

HERAGROUP

## 2013 – 2017 business plan



## Business plan up to 2017

Business Plan update	4
Recent developments	5
Strategy	6
Strategic targets vs. 2012	7
Ebitda growth drivers	8
Remarkable step forward	9
Ebitda by strategic areas	10
Network	11
Waste	12
Energy	13
Capex	14
Financial performance	15
Geographical expansion	16
Swap participation with ENI	17
Share capital increase	18
Closing remarks	19

## Annex

Assumptions	20
Change in Governance	21
Consolidated Group Ebit	22
Financial Strategy	23
Sustainable Development	24
Network details	25
Waste details	28
Energy details	30
Business plan by business	31
Portfolio mix	35
Disclaimer	36

# Introducing business plan update with recent events

<b>Acegas Aps merger</b>	<ul style="list-style-type: none"> <li>Delisted in May '13. Change of control on governance fully executed and integration of operations well on track.</li> </ul>
<b>H1 '13 results</b>	<ul style="list-style-type: none"> <li><b>Good performance of all group companies</b> (Hera, Acegas Aps and Energonut) giving evidence of accretive M&amp;A.</li> <li>In particular <b>Waste business</b> highlights a first recovery.</li> <li><b>Cash generation supported 9€c DPS and sound financials.</b></li> </ul>
<b>Energonut</b>	<ul style="list-style-type: none"> <li><b>Merged into Herambiente</b> (effective from 1<sup>st</sup> July '13).</li> </ul>
<b>Letter of Intent with shareholder of Amga Udine</b>	<ul style="list-style-type: none"> <li>On 5<sup>th</sup> Sept. signed an agreement aiming at merging Amga Udine – Utility focused on gas distribution and sales.</li> </ul>
<b>TAP project</b>	<ul style="list-style-type: none"> <li>On 19<sup>th</sup> Sept. Hera signed a long term procurement contract of 300mcm per annum with Shah Deniz consortium to be transported through TAP pipeline.</li> </ul>
<b>Ex Iris Gorizia share Swap with ENI</b>	<ul style="list-style-type: none"> <li>Agreement with ENI to swap participation in EstPiù and EstReti Elettriche. (Hera will reach 100% ERE and 50% stake of IRG; ENI will reach 100% of EstPiù).</li> </ul>

22m8mpealnahyln waste

**Supportive achievements of last 6 months to be included in BP to 2017**

# Recent developments influencing business plan update to 2017

## Macro economic scenario

Persistently negative scenario determines a rebound of Italian GDP slower than expected. Real estate industry in still negative outlook. Consumptions still decreasing with competition on lower demand.

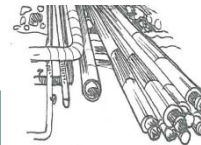
**-22m€Ebitda impact**



## Regulatory “review”

- Review of Gas supply prices (“CCI”)
- Gas Distribution new tariffs (4<sup>th</sup> regulatory period)
- Change on renewable incentives (CIP6/CEC)
- New transition water tariff system

**-21m€Ebitda impact**



## Antitrust position on JV with ITG

Antitrust “red light” to the Joint Venture between Acegas Aps and Italgas in Veneto/Friuli determinates a review of Hera strategy to face gas tenders in the area.

**+5m€Ebitda impact**



## M&A and portfolio review

- Acegas Aps and Energonut mergers (+5m€ Ebitda)
- Rationalization of peripheral shareholdings (total value of 140m€)
- New opportunities for consolidation (e.g. ENI swap participation, Amga Udine)

**+10m€Ebitda impact**

**Coincident wave of relevant changes on all businesses**

# Continuing to keep on course, sticking to our strategy

1



## Strengthening regulated asset base

Maintain control of networks on ref. territory and investing in efficiency

“Going for a low risk profile”

2



## Focus on efficiency gains

Activities reorganisation (divisionalization), streamlining Group structure.  
Rationalization and Cost Cutting.  
Exploiting synergies from mergers.

“Adapt and react”

3



## Expand downstream

Leveraging upon core services, focusing quality, customer relations and cross selling with a multi-regional scope

“Exploit new reference markets”

4



## Merger & Acquisition

Execute deal in progress  
Pursue M&A selecting new opportunities

“Create value through M&A strategy execution”

Adapting and reacting keeping focus on profitable growth



# Main strategic targets versus 2012

1



## Regulated business:

58% Ebitda  
~75% of Group capex

12 gas tenders in ref. territory

- POD: +178K
- Ebitda: +19m€

2



## Efficiencies

Reorganization & Cost rationalization:  
+20m€ Ebitda

Synergies from M&A: +30m€ Ebitda

3



## Energy customer base:

2.2 m clients

Electricity: up to ~1 million  
Gas: about 1.3 million

4



## M&A

- Acegas Aps: Integration activities on track
- Amga Udine & portfolio reshuffling:  
Ebitda: +10m€ (net impact)
- Aimag: Ebitda: ~44m€, '12 Net debt: 100 m€



**EPS cagr. +5.0%**

99

**Ebitda/Employee ('k€)**

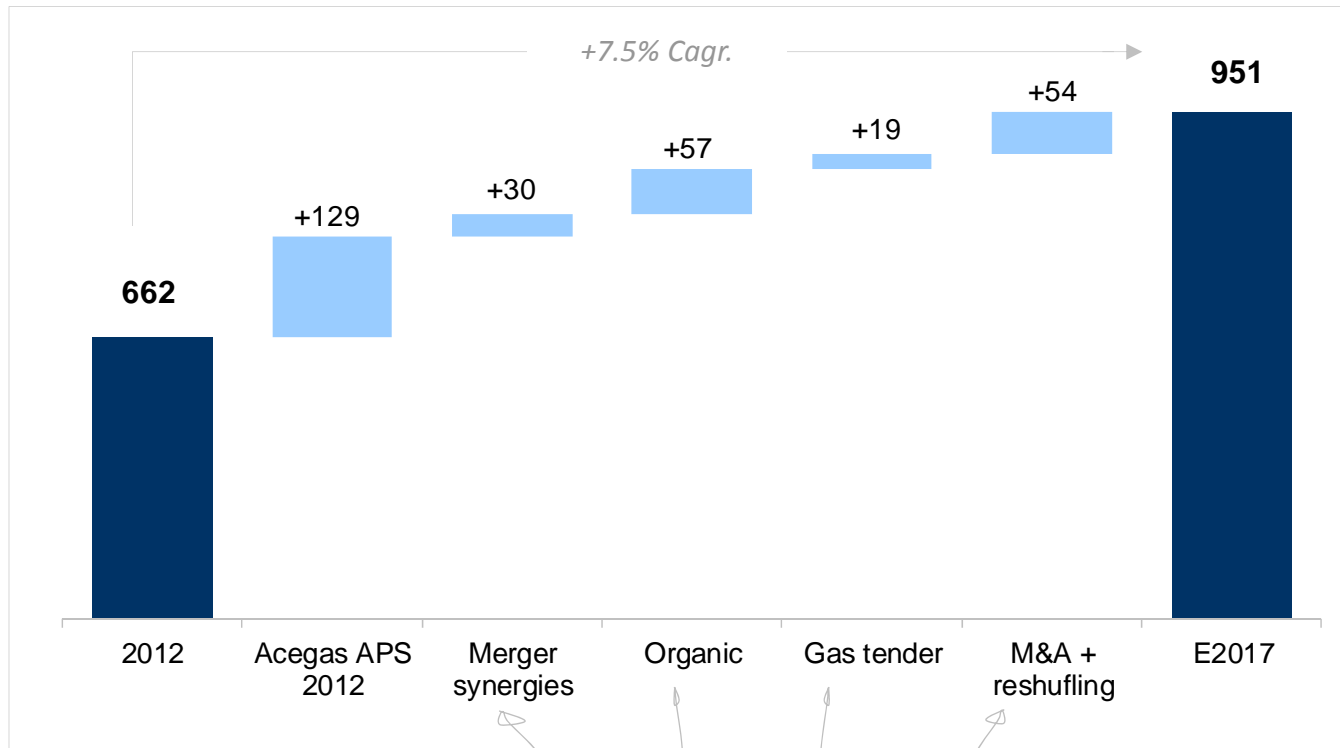
114

3.3x

**D/Ebitda**

2.9x

# Ebitda growth leveraging upon “all” drivers


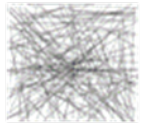



Merger Synergies	Energy trading & sales 18%
	Network mgmt 19%
	Waste operations 24%
	Procurement and G&A 39%
Organic	Reorganisation +10m€ Ebitda
	Waste treatm. new plant: +26m€
	Network :+7% POD/employee
	Regulated tariff increases
Gas tenders	
Confirming current gas distribution concessions (implying fulfilment of current territories served by Hera with additional 178k POD)	
M&A	
Aimag (waiting for political election H1'14).	
Review on peripheral activities.	
M&A in new reference territories.	



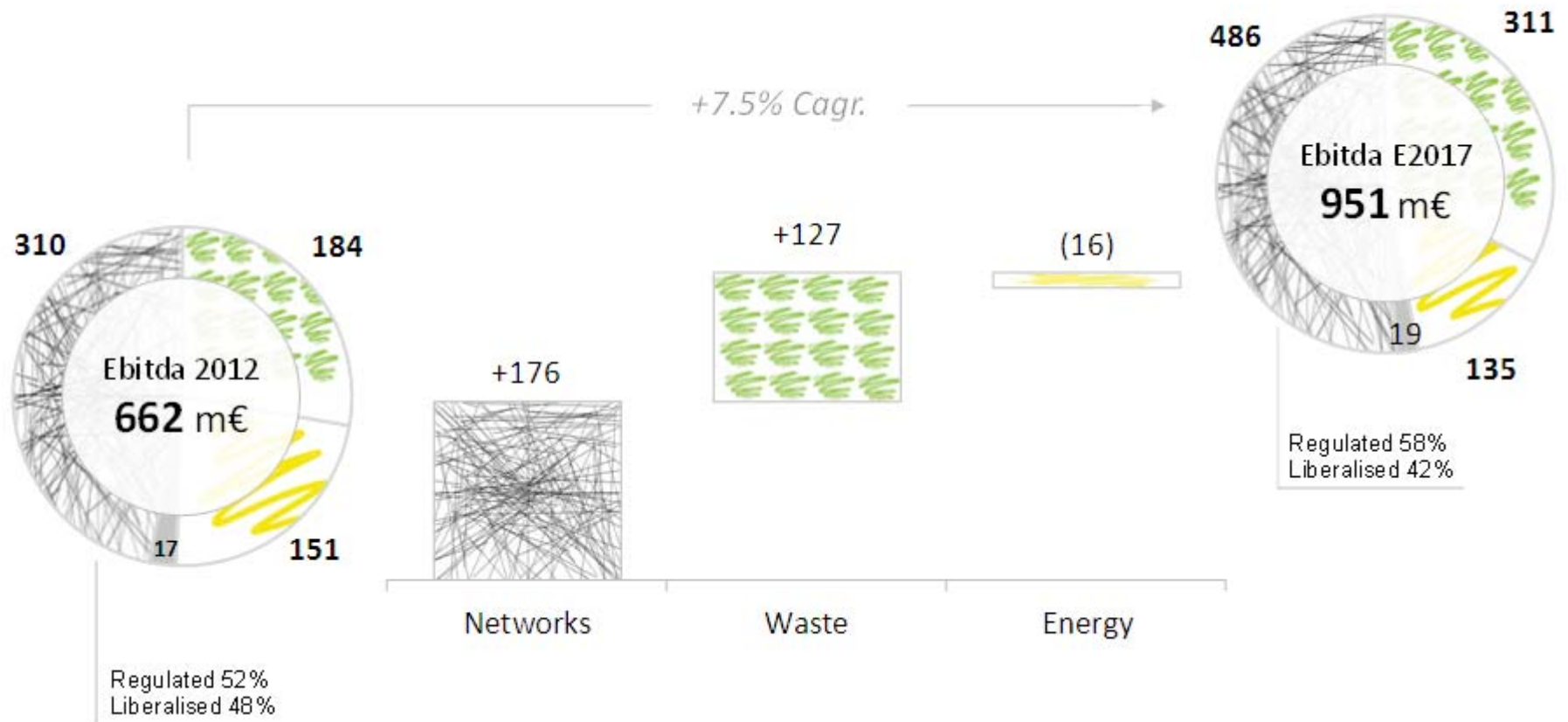


# Remarkable step forward in business size

Sector	Key Industrial targets	2012	E2017
 WASTE	Volume of waste treated from 3 <sup>rd</sup> parties (m ton)	3.3	5.3
	Urban waste collected (m ton)	1.7	2.3
 NETWORK	Network length ('000 km)	73.1	86.7
	Gas POD (m unit)	1.2	1.8
	Heat sold (GWht)	530	643
 ENERGY	Gas sold & traded (bcm)	3.5	3.4
	Electricity sold (TWh)	9.5	~10
	Energy clients (m unit)	1.7	2.2

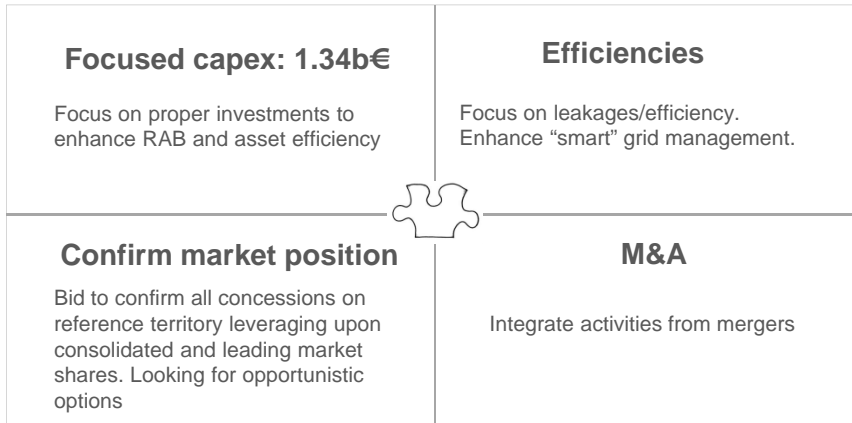


# Ebitda by strategic areas



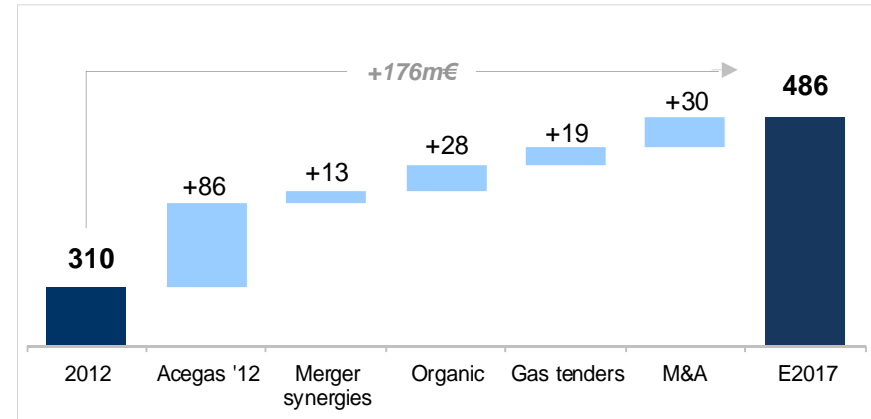
# NETWORKS: Strengthening “roots” in reference territory

## Focus on enhancing returns

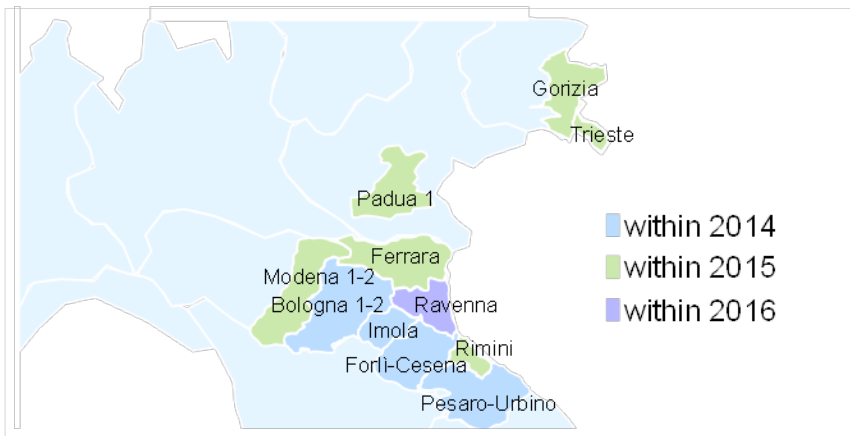


## Ebitda breakdown

(m€)

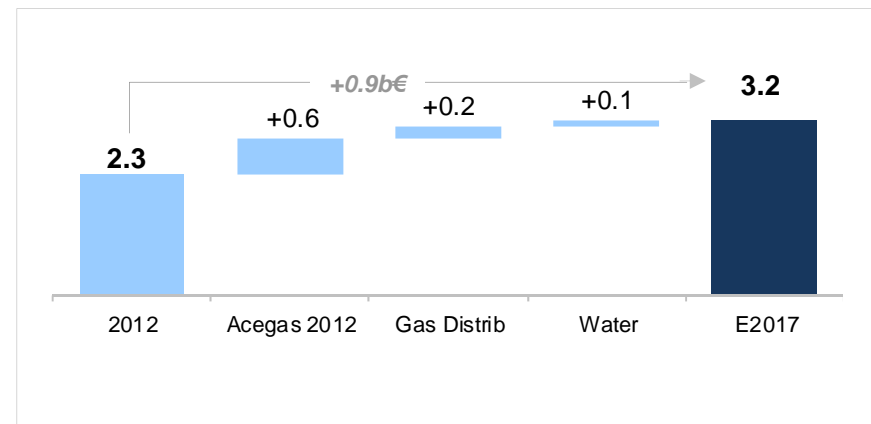


## Tender schedule



## RAB evolution

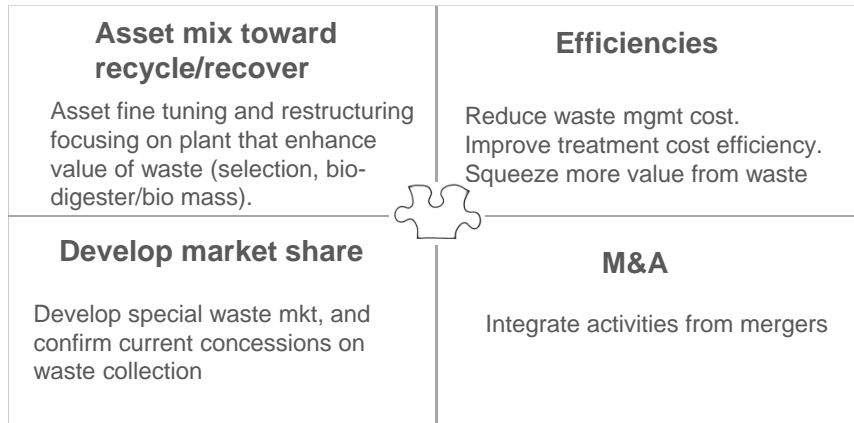
(b€)



Allocating capex on safe activities with stable cash flows

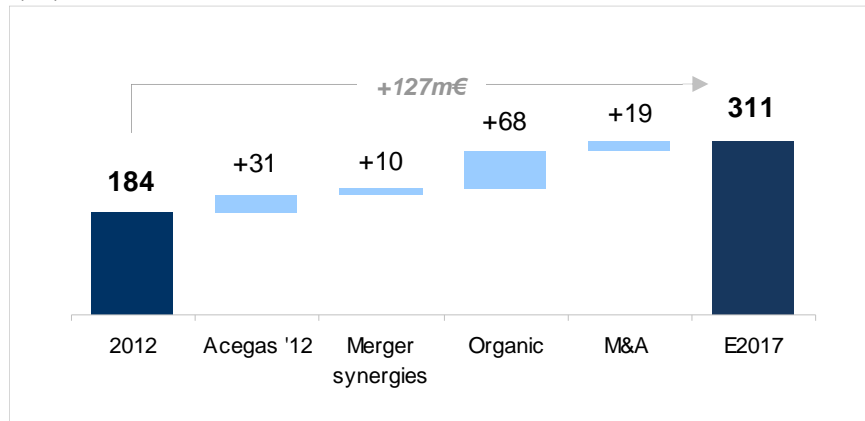
# WASTE: Adapting and reacting in an evolving scenario

## Value extraction from all drivers

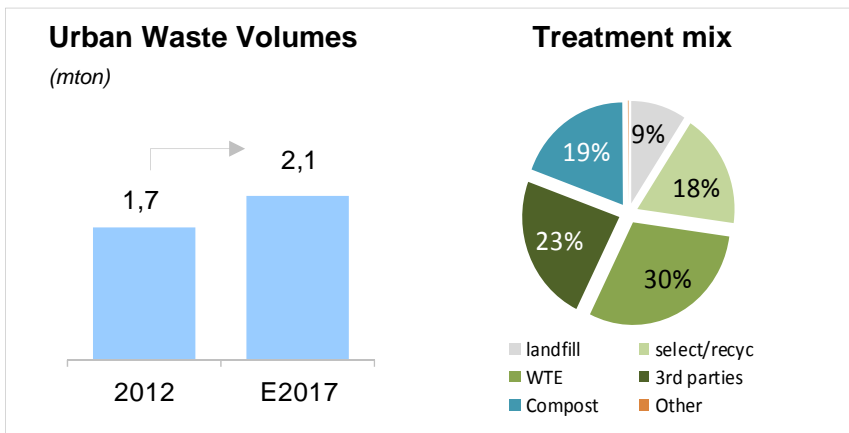


## Ebitda breakdown

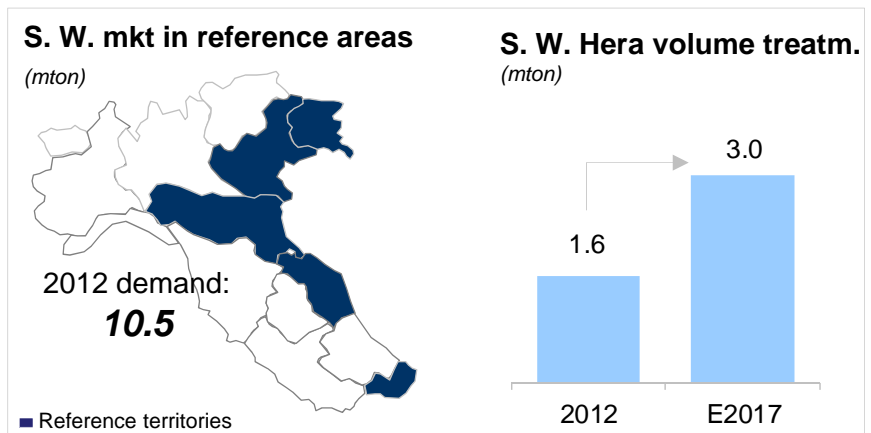
(m€)



## Urban waste treatments focus on value



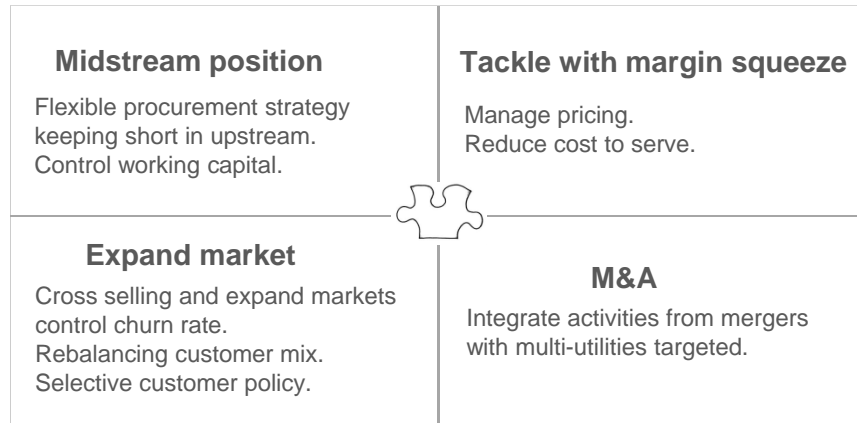
## 30% special waste market share in ref. areas



Repositioning to support expansion in the “nation wide” special waste market

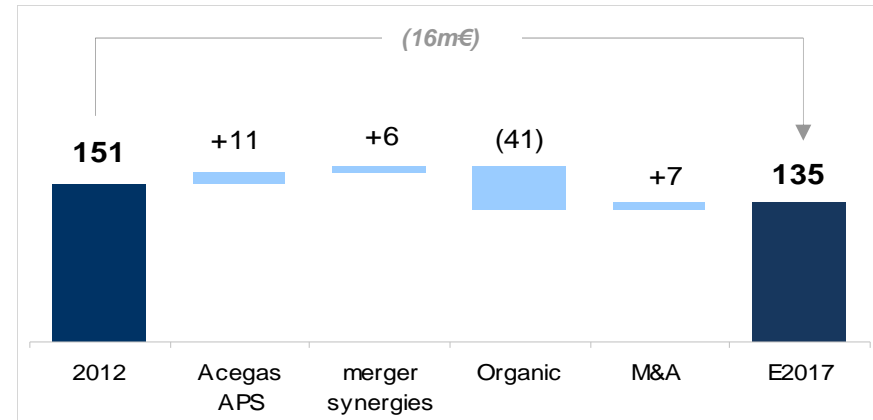
# ENERGY: Progress on down stream development

## “Soft landing” on market change



## Ebitda breakdown

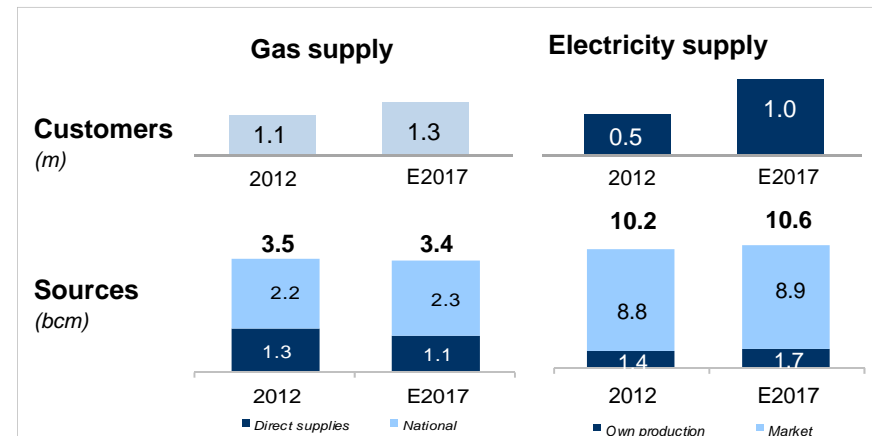
(m€)



## Gas upstream: TAP project



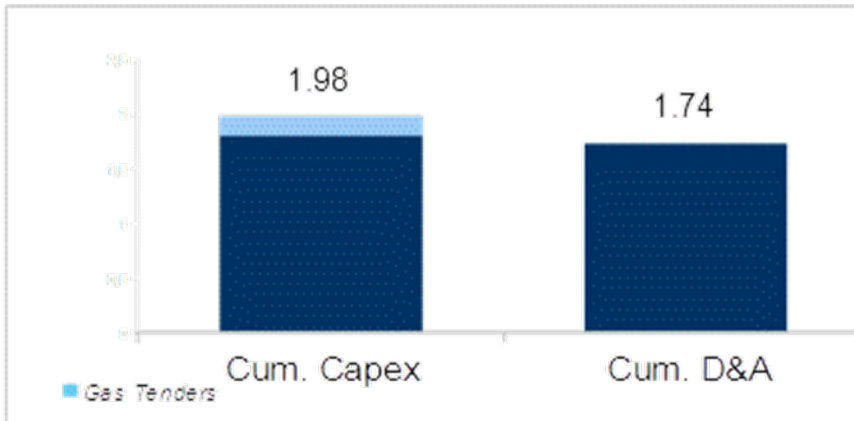
## Key targets



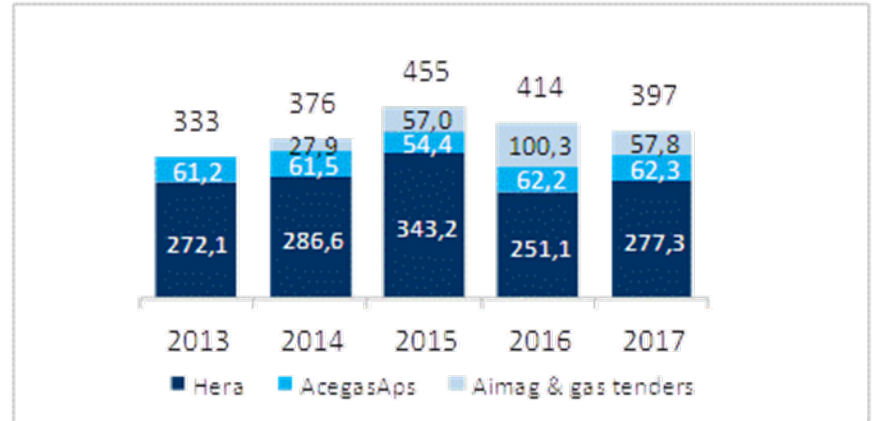
Enhance marketing intelligence to tackle with changing scenario

# Capex plan: 1.9b€ to sustain low risk growth and efficiency gains

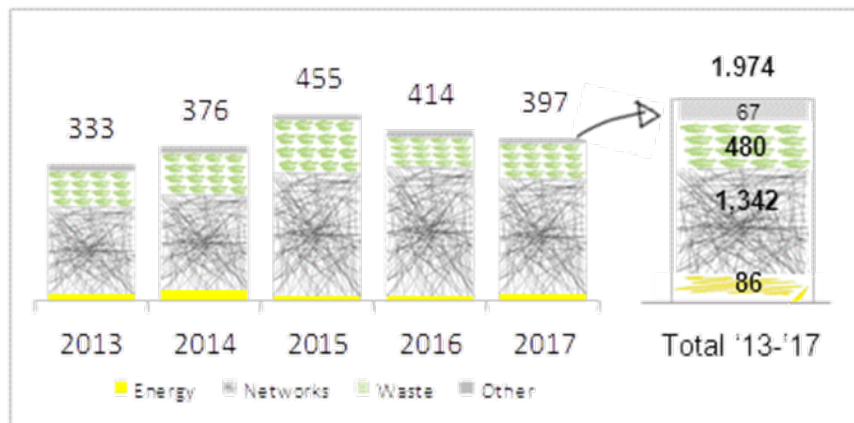
## Development/Maintenance (b€)



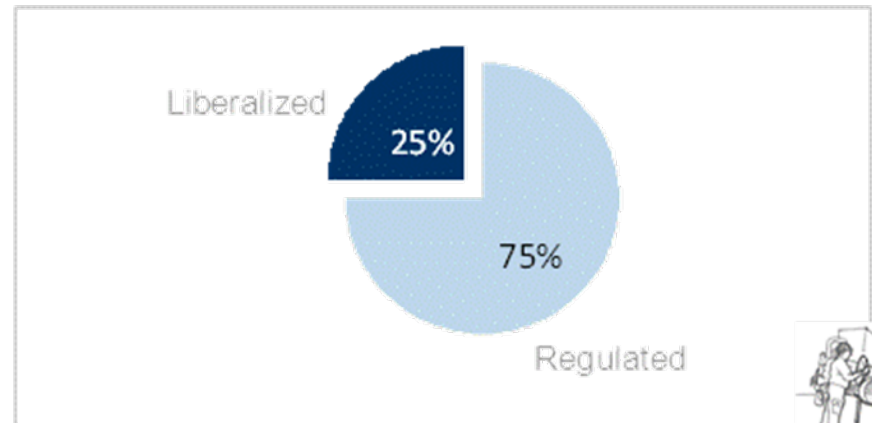
## Capex by Company (m€)



## Capex by strategic area (m€)



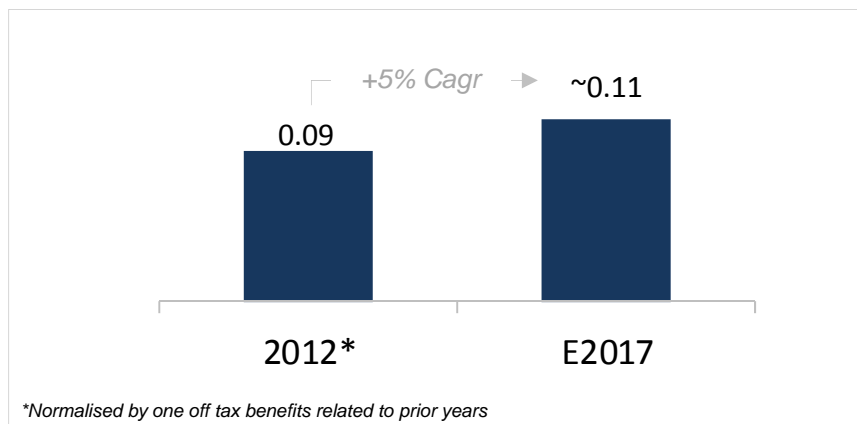
## Capex Regulated/Liberalized (%)



# Financial performance

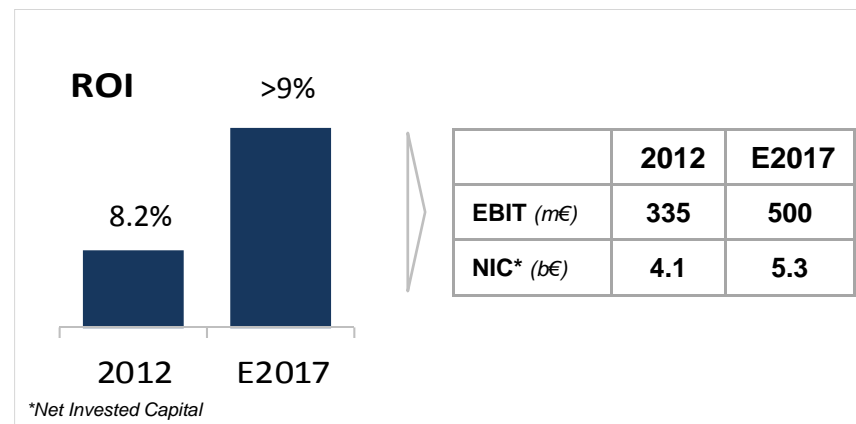
## EPS cagr.

(€)



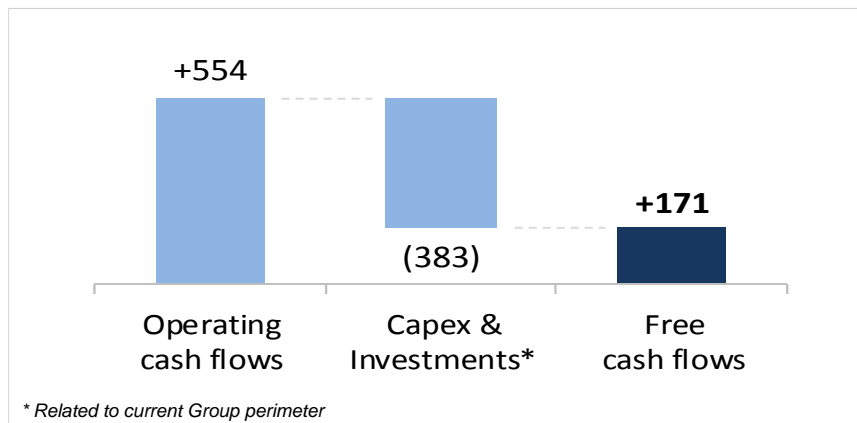
## Returns

(%, b€)

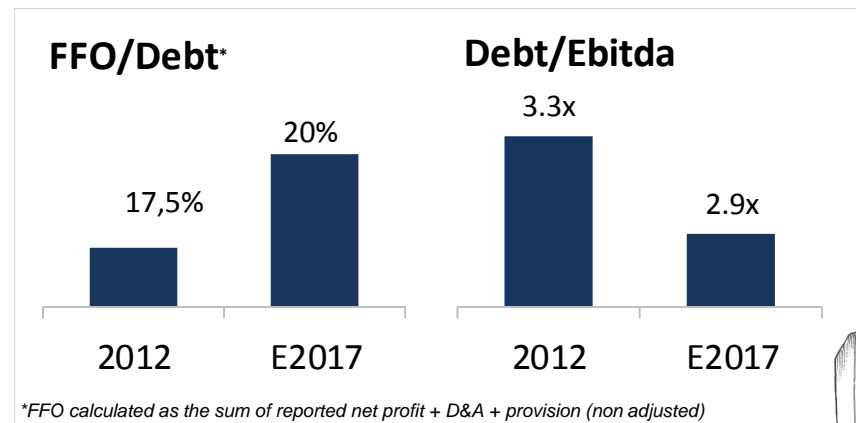


## E2017 Cash flows

(m€)



## Financial ratios



# Geographical expansion in fragmented new reference territories

## Amga - Udine

### Financials 2012 (m€)

Revenues	367
Ebitda	29
Ebit	12
Net Profit	4
Net Debt	(84)



Gas sold (mcm)	315
Gas POD ('000)	156
Water sold (mcm)	10

## Swap Partecipazione

### Est Reti Elettriche

#### Financials 2012 (m€)

Ebitda	1
Net Debt	(4.5)
POD (unit)	22K

### Isontina Reti Gas

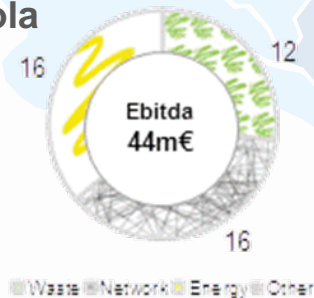
#### Financials 2012 (m€)

Ebitda	5
Net Debt	(20)
POD (unit)	59K

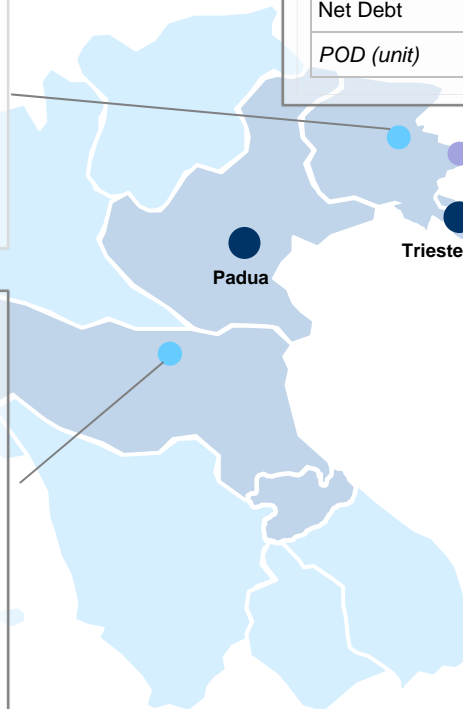
## Aimag - Mirandola

### Financials 2012 (m€)

Revenues	220
Ebitda	44
Ebit	21
Net Profit	10
Net Debt	(86)



Gas sold (mcm)	211
Gas distributed (mcm)	275
Water sold (mcm)	15



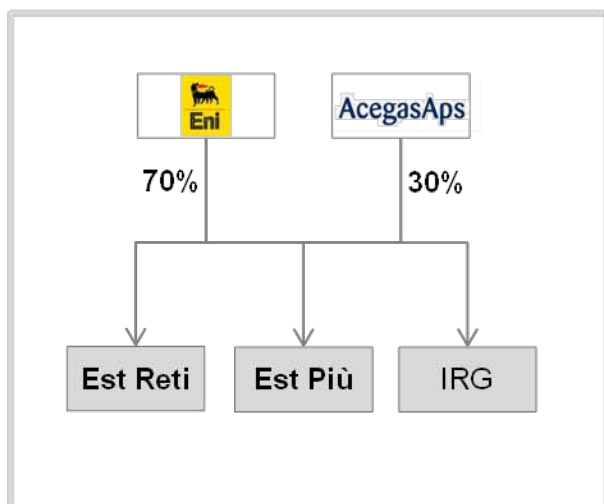
- Negotiation in progress
- Agreement
- Merged (Acegas Aps)

**Moving fast following M&A strategic principles**

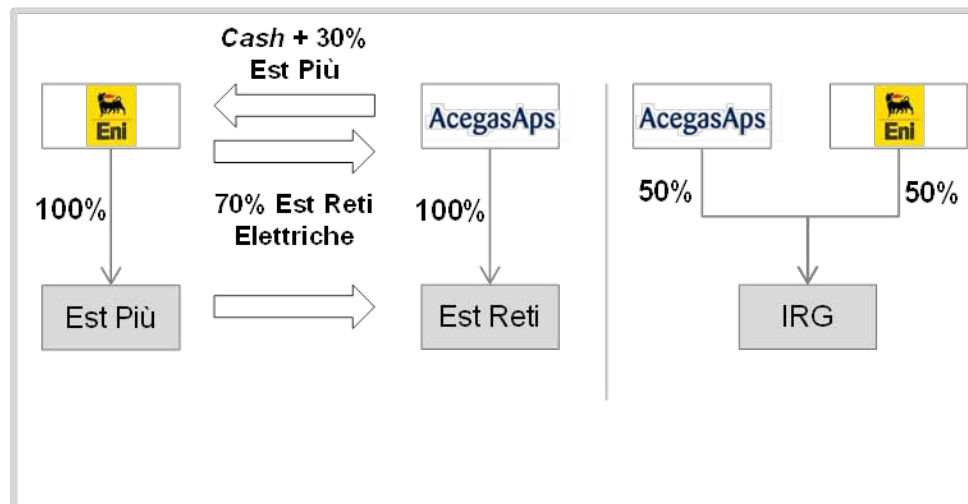


# Swap with ENI on Gorizia shareholdings

## Current situation



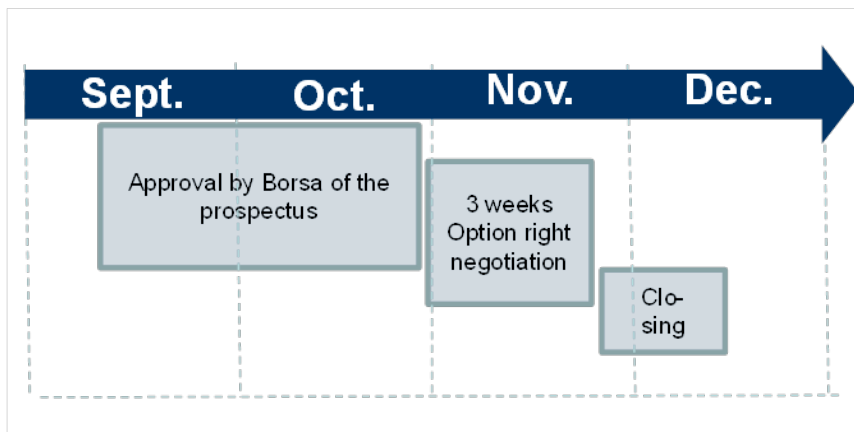
## Post swap situation



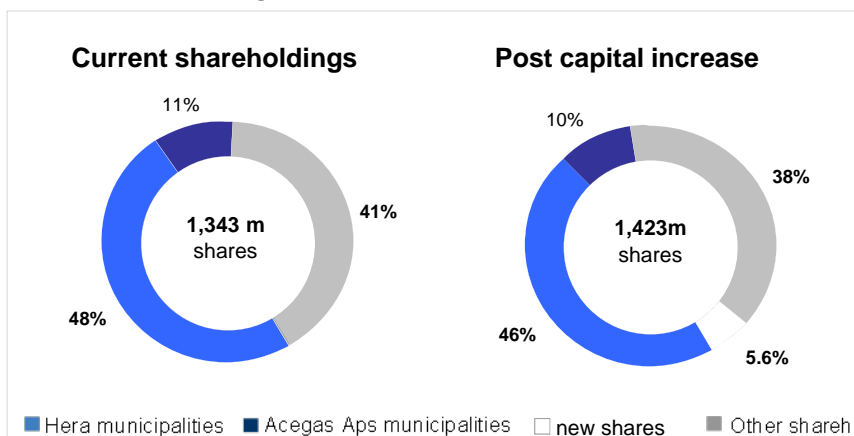
*From 01/01/14 to 31/03/14 Acegas Aps has a call option to step up to 100% in Isontina Reti Gas in the event that Italgas doesn't exercise it's call option to purchase ENI stake.*

# FSI first step into Hera shareholding

## Schedule of share capital increase



## Share holdings



## Shares to issue

**Up to 80 million shares** (share capital move from 1,342.8 to about 1,422.8 million shares).

The increase is 5.6% (or 1/17) on share capital (post increase).

## Price issue

Price set the day before the issue. Price range:

A) **1.25€** if average market price of 30 days ("P<sub>avg30</sub>") before the share issue is 1.55€  $\rightarrow$  P<sub>avg30</sub> > 1.25€

B) **P<sub>avg30</sub> – 0.05€** if P<sub>avg30</sub> < 1.25€

## Option rights

Around 1 right for every 17 old shares. FSI commit to buy all un-opted rights.

<b>Confirming Strategy</b>	<ul style="list-style-type: none"><li>• Pursuing <b>multi-utility strategy</b> aiming at a positive growth through all drivers available</li></ul>
<b>Strengthening Assets</b>	<ul style="list-style-type: none"><li>• Capex plan '13-'17 focused on strengthening <b>regulated asset</b> base and maintaining short upstream</li></ul>
<b>Creating value</b>	<ul style="list-style-type: none"><li>• Targeting <b>+5% EPS</b> growth and increasing financial soundness; value creation in a <b>multi-stakeholder approach</b></li></ul>
<b>Dividend policy confirmed</b>	<ul style="list-style-type: none"><li>• Targeting a <b>floor of 9€ DPS</b> and full coverage of dividend payments with cash generation within 2017</li></ul>
<b>Sector Consolidation</b>	<ul style="list-style-type: none"><li>• <b>Expanding in reference territory</b> through deals both in Friuli region (Amga Udine and participation swap with ENI) and Emilia Romagna region</li></ul>
<b>Strengthening Shareholding structure</b>	<ul style="list-style-type: none"><li>• FSI shareholder by the end of the year</li></ul>

**Adapting and reacting to keep on course**

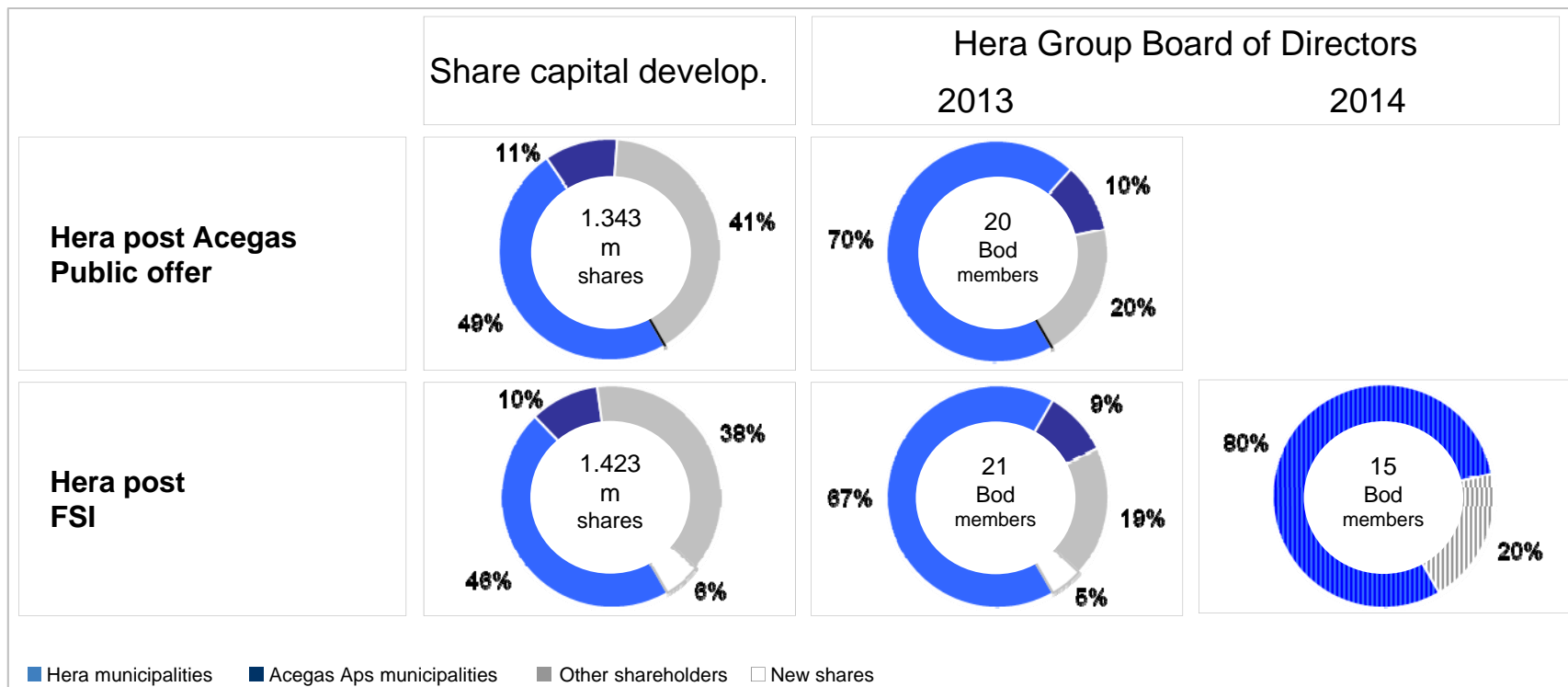
# ANNEX: Business plan 2013-2017

Further Group details

# Assumptions

	2012	E2015	E2017
<b>Brent</b> <i>(Dollar/Barrel)</i>	<b>112</b>	<b>105</b>	<b>105</b>
<b>Exchange ratio</b> €/\$	<b>1.29</b>	<b>1.33</b>	<b>1.32</b>
<b>PUN</b> <i>(€/MWh)</i>	<b>75.5</b>	<b>66.8</b>	<b>69.0</b>
<b>Inflation</b> (%)	<b>2%</b>	<b>2%</b>	<b>2%</b>
<b>Italian GDP trend</b> (%)	<b>(2.4%)</b>	<b>+1.0%</b>	<b>+1.0%</b>
<b>Green certificate</b> <i>(€/MWh)</i>	<b>81</b>	<b>87</b>	<b>85</b>
<b>CEC (Cip6 avoid cost)</b> <i>(€/MWh)</i>	<b>87.6</b>	<b>80.3</b>	<b>81.0</b>
<b>White certificates</b> <i>(€/TEP)</i>	<b>87</b>	<b>81</b>	<b>82</b>
<b>CO<sub>2</sub> certificates</b> <i>(€/ton)</i>	<b>7.6</b>	<b>10.0</b>	<b>10.0</b>
<b>WATER services revenues</b> <i>(Cagr '12-'17)</i>			<b>+5.5%</b>
<b>GAS distribution revenues</b> <i>(Cagr '12-'17)</i>			<b>+5.3%</b>
<b>ELECTRICITY distribution revenues</b> <i>(Cagr '12-'17)</i>			<b>+9.4%</b>
<b>WASTE collection revenues</b> <i>(Cagr '12-'17)</i>			<b>+6.4%</b>

# Change in Governance

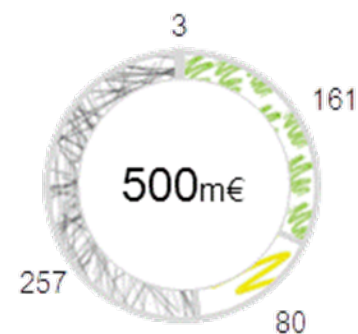
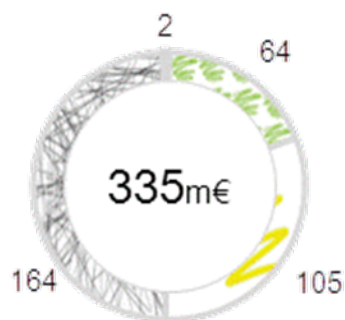


# Consolidated Group Ebit

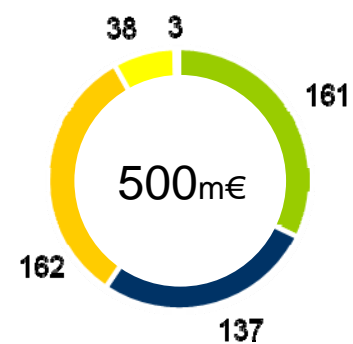
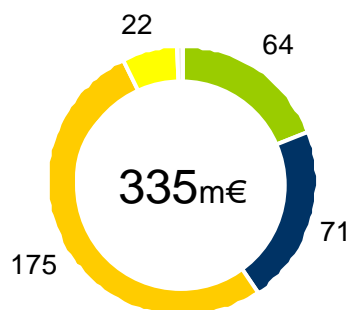
## Ebit 2012

## Ebit E2017

By strategic area



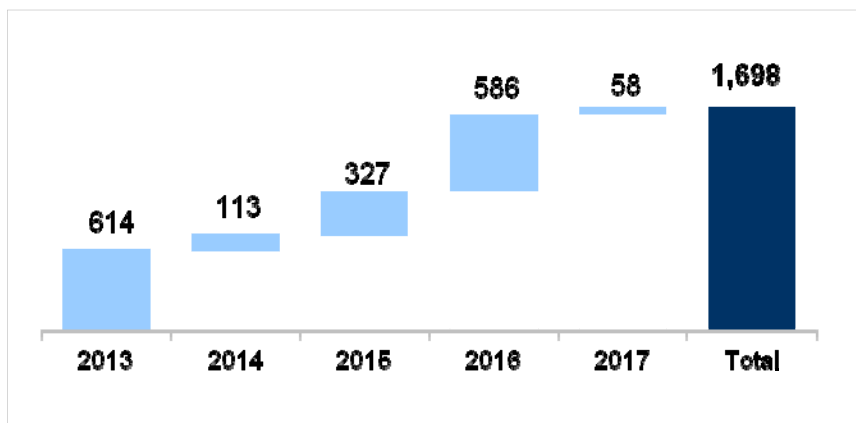
By Business





## Refinancing needs to 2017

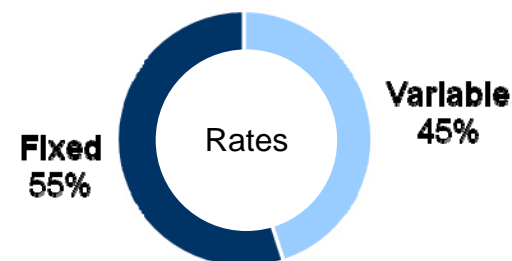
(m€)



## Average debt cost

	E2013		E2017
Average rate	5.1%		5.6%
Variable rate	3.6%		4.6%
Fixed rate	6.2%		6.7%

## Pursuing balanced interest nature

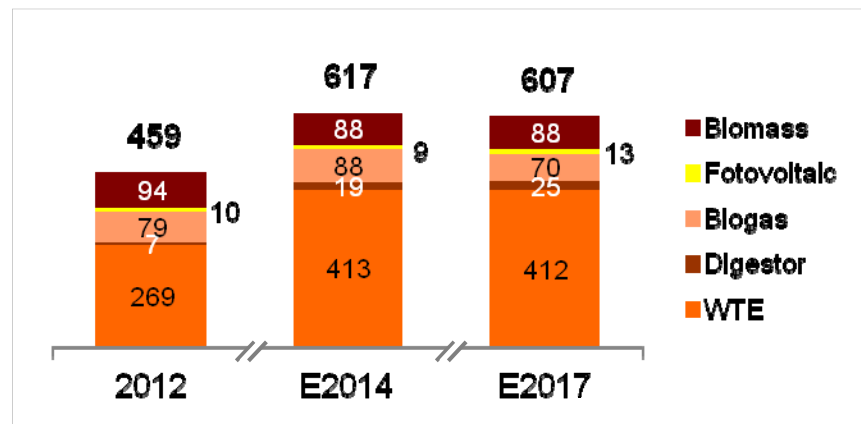


## Hera Group financial strategy

- Maintain financial liabilities homogeneous with investment time horizons
- Non speculative financing
- Optimize mix variable/fixed to stabilise related cash flows

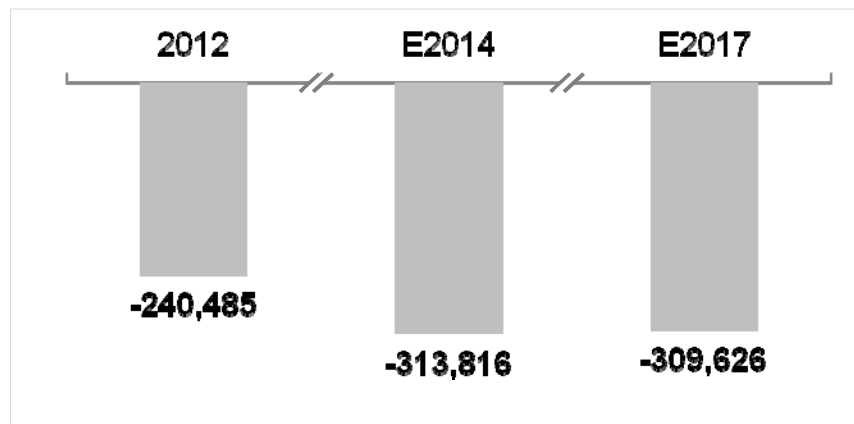
## Electricity production – renewable

(GWh)



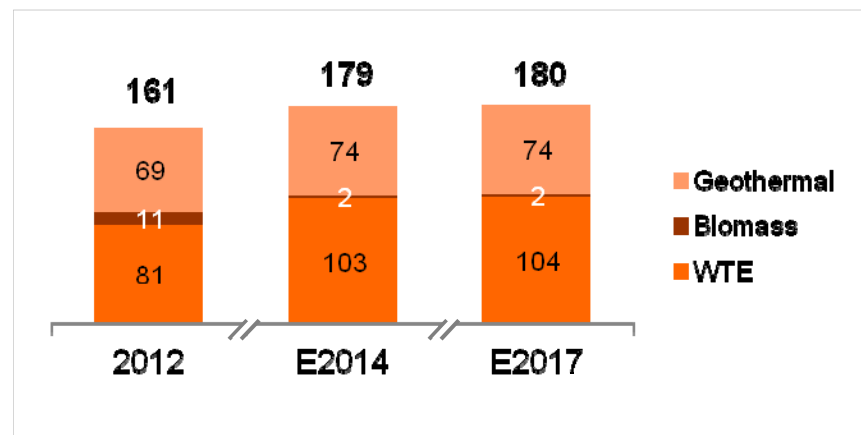
## CO<sub>2</sub> emission avoided

(ton)

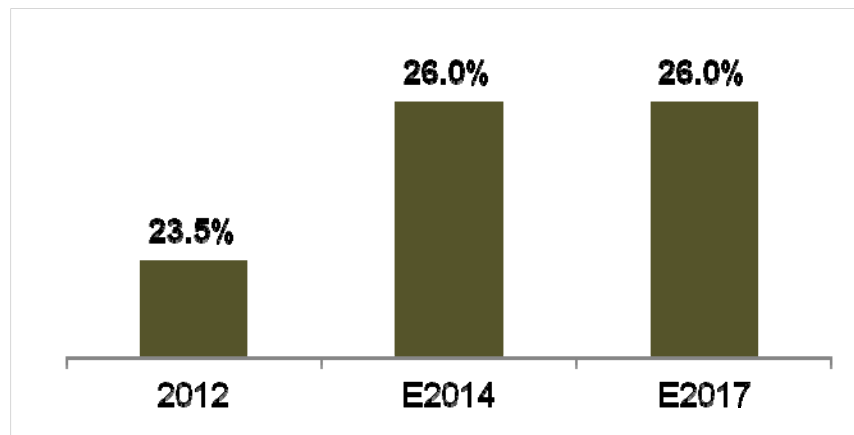


## Thermal energy production – renewable

(GWh)



## Low emission vehicles



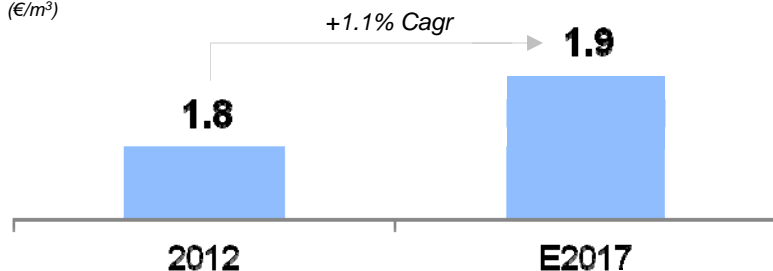
# ANNEX: Business plan 2013-2017

NETWORKS *(further details by strategic area)*

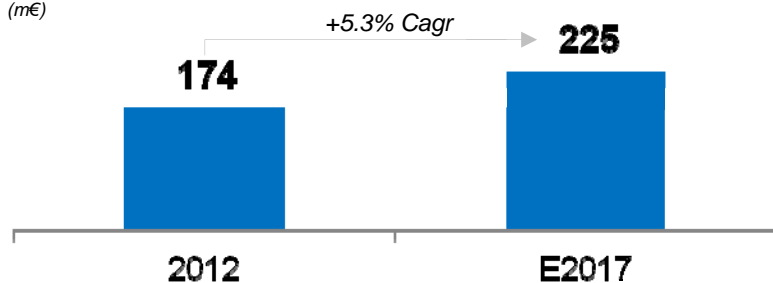
# Networks internal growth drivers (1)

## Visible and safe tariff enhancement

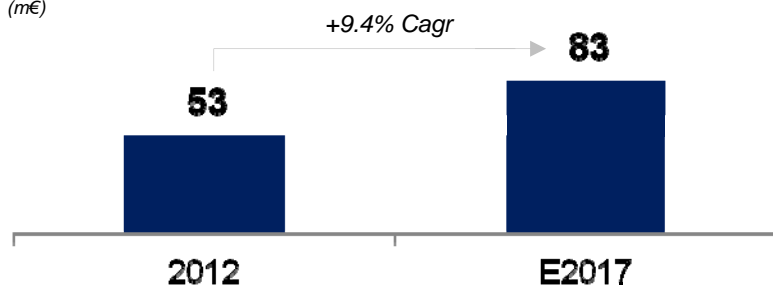
Avg. revenue per m<sup>3</sup> of water distributed  
(€/m<sup>3</sup>)



Total gas revenues  
(m€)

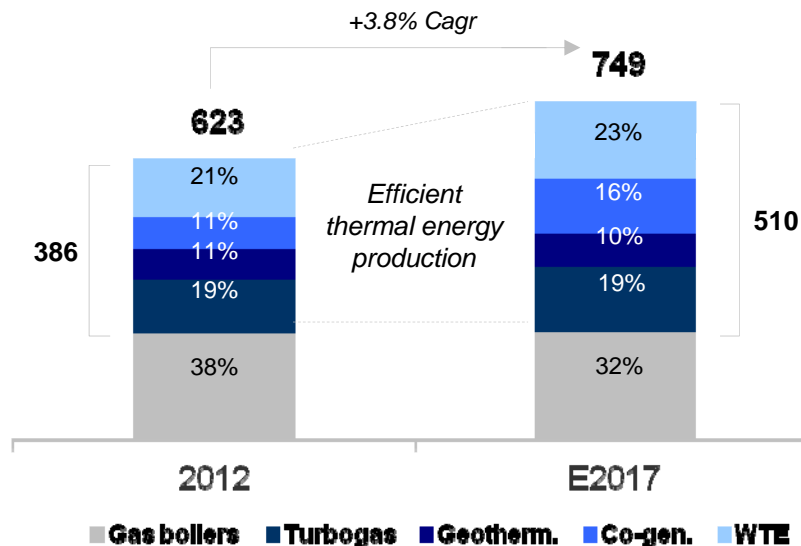


Total electricity revenues  
(m€)



## Benefitting from new asset base

Hera heating production sources (excl. leakages)  
(GWht)



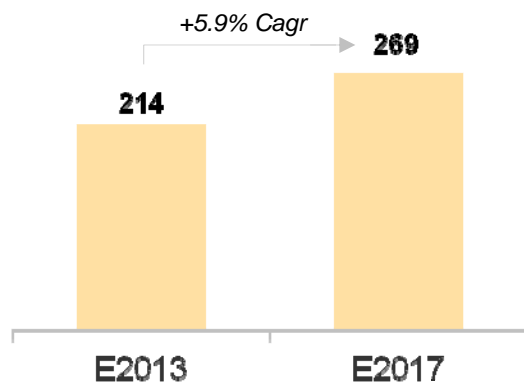
- Increase volume sold to new customer (new urbanization)
- Efficient sources for heat production
- Waste contribution to increase heat gen.
- Increase of margins/environmental perf.

E2017 Ebitda of D.H. expected to increase by +10m€ (from 13m€ of 2012)

### Economies of scale in networks management

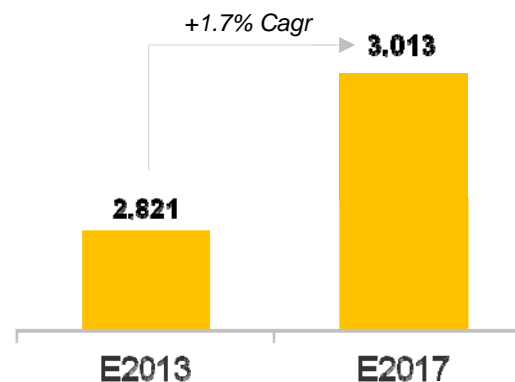
#### District Heating

(POD/Employee)



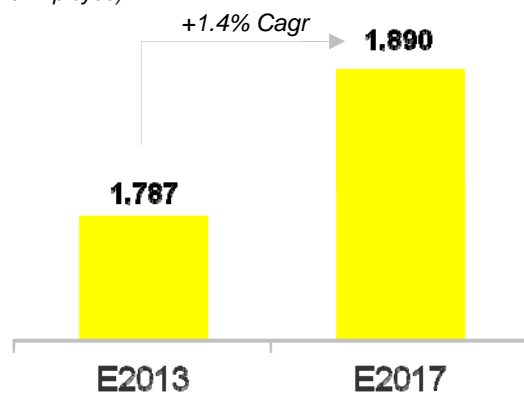
#### Gas

(POD/Employee)



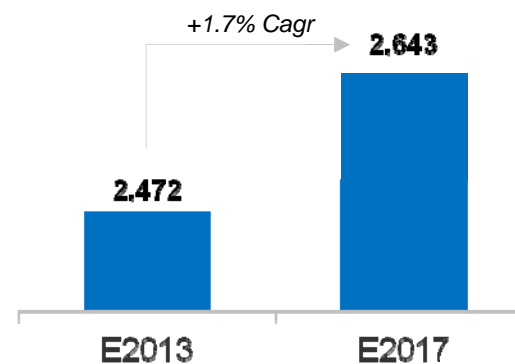
#### Electricity

(POD/Employee)



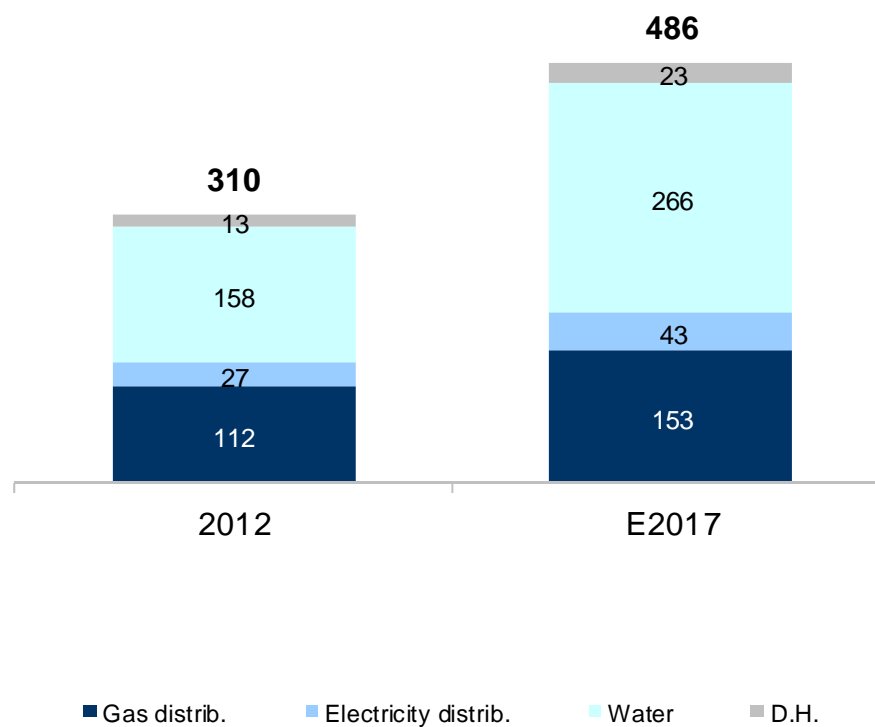
#### Water

(POD/Employee)



## Ebitda breakdown

(m€)



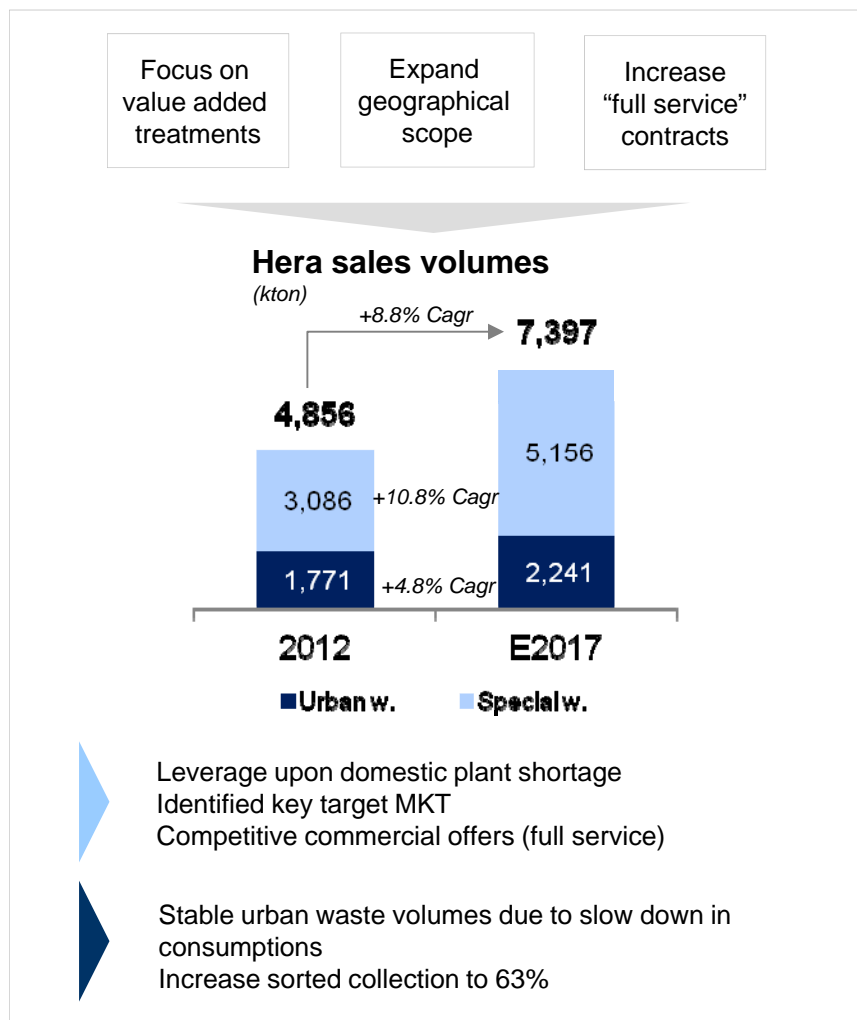
## ANNEX: Business plan 2013-2017

WASTE *(further details by strategic area)*

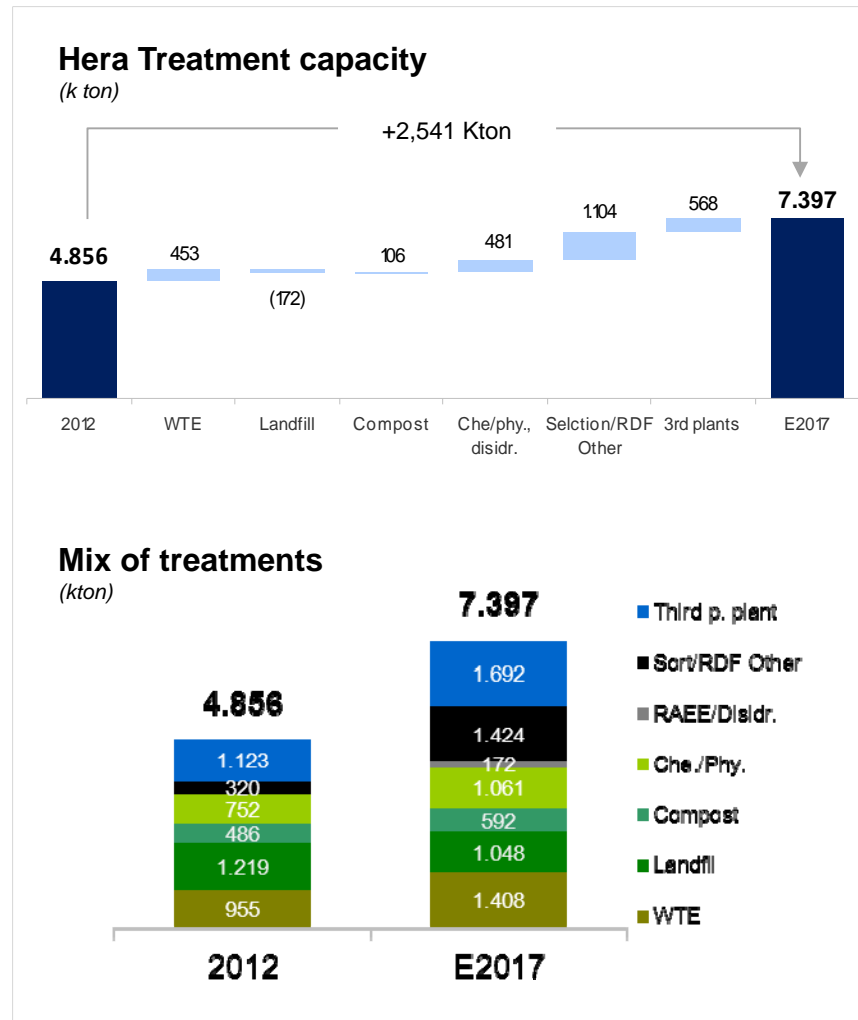


# Hera growth strategy and waste market expansion

## Market expansion



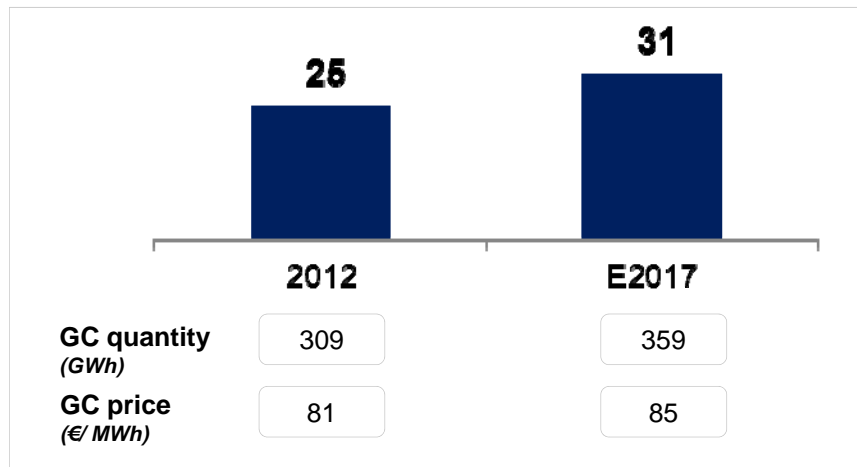
## Fully integrate value chain



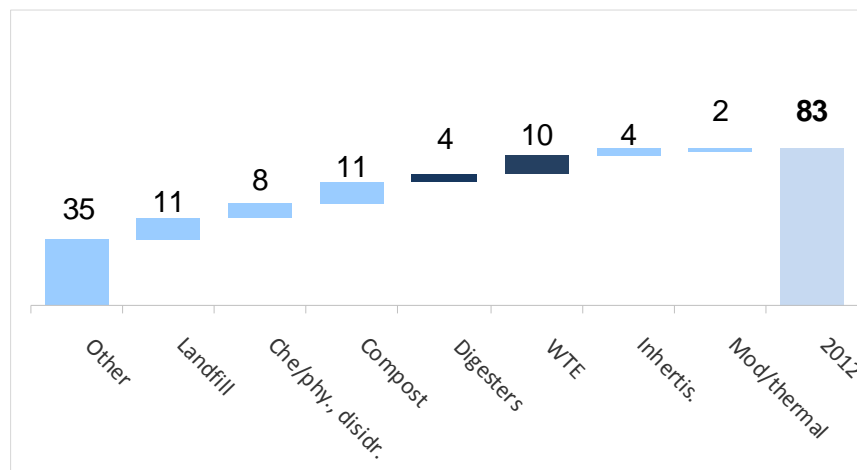
# Waste treatment capacity and energy generation enhancement

## Green certificates

(m€)

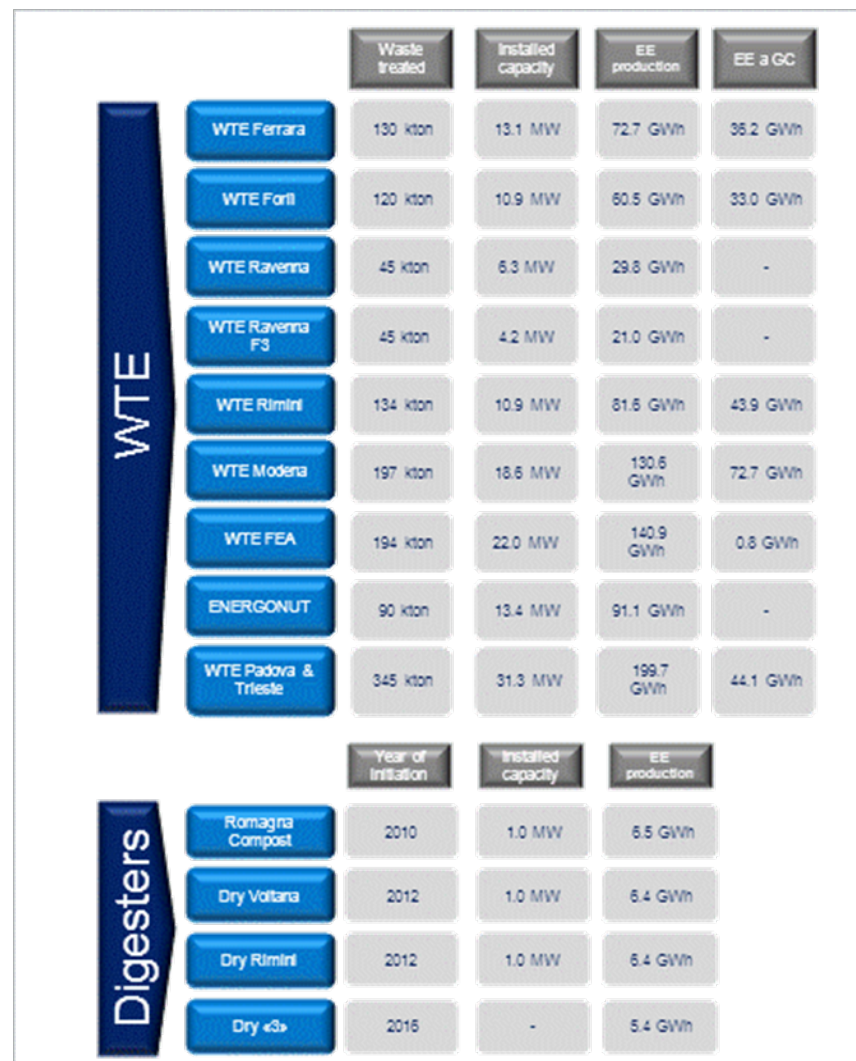


## 2012 Waste assets: 1.1b€ (20% of inv. capital)



## Renewable Power generation

(GWh)

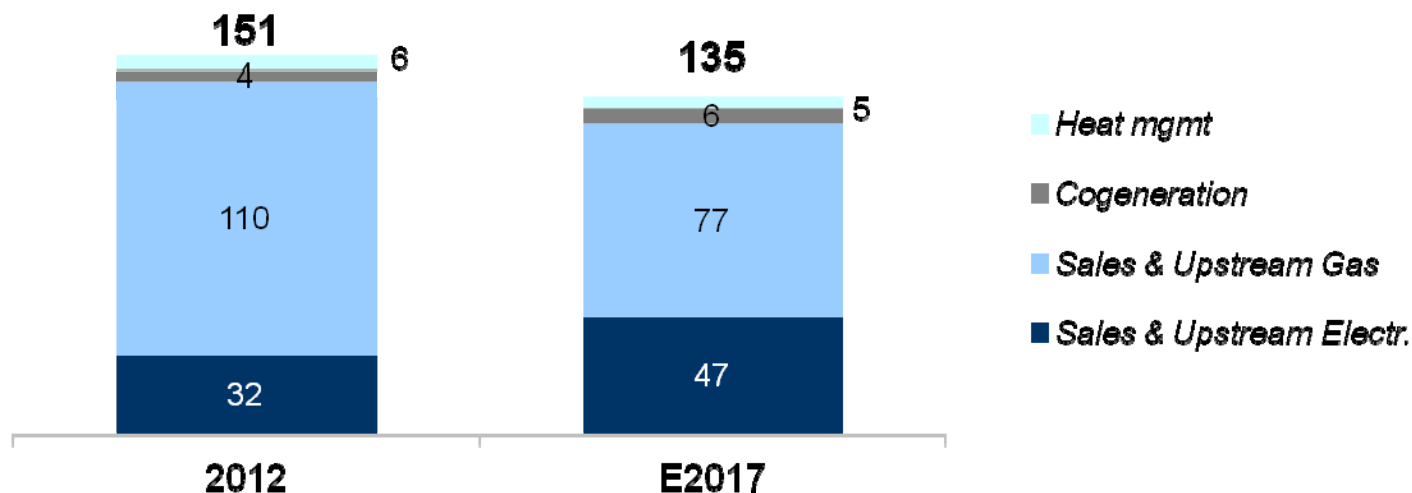


# ANNEX: Business plan 2013-2017

ENERGY *(further details by strategic area)*

## Ebitda breakdown

(m€)



- Gas Sales and Trading activities expected to benefit from M&A contribution more than offsetting negative projections on current sales & trading margins (due to progressive alignment of commodity cost component – “CCI” – to gas spot prices included in retail sales prices).
- Electricity Sales and Trading activities affected by a projected reduction in volume sold to “salvaguardia” clients.

# ANNEX: Business Plan 2013-2017

*(by business)*

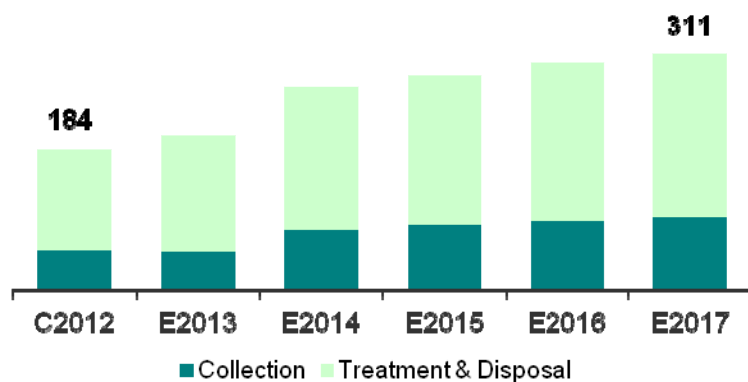
## Economics

M €	2012	E2017	Cagr.
Ebitda	183,5	311,0	+11,1%

Capex '13-'17: 480m€  
(m€)



## Ebitda breakdown (m€)



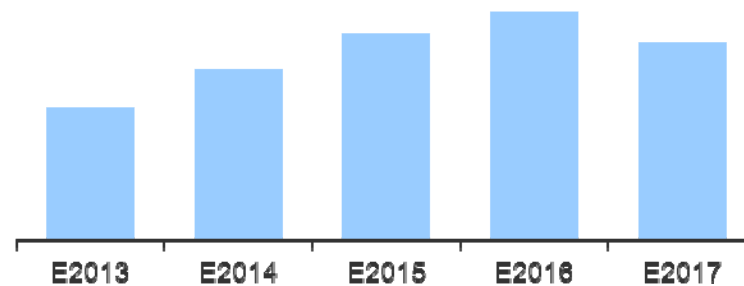
## Highlights

	2012	E2017
Tariffs (€/ton)	246	291
Volume treated		
Urban (kton)	1,771	2,241
Special (kton)	1,559	3,049
Hera prod. (kton)	1,527	2,106

## Economics

M €	2012	E2017	Cagr.
Ebitda	158,3	266,4	+11,0%

## Capex '13-'17: 610m€ (m€)



## Volume sold\*

	2012	E2017
Volumes ( $mm^3$ )	253	319

\* Civil acqueduct+ industrial acqueduct

## Highlights

	2012	E2017
Leakage	27.0%	25.1%
Tariff ( $€/m^3$ )	1.8	1.9

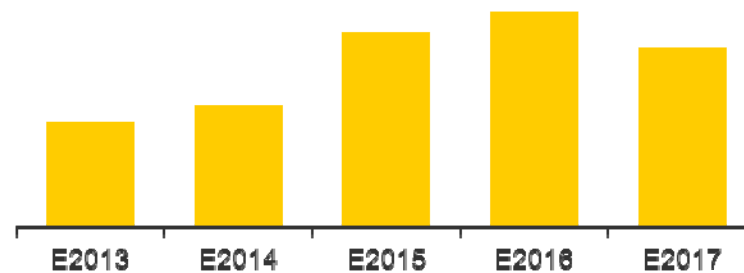


## Economics

M €	2012	E2017	Cagr.
Ebitda	240,7	258,1	+1,4%

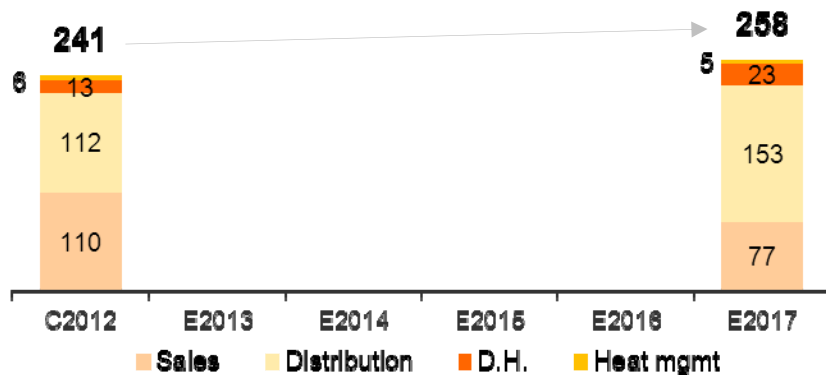
## Capex '13-'17: 631m€

(m€)



## Ebitda breakdown

(m€)



## Highlights

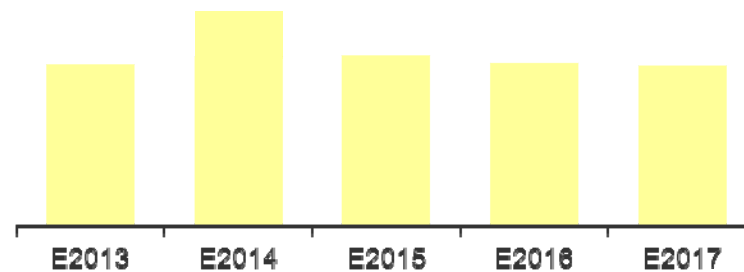
	2012	E2017
Networks (kKm)	15.3	18.7
Tariffs (€/m <sup>3</sup> )	7.4	7.2

## Economics

M €	2012	E2017	Cagr.
Ebitda	62,3	96,0	+9,0%

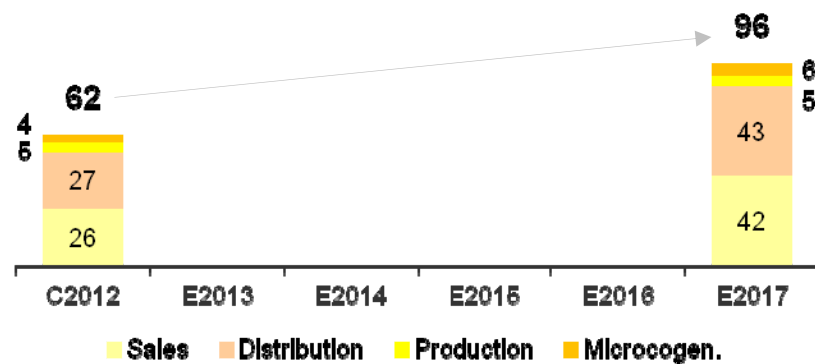
## Capex '13-'17: 187m€

(m€)



## Ebitda breakdown

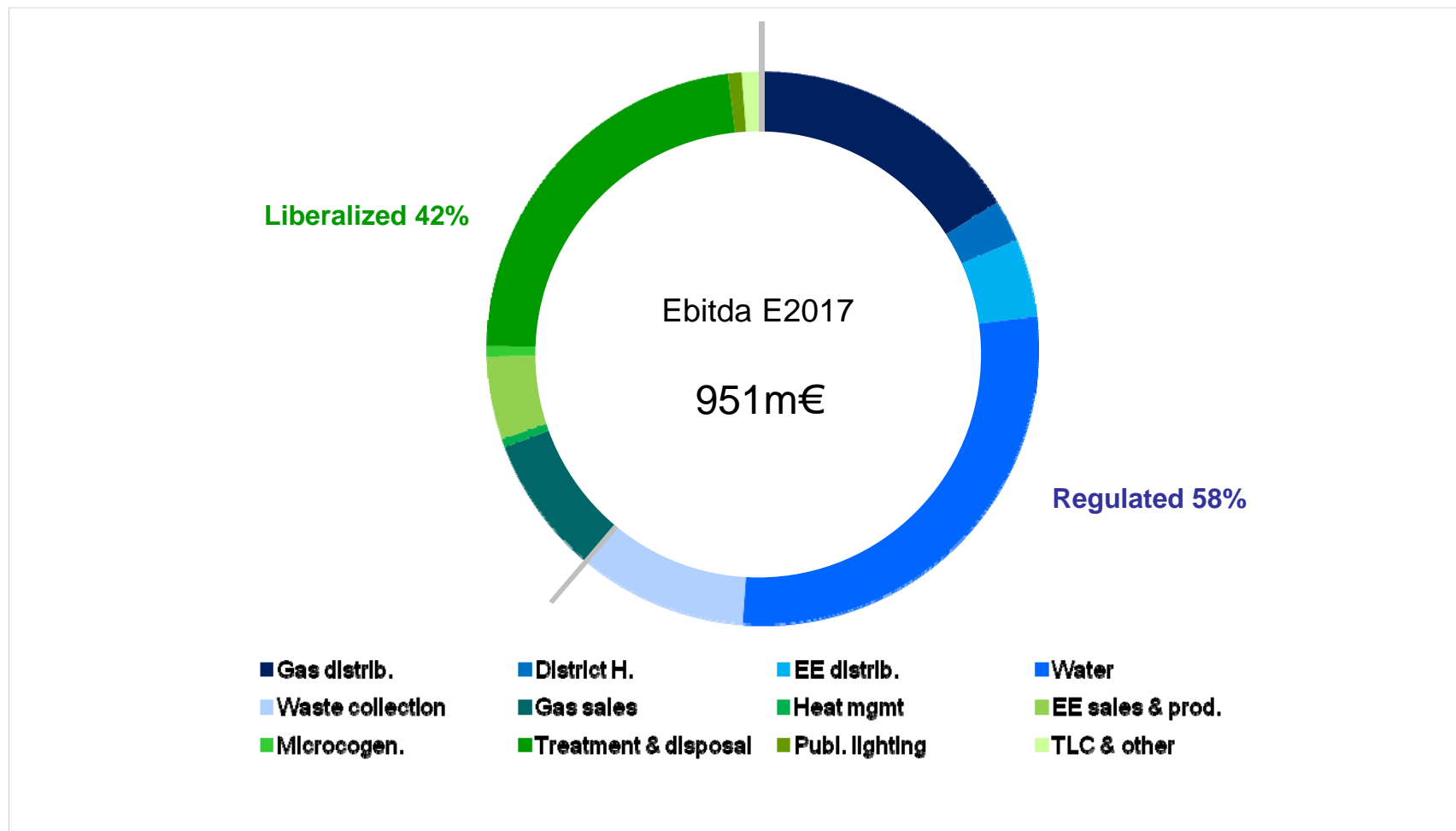
(m€)



## Highlights

	2012	E2017
E. sold (TWh)	9.5	9.9
E. distr. (TWh)	2.2	3.2
E. contracts (K)	541	946
E. tariffs (€/KWh)	2.4	2.6

## Business Portfolio breakdown



*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.*

*Therefore, any forward -looking statement made by or on behalf of the Hera Group refer on the date they are made.*

*The Hera Group shall not undertake to update forward-looking statements to reflect any changes in the Group's expectations or in the events, conditions or circumstances on which any such statements are based.*

*Nevertheless, the Hera Group has a "profit warning policy" , in accordance with Italian laws, that shall notify the market (under "price-sensitive" communication rules) regarding any "sensible change" that might occur in Group expectations on future results.*