

# A 4.0 sustainable growth

2017-2021 Business Plan





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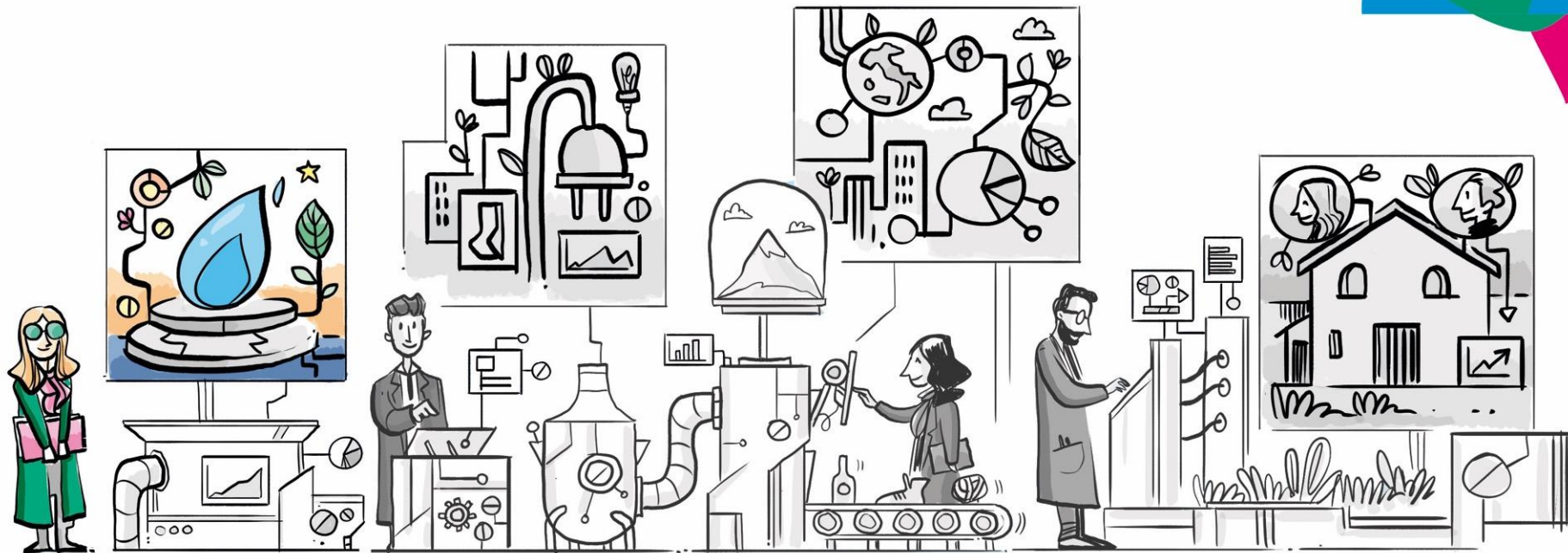
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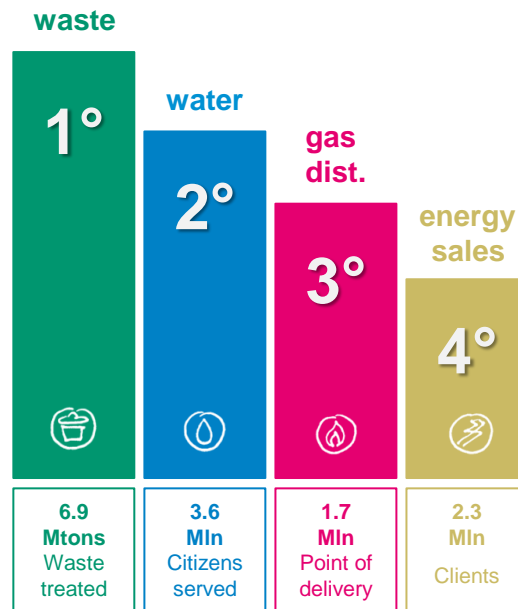
# Hera Performance

Business Plan to 2021

# Who and what

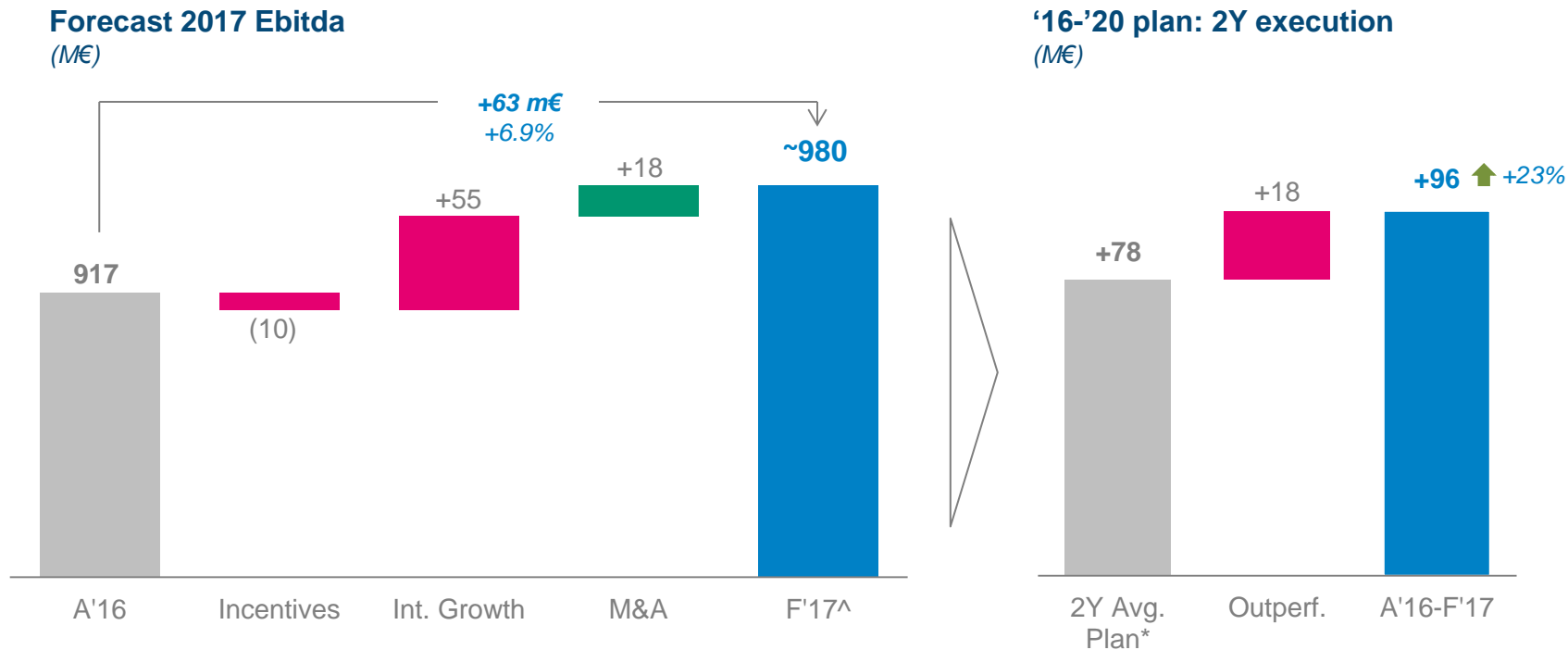


## Business positioning



Among largest sector players

# Where we stand: forecast 2017 Ebitda



**Forecast better than budget**

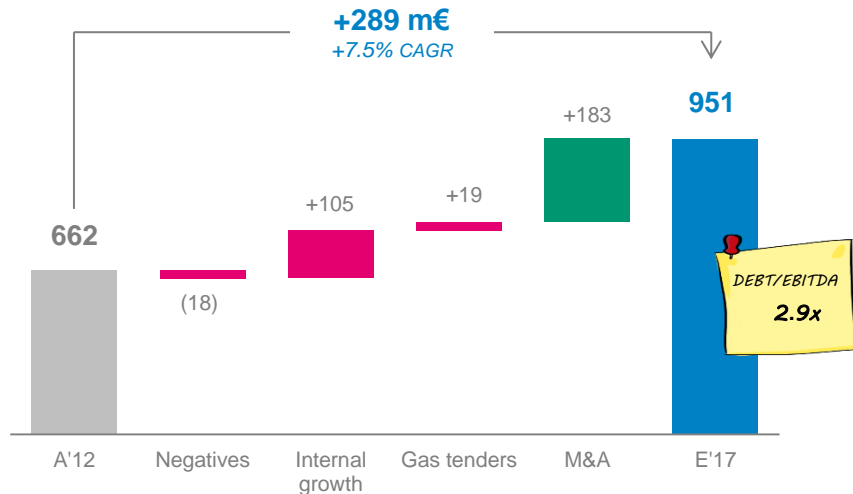
↑ ↓ Increase / Decrease vs plan E'16-E'20

\* 2Y of planned Ebitda growth target assuming a linear distribution of the expected growth (196 m€ x 40% of plan years = 78 m€)

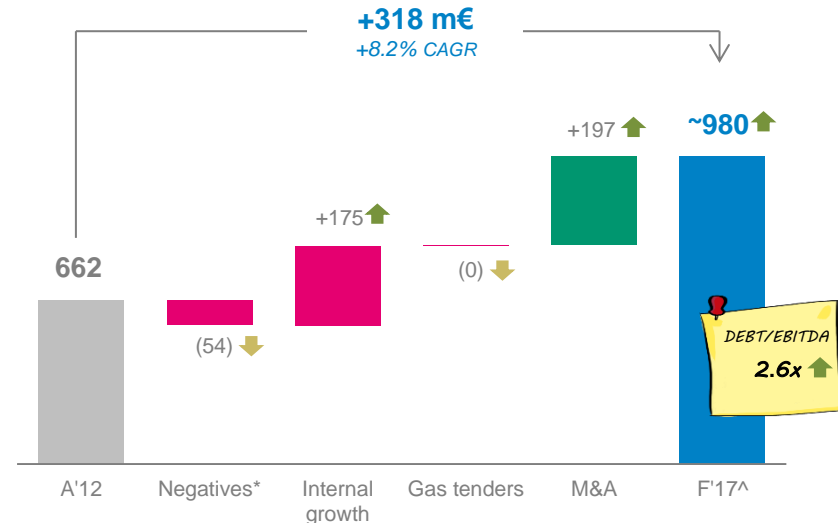
^ Best estimate at the time

# Last 5Y growth outperforming our business plan '13-'17

**Business plan '13-'17 Ebitda target**  
(M€)



**Actual '13-'17 Ebitda results**  
(M€)

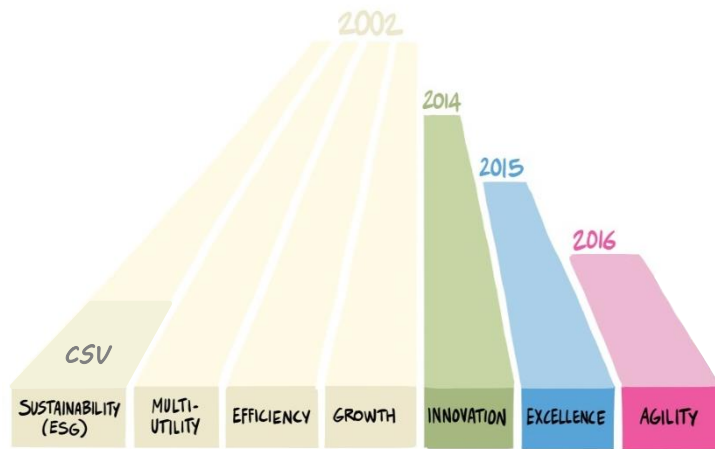


**Org. growth and M&A offset external events**

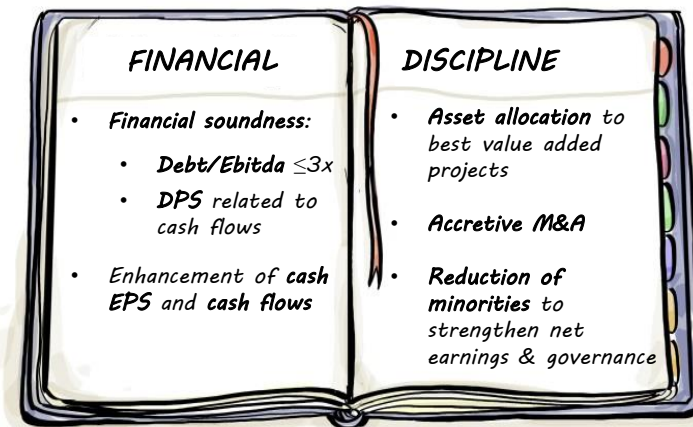
# Last 5 years focused on building up premises

## Consistent strategy anticipates emerging patterns

*(year of inclusion among strategic pillars)*

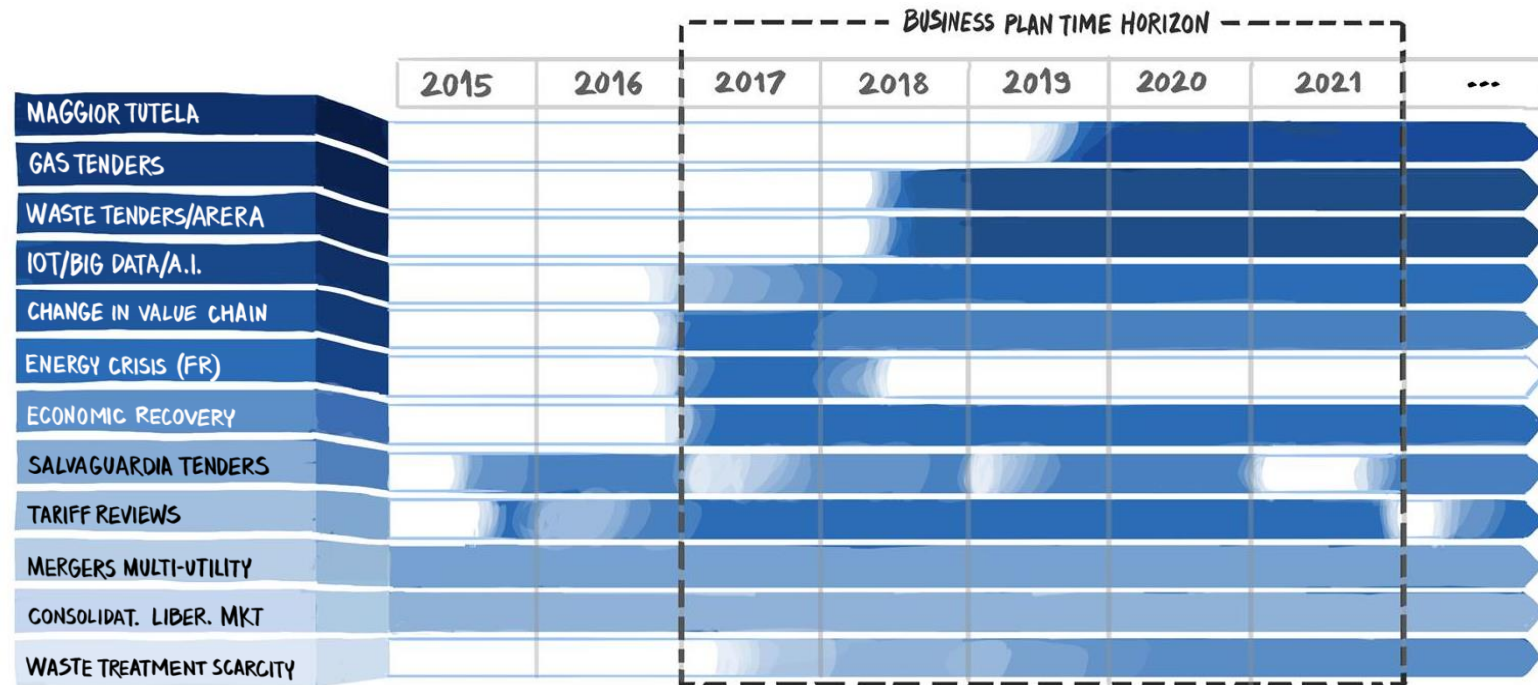


## Pillars of our financial discipline



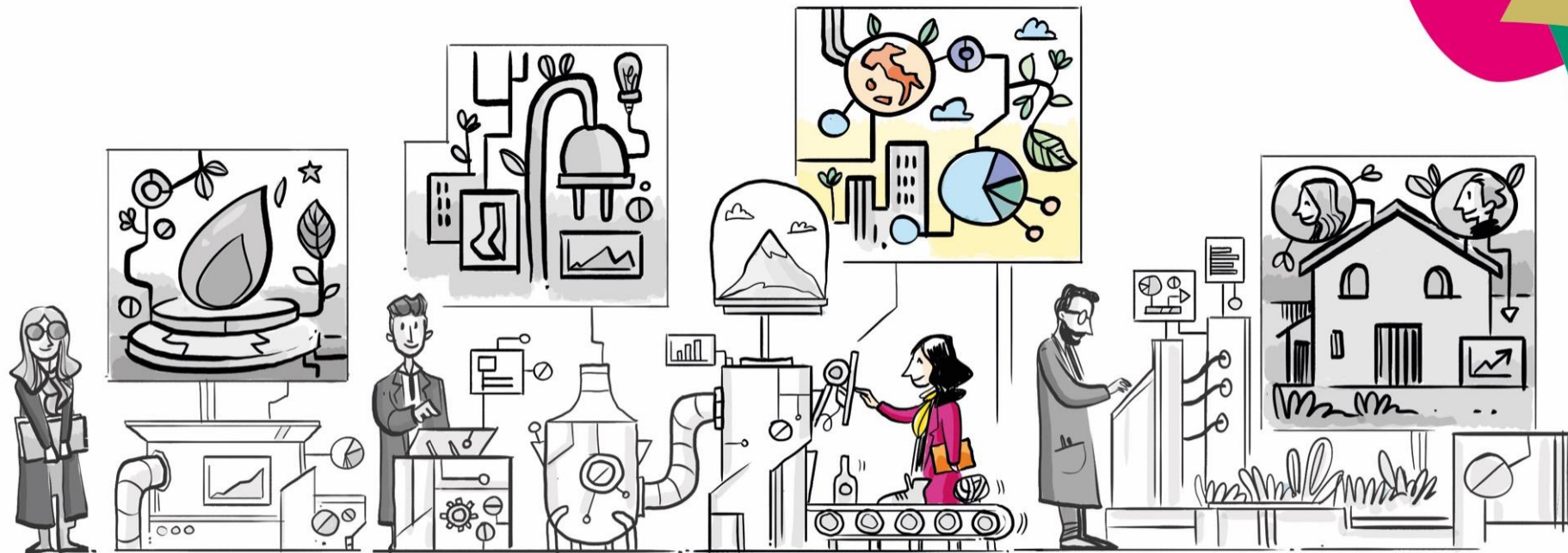
## Key to face future scenarios

# Scenario



**A high concentration of opportunities**

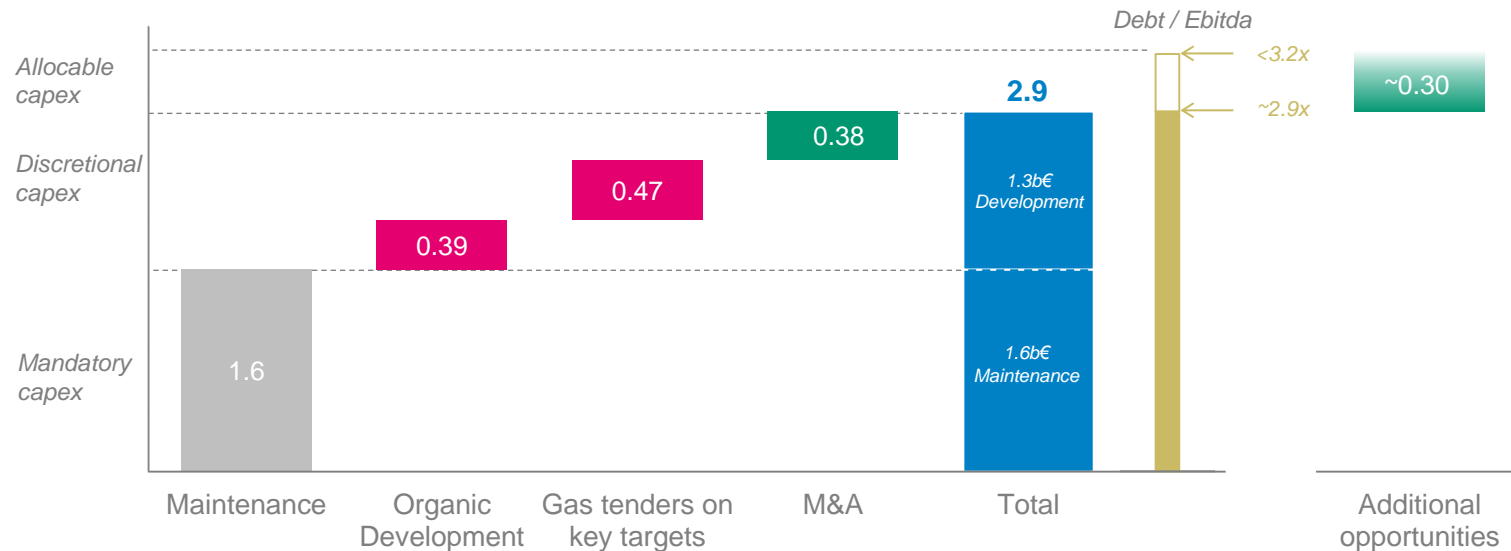




## **Business plan: targets to 2021**

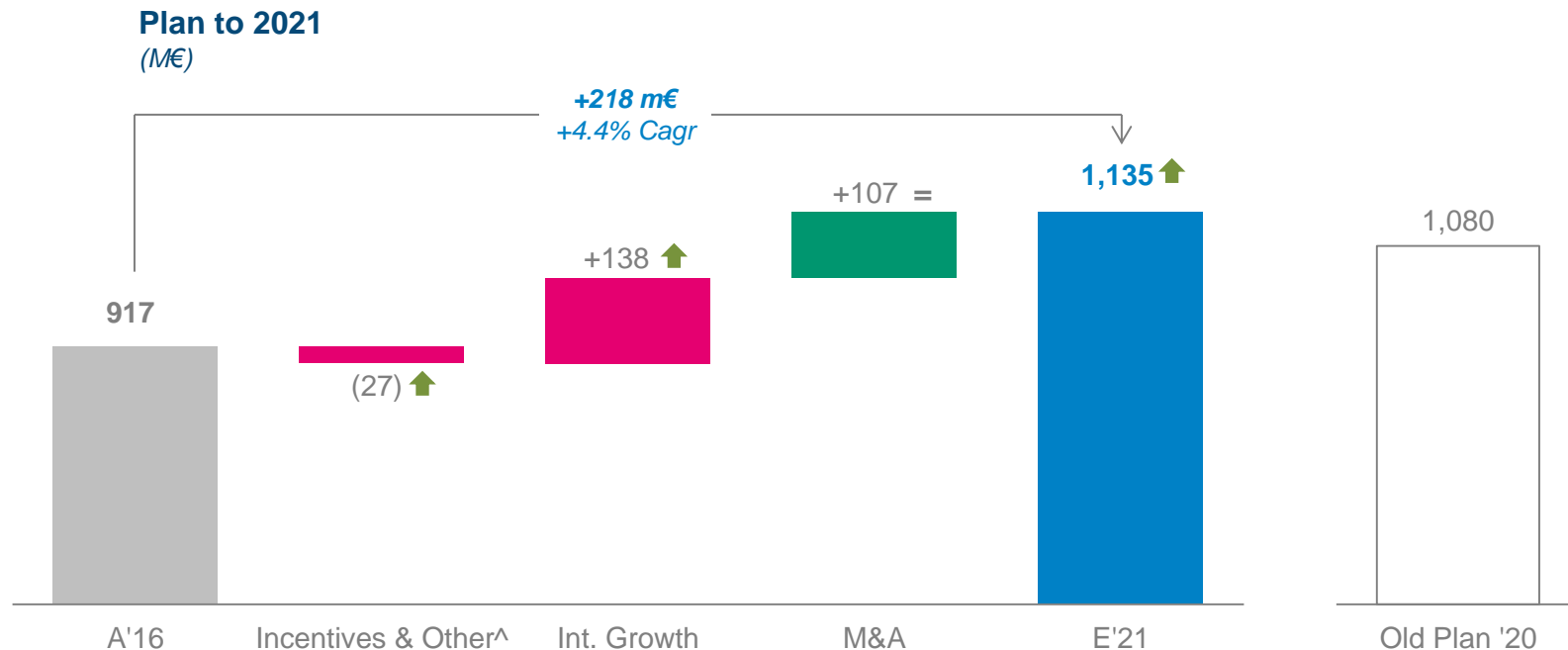
# Our capital allocation: 2.9 b€ in '17-'21 plan

## 5 years capex plan by destination (B€)



**+62% increase vs capex of last 5 years**

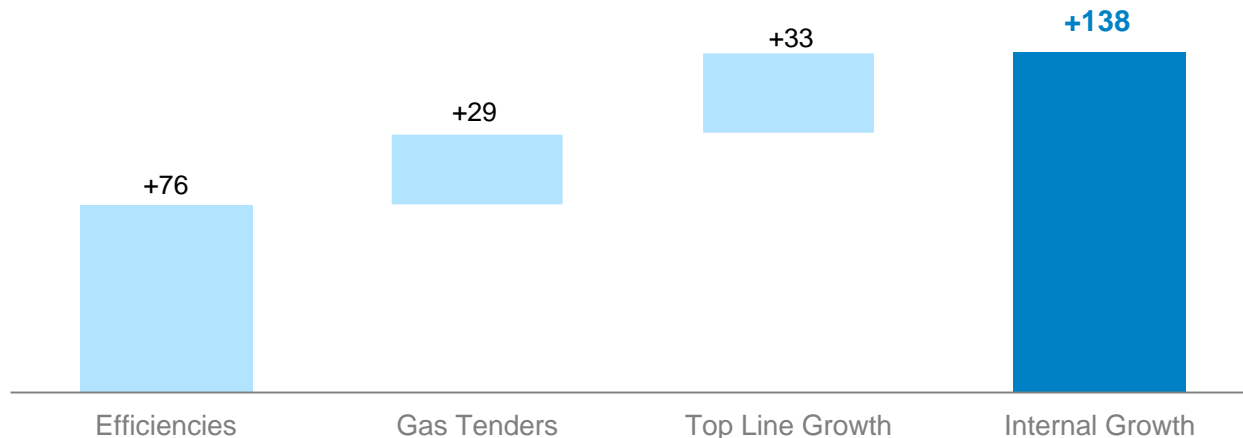
# 2021 Ebitda target



## Balanced growth contribution

# Internal Growth: +138 m€

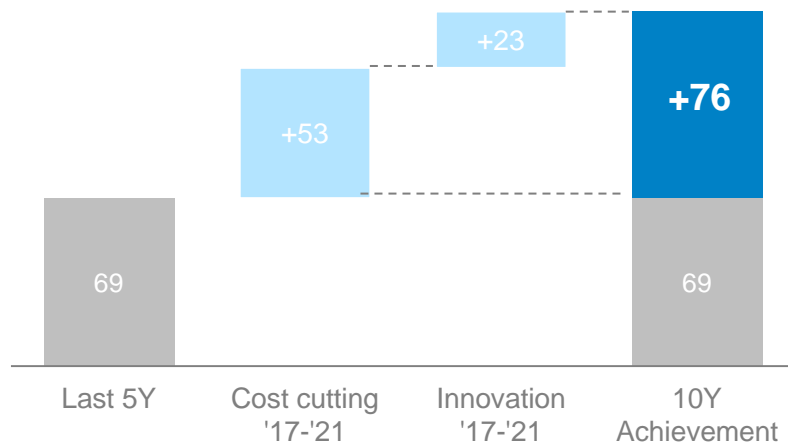
2021 Internal Growth target by levers  
(M€)



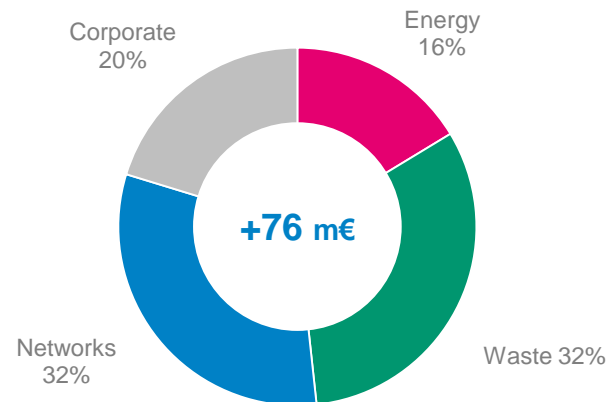
**Wide range of levers to grow organically**

# Internal Growth: +138 m€ (1)

Efficiency track record  
(M€)



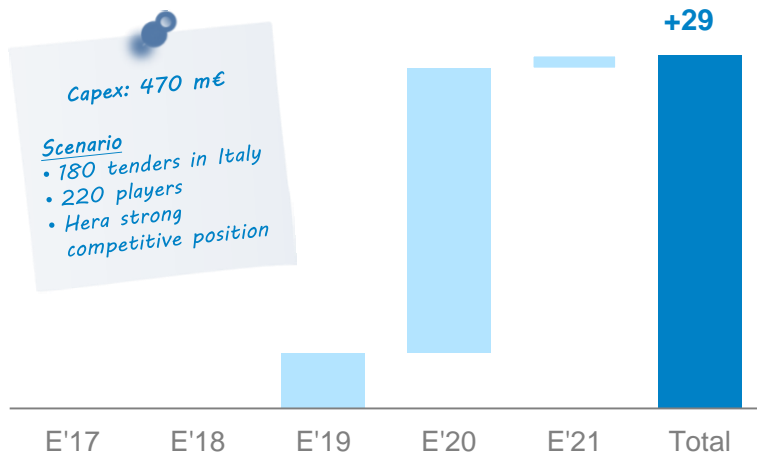
Efficiencies by business  
(M€)



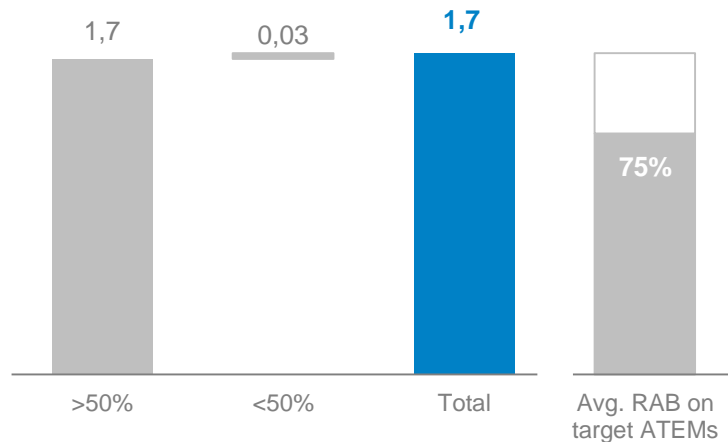
**~5% reduction of addressable costs**

# Internal Growth: +138 m€ (2)

Ebitda contribution from gas tenders  
(M€)



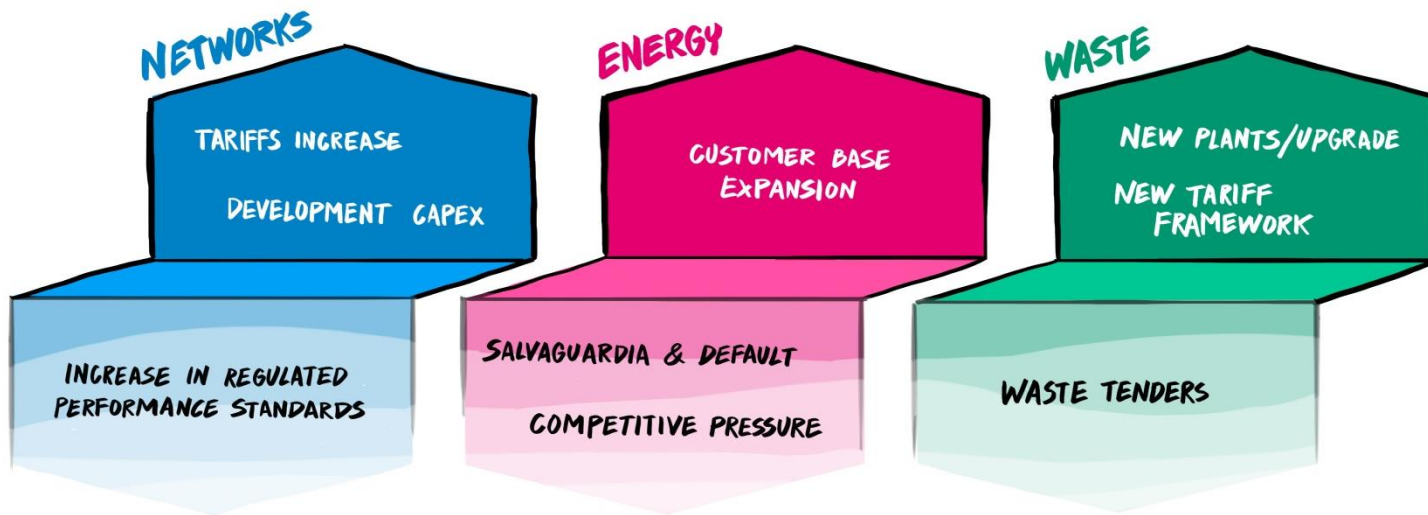
Point of delivery in reference ATEMs by market share  
(Mln, Hera mkt sh.)



16 tenders concentrated in 3 years of Plan

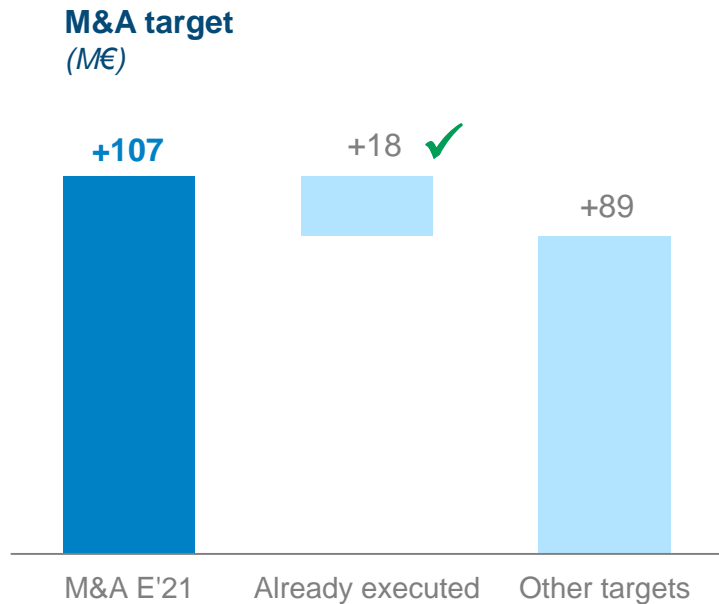
# Internal Growth: +138 m€ (3)

Top line Growth: +33 m€

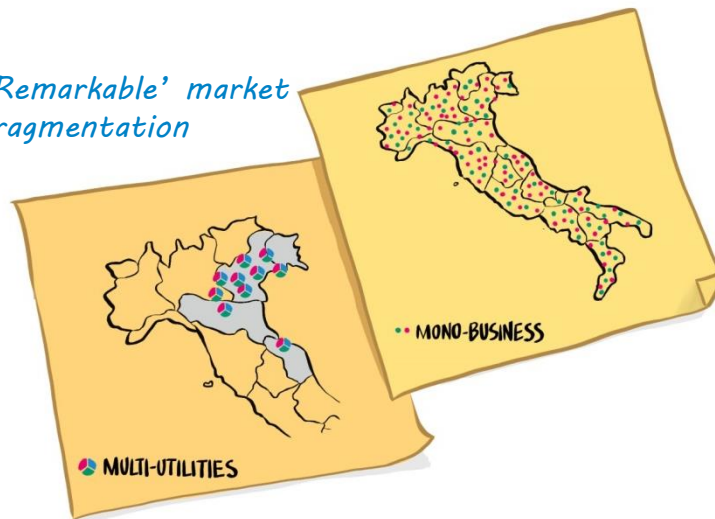


## Visible drivers underpinning Organic Growth

## External growth drivers: M&A of +107 m€

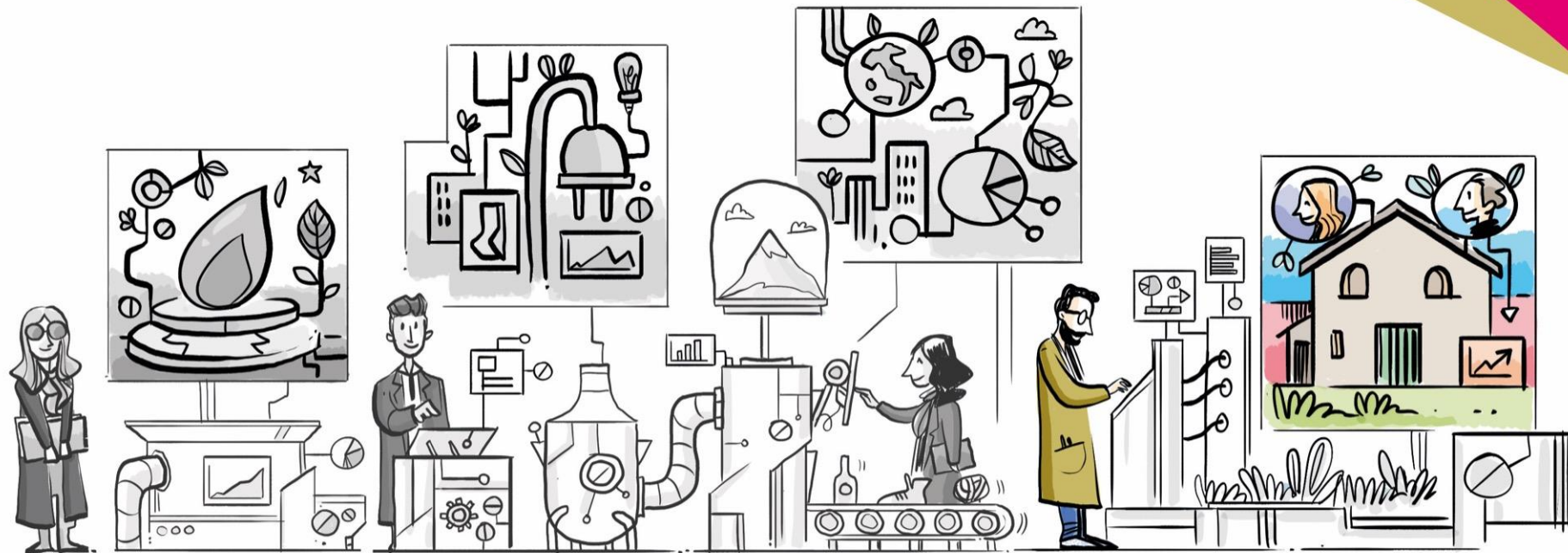


*'Remarkable' market fragmentation*



## Focused on strengthening business position

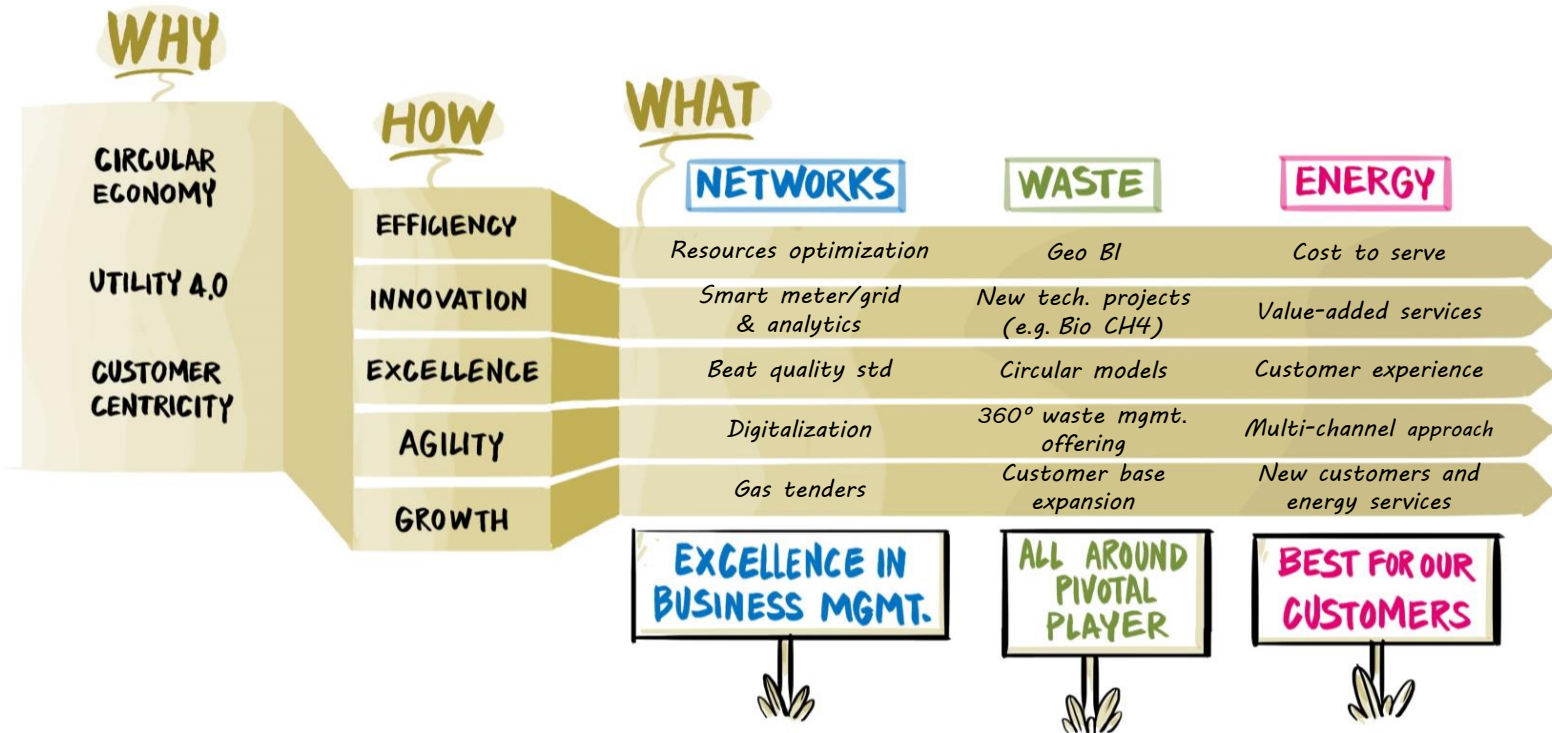




# Industrial Development

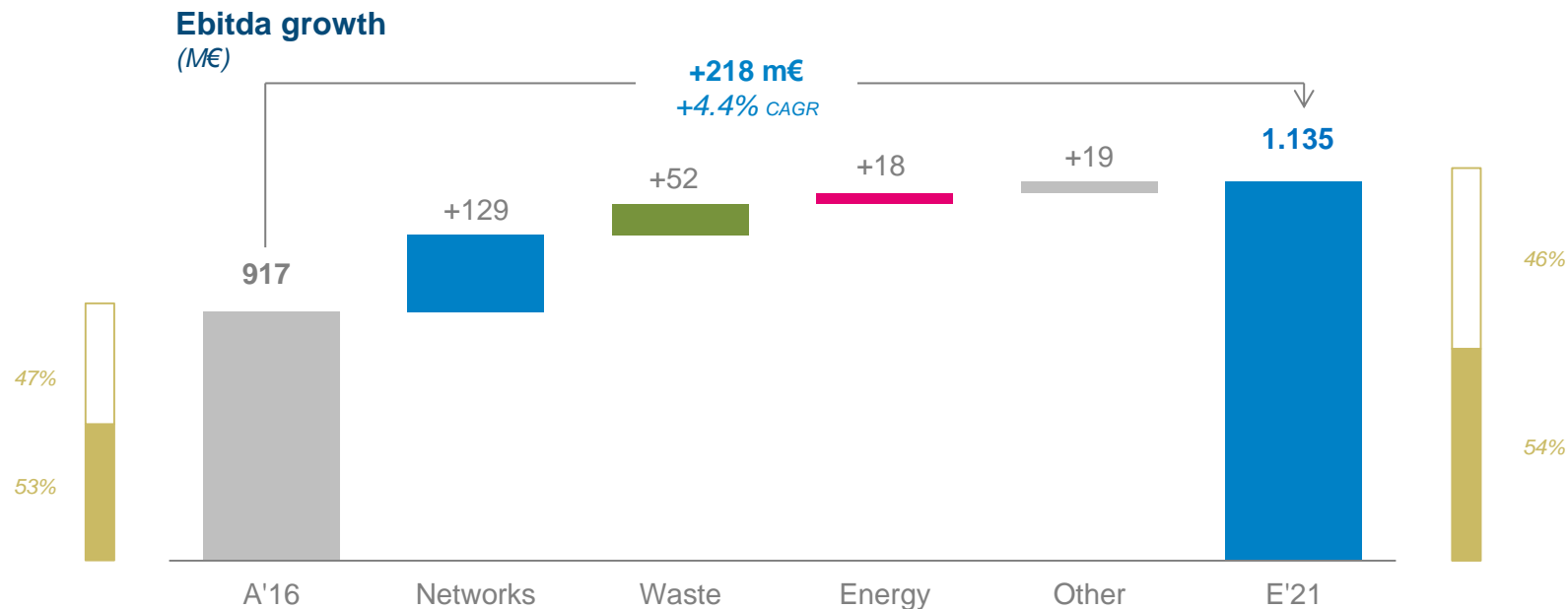
Business Plan to 2021

# Deployment of strategic priorities



Aiming at ambitious targets

# Ebitda growth by business



## Proportional growth maintaining a balanced portfolio

# Networks: our approach and targets

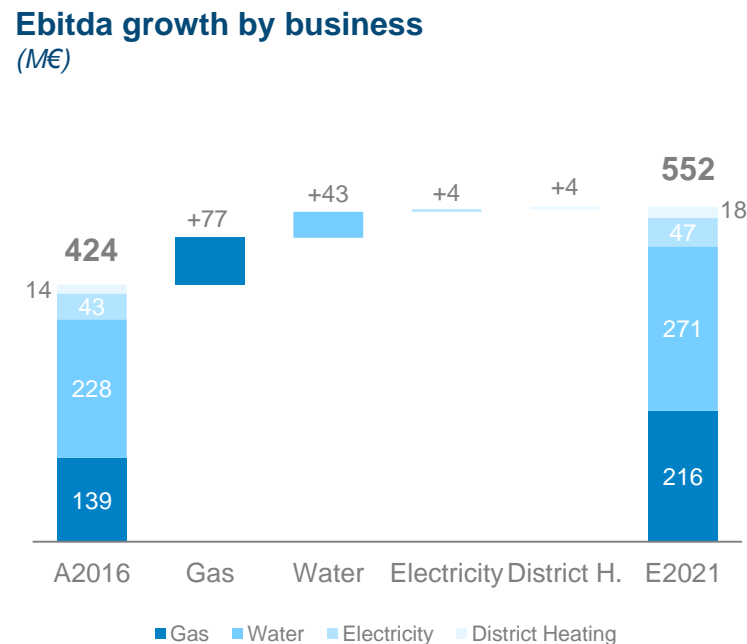
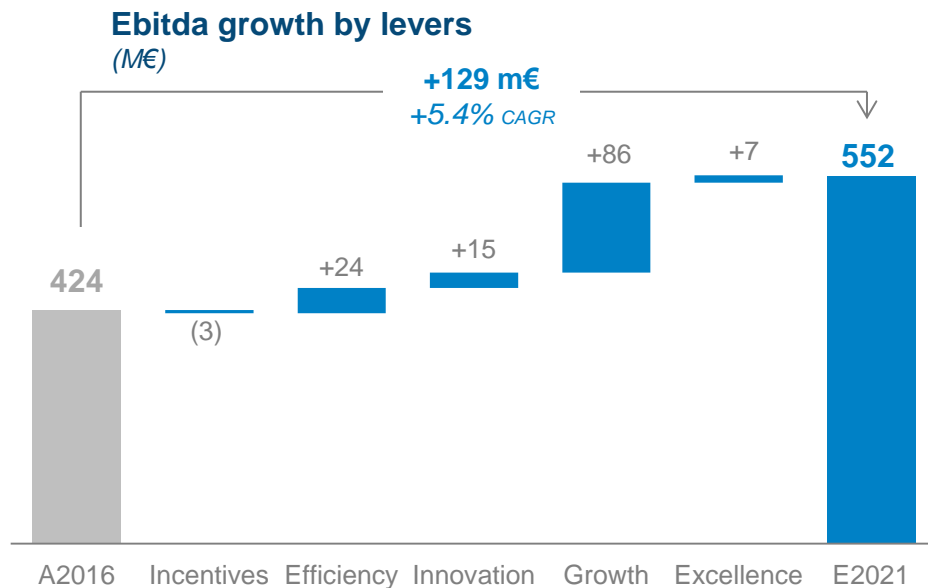
- Unique control room
  - Digitalization of workflows and client interface
  - Proprietary radio network for smart metering
  - On field IT support (3D, Virtual reality, on-line)
- 
- Mobility work and automation
  - Virtual office and dialogue with machines
- 
- Leverage upon peculiarities and integrate rapidly



- Smart water mgmt: further leakages reduction and water re-use
  - Energy water supply optimization
  - Circular approach on water mgmt and material mgmt
- 
- Targeting -5% energy consumptions by 2020
  - Z.E.D. plants (water treatment)
- 
- Moving into upstream of geothermal source (FE).
  - Exploit residual materials for new products/energy production

## Competitive strengths to stay on top

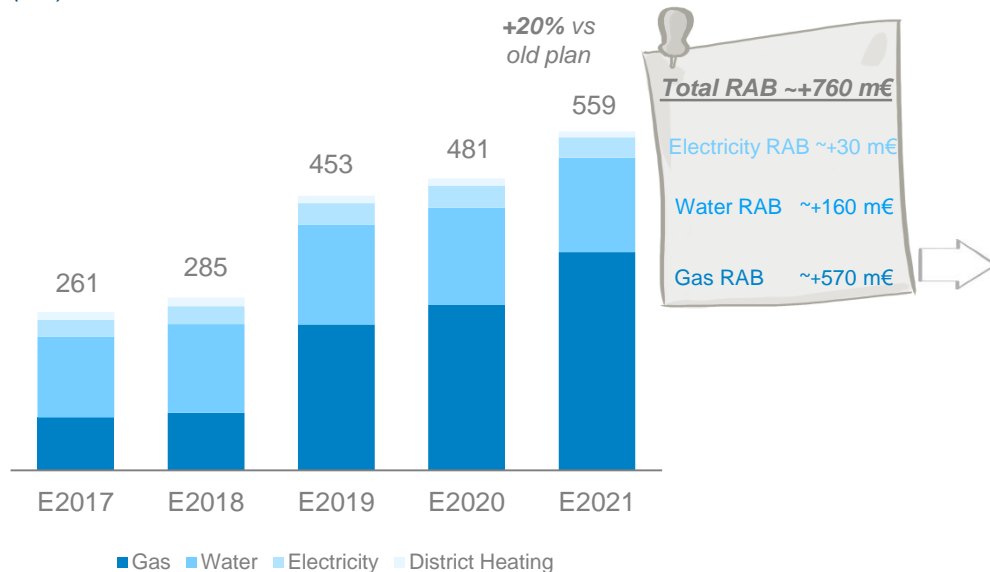
# Networks: targets



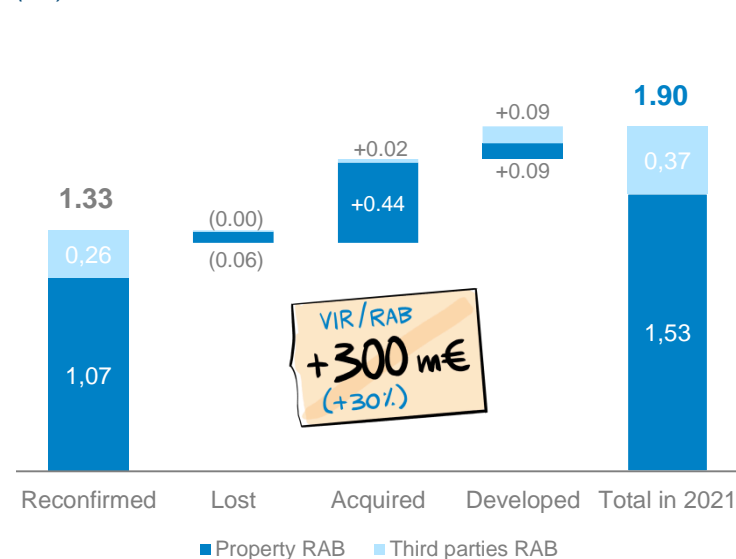
**Stable and visible returns are a solid platform**

# Networks: capex and RAB evolution

## Capex plan '17-'21: 2.0 b€ (M€)



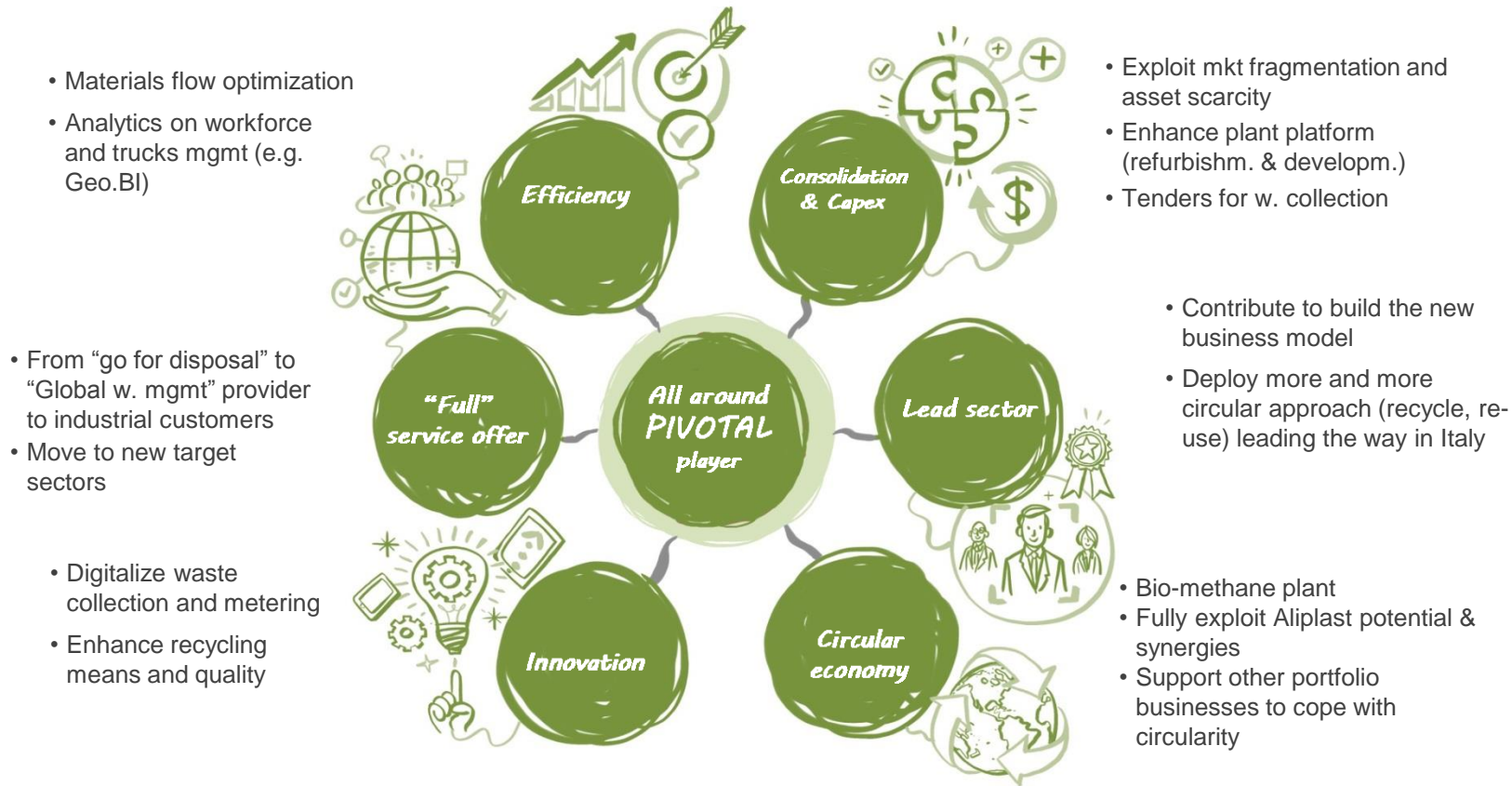
## Gas RAB development through tenders\* (B€)



**Strong increase in capex to fund organic growth**

\*Excluding RAB stemming from M&A

# WASTE: our approach and targets

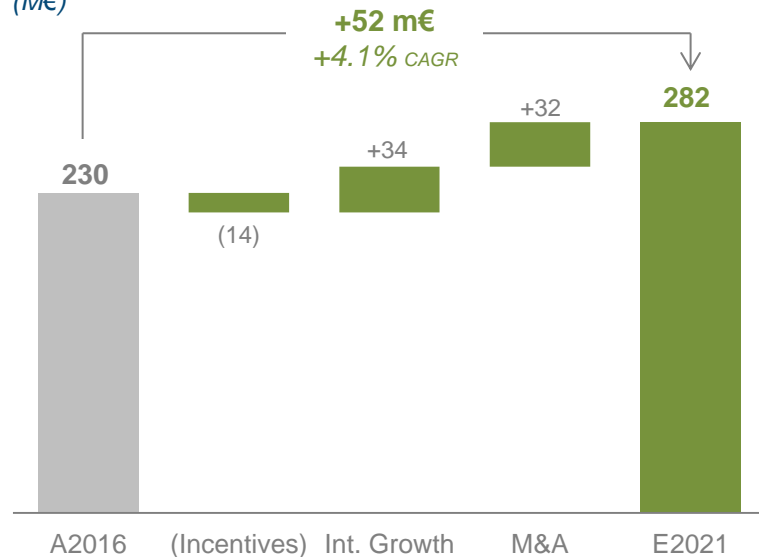


## Setting the benchmark

# Waste: targets

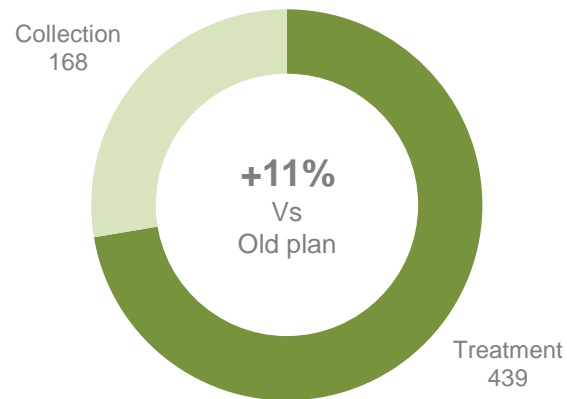
## Ebitda Growth

(M€)



## Capex plan '17-'21: 0.6 b€\*

(M€)



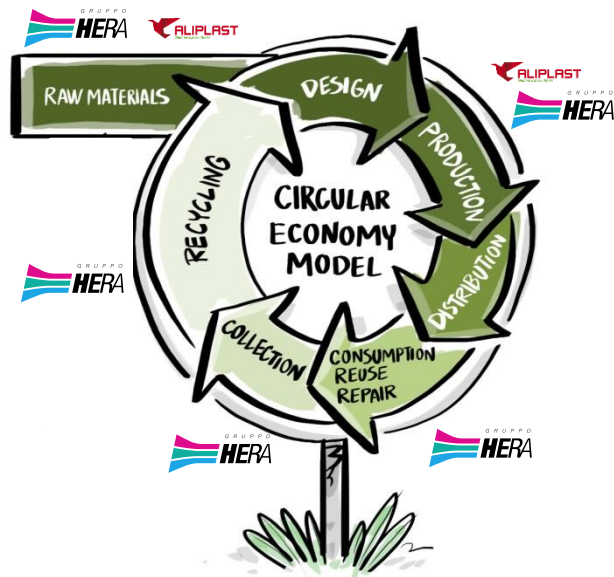
**Balanced growth drivers from existing platform & M&A**

\* Include cash acquisition of Aliplast



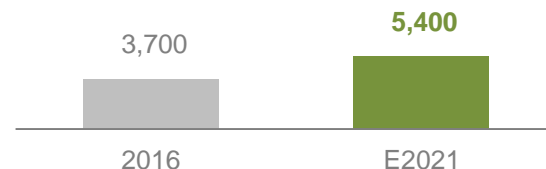
# Waste Treatment: relevance of being «circular»

“Our” circular waste mgmt

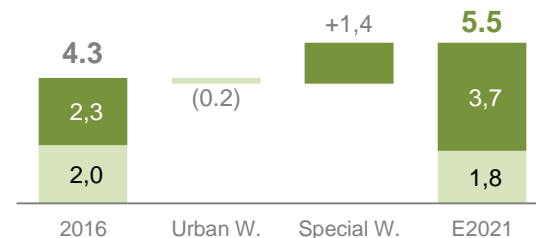


‘21 Special Waste customer base target (n.)

Cagr.+8%

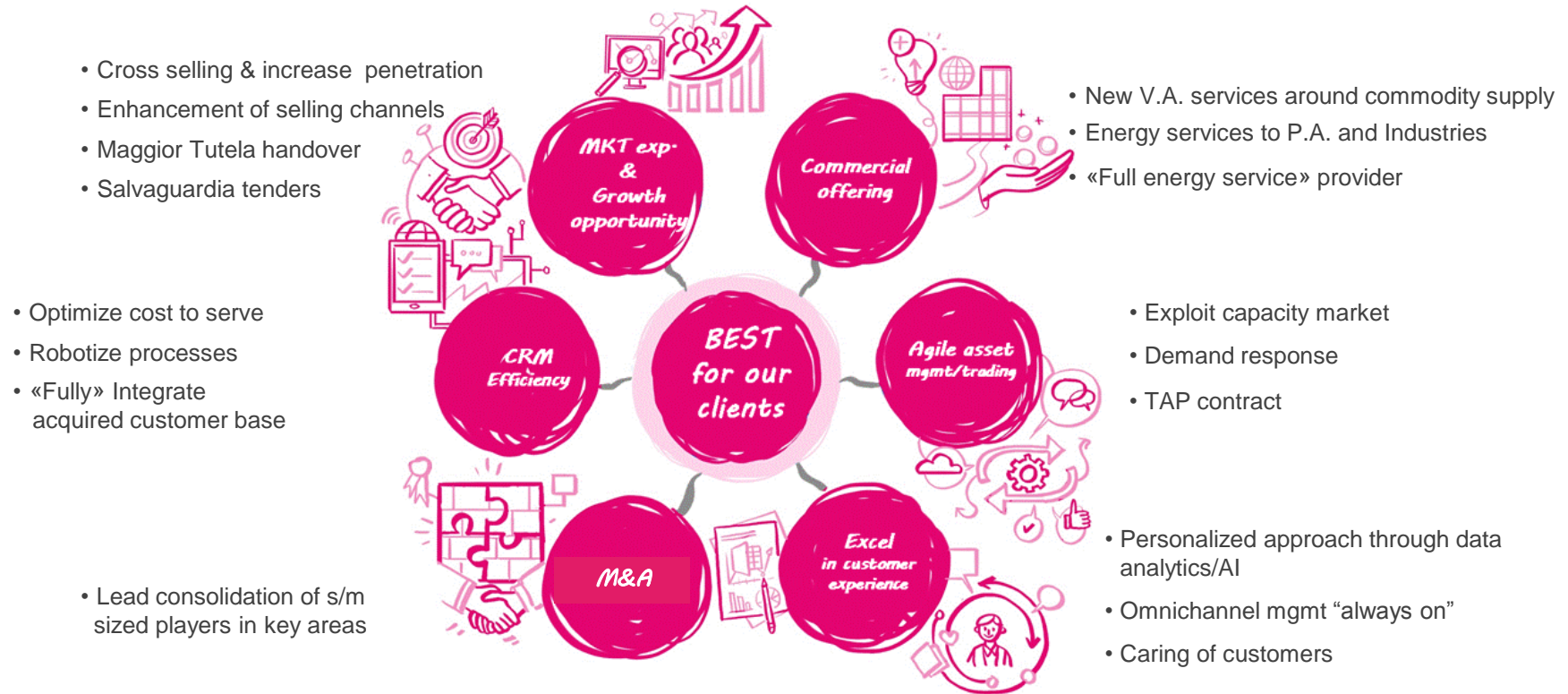


‘21 treatment volumes (Mtons)



With circularity we anticipate demand evolution

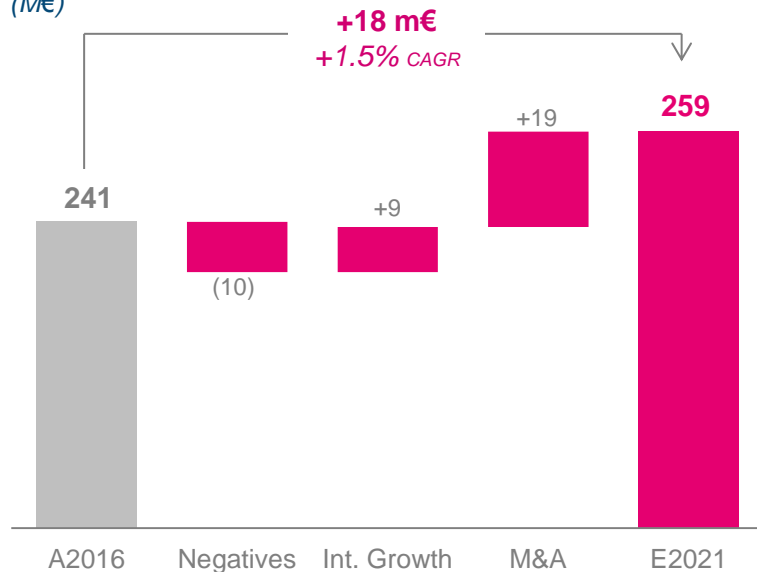
# ENERGY: our approach and targets



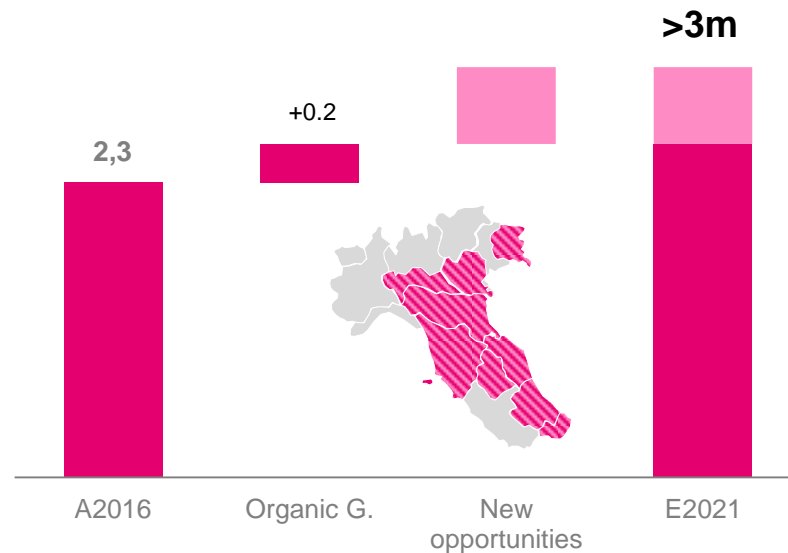
**Acting to increase the value of our customer base**

# ENERGY: main targets

Ebitda Growth  
(M€)



Customer base evolution  
(M clients)



All levers at work to continue expansion

# From CSR to Creating Shared Value

Intelligent use of energy



Efficient use of resources



Innovation & Territorial development

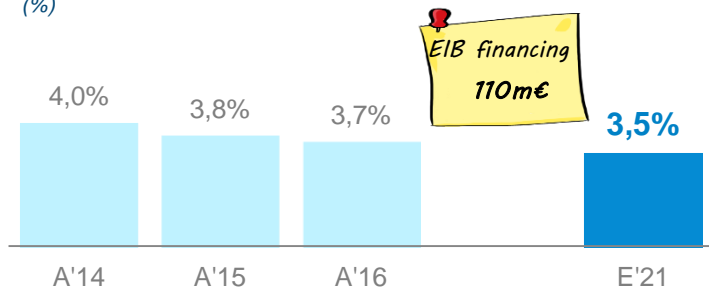


2/3<sup>rd</sup> of growth to 2021 comes from shared value

# 2021 financial targets

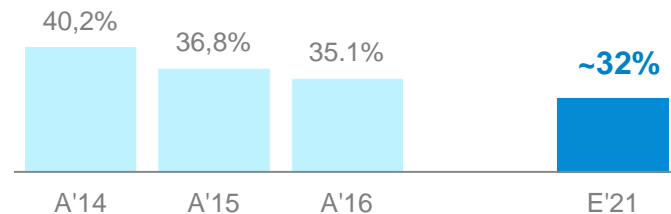
## Cost of Debt

(%)



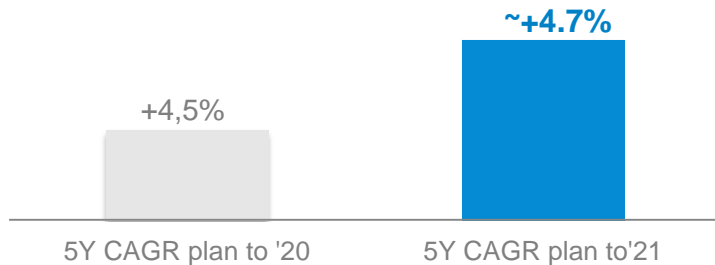
## Tax rate

(%)



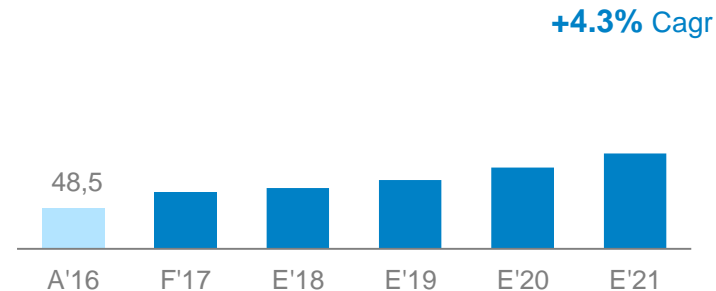
## EPS 5Y CAGR

(CAGR %)

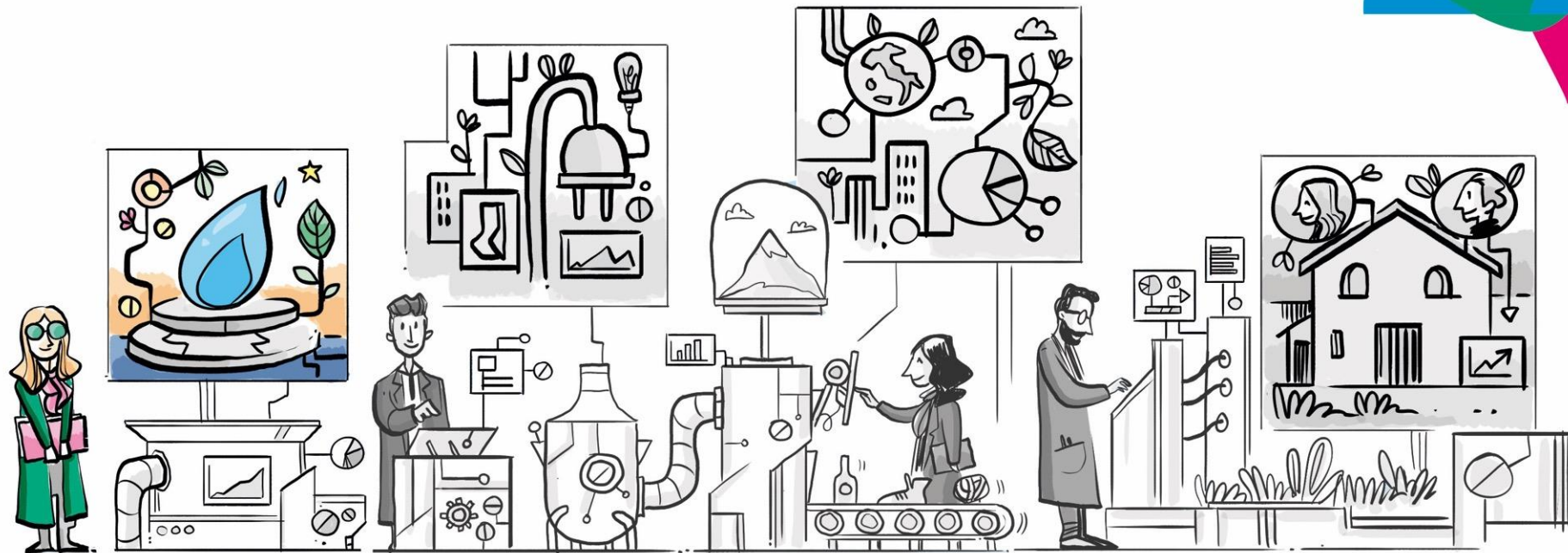


## Cash Flow per share

(€ cents per share)



**Enhancing EPS and cash flows [per share]**



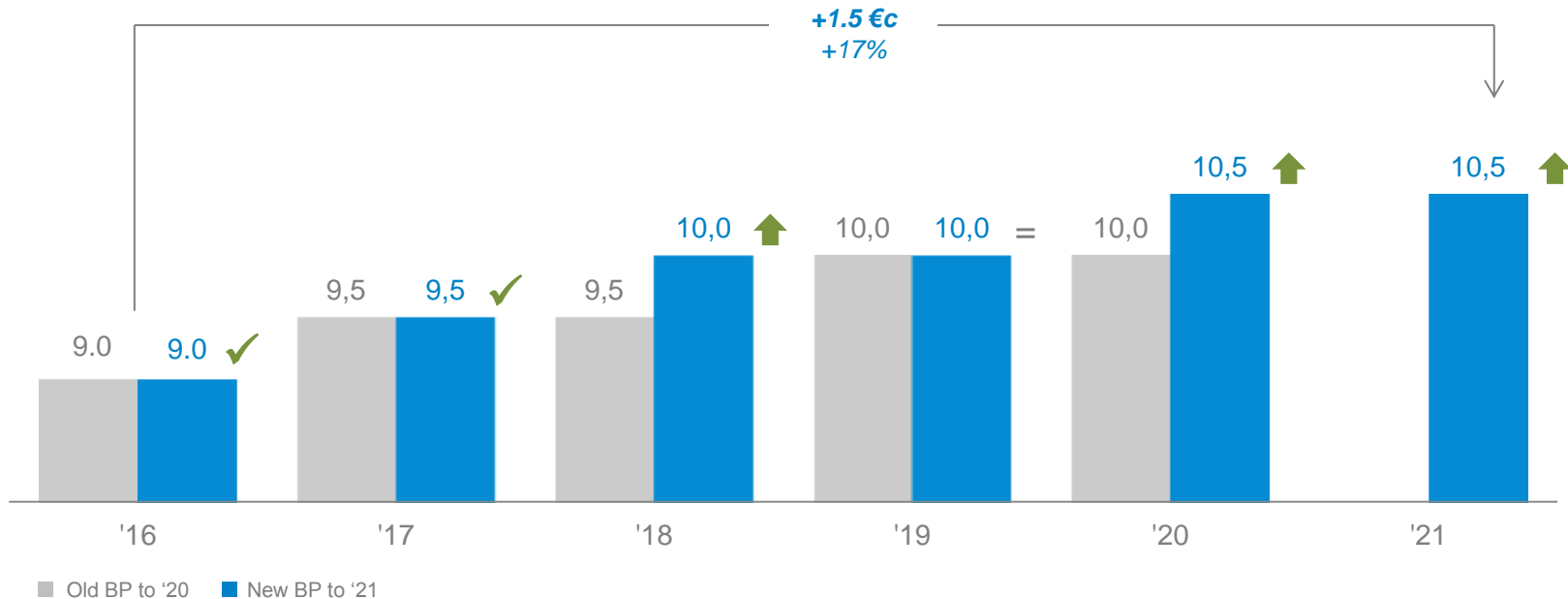
## Closing remarks

Business Plan to 2021

# Dividend policy uprise

## DPS

(€c matured in the year/incr. %)

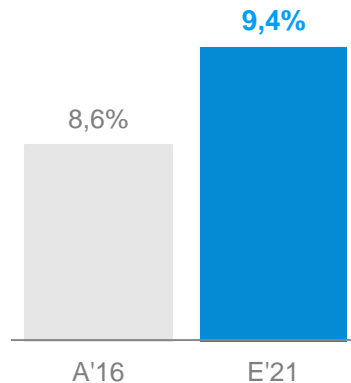


**Pay out above 60% throughout BP period**

# Closing remarks

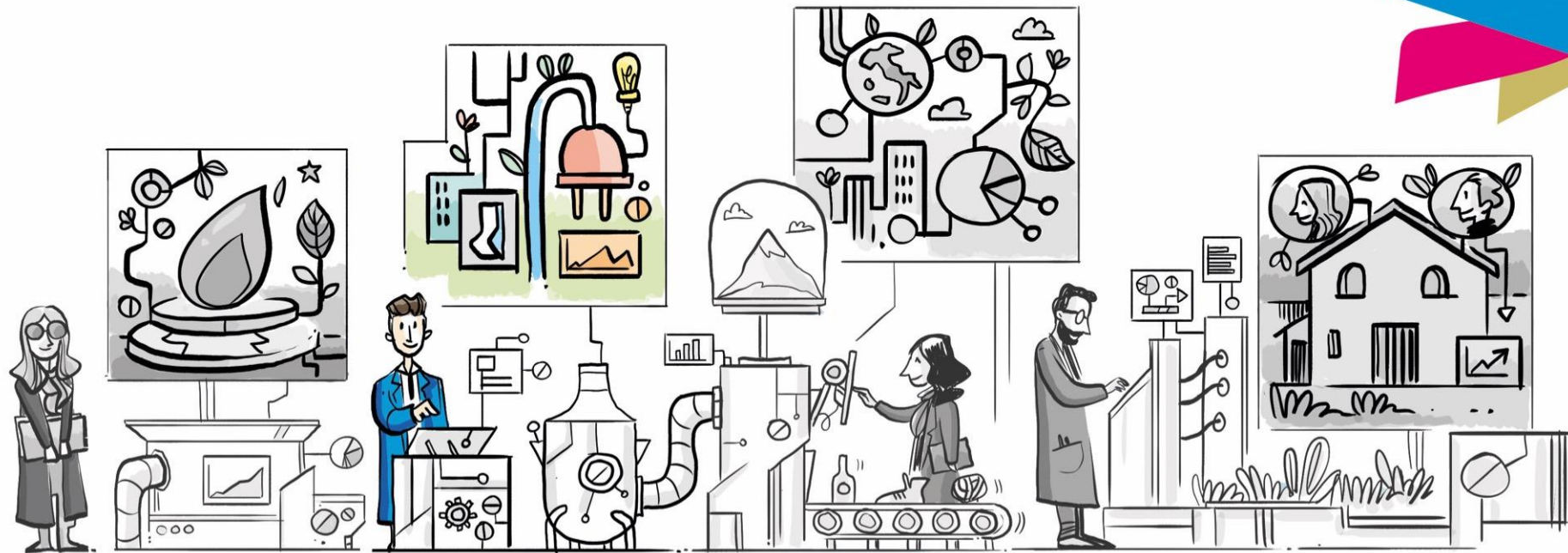
- Healthy set of results emerging from F2017: a good start of the 5 years plan.
- Deployment of our leadership across different business areas: 2.9 b€ to be invested where we can maximise returns.
- Growth strategy leveraging on a clear and granular business strategy. Finance strategy structured on strong cash flow and well-balanced debt ratios. Further financial “fire power” to enhance shareholders’ returns.

**Return on Equity**  
(%)



**Ready to lead sector transformation**



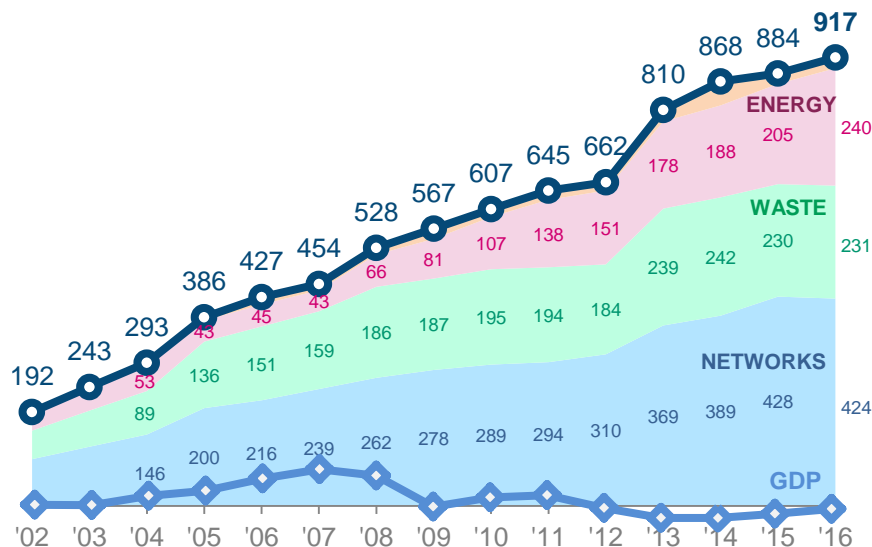


**ANNEX**

# An uninterrupted growth

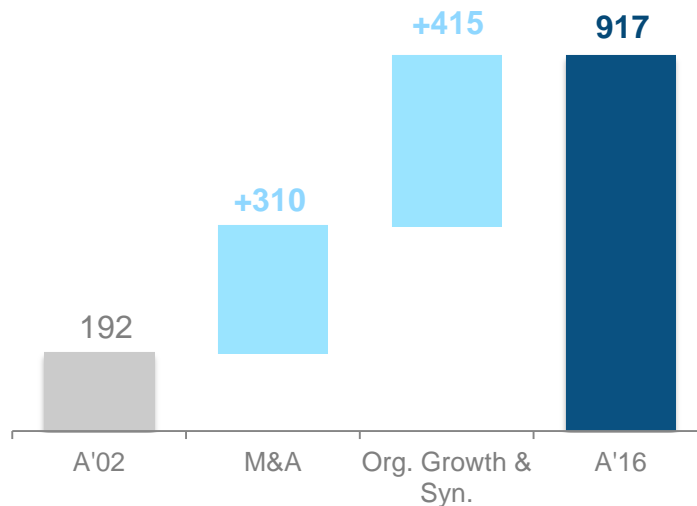
## Ever growing results since establishment

(M€, % GDP growth)



## Ebitda grown by 4.8 times

(M€)



**EPS Cagr ~9% thanks to peculiar business model**

# Business Plan main assumptions

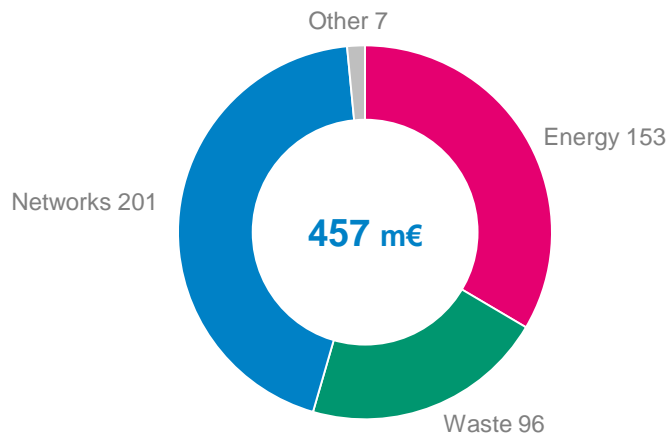
## Main assumptions

	A'15	A'16	E'21
<b>Brent</b> <i>(Dollar/Barrel)</i>	53.7	45.1	65.0
<b>Exchange rate</b> €/€	1.11	1.11	1.10
<b>PUN</b> <i>(€/MWh)</i>	52.3	42.8	53.2
<b>Inflation</b> <i>(5Y moving average)</i>	0%	(0.1%)	1.0%
<b>Green certificate – biomass plants</b> <i>(€/MWh)</i>	99.5	80.3	80.3
<b>Green certificate – other plants</b> <i>(€/MWh)</i>	99.5	100.1	101.2
<b>White certificates</b> <i>(€/TEP)</i>	106.1	178.8	254.4
<b>CO<sub>2</sub> certificates</b> <i>(€/ton)</i>	8.2	6.6	8.8
<b>Tax rate</b> (%)	38.4%	35.1%	32%
<b>Cost of Debt</b> (%)	3.8%	3.7%	3.5%

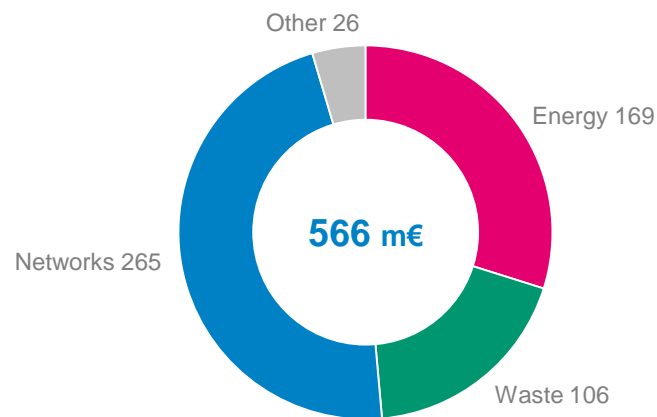
# Consolidated Group Ebit target

**Ebit by strategic area**  
(M€)

**A'16**

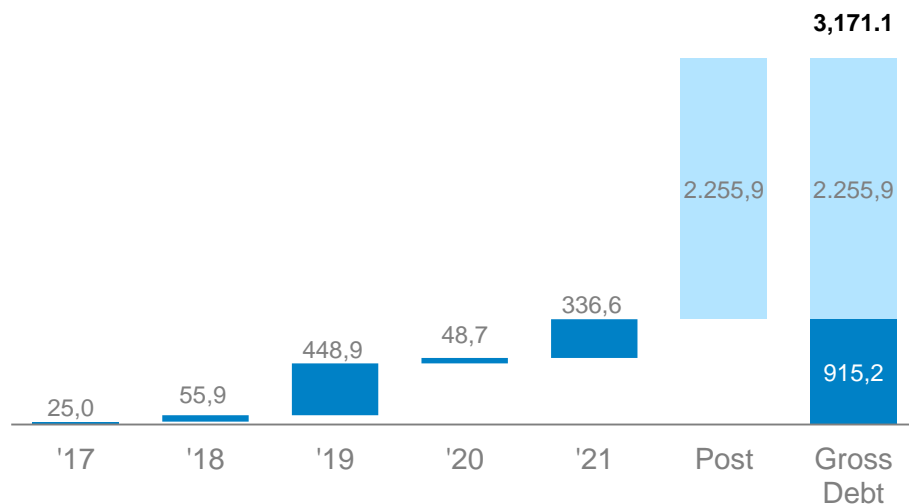


**E'21**

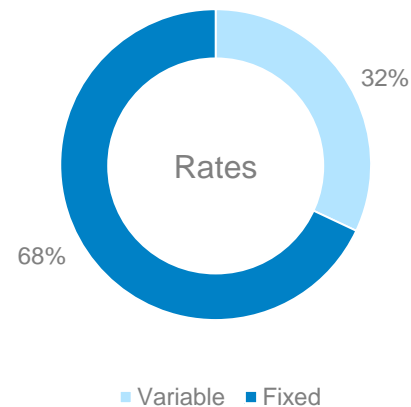


# Financial Debt

**Gross debt maturities as of 30/09/2017\***  
(M€)



**Interest rate breakdown in 2021**  
(%)

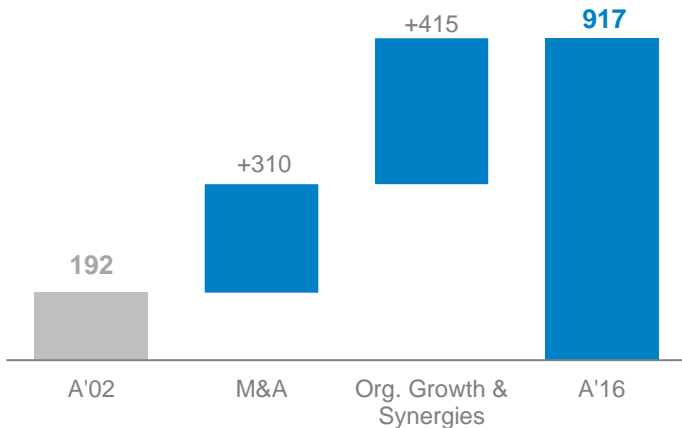


\* Excluding short term credit facilities

# Track record of Hera's “two pillar” Business model

## Ebitda Growth by 4.8x: drivers

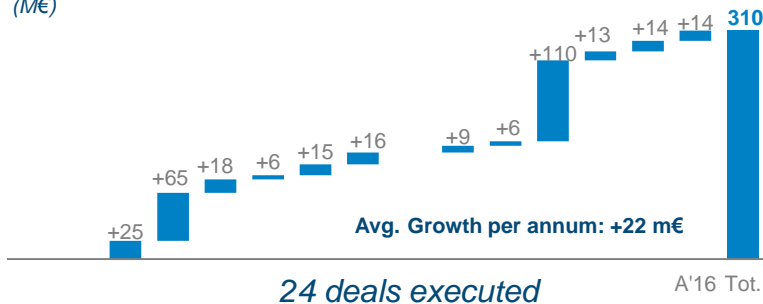
(M€)



20-25% avg. synergy extraction

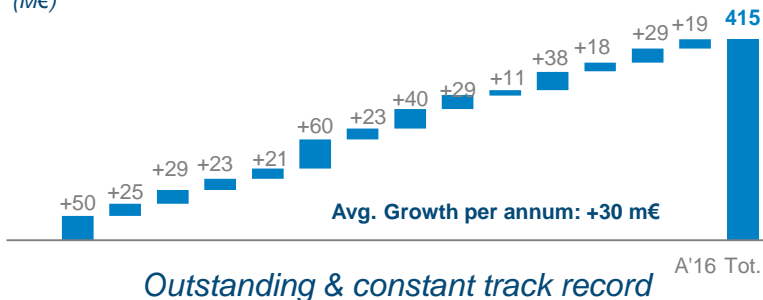
## Constant M&A contribution to Ebitda

(M€)



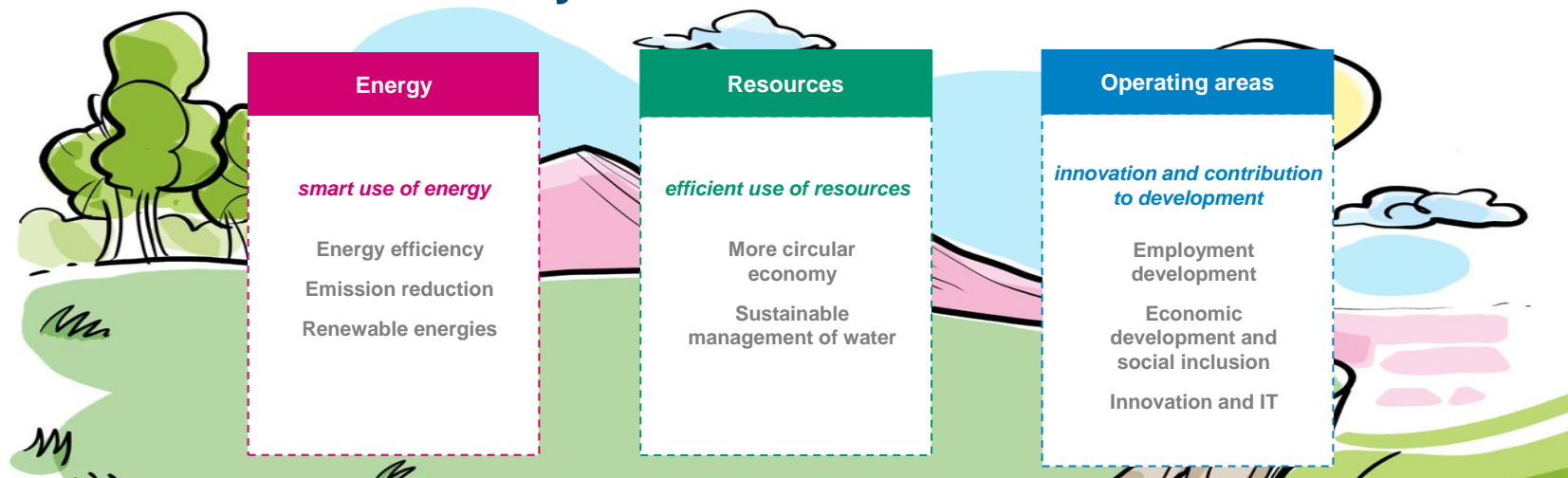
## Organic Growth & Synergies always positive

(M€)



An unique, effective & reliable “two pillar business model”

# Some more sustainability ahead



- Start construction of a biogas plant for biomethane in Bologna
- Public lighting: implement energy saving measures and replace lighting fixtures with LED lamps for an annual savings of approximately of 2,400 toe
- Electricity consumption: 100% from renewable sources in 2017 for the business of Hera SpA. Extend to AcegasApsAmga and Marche Multiservizi by 2018.
- Reduce by 19% by 2020 the carbon footprint of energy production compared to 2015

- Increase the sorting collection rate to 70% by 2021 and the recycling rate of packaging to 74%.
- Continue limiting the use of landfills:
  - 7% of municipal waste in 2017 and 6% in 2020;
  - Design a mechanical-biological treatment plant for Pesaro;
  - Build a glass pre-treatment plant in Rimini.
- Complete the waste management service offered to industrial customers with solutions in the field of circular economy and increase the recovery rate of industrial waste
- Increase separate waste collection: to 58% in 2017 and 66% in 2020 at Group level
- Rimini Seawater Protection Plan: complete 1 more project and upgrade of Servola Plant to completely avoid discharges in the sea

- Counselling and training employees on new technology and IT
- Implementing the company welfare and smart working
- Supporting diversity and inclusion
- More job rotation, open innovation
- Accident prevention: improve rate of frequency index through training and awareness raising actions

# Waste business

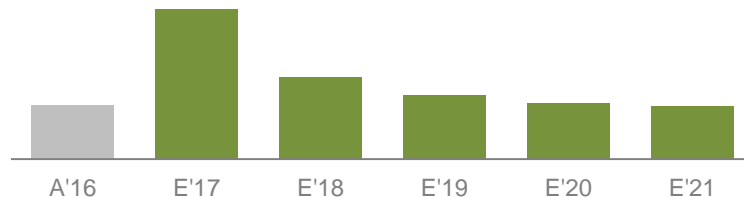
## Economics

(M€)

	A'16	E'21
<b>EBITDA</b>	230.6	<b>282.3</b>
<b>EBIT</b>	95.8	<b>105.7</b>

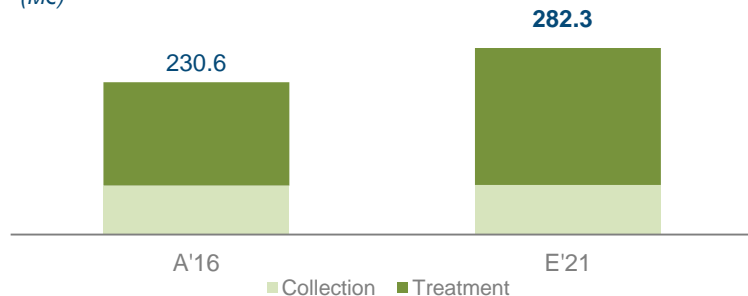
## Capex E'17-E'21: 606 m€

(M€)



## Ebitda Breakdown

(M€)



## Highlights

	A'16	E'21*
<b>Waste treated</b>	<b>6,868</b>	<b>8,211</b>
<i>Urban</i>	<i>2,048</i>	<i>1,820</i>
<i>Special</i>	<i>2,341</i>	<i>3,667</i>
<i>by products</i>	<i>2,479</i>	<i>2,724</i>

\* Excluding volumes from M&A



# Water business

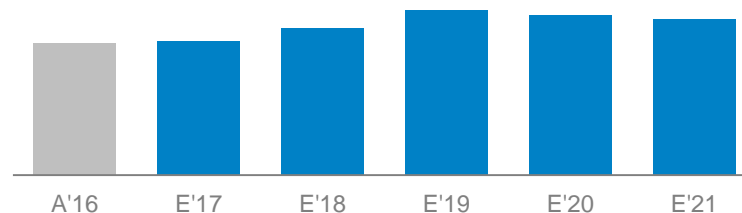
## Economics

(M€)

	A'16	E'21
EBITDA	228.3	271.1
EBIT	107.5	109.3

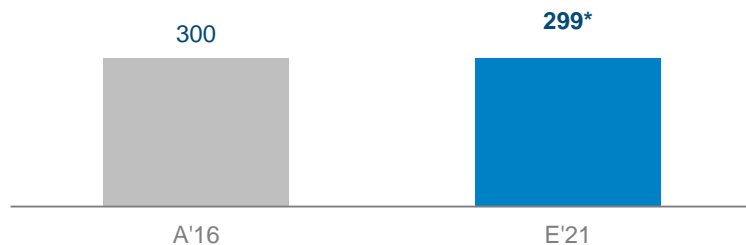
## Capex E'17-E'21: 760 m€

(M€)



## Volumes sold

(Mmc)



\*Numbers exclude M&A

## RAB

(M€)

	A'16	E'21*
RAB*	1,414	1,577

\*Numbers exclude M&A

# Gas business

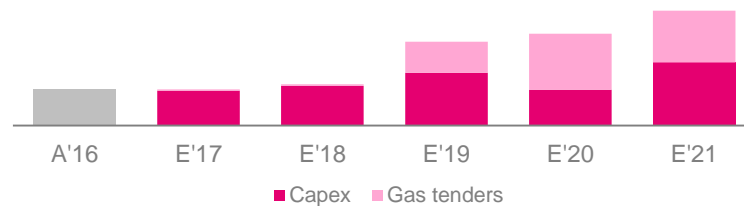
## Economics

(M€)

	A'16	E'21
<b>EBITDA</b>	300.7	<b>370.8</b>
<b>EBIT</b>	175.1	<b>225.8</b>

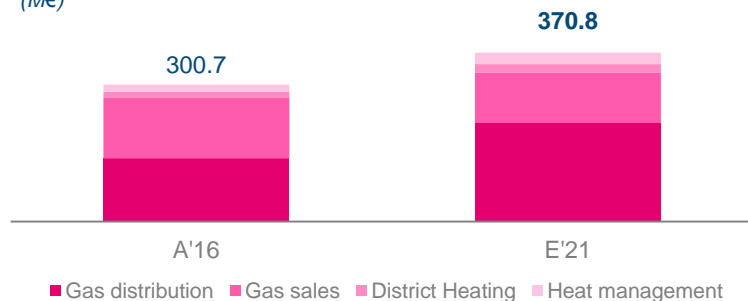
## Capex E'17-E'21: 1,229 m€

(M€)



## Ebitda Breakdown

(M€)



## Highlights

	A'16	E'21*
<b>Volume Sales &amp; Trading (Mcm)</b>	3,914	<b>3,142</b>
<b>RAB (m€)</b>	1,065	<b>1,527</b>

\*Numbers exclude M&A and third parties RAB

# Electricity business

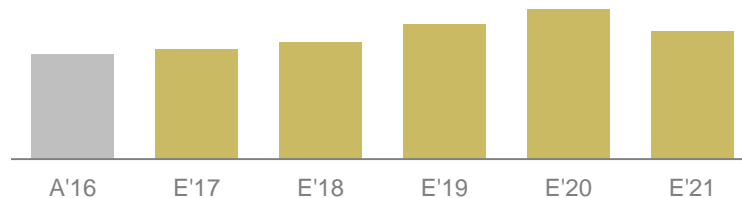
## Economics

(M€)

	A'16	E'21
<b>EBITDA</b>	135.2	<b>169.5</b>
<b>EBIT</b>	71.4	<b>98.9</b>

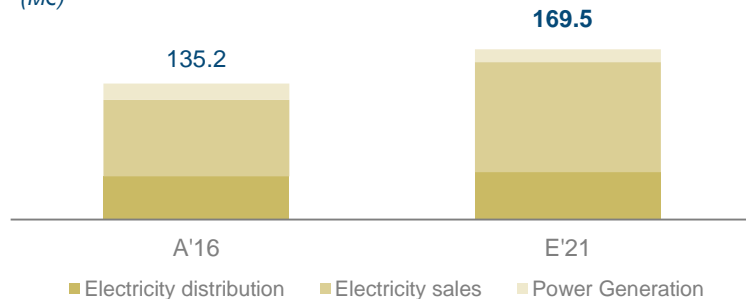
## Capex E'17-E'21: 192 m€

(M€)



## Ebitda Breakdown

(M€)



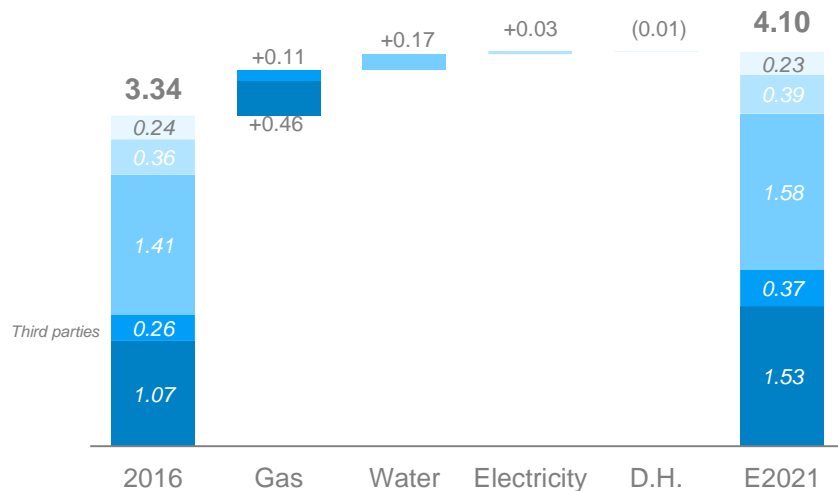
## Highlights

	A'16	E'21*
<b>Volume Sold</b> (TWh)	9.6	<b>9.9</b>
<b>RAB</b> (m€)	361	<b>392</b>

\*Numbers exclude M&A

# RAB growth and WACC assumptions

## RAB growth\* (B€)



## WACC assumptions (%)

	A'16	E'17	E'18	E'19	E'20	E'21
Gas distribution	6.1%	6.1%	6.1%	6.3%	6.3%	6.3%
Gas metering	6.6%	6.6%	6.6%	6.8%	6.8%	6.8%
Electricity distribution	5.6%	5.6%	5.6%	5.8%	5.8%	5.8%
Water distribution	5.3%	5.3%	5.3%	5.3%	5.6%	5.6%

\*Excluding RAB stemming from M&A

# 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.*

*As a result, any expectation on Group results and estimates set out in this presentation may differ significantly depending on changes in the unpredictable circumstances on which they are based.*

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