

Hera's New Business Plan to 2027 Update Call

Company Participants

- Cristian Fabbri, Executive Chairman
- Orazio Iacono, Chief Executive Officer

Other Participants

- Davide Candela, Banca Intesa Sanpaolo
- Emanuele Oggioni, Kepler Cheuvreux
- Federico Pezzetti, Intermonte
- Francesco Sala, Banca Akros
- Javier Suarez, Mediobanca
- Roberto Letizia, Equita SIM

Presentation

Operator

(Foreign Language) Good evening, everyone, thank you for joining us. This morning our Board of Directors approved the new business plan, and we looked at the preliminary figures for the budget we'll be closing in a few months regarding 2023. We're here together with our CEO, Mr.Iacono, our CFO, Mr.Vai, and our Head of Planning and Group Regulation, Mr.Verde, and then of course we have the mastermind behind the meeting, Mr.Hansen.

Let's begin with the forecasts we drafted regarding the end of 2023. Our forecasts show that we are targeting a figure above EUR1.48 billion, which is the largest growth ever that we have seen during the year. This is a growth worth EUR185 million. Roughly, it is a sizable growth linked to all of the levers we used, which worked well. That includes M&A, organic roots, the development of markets. Everything is going well. Everything went into the right places, and we also were able to seize certain opportunities, such as the end of the 110% bonus.

We closed all of the construction sites by the end of December. We also had some good results in the last instance markets, where between the end of 2022 and 2023, we had good margins. So we had a number of levers which allowed us to achieve this result.

The other important element, as you can see, is the reduction in the net debt to EBITDA ratio, which was supported by the good EBITDA result on the one hand, and on the other, it is linked to the reduction in debt. We were able to cash in the entire investment we made during the 2022-2023 thermal season for gas storage to

guarantee that we would be able to cover our customers' needs even in the absence of gas. We also had to protect our margins.

The commodity prices also declined, which freed up working capital, plus the good cash we were able to make from our ordinary activities. So, we have a reduction in debt, an improvement at EBITDA, an improvement at the net debt to EBITDA ratio, which had reached its highest peak in September 2022. It was up at 3.6x. It went down to 3.3x at the end of the year. It would improve during 2022, and our target is to go below 2.6x.

Now, what do these results mean? Well, with the EUR70 million growth in 2022, plus the EUR180 million growth in 2023, we have reached the growth target that we had set for 2026 in the old business plan. So, we achieved that target three years in advance compared to what we had expected.

We were able to achieve this by seizing certain opportunities on the market, which means that we are now ready to abandon the old business plan and look at the new one, which will be defining our strategies and targets to 2027.

Now, what are the pillars that we built our strategy on for the business plan? Well, certainly, creating value is especially important, especially in this moment in time in which the growth of interest rates means that we have a higher cost of money compared to the past, and therefore, creating value and increasing the company's ROI is essential.

But we also want to work on sustainability. We want to create sustainable value, and for the past 20 years, we have believed that sustainability is one of our targets. It is part of our DNA, and we will continue in our growth path. We also want to enhance resilience, both in terms of our infrastructure, which means we have to be resilient to the extreme events linked to climate change, but we also want to increase the resilience of our economic results, stemming from any possible turbulence such as the ones we've seen at the market in recent years.

We have given you some examples of resilience in the past. Vis-a-vis major changes on the external context, our results grew. Now, let's give you a flavor of what these pillars mean to us. Let us just look at some of the details and we'll be going over the next few pages. We mentioned value creation.

Well, we focused on selecting the right investments with the idea that we want to increase profitability. We worked on developing markets. We worked on how we can be efficient as a way of curbing inflation. And we also allocated capital in the various business areas that we have built over time and which are a part of our multi-business structure.

Now, what we can see here is that ROI is up by 160 basis points from 2022 all the way up to the end of the business plan. With the WACC average in this sector is

stable, which means that we will increase value creation from 220 basis points to 370 basis points at the end of the business plan.

Let's also consider our dividend policy. We'll be giving you more details later, but we can compare it to the current share value, and we can see that the dividend yield is roughly 5%. We will have a post-minority growth above 7% in terms of EPS, which means that the total shareholder return on average per year will be above 12%.

Now, sustainability. We're showing you some of the targets we look at. Of course, our focus is much broader compared to the elements you see on the screen here, but it's just a way of giving you an idea of the three main items, beginning with carbon neutrality. We stand at 31% of our investment plan, which contributes to the improvement and to the production of emissions. Our target at the end of 2027 will be that of reducing our emissions and our customers' emissions by 29%, according to the path that we had defined together with the science-based target certification.

As far as circular economy is concerned, we will be having roughly 40% of our business plan, which will cover these topics, and the target here is to increase recycling, reuse, and regeneration of materials from all points of view, but we also want to work on water, meaning that we want to recover the water we purify so that we can reuse it.

Resilience and innovation is the other axis with 40% of our investment plan and our target here is to increase digitization and the monitoring of our networks. We also want to renew our networks and assets so that we can improve resilience and the reliability of our assets also with extreme climate conditions.

Now, if we measure these efforts on the topic of sustainability, if we look at the shared value that we certify every year, you'll see that the target we have set in 2022 equal to EUR670 million EBITDA generated by activities which offer benefits vis-a-vis the sustainability. Or the Sustainable Development Targets set by the UN, we will be up at 64%.

In absolute terms, that means that we will be increasing the assured value by 55%. This is a figure that allows us to identify the quality and the intensity of our efforts. Now, we are on track with our commitment, which is that of achieving 70% of the EBIT by 2030.

So, again, we're going in that direction very well. We were saying we want to improve resilience. To us, that means implementing a number of initiatives, investments, and policies so that through our multi-business portfolio, we can guarantee the soundness of our assets despite the adverse conditions brought about by climate change.

But we also want to preserve our results also in light of the volatilities of commodities, inflation, interest rates, and the cyclicity of the economy. In a nutshell, all of the elements that can have an impact, a negative impact on our company's

figures. And we've been able to prove our resilience over the past 20 years because whenever we have major crises, think of Lehman Brothers or COVID or the energy crisis, each time we saw that our figures continued to grow with a major resilience compared to these external events.

So, again, that's the direction we'll be working in with very careful policies in terms of risk management.

Let's look at some figures. The drivers of the business plan, let's look at some figures. You saw that we have a number, EUR1.65 billion, which is the growth we're targeting as far as EBITDA in 2027. This is a EUR350 million growth compared to 2022.

And that takes into account some of the initiatives that contributed to our result in 2022. And throughout the business plan years, they may disappear or be reduced.

But for instance, of course, the opportunity we had with 110% bonus, which gave us plenty of opportunities in terms of profit. It expired at the end of the year, last year, and therefore it will have to be replaced by further growth. We also have the last resort markets, last instance markets in which we had good results in 2022. And even there, we are expecting a lower contribution in a precautionary way at the end of the business path.

So, the overall growth that we will have to post from the structural standpoint is equal to EUR445 million, which as far as our group is concerned is divided into organic growth, EUR375 million plus EUR100 million growth coming from M&A, which is almost structural since we do it every year, but we'll be going back to this later as well.

Now, the growth of EBIT is even more sizable in terms of percentage because we have a CAGR of the organic growth linked to M&A equal to roughly 9% vis-a-vis the 7% in terms of EBIT and profit. And we'll be seeing over the next few slides that creating value as far as we're concerned means transferring the growth of EBITDA in terms of the profit that we will be generating for our shareholders.

Now, this growth is based on our multi-business portfolio, which has specific characteristics for each of our businesses, and each of the businesses contributes almost identically to the organic growth.

We have roughly EUR110 million from waste, networks, and energy, which means that we will continue to have a very balanced portfolio between the regulated businesses and the liberalized ones, also at the end of the business plan in 2027.

Moving on to our investments. We expect to invest EUR4.4 billion, 50% of which is focused on the maintenance of our assets and on renewing our existing assets, and roughly 2.1 billion are linked to development CapEx, which means that we have a sizable level of development CapEx with an overall growth compared to the

previous business plan, bringing 1.8 billion to organic development and investment on M&A.

Now, how have we allocated this 4.4 billion CapEx plan on the various businesses? Well, you can see that the lion's share is represented by the network groups, and also with the increase of the regulatory vacuum. Regulatory whack that we saw at the end of the year, which we were expecting following the regulator's decisions, then we have EUR3 billion on waste collection, which is also regulated. The remaining portion is divided equally between the waste treatment sector and the energy sector.

Let us give you another point of view that we have never shared in the past, which allows us to look into our business portfolio in greater detail. What is the cash flow generated by the businesses and how this cash flow can be then used for our development CapEx policies?

Let's begin on the left-hand side of the slide. You'll see that all three business areas have an operating cash flow throughout the business plan years, which is identical. EUR1.7 billion in operating cash flow.

Let's look into the various businesses. We'll see how this operating cash flow is partly used in working capital in the waste sector and partly on maintenance. So we have a free cash flow before our development CapEx equal to EUR900 million.

In energy, we have the major liberalization of working capital, which we have partly seen this year that we will continue to see, which allows us to have a positive contribution worth EUR1 billion in terms of free cash flow.

As we were commenting the results of 2022, we had said that once the storm would have subsided, once prices stabilized, although they were still high higher compared to the pre-crisis period. We would have recovered in terms of net debt over EBITDA and we're seeing the tangible effects of this freeing up of the cash.

(Foreign Language)

Then, we have a contribution equal to EUR2 billion before development CapEx. Networks is raised very forward. We have EUR1.7 billion in free cash flow. And our operating cash flow of EUR500 million. You'll see that all the businesses contribute positively to creating cash by investing on maintenance. And then let's see how we allocated the EUR2 billion in the development of our businesses.

Well, we allocated them to protect the three main pillars which is value creation, sustainability and resilience. And from this point of view this point of view, we allocated 1 billion on networks. We also used the cash generated in energy. We allocated 600 million in the waste sector. And if you consider the debt of the target

companies we'll be making the acquisition of, the business' cash is pretty stable. We reinvest all of the cash we generate in the business.

In energy, we have reduced investments. We have an activity in supply for the most part, but we also have some investments on assets, which means that we will have a use of cash in investment and development roughly equal to 500 million. Therefore, we decided to allocate cash so that we can preserve the profitability of the group, but also the balance of the businesses in terms of a stable contribution they can make over time.

This choice we made in terms of allocation, plus all of the development we're focusing on the various markets, especially in energy and in waste, gives us an average ROI at the end of the business plan equal to 9.5% with a 160 basis point growth, which I was mentioning earlier.

Now, the ROI growth is accompanied by the growth of the invested capital, moving from 8 billion and 9 billion, which means that having increased profitability, having generated cash to increase invested capital, and since we have an increased debt, obviously you can get a flavor of the elements, which then allow us to create value and to amplify the effectiveness of this business plan on the following lines.

Now, on the other side of the slide, you can see the evolution of the profitability of our businesses or business areas rather. You'll see that due to the regulators' decisions made in December, the regulated part of the business increases by 1.1 points, the regulated WAC. Even in the waste collection sector, we are expecting an increase in profitability worth 0.7%. Waste treatment grows in terms of size, but also in terms of profitability and specific. That's why the energy, given the improvement of results and also given the reduction in working capital has a profitability which goes from 11% to 18%.

So, here you have a breakdown of the mix of our portfolio. I hope you appreciate this information which allows you to better understand the soundness of this business plan, which is built on the various business areas, but also by allocating our capital on these areas with a focus on our strategic targets. The overall cash flows show stability in our debt.

Before going into the details of the graph, let me just say that the debt compared to 2022 is pretty much stable, roughly EUR300 million in cash absorption for the entire business plan. We funded the EUR4.4 billion in investments. We also funded all of the operating activities plus the payment of dividends.

Now just to give you a comparison to the old business plan, in the previous one we had EUR4.5 billion in operative cash flow compared to EUR5.2 billion in the cash flow generated this time, plus 700 million to implement investments, but also to reduce our debt compared to the previous business plan. In terms of net debt to EBITDA, we will be well below 3x throughout the business plan, with a target of 2.7x as hit in 2027.

And since we're talking about debt, I think it's important to underscore the fact that all of our net financial position is covered by fixed-price structured debt with an interest rate, as you saw in the various interim reports, which is below 3%.

And during the business plan years, 60% of the debt will continue to be effective at an interest rate below 3%, therefore we will have to be making accruals even at the end of the business plan period so that we can cover the debts that will be expiring with interest rates that hopefully will be positive, better than the ones that we already have.

Well then, after this quick overview of the business plan structure and of the overall figures in the businesses, let's look at the various business areas, beginning with energy. And you will see the structure of the various businesses. Basically we give you the various industrial elements that support the three strategic targets we have. As far as value creation is concerned, well, that we are a company that works for the most part our energy supply.

(Foreign Language)

Which means that to us the main asset is our customer's asset, or our customers rather. We started from 700,000 customers going up to 3.5 million customers in 2022, and the margins in this area grew, and that is the asset that we create value, and the results of this area on. And we are able to achieve this by managing our customers in a very effective way, with a very good and positive commercial development, even during ordinary periods, and that allows us to be effective and to have a churn rate which is well below the market average.

One of the elements that allows us to have this sizable growth in our customer base allowing us to have more electricity customers compared to the gas customers, which will be at the 2.3 million level at the end of the business term period, whereas gas customers will be stable at 2 million. The reason we were able to achieve that is the temporary awarding of the tenders for the end of the Maggior Tutela market. We were awarded seven groups of customers and we will be giving you a specific focus on this topic later on just to analyze the scope of this tender in greater detail.

Sustainability, well as our mission is to help our customers decarbonize their consumption and we do this by selling renewable energy. And also by helping our customers to be more energy efficient in their consumption. We have also included some very important production activities based on renewables that are linked on the production of hydrogen, for instance, in 2027. We will have two plans by 2027 to produce green hydrogen in the hydrogen valleys in Modena and Trieste. And Trieste, in fact, also includes Slovenia and Croatia, along with the Friuli Venezia Giulia region. It will be one of the largest hydrogen valleys in Europe.

And then we also want to install 300 megawatts worth of photovoltaic panels, our assets. We want to reduce the consumption of soil. And we also want to install these assets on our customers' property as well. So this is a business model that won't

allow us to be exposed to price volatility risks, because we will be giving this energy to customers who don't have these assets close to them. Which brings me to another topic, the resilience of this market.

To us, this means being hedged from energy and climate risks. We have a 15-year tradition of activities on the energy and gas wholesale market, where we are able to buy what we sell in real time, which means that we can be in line both in terms of amount and the formula between buying and selling, allowing us to offset any possible risks. We have also made some corrections, some amendments, on transferring shipping costs to customers, which made us suffer a little bit during 2022, but which are now behind us.

We also have a small position on production, and that, of course, depends on commodity prices. We also focus very much on managing working capital and on customers. These are the elements which I think define this sector. What are the results in terms of growth?

Well, earlier we saw that our overall growth was worth 110 million. The effects and the opportunities we were able to take advantage of in 2022 are entirely in the energy sector. Of course, these opportunities will be reduced. We have the contribution of the 110% bonus. We also have the last instance market contribution, the last resort market, excuse me. As you can see, for the time being, we are pretty much the only Italian player on the last resort market in gas. And in electricity, we have 25% of the overall value, which means that at the end of the business plan, we expect to reduce this possession conservatively, cautiously, and therefore we've reduced the contribution from these areas.

However, for 2024 and part of 2025, this is already covered by the tenders we were awarded, which means that we have a reasonable amount of certainties, which brings us to what will allow our results to grow well. We will continue to work on the value-added services sector for all of our customers with a EUR30 million contribution. We will also continue to focus in the energy sector on M&A that can allow us to integrate both horizontally and vertically with EUR50 million in terms of EBITDA and we'll also be having a EUR150 million growth in organic growth.

Now, this margin is supported by three elements. First of all, the recovery of the shaping costs we had in 2022. Secondly, our typical commercial activities. And thirdly, the major contribution coming from the tenders we were awarded, which included seven lots, seven groups of customers. And on July 1st, we're expecting 1.1 million customers. Which means that this is an acceleration of our growth process.

Obviously, having made the acquisition of these customers reduces acquisition costs, it speeds up our dimension, allowing us to really make a major leap forward in terms of growth. The costs that we expect to have in this activity are costs that we will be able to offset through organic growth on the markets, and our assessment of this participation is equal to a tier above 20% with value creation which is made explicit in the plan and which is already very sizable.

Now, what are the elements which led us to make the offers we made? the offers we made.

Well, all of the things we can do in efficiency and achieving the kinds of scale and then all of the offers we can give to our customers, value-added services, gas cross-selling so that we can increase customer retention by integrating the already many services we already have with us, which means that through this offer, we can make a major leap forward, which also underpins the growth of the customer base, which we saw on the previous slide, and which allows us to create value through this unique liberalization process. You may remember that customers are awarded through this tender definitive, and therefore, they will be staying with us even in the upcoming years, even after the regulatory period.

I will take a break now and hand the floor over to our CEO who will be discussing our industrial strategy in waste and networks.

(Foreign Language)

Orazio Iacono {BIO 22805001 <GO>}

Thank you, Cristian. Good afternoon. Let us comment to Slide 16, waste. The waste sector has been going through a very positive trend in recent years on the market and we will continue being market leaders in a moment in which there is a great deal of demand on the business side. They want to close the circle with an approach to circular economy. This is something that we and a few others can offer. And we have the three different pillars, the ones we saw earlier. We want to begin by creating value. We want to create plants and assets. We want to We want to develop our activities commercially, beginning with concessions. Just focus on concessions. The waste value chain is integrated with the brand new waste collection, thanks to the long concessions we have, all the way up to 2037 with a remuneration which is set by the regulator.

The second value creation assets is expanding our assets. Of course, our leadership is also due to our broad asset base. We have 110 different assets. We want to continue expanding our asset base so that we can guarantee continuity and the excellence of our service to all of our customers, so we can close the loop. We want to make sure that we analyze our capacity constantly. So that we can develop our activities further.

This is extremely important, especially given the fact that Italy is marked by undercapacity, a topic that we'll be covering later on as well. The third asset in value creation is how we can expand our customer base.

Even throughout the year, our strategy envisages a number of actions to increase our market share by increasing our customer base. Currently we have over 4,000 and we can take advantage of the commercial synergies that were made possible with the acquisitions we made last year, such as the acquisition of ACR.

We will also be developing new offers to broaden the volumes of waste we treat with the global waste management approach. Also through partnerships with major players of the European level.

To us, the truly important thing is to be able to manage our customers, not so much the waste. We want to be able to manage our customers since that is the most important thing for us.

Moving on to sustainability. Let me just mention the fact that as far as urban waste is concerned, in the very first three years of our very long concessions, we have made most of the investments required to improve the quality of our service.

We have increased how we recycle packaging. We will be reaching 72% in 2027, which is well above the EU's target, which is equal to 70% in 2030. Also, as far as sustainability is concerned, the second pillar, as you know, we are as you know, we are European leaders in the mechanical recycling of high-quality plastics. We have eight plants in Italy, France, Spain, and Poland. We have 100,000 tons of plastic we recycle, which we then sell every year. It is a market which is growing constantly, and within the business plan years, we are expecting to broaden our commercial offer with a focus on new polymers that we will be mentioning in a few minutes with the next slide.

The last point, referring to sustainability, is the soil remediation business, one of the actions that we took to focus on UN Sustainable Development Goal number 15. The terror group wants to take advantage of its experience and of the capacities of ACR, the company we recently acquired, so that we can focus on soil remediation and regenerate soil.

Moving on to the final pillar, which is resilience. Even here, we have three focuses, beginning with energy. All of the energy we produce in our waste energy plant is based on mitigation of price volatility without speculations. We also want to diversify the market abroad as well, so that we can increase the resilience of our portfolio. We have been able to build up a number of skills over the years, and we are focusing increasingly on the markets which are above and beyond our traditional ones with a focus on areas that have shortcomings in waste treatment assets. We focus on handling, logistics, waste treatment both in Italy and abroad. When it comes to our international dimension, before we go on to the figures, we will be further developing the flows of recycled plastic destined to customers abroad.

And as you can see on the graph on the right-hand side, all of the initiatives that we have seen so far feed into our granted growth, which is equal to EUR76 million, made up of both volumes and prices. And then we also have, as Christian was saying earlier, a EUR50 million EBITDA target linked to our typical M&A transactions which we did in 2023, we will certainly be continuing this year, which means that generally speaking the waste sector will be growing by 7% annually on average.

Moving on to the following slide, you have an overview of our organic growth, which is supported by the increase of our asset base and our commercial development. You may remember that our asset base is the largest in Italy with over 100 different assets.

Here we have the broadening and revamping of the main ones. We have the waste energy plant in Padua with 120 million euro investment with an increase in capacity up to 215,000 tonnes with an with improved capacities and performances, which will allow us to strengthen our leadership in the sector with a 20% market share nationally, which is something we're very proud of.

Secondly, the revamping of the F3 oven in Ravenna, which you are already aware of. We're at 50,000 tons for hazardous waste, and we are very well-positioned in the commercialization and treatment of hazardous waste with a 10% market share nationally.

And let me just conclude with some tangible examples on how we can recover and recycle waste. We are focusing on new polymers, and we will be soon building a new plant in Maldena, and we will be broadening the plant we already have in Novara in Borgo Lazzaro. So, we have two plants. One of them will be treating 30,000 tons of rigid plastics with a potential market in Europe, which is quite sizable, more than 12 million to 15 million tons of recycled virgin plastics, EUR250 million.

Then we have the second plant in Novara in Borgo Lazzaro, which is being broadened to focus on the low-density PE polymer with a further 25,000-ton capacity, which will double the already existing one with a potential worth almost 9 million tons in Europe. Even here, we have an investment worth EUR25 million.

In this case, with these investments, we will be consolidating our leadership in the plastic recycling market where Aliplast, the company we own, has a national market share of 20%. All of this development will be leading to an increased capacity to treat this waste, over 40,000 tonnes, which means that we will be consolidating our leadership when it comes to waste treatment.

The other growth in the waste sector is based on our commercial improvement. We are the market leaders in Italy, with a volume which will go from 4.8 million tonnes to 5.9 million tonnes, and this development will also be boosted by the recent acquisition of the acquisition of the ACR Reggiani company, which focuses on the soil remediation business.

Finally, we also want to use the experience and the skills of this recently acquired company, which is a leader in the radiation sector, to develop new models and new technologies.

Let me also add that we want to focus on the oil and gas sector, which is very resilient to economic cycles and is less dependent on industrial production. This is a new business line, which allowed us to make the acquisition of -- we were able to

become market leaders in this market segment. And as you can see from the last figure on the slide here, we will be going from 36,000 tons to 225,000 tons in 2027 in terms of soil. Of soil regeneration.

Moving on to networks now. We expect an increase in the five-year EBITDA equal to 4.4% per year with a plus EUR112 million in EBITDA.

Our strategy for the next few years will be focused on consolidating the profitability of our assets, guaranteeing an increased performance which is consistent with our sustainability and resilience policies as Christian was saying earlier, compared to climate change, extreme climate events, and even when it comes to the digital challenge. Our goal is to create value. This will be supported by will be supported by the sound five-year investment plan, which is slightly above 2 billion. This is a very challenging plan that will allow us to increase the RAB by almost 1 billion, so that by 2027 we will have a EUR4 billion value without ever losing sight of efficiency.

In our business plan, we want to create value by improving our efficiency in managing our networks, thanks to digitization, automation, and by introducing even more of what we've already been doing with digital twins to come up with a real-time simulation. We have EUR9 million, which is equal to 41% of the overall CapEx plan in networks, which is focused on innovation and digitization.

Performance, when it comes to premiums as you know, this is important for those who manage networks and assets such as ours. Our investment plan is focused on guaranteeing the resilience of the entire system, keep in mind that we have 90,000 kilometers of networks. We want to continue being efficient. We are currently the best-in-class nationally, which is also a way of achieving the premiums expected by the various tariff systems set by the regulator.

Moving on to the second strategic axis, sustainability, our strategy is that of allowing our networks to be efficient, innovative, and digitized so that we can be sustainable. And therefore, we want to focus on sustainability by safeguarding resources. Let me just mention one.

We expect to increase the use of use of purified water moving up from 7.4% up to 14% by 2027 vis-a-vis an overall volume of treated water which is over 330 million cubic meters. So we are facing a potential reuse of water equal to almost 50 million cubic meters.

We are also developing projects in the production of green gases besides biogas and the digestion of sludge. We also have the so-called sector cupping which means that we want to take advantage of the extra electricity being produced in the power to gas, for instance, in our purification plant in Bologna, for instance, which means that our projects are focused on the acid readiness on how we can make sure that our networks can be able to take in green gas and this is very much important to be in line with European taxonomy when it comes to our capital which is invested especially in gas distribution networks.

And speaking of that, 80% of the CapEx which is admissible to EU taxonomy, equal to 2 billion, belongs to the network sector along with people of course and the focus on the cultural, digital and sustainable transition that we will be focused on with the over 10,000 workforce we have so that we can convey data and know-how so that everybody can participate in this wonderful growth that the group is targeting. Thirdly, resilience. In networks we have EUR1 billion. 4.6% of the overall network's CapEx, which will contribute to the resilience of our assets so we can guarantee continuity and quality, despite the things we were seeing earlier, namely climate change, the digital change.

In our business plan, we expect to have a major increase in our resilience. We had proof of that last year when we had the flood which hit Emilia-Romagna. We proved how resilient our assets were. And of course, digitalization has to be used to become more resilient with IoT systems that can allow us to monitor our network, both the electrical and the gas ones. When it comes to water networks, we are committed to improving even more the quality of our service with our water safety plan. plan, all of this technology, the enhancement of this technology, will obviously have to lead to an increase in cyber security. Let me just make a brief comment on the right-hand side of the slide, where we have the EBITDA growth drivers, the WACC, the organic growth.

So we have EUR35 million referred to the increase in the WACC in water, gas, and electricity between 2023 and 2037, then we have the EUR78 million in terms of organic growth. That includes inflation and the growth of our RAB, plus the energy efficiency, which is also imposed on us by the regulator, along with other business dynamics.

Moving on to the final slide for networks, very briefly, I think it's important to underline two elements which underscores the development of the networks. Throughout the business plan years, we expect to increase our RAB by 1 billion, moving on to an overall RAB worth 4.1 billion. The second element is the increase in all businesses compared to 2022 and 2023 and the profitability for the entire business plan years and in all three of the business years, we have a return from 3% upwards.

Then we have some characteristics of the regulation. As you see, we have some concessions as far as water is concerned, which go well beyond the end of the business plan period. The same goes for electricity. As far as the distribution networks are concerned, or the distribution concessions are concerned, for the time being, we don't have any acceleration in sight for the tenders, we are expecting a ministerial decree which will implement the contents of the so-called competition decree. As far as WADA is concerned, the news is that the authority has made a waiver for 2023, given the macroeconomic context that we've seen over the past two years. Whereas for the other businesses, we have a yearly review. The news for the regulatory period refers to WADA.

As you may have noticed, there was a six-year extension, which is important for us because this will certainly give a boost to the regulatory certainty so that we can

better to better implement our investments given the fact that we will have more visibility in the water business, and that is further proof of how mature the regulation we have on this asset is. And in fact, we very much appreciated this most recent news I was mentioning.

I'll leave it at that for the time being. Thank you very much for your attention. Back to you, Cristian.

Cristian Fabbri {BIO 20821433 <GO>}

Thank you, Orazio. We have reached the very last slides. And just let's go over the bottom line. As I was mentioning earlier, with this business plan, we will be seeing a significant growth in ROI which then leads to a growth in EPS. You'll see that overall, the earnings per share will move from \$0.22 in 2022 to \$0.31 per share in 2027, with an average growth of a CAGR equal to 7%.

Given the fact that our business plan increases the group's revenues or profits, given the fact that our debt is under control, we decided to improve our guidance when it comes to the dividend policy, too, beginning with dividends referring to 2023, which will be increased. We will be asking the board to approve a further growth equal to \$0.15, a growth equal to 12% to 12% compared to 2022, which is even higher compared to what we had envisaged in the previous business plan.

We will be improving the guidance every year, all the way up to an expected dividend in 2027 equal to EURO.16 per share, with a 5% CAGR growth and a yield which stands at 5%, which means that you have the average total shareholder return, which is 12% yearly on average. So this is a growth in profitability which goes all the way down to the bottom line with a dividend plan which has an enhanced performance compared to last year's. So that is yet. That is yet another, yet further proof of what we have in mind in terms of value creation.

Moving on to some conclusions before we take some of your questions. We wanted to give you plenty of details in this presentation, of course, with some time for Q&A. This is a business plan that we worked on for six months. We worked very intensely. We worked on the profitability of all projects, initiatives, how we can invest our capital, the choices we made in terms of developing markets in energy and waste, the competitive advantage we have on the various markets, with some targets in mind. This is a fundamental activity. Fundamental activity because I think it traces the way in which we want to develop 2027, and it also gives you some clear visibility as to what we want to do and what we want to achieve in terms of results.

At this point, over to you for any questions you may have. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Foreign Language)

A - Orazio Iacono {BIO 22805001 <GO>}

Our first question is by Javier Suarez, Mediobanca. Over to you, Javier.

(Foreign Language)

Q - Javier Suarez {BIO 1700016 <GO>}

Yes, good afternoon, everybody. I have a few questions, in fact. The first is a starting point at the end of 2023 in terms of financial soundness. In your plan on Page 13, you have a networking capital, a positive contribution of the networking capital worth EUR1 billion. Now, my question is, will we be seeing this EUR1 billion already? Already at the end of 2023, or will there be a recovery in the following years too? Can you elaborate on that? What is that due to?

Mostly due to the gas fuel, but I would assume, but is there anything else we have to consider if we are to understand the starting point of the business plan? And then, is it safe to say that with this one billion euro cash-in assumption in recovery of the networking capital, do you think that the net debt to EBITDA ratio at 2.7x in 2027, is it a little conservative? I think it should be lower than 2.7x. So is your target a little bit conservative?

The second question is on the supply business. Slide number 15. You are planning to make the acquisition of one million customers, roughly. Which is something you've already achieved with the electricity tender. You already have those customers.

And then, of course, in the business plan, there will be a loss in the last resort gas customers, of course, but can you help us understand the additional EBITDA in the supply business? These EUR140 million in additional supply, what are the actions that can lead to this increase in profitability?

I'm saying this because, initially, these new customers will have a very low profitability. And then, over time, over the five-year period, that will increase. The third question is on the waste business.

Today, the authority published its deliberation. Now, the question is, what are your assumptions for their assumptions for the remuneration for urban waste treatment. I think I saw 6.6%. That is a figure that they've approved. And will this be approved in 2024 and 2025 as well? There was a discussion on essential treatment plans. What is the assumption you've made? And what is the risk that this can be applied to 2024 and 2025? Then I have a final question on water.

A - Orazio Iacono {BIO 22805001 <GO>}

There was an increase in the maximum increase allowed by AREDA. But there will be a recognition of inflation, like to the previous years, and there will be a need to increase remuneration significantly, also given CapEx.

Q - Javier Suarez {BIO 1700016 <GO>}

Is there a risk that there will be a negative contribution in terms of net working capital in the water business? Thank you.

A - Cristian Fabbri {BIO 20821433 <GO>}

Thank you. Good evening, Javier. Let me begin before I give the floor to Orazio. Well, let's begin with the 1 million customers compared to the targets in the business plan. Your question is, well, you have a growth target equal to 800,000 customers, you've already achieved 1 million, so maybe you were a little cautious.

Well, as you know, we tend to be conservative in our forecasts.

Based on the experience we already have on the tenders for the gradual safeguard services, what we know is that we were already awarded lots in the two previous sessions, and that was a test to see how customers behave, basically. We know that as soon as customers switch they have a higher churn rate and therefore that is something that we have taken into account. That's why we were so conservative and cautious in our hypothesis in terms of these customers leaving us. And what we've imagined is that the end of the business plan, we will have roughly half of those customers staying on with us in terms of size and then of course in a few months time after we start we'll understand if the churn rate will be lower.

Q - Javier Suarez {BIO 1700016 <GO>}

Now, how will we be working on these customers?

A - Cristian Fabbri {BIO 20821433 <GO>}

Well, of course we can improve our efficiencies in terms of cost thanks to these new customers and without any acquisition that in the acquisition costs, we can really grow a great deal.

And in the tenders we were awarded in recent years, we will be doing the same thing. We will be offering free market offers to our customers gradually.

And we will be making cross-sale offers as far as gas is concerned, too, because the tenders we were awarded that we'll be seeing after the 6th of the month are very interesting areas, they cover interesting areas. And therefore, the various tests we performed with the micro-companies that have a similar size compared to households, those tests allowed us to design the offers.

And they allowed us to give value to our various activities. This is a macro activity, of course of the course, and now I'm not going to go into the details of all of our, all of the choices we made. I'd rather keep our decisions to ourselves, but basically we're

building on the experience we've acquired in recent years, and we participated in the previous sessions, the previous tenders, just as a way of making sure that we were ready for this tender, which was a one-off possibility because it really was an opportunity to grow by 500,000, 700,000 customers all at once without any acquisition costs.

Had we conquered those customers on the market, which is what we did in recent years through M&A, of course we would have had a slower and lower growth with a much higher cost. Much higher cost. And the supply side has always been positive for us. You may remember that every year we have a positive growth of our customers linked to our commercial offers. These are customers that we conquer. They have a value. That activity has a cost, of course. In this case, beginning at the end of June, we'll be having this new activity.

We started working on the project on the 14th of January. We celebrated the result and we immediately started working on the project because we're preparing something so that we can be very effective from the get go on July 1st.

So, that was the activities we've already done. and then when it comes to the contribution to 2027, that's a figure that I wouldn't want to go into for the time being because it is part of the strategy that we will be implementing commercially. And it is a, let me just say that it will be a sizable and very visible contribution.

Moving on to the CCN at the end of 2023. Well, we shared a couple of figures with you, or three rather. We shared our dividend policy ideas and now we are working on finalizing the figures for 2023.

We will be presenting the year-end results in a couple of months so we still have some operational things to take care of. In two months' time we will be showing you the major reduction of our debt and other working capital, allowing us to benefit partly from that EUR1 billion I mentioned. We'll be seeing some benefits even in the years ahead. That just gives you an idea of the size. And we're also working on optimizing the networking capital. We're introducing new invoicing systems, a project that was very effective during the crisis.

It is still giving us some good results. We completed the project at the end of last year, and therefore this allows us to be more effective in invoicing. It only takes us a very limited number of days to invoice. We're working on all of our customers to further optimize the cycles in invoicing to improve our cash flow. Along with the good quality of our customers and the quality of our collection, we are doing quite well.

When it comes to the net financial position at the end of the business plan period, well, we made our assessments, and if we consider the investment plan, and if we also consider the fact that we still have to continue optimizing part of the working capital, so for the time being, we're able to be effective to take advantage of any

opportunity of any opportunity for further growth. It may be somewhat conservative, but we'll be seeing how things evolve throughout the business plan years.

Orazio, over to you.

A - Orazio Iacono {BIO 22805001 <GO>}

Okay. We have two topics. One is waste and the other is water. Well, as far as waste is concerned, yes, we did read the operation number seven, the state counter rulings, which recognizes the effects of the rulings for the past. It scraps the ARERA method for tariffs 2022-2023, allowing it to come into effect as of 2024.

This does not have an impact on us. In fact, it has a positive impact, because throughout the business plan period, we used the regional regulation method, which is more stringent compared to MPR2, the one Arele uses. That applies to sharing, and it applies to the WACC, the 6.6% you were mentioning. As far as the past is concerned, the previous two-year period, even here, there won't be an impact.

So all in all, there is no impact. In fact, there may be something positive beginning in 2020 and Asia for the future years. That goes for deliberation number 7. As far as the question of water is concerned, we've made some major investments in the water business.

As far as the cap you were referring to is concerned, that won't be an issue. We are transferring all of our CAPEX into the tariff. We also know that the cluster we're looking at, we have a maximum increase equal to 9.95%. You may remember that we are the second largest player in the country.

So, let me just say that it won't be a problem. We will be transferring all of the CapEx into the tariff.

Q - Javier Suarez {BIO 1700016 <GO>}

Thank you very much.

Operator

The second question is by Emanuele Oggioni, Kepler Chevaux. Over to you. We cannot hear you, Emanuele, you have to, perhaps you have to unmute yourself.

Yes, we can hear you now.

Q - Emanuele Oggioni {BIO 20133627 <GO>}

Thank you for the presentation. Thank you for the very detailed presentation and congratulations for the results posted in 2023.

My first question is on energy supply. A question on the number of customers. You mentioned roughly 500,000 customers, half of the 1.1 million customers you were awarded with the tenders that you are looking to retain.

In Slide 14, though, if we look at the first nine months in 2023, with 3.7 million customers, which means plus 200,000 customers, mostly in electricity, that would mean higher increase in fact. So, the 900,000 customers you were mentioning earlier, so basically you are looking at increasing your market share from other groups, from other lots of customers that were awarded to other players, maybe looking at customers who would migrate from other suppliers to you perhaps. Otherwise, the numbers wouldn't match.

Then, I have a second question on the profitability of your customer base. You mentioned earlier that you've only given us some preliminary results, but can you mention in Slide 15, how are the EUR148 million EBITDA growth compared to the adjusted values in supply, how can we remove the effects of 2023 from that figure?

In other words, out of the 900,000 customers in electricity that you expect to add to your customer base, what further EBITDA would be attached to that part alone without considering the salvaguardia market or any other market. I have a third question on acquisitions. Can you give us some details regarding the business areas that you will be targeting? Also in financial terms, you mentioned EUR300 million and further CapEx, EUR400 million EBITDA.

Just to understand what is the EV expected for these acquisitions, in which sectors, in which regions maybe, and what potential synergies you expect within the business plan period. I have a question on the financial lever. Besides the improvement in 2023, which was a very significant one, congratulations for that, the business plan more than self-finances itself, even with the growth in dividend.

So, I was wondering, were you to overperform compared to your business plan targets, which is what you're used to doing. Do you think there can be further room, further space, to add a larger buyback compared to what you typically do with your stock?

Besides the dividend, they can then use, opportunistically, whether there be any weakness in the market or in the sector. Thank you.

A - Orazio Iacono {BIO 22805001 <GO>}

I'll take your questions in order, while the situation that we currently have is that we have 3.7 million customers, according to the more recent reports, that be even abundant and that is also linked to the last resort market and the concept tenders that were awarded. These customers are factored in, although we don't include them in any plans we have that go beyond the duration of the tenders. So, basically this effect is linked to our caution.

(Foreign Language)

Since they are tenders, we only add them whenever we're awarded them. We don't put them in advance because, of course, every tender has a different outcome. And therefore, we want to make sure that we only look at the euros in the bottom-line. So, we don't add possible customers or tentative customers. So, we have to add 200,000 customers to that number, and we're referring to a further 800,000 customers.

As I mentioned, two-thirds are the ones that we expect to retain from the maggior tutela market, and one-third of that number is the ones we have conquered commercially. We are net commercial acquirers. Typically we have good commercial offers with a lower return rate compared to the market average. And we've been seeing that over the past 10 to 14 years. We've always had a positive growth of our customer base, which means that we have increased our market share.

We are currently the third largest player on the Italian market with a 7% or 8% market share, which means that we still have plenty of room to grow on the market. It's something we've done in the past and it's something we expect to continue doing in the business plan period. And our track record is certainly positive from this point of view as far as the organic growth of EBITDA is concerned, I'm not going to give you the business by business breakdown, but a large chunk of that growth is linked to the recovery of shaping costs, that covers half of that figure.

The remaining half is linked to our growth in the mature fertility market and organic growth, roughly speaking. I'm not going to give you the exact numbers, because the numbers are linked to our commercial strategies, so I wouldn't want to give too much away.

As far as M&A is concerned, we have figures in the presentation. The part in investment refers to equity. We will be acquiring targets of 7x compared to EBITDA. 7x EBITDA means that EUR100 million EBITDA would translate into EUR700 million on the NFP.

Net EBITDA is equal to EUR1 million, which means that we have minus EUR250 million in debt as far as the acquired targets are concerned. You can see this in the slide where we have M&A to debt at 0.4%. Of course, it's always difficult to round up or round down these numbers, so we just included 0.4% over here. 7x EBITDA and debt to equity is one, that's the ratio. So these are the numbers you have as a reference. And we are putting our targets here of the targeting, but we don't include the synergies.

But as you know, structurally, whenever we want to focus on transactions that can lead to industrial synergies with our assets and with our commercial structures, as we don't include synergies. We only take EBITDA into account when we make the acquisition. The size, EUR100 million is equal to EUR20 million per year. That's the size of the of the ordinary operations we conclude last year.

The M&A transactions are over 25 million, so roughly speaking that's the amount we look at. Of course, keep in mind that the Italian market is very fragmented and it does have plenty of opportunities. And whenever the seller is also interested, that's where we step in and take advantage of opportunities with models that are always very effective in the execution without going into too many details, of course.

We already have a good buyback policy. We still haven't filled it out completely. We still have further room to maneuver. It's something that we deal with naturally. And that we take into account on a case-by-case instance so, that's something that we'll be looking at based on the various overall situations we face.

When I thought of using the financial lever to make investments, that wasn't exactly what I had in mind, but it is something we can do, as we have done in the past. I hope that covers all of your questions.

Q - Emanuele Oggioni {BIO 20133627 <GO>}

And I'll leave it at that. Thank you. Thank you very much.

Operator

The third question is by Davide Candela, Banca Intesa Sanpaolo.

Q - Davide Candela {BIO 21058067 <GO>}

Good afternoon, I hope you can hear me. Congratulations for your presentation. Thank you very much. I have three questions for you.

The first is on the development of renewables, the 300 megawatts you're expecting, I think that refers to the plants you already have and a part of it refers to the generation. I was wondering what is your approach when it comes to developing these assets and energy communities and what investments are you expecting for renewables and the energy sector you're expecting to invest EUR1 billion, so what are the amounts you expect to invest in renewables and what are the profitability levels you expect?

Then, I have a second question on the waste sector. In your press release you mentioned some global services. Can you explain what the nature of those services is? And what the contribution can be of logistics or consulting activities perhaps.

And then a third question is a comparison with the previous business plan in which your network's grab was EUR4.2 billion at the end of 2026. Now we're looking at EUR4.1 billion at the end of 2027.

Besides water, which doesn't have any differences, along with gas and electricity, what changes between this business plan and the previous one? Thank you.

A - Cristian Fabbri {BIO 20821433 <GO>}

Well, the last question is very easy. In one plan we had district heating, in the other we did not. Last year we had included district heating, this year we didn't simply because we don't have a very large presence there, but also because the regulatory system is currently being reviewed and changed. That's why we only have three businesses in the RAB, the ones that we have a well-defined regulatory system for, just to give you a flavor of what is fully regulated, just so you could interpret things better.

As far as the development of renewables is concerned, the 300 gigawatts, that's the size of what we're doing at our customers' plants is roughly 150 megawatts, and then as far as our assets are concerned, we're looking at landfills or water plants or areas close to our customers. We're looking at 55 megawatts of installed capacity, roughly. And we are focusing on a number of different initiatives. We have agrivoltaic. Some projects have been already started. We're in the authorization phase.

In other areas, we're looking to understand the M-gain, even from the regulatory standpoint, before we proceed. The shares are included in these activities. And we're imagining a model in which we would be the owners of the chair's plant, so we would work to support the chair, we would produce power with our own assets.

The real point when it comes to chairs is whether or not the plants are paid for by public funds. At that point, they would be easy to build. But if we're looking at communities of citizens, they would be funding those chairs.

Well, in that case, it would be a theoretical model, but it would be very easy to achieve in practical terms. So to overcome this obstacle, we're looking at making the initial investment with some higher spreads vis-a-vis the chair so that we can cover spread between the investments and the services that we can offer to support the renewable energy communities. So that's something we will be doing, but it will be complementary to the supply sector.

As far as investments are concerned, it will be roughly EUR130 million or EUR140 million throughout the business type period, and I'll hand it over to Horacio for waste and global services.

(Foreign Language)

A - Orazio Iacono {BIO 22805001 <GO>}

Thank you, Cristian. Well, I was mentioning an important concept earlier, namely that to us the most important thing is to manage customers, not receiving the waste. That's what we excel in. We are one of the very few to cover the industrial market. We're currently seeing strong demand from companies looking for increasingly sustainable solutions, allowing them to guarantee the closing of the loop and guaranteeing a circular economy, which means that global waste means offering integrated solutions.

It means that we go into our customers' plants, we place our containers there, and we teach them how to sort their waste, and we guide them towards a circular economy. Consequently, we are then able to give value to the things that they are capable of, thanks to our huge asset base and thanks to the partnerships and agreements we have with international players.

We see HERA and HERA Ambiente, specifically our waste company, they see us as sound and reliable interlocutors, capable of treating with any kind of solid and liquid waste. The industrial market, as you know, is very fragmented. We have a very strong position with 1.5 million tons in industrial waste alone, which allows us to manage over 4,000 customers and over the business plan period we expect to grow even more.

And over the next few years, we are determined to double the number of customers we serve. That's a very challenging target, of course, but honestly, I think that over the years we have been able to equip ourselves with the right skills so that we can continue to offer sustainable solutions to our customers without waiting for the waste to come to our gates.

In fact, it is our intention to go out and fetch that waste with our equipment, with our technology, so we can become increasingly circular. That's something our customers are very pleased with. Whenever we go into their plans, they don't ever let us go, which is proof of the excellent work that we are capable of offering in the waste business.

Q - Davide Candela {BIO 21058067 <GO>}

Thank you. Thank you very much indeed. Just a very brief follow-up question, if I may, on energy. What are the volumes of gas you in terms of gas you expect to sell throughout the business plan period? What is your feeling as far as the evolution of consumption is concerned?

A - Orazio Iacono {BIO 22805001 <GO>}

Thank you for the question, because it gives me the opportunity to go back to a point I didn't mention earlier. It's a reminder, in fact. We made an estimate linked to a constant reduction in consumption on the customer side. This plan already embeds a reduction in yearly consumption, which is in line with the trends we're seeing linked to energy efficiency and linked to decarbonization targets.

We ourselves focus on energy efficiency. We'll be seeing that when we give you the year-end presentation we just don't want to give everything away today. We want to leave something interesting for that presentation. But just so, we've been working on energy efficiency thanks to the 110% bonus. That bonus, something we all remember very well, and that was a way of making condominiums more efficient, because you need to be able to improve the building's energy class by two levels to have access to that bonus.

And therefore, all condominiums that took advantage of that bonus, and all the condominiums we worked in, we increased efficiency by 35% to 40% in terms of lower consumption. Of course, it doesn't affect our entire customer base, but in the business plan figures, we have already embedded a reduction in gas consumption.

And as we already saw, with the same levels of equipments, besides the increase in electricity consumption, to amplification, we have already embedded an efficiency in power consumption.

And given the price hike last year, many customers already sped up the move from gas to electricity. That's something we are offering ourselves, because to the customer it means saving on the commodity. To us it means losing a slight margin, but that's a margin we can recover. We can more than recover that margin in terms of the value of service we

(Foreign Language)

And it's more than increase in terms of customer retention. Because, of course, if your energy supplier allows you to save money, you as a customer can trust that company and you can become loyal to that supplier. So, what they save, in fact, is something that we are more than capable of offsetting with value-added services and with the value of the customer, because a more loyal customer has a value, a very high value, in fact.

(Foreign Language)

Q - Davide Candela {BIO 21058067 <GO>}

Thank you very much. That was very clear.

(Foreign Language)

Operator

The fourth question is by Francesco Sala, Banca Akros. Over to you.

(Foreign Language)

Q - Francesco Sala {BIO 20247816 <GO>}

Good afternoon. Thank you for the presentation and congratulations for the 2023 results and for the growth of the business. And for the growth of the business plan. I have two questions on waste. How do you see the recycled plastic market in terms of demand and prices?

Secondly, are you seeing any different approaches on the regulator's side, especially on the EU side, as far as this market is concerned, especially when it comes to chemical recycling? Thank you.

A - Orazio Iacono {BIO 22805001 <GO>}

Thank you for the two questions. As I was mentioning earlier, as far as recycled plastic is concerned, we are the European leaders in the mechanical recycling of high-quality plastics. I did mention this earlier.

With our eight different plants in Italy, France Italy, France, Spain and Poland, what we noticed recently is that the events happening in the Middle East, the problems in the Red Sea and in the Suez Canal has led to a hike in prices because of course we're getting less plastic from Asia and from that part of the world.

If it does get to us, it reaches us with a significant delay and therefore we've seen an increase in 15%. Just last week we saw that there has been a 15% increase in prices, which is positive for us. So, that's a positive for us. So, that's a positive for us. Those who, like ourselves, sell recycled plastic. So that covers your first question. As far as the regulations are concerned, the European regulations specifically, well, we haven't noticed any negative effects.

In fact, that regulation was approved by the Parliament. There are some positive effects linked to the increase of recycled plastic in the packaging and automotive sectors. So as far as we're concerned, I think there are more pros and cons. I think that the draft regulation on packaging that we had read has plenty of pros as far as we're concerned and I think that the net effect should be positive for our market. Some amendments were made to that draft, although they didn't change very much as far as the things that we are most interested in.

In fact, they made things even more positive for us. So, it's neutral if not positive for us, given the increased amount of recycled plastic. of recycled plastic in packaging and in the automotive sector, then of course that can only increase the demand of recycled plastic, and that's positive for those who, like ourselves, sell that material. Thank you.

Operator

The next question is by Federico Pezzetti, Intermonte.

Q - Federico Pezzetti {BIO 15994651 <GO>}

Good afternoon, I hope you can hear me. Two or three brief things which come to mind. The first is a question on waste. As far as ACR Vigiani is concerned, can you give us a flavor of what their contribution to 2023 is? 20 million, I think, the business is going well. What was their contribution in 2023? Numbers that are already in the pocket. The second thing we have a EUR100 million EBITDA stemming from M&A, 50 from waste, water should be zero, the rest refers to gas and electricity, can you give us a split?

The third question, given the scenario regarding energy prices, we can all make our own assumptions, but traditionally you are never very much exposed to the

movements in electricity price. But what is your sensitivity regarding a plus or minus euros per megawatt hour on EBITDA?

One final thing, as far as the energy business is concerned can you give us an outlook for 2024? Can you tell us what you're seeing as being the main drivers, what the pros and cons are for 2024? Thank you.

A - Orazio Iacono {BIO 22805001 <GO>}

Let me start. As far as ACO Reggiani is concerned, it was a great transaction. We're very pleased. And as we've always said, thanks to that transaction, we've been able to fit the last piece of the puzzle in our integrated services offer, site remediation, commissioning.

And thanks to this acquisition, we exceeded our expectations, in fact, as far as 2023 is concerned, we were above the EUR20 million that we were targeting and in fact, we're close to EUR24 million, just to give you a flavor of the ACR di Reggiani transaction is concerned. The M&A operation also refers to the waste sector. We have some very hot topics that we'll be covering very soon.

Back to Cristian.

(Foreign Language)

A - Cristian Fabbri {BIO 20821433 <GO>}

Well, it's difficult to make a split between gas and energy as far as M&A is concerned because that's a service that we offer. It's integrated. So, it's not like we'll be buying gas or energy, what we typically make the acquisition of is companies with a customer base or companies that allow us to cover more of the market, even vertically.

Well, we began with services, allowing us to start the business up, and then with the growth in size we've had, we feel it is more effective and profitable to have an integrated value chain, allowing us to offer plenty of services. So, those are the directions we'll be headed in, and then, of course, as far as M&A is concerned, we'll be looking at the opportunities on the market. As far as the energy scenario is concerned, well, we that we aren't energy producers.

So, as far as we're concerned, the higher the scenario, the better the impact is. So, we'll have a marginal effect on the working capital. So, for the business and as far as margins are concerned, as we saw last year with the huge increase in prices, we don't have a major impact on margins.

Keep in mind that the electricity production of waste is concerned, that's covered by our internal consumption, basically. So, when it comes to hedging, we have a natural form of hedging. so, as the CEO was saying earlier, we hedge things in advance, so to us the price scenario has a low impact in terms of margins and working capital,

especially when you compare today's gas price, which is below EUR30, with a EUR45 for 2024. If the price were to go up to 350 again, of course, there may be an impact on cash rather than on the economic side of things, but hopefully that extreme scenario is something we won't be seeing for quite some time.

So I don't see it as a topic for 2024, and then as far as the guidelines for 2024 or concerned, we'll be looking at that during the interim reports. We don't offer any guidance for 2024, so we'll be seeing things over time during the year. We'll be seeing the results little by little in the various business areas.

(Foreign Language)

Q - Federico Pezzetti {BIO 15994651 <GO>}

Thank you very much. Just one final question, if I may, regarding the various PNRR contributions. There was EUR500 million last year, EUR400 million this year, but I think it's excluded from the EUR4.4 billion. How much of that is regulated? How much of that isn't? Do you have any details on one or two of the main projects? Anything you may want to share with us?

A - Orazio Iacono {BIO 22805001 <GO>}

Well, two-thirds regulated and one-third is on liberalized business areas, and it's a matter of understanding where district heating would fit in there, somewhere in the middle. District heating and waste, as I mentioned earlier, we do have some projects which are partly funded by PNRR funds, that's the National Recovery and Resilience Plan.

We didn't include those funds in the CapEx because it isn't anything we're cashing out, it's offset by a public contribution, we wouldn't want to create any possible confusion regarding the size of the cash flows, although we did mention that because it is a benefit, part of our investment is funded publicly so there is an element of profitability there, and it is included in the business plan figures.

(Foreign Language)

Q - Federico Pezzetti {BIO 15994651 <GO>}

Thank you, thank you very much.

(Foreign Language)

Operator

The next question is by Roberto Letizia Equita SIM.

(Foreign Language)

Q - Roberto Letizia {BIO 22503967 <GO>}

Good afternoon, thank you very much for the presentation. I too have some questions. The first is on the 2023 target and the business plan target too, there aren't any non-recurring effects. The negative effects we had one year, the positive effect two years ago. that affect the following year, is that target doesn't include any non-recurring effects. And as far as the majority of the customers are concerned, what are the short-term effects you're envisaging? Because, of course, the acquisition of these customers will have a negative impact on 2024-2025, which is just the acquired cost transition on EBITDA.

Are there any effects that we would have to take into account for 2024-2025 or for that 33-month period for the temporary offer? You mentioned refinancing, the 1.5 billion refinancing which will be taking place at the end of the business plan years. What are your assumptions in terms of the cost of debt, to understand your view on the evolution of interest rates and the cost of refinancing.

And finally, from a qualitative standpoint, just as a way of understanding the loss of customers in Maggior Tutela, you're mentioning that one-third of the Maggior Tutela customers will be lost. Is that because part of those customers aren't profitable for you?

It is true that there is a higher return rate in these structural changes we're seeing, but maybe there is a part of that customer base that you are less interested in. There may be some customers that aren't as attractive. It's a little centigrade. was integrated in Hera's overall offer.

A - Orazio Iacono {BIO 22805001 <GO>}

Well, thank you for your question. And the first one can help us further clarify things. We have some very homogeneous assessments. We don't have that over-performance that you can see in Slide 1, the notes. I know we went through these slides very quickly. This doesn't see the benefit of the accounting benefits that we had that was negative last year.

So in commenting the notes, as of 2023, we had recovered those negative effects which we were able to sterilize, and hopefully we won't be having that anymore. Because hopefully the market will be more stable. So we're looking at homogeneous figures. We haven't changed the figures. We don't have a different approach.

So the forecast 2022 to 2023 is homogeneous with the one to 2023 for the business plan. As far as the cost of debt is concerned, we included it in the annexes. Our hypothesis is an average cost of 3.5. Implicitly, if you were to do the math, the new debt would stand at 4.5% it would stand at 4.5% roughly, which is consistent with the forward on the current debt plus a basis point spread, which would be consistent with our usual sourcing policy for debt.

Let me give you an interpretation on this. We have the figures that we showed you in the press release that we're looking at the EUR2.5 billion in investments, which according to European taxonomy are eligible, and therefore that gives us a possibility of choosing green forms of funding whenever we will have to manage these emissions, which again, stand at the tail end of the business plan.

As far as customers are concerned -- well, thank you for that question. Thank you for that question because we didn't mention it earlier. The fact that we have customers, the fact that we are able to see how these customers behave is an advantage because, of course, we can focus on the customers we're most interested in. Very simply, beginning with how they pay their bills. Because, of course, the unpaid ratio is very good for us.

The majority of customers are good customers. Then we have a minority who aren't interesting. So we can choose the customers that we are most interested in. We can also check how our customers pay whenever we make any acquisitions on the market of course, the whole value chain is complex, so the data we have may not be more, may not be effective, and therefore we can be selective. It's important for us to be able to choose, also to understand their consumption levels for other services, and we can focus on increasing their value by adding gas, for instance.

We have 2.3 million customers in electricity and 2 million customers in gas, and if you consider that in the North of Italy we have more electricity customers than gas customers, I think the difference is 15% to 20%, that means that we have both services for most customers, so it simplifies things. That isn't altogether true because we still have plenty of opportunities to cross-sell since we have a very large customer base, most of the upselling and cross-selling activities we do happen with our CRM, with our inbound customers and therefore we have some artificial intelligence tools that help us understand what offers to make to our customers based on their past behavior, based on their current situation.

We can do this for every single customer. We have plenty of solutions and we are able to understand what our customers' preferences are and that helps us to be more efficient. We optimize our time and we can be more effective commercially, so being able to choose customers and being able to offer the best things to each customer is something we also want to apply to the majority of our customers but it's something we offer to our already existing customer base. I think that covers all of your questions. Yes, thank you very much indeed.

Operator

We have a follow-up question by Javier Suarez, Mediobanca.

Q - Javier Suarez {BIO 1700016 <GO>}

Yes, I have a follow-up to Roberto's question on the cash flow statement on Page 13. What is the rationale behind these EUR400 million in cash absorption linked to general provisions? Can you explain how you built that number, and if cash absorption should be more visible in the first half of your business plan period?

(Foreign Language)

A - Orazio Iacono {BIO 22805001 <GO>}

Well, this is where we have included a few effects. We have the postmortem period for landfills. We have some amortization, or third activity. So it is the combined effect of a number of different effects, and maybe Jens and Luca can give you some further details as to what these effects are.

(Foreign Language)

Q - Javier Suarez {BIO 1700016 <GO>}

Perfect, thank you very much.

(Foreign Language)

Operator

We have a follow-up question by Roberto Letizia, Equita SIM.

Q - Roberto Letizia {BIO 22503967 <GO>}

This apologizes. I wanted to ask earlier, but I was a little too late. Also, as far as the price scenario is concerned, let's look at things from a positive slant. It isn't so much the size of the variation in the price scenario, but rather the speed with which that change happens. It is true that the price went up to EUR300, but the impact on a retail company isn't because of that price hike, but it's because it happened over a six-month period.

That's when companies can't react commercially. They can't recover margins. In this case, it's the exact opposite. We're already seeing price differences worth EUR30 per megawatt of electricity compared to your business plan assumptions in a very short period of time. Would this not be favorable for a retailer? This happens over a 12 to 18-month period. What is transferred to the end customer is less than what a retail company is able to obtain on the supply side, on the procurement side rather.

So, would a swift decrease in prices not have an impact, a positive impact on you?

Because it would have a positive impact on customers, but the sourcing price for you would be reduced significantly. So how do you see things?

A - Orazio Iacono {BIO 22805001 <GO>}

Well, it depends on the commercial policies that companies implement. Obviously, we want to be able to seize any opportunities on the market for our customers, and we also want to always consider what the market conditions are at a given moment in time. We were talking about waste earlier. Narazzi was mentioning the waste that we can dispose of on our platforms or that we can dispose of elsewhere.

That depends on the conditions, which may vary every month. It depends on the market, the type of waste, the prices, the discounts that you can obtain on assets which aren't running at full capacity throughout Europe. So it depends on the market.

At the moment in time, of course, lower prices are positive for everybody. Of course, it depends on the size of this decline, because if this decline is steep in a short amount of time, of course, this may have an impact on churn for those who sold at fixed prices.

Currently, we are very light on fixed prices, so any market variation is then transferred directly to customers. Therefore, even these dips don't have any negative implications, because with a fixed price, if the price lowers, you can rediscuss the contract for new customers, but if the price lowers in the market, you can find offers that may be lower to the fixed price that you buy the commodity at, this can be an opportunity from some points of view for those who have plenty of fixed price, but it can also be a cost. We try to strike the right balance, we try to work ahead of time, and then whenever we can increase the margin, we always take advantage of it. We always want to be respectful of our customers.

Let me just say that in 2022, in fact, when we had a significant growth in prices, we did not scrap a single fixed price contract before its natural expiry. The Antitrust Authority investigated us too, and their investigations led to nothing because we did everything in full compliance with the rules, because we think that the reliability of a supplier is essential when it comes to establishing a positive relation with customers, and therefore whenever we commit, we stand by our commitment, that's essential. And that is one of the reasons why our average return rate is very positive.

We always want to be reliable and transparent, and in a complicated world we want to be as transparent and as reliable as possible. Of course it was challenging for us. Many other companies let go of customers who had a fixed rate contract.

Others scrapped the contracts before their initial expiration, because the sanctions were lower compared to the benefits. The benefits they obtained. Even for us, it would have been more profitable to stop those contracts and pay the sanction. But we decided to keep our promise to be reliable towards our customers.

The agreement we have with our customers is based on respect and trust, and that is a value for us. Of course, whenever you can sell an offer with a higher margin, well, that's something we always take advantage of. But as far as the customers we have are concerned, we don't touch the offers and the commitments we made with them.

Of course, sometimes customers have a fixed price, and we give them a variable price by increasing the length of the contract. It's a win-win situation and it's consistent with our expectations. But it's always based on the attention we place to our customers.

(Foreign Language)

Operator

Mr.Fabbri, there are no further questions.

(Foreign Language)

A - Cristian Fabbri {BIO 20821433 <GO>}

Very well then, since there are no further questions, let me thank you for your kind attention. We've been here for more than two hours. I do hope the business plan is interesting for you. It was very challenging for us. We worked hard to draft it. We are confident in the numbers of the business plan.

We are confident that this is a solid business plan underpinned by specific actions and solutions. Again, we think it's very solid, we'll leave the assessment to you and I'm sure we'll be meeting many of you during our roadshow which begins tomorrow morning and hopefully we'll be meeting the rest of you with the presentation of our year-end results. Thank you very much indeed. All the best.

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