl. 51% of WTF production and similar)



## WTE emissions vs Italian legal limit

(percentage of total)

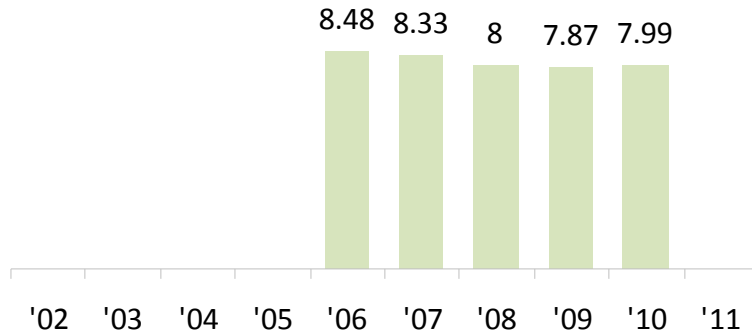
100% Italian legal limit



# Safeguarding the environment

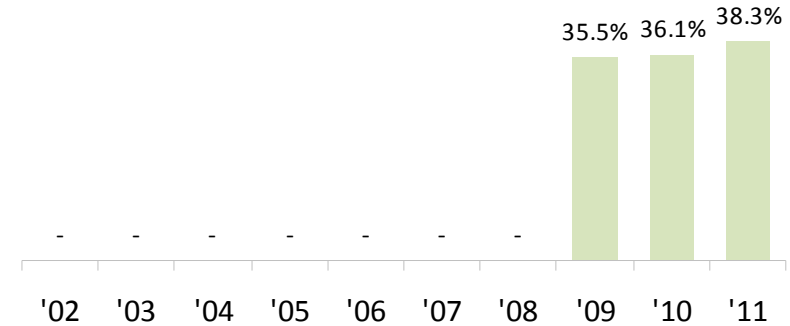
## Admin. and physical fresh water leakage

(daily cubi meter/kilometer of network)



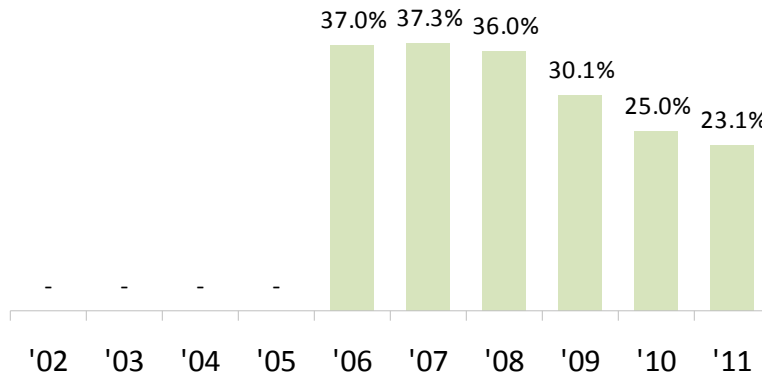
## Quality of treated water vs legal limits

(real concentration/legal limits: best value < 100%)



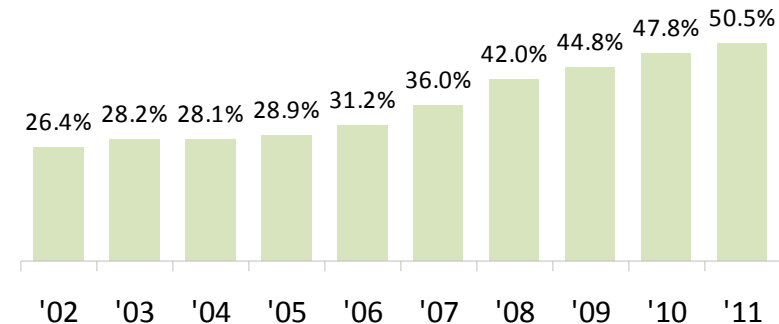
## Portion of waste disposed off in landfill

(% of total urban waste collected)



## Urban waste send to recycling

(average annual % of total)



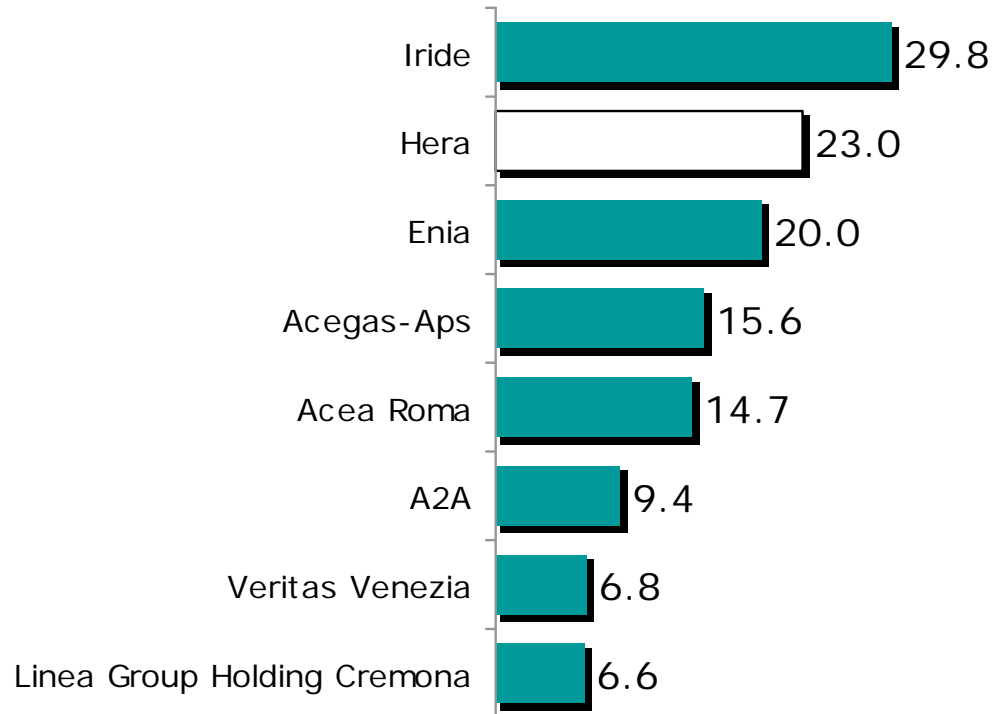
## Some KPI track record bench mark



# Employees

## Professional training in the main Italian utility companies

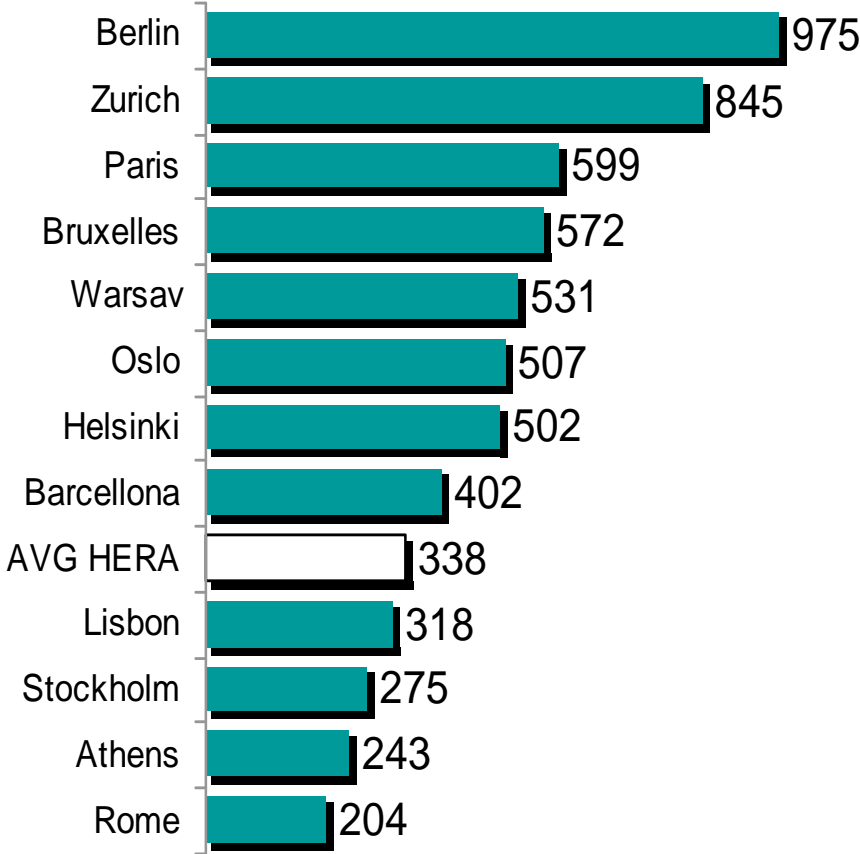
*(Per capita training hours 2009)*



# Customers

## Water service bill

Total avg cost per user (€/200m<sup>3</sup>)



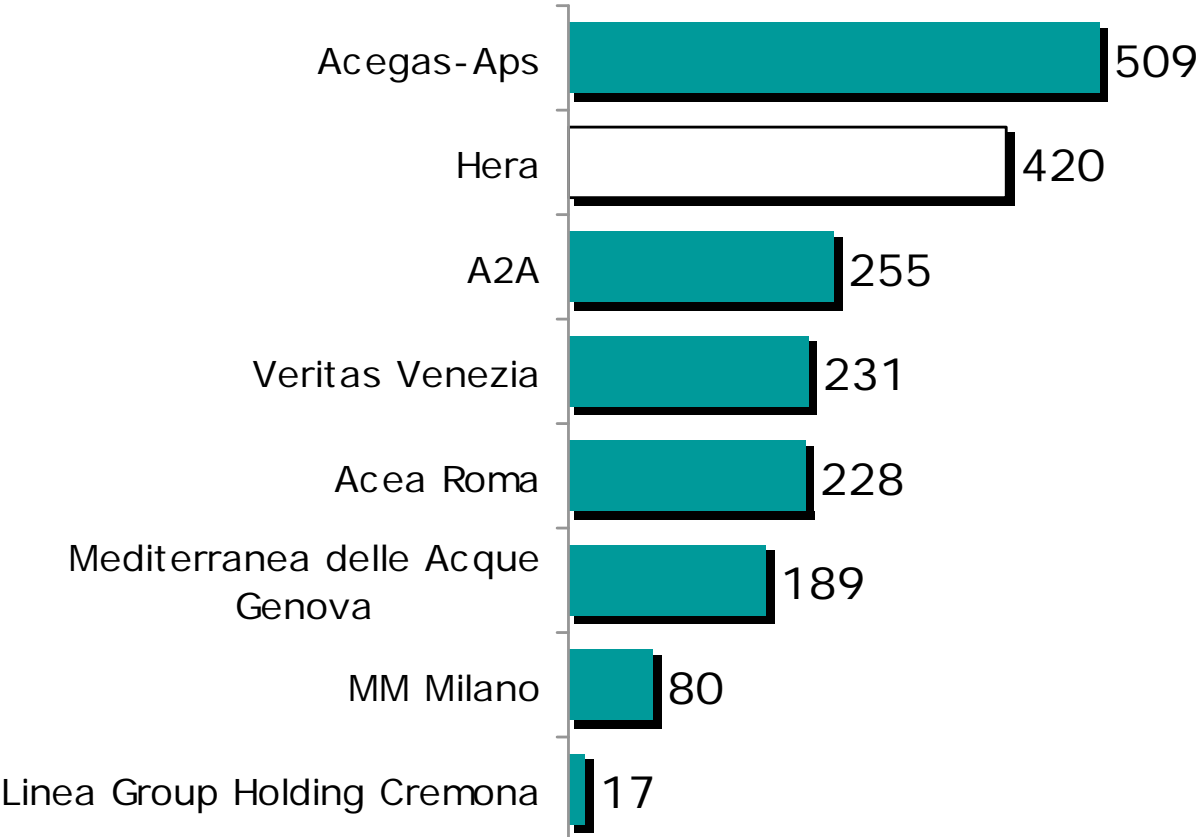
source: Utilitatis



# Customers

## Water investments in Italy

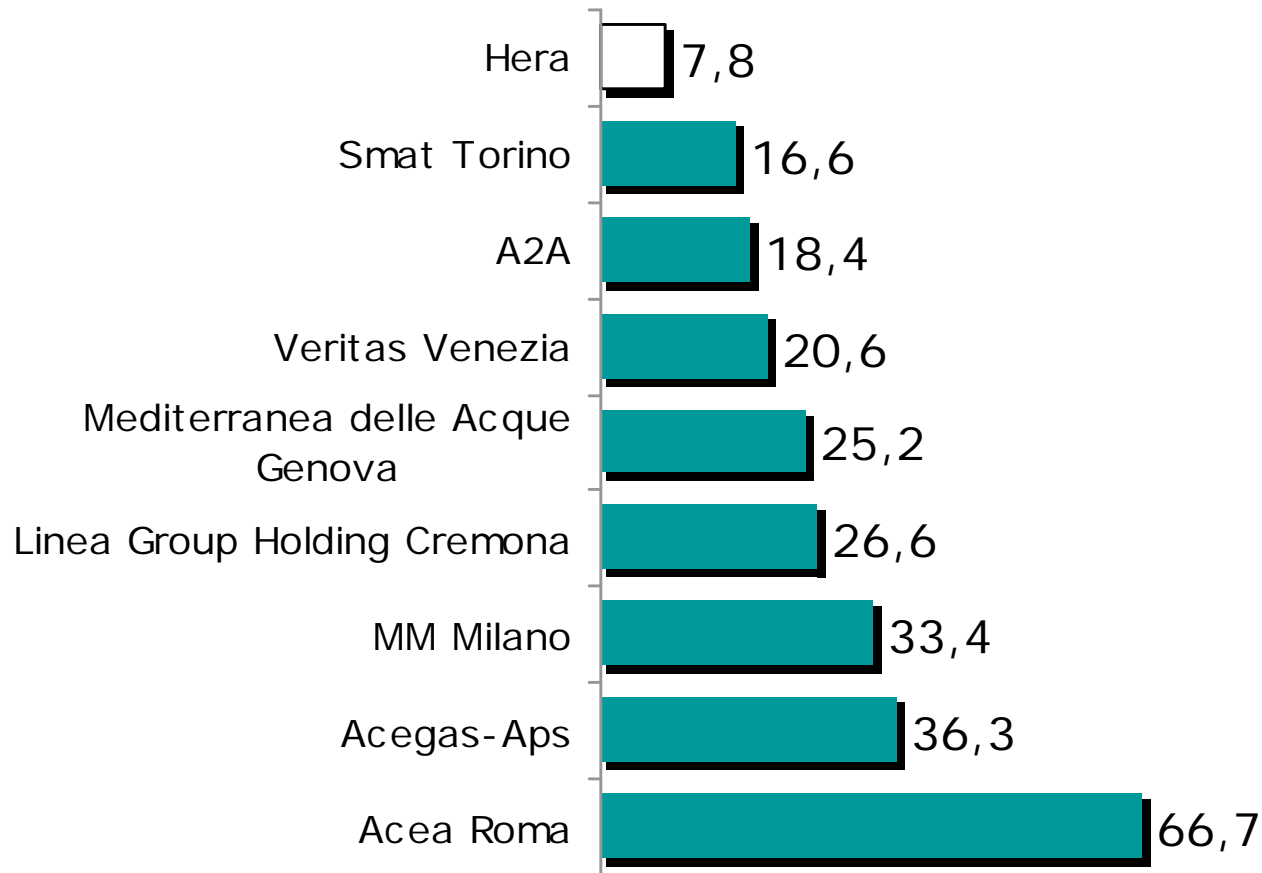
Capex& investm. per 1,000 cubic meters of invoiced water



# Environment

## Non-invoiced water

(mc/km/day on 2009)

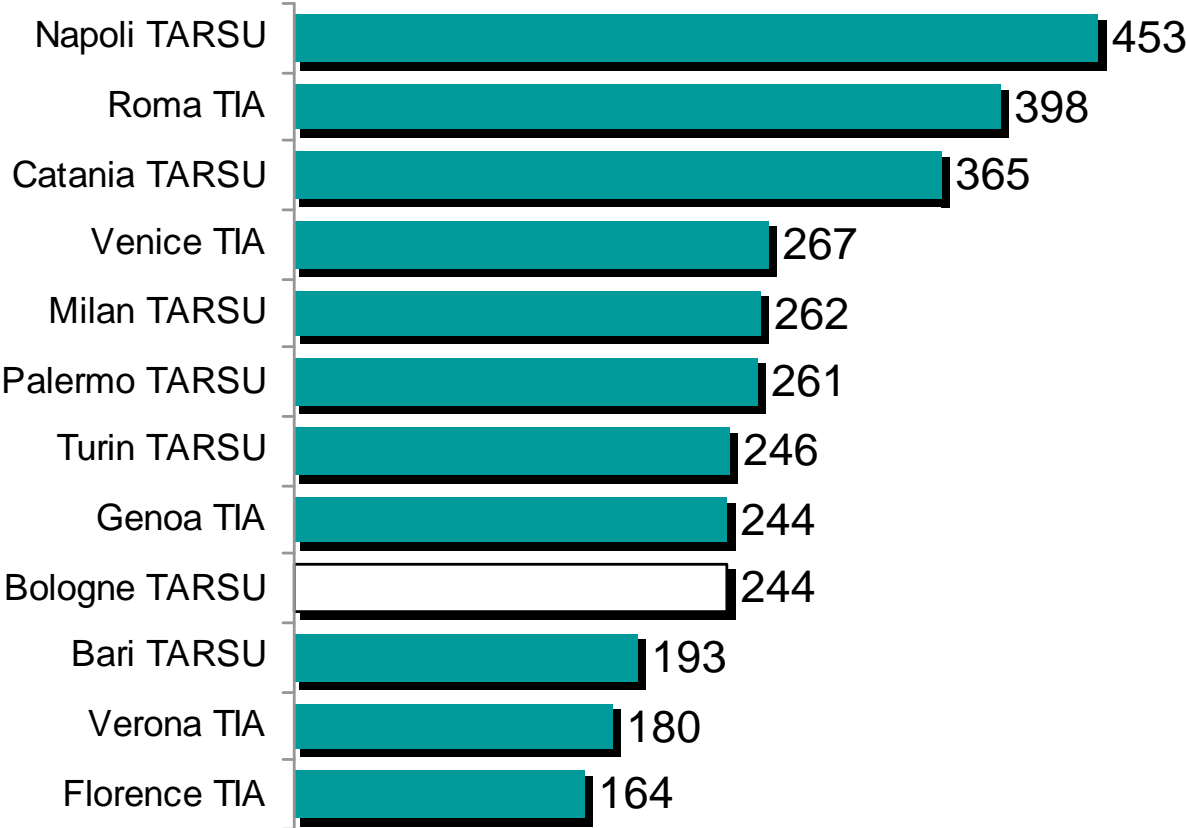




# Customers

## Costs for urban waste services in Italy

Total cost per user in cities with over 250,000 residents  
(3 family members living in a 100 m<sup>2</sup> flat, euro)



Source: Cittadinanzattiva

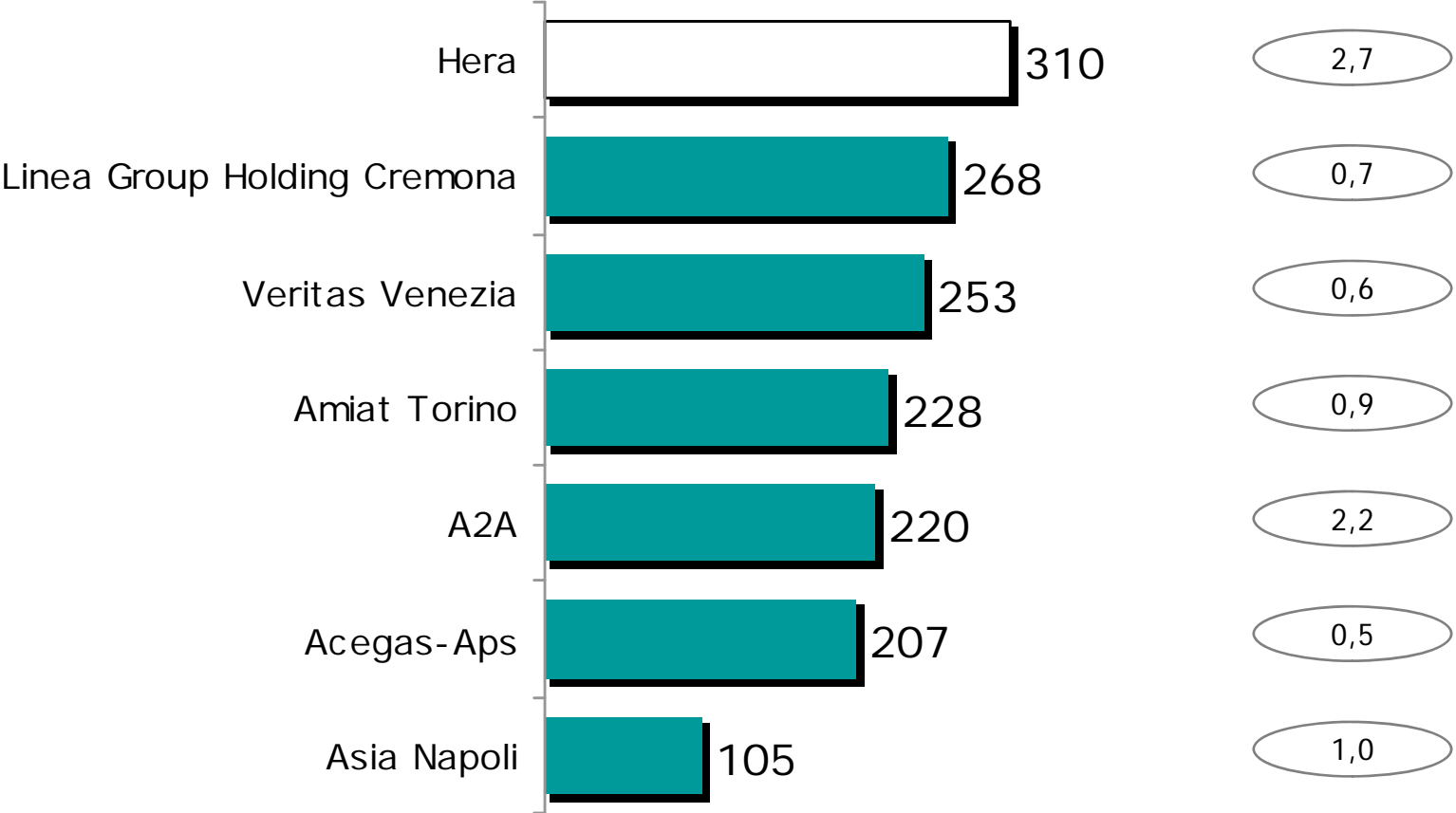


# Environment

## Sorted waste collection in Italy

Per capita sorted collection in Italy  
(kg - 2009)

Customers  
supplied (mln)



## Disclaimer

- > *This presentation contains forward-looking statements regarding future events (which impact the Hera Group's future results) that are based on current expectations, estimates and opinions of management.*
- > *These forward-looking statements are subject to risks, uncertainties and events that are unpredictable and depend on circumstances that might change in future.*
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