



press release

Bologna, 10 January 2019

Hera Group approves Business Plan to 2022

Based on solid forecast for 2018, which significantly exceeded the goal of one billion in Ebitda, this new strategic plan confirms the path of uninterrupted growth achieved by the Group since 2002. The focus on investments and innovation will guarantee a place at the forefront of its evolving services, further improving resilience and rising to the challenges of the sector. Efficiency and increased attention towards investment allocation, including a higher level of sustainability, will favour internal growth, with financial solidity fuelling external growth.

Operating and financial highlights

- **2022 Ebitda: 1,185 million euro (+200 million over 2017 Ebitda)**
- **Overall industrial and financial investments: over 3.1 billion euro (+9% over the investments foreseen by the previous Business Plan)**
- **Net debt/Ebitda ratio to remain below 3**
- **Further increases expected in dividends, reaching 11 cents per share in 2022 (+16% over the last dividend paid)**

Business highlights

- **Business strategy once again based on 5 priorities: growth, efficiency, excellence, innovation and agility, all reworked and enhanced to meet the challenges involved in Ecosystems, Circularity and Technology**
- **Development driven by a balanced mix of internal and external (M&A) growth**
- **Confirmation of tenders currently awarded for gas distribution and urban waste management**
- **Goal of reaching over 3 million energy customers by 2022, thanks to leadership in last resort services, the end of the protected market and actions taken towards commercial growth**
- **Shared Value coming to over 470 million euro**

Preliminary consolidated 2018 Ebitda at roughly 1,020 million and a plan geared towards growth

This morning the Hera Group's Board of Directors, which met to discuss the Business Plan to 2022, also examined the forecast of consolidated results for 2018, with year-end Ebitda reaching 1.02 billion euro, up 3.6% over the 984.6 million seen at 31 December 2017 and higher than expected by the previous business plan. The net debt/Ebitda ratio settled at roughly 2.54x, in line with the previous year.

On the solid basis of this achievement and the results previously reached, which reflect an uninterrupted path of growth lasting 16 years, the Board approved the new Plan to 2022, which shows a strong commitment towards the Group's further development in the industry, in spite of an increasingly complex scenario.

A deeply changing scenario

The macro-economic scenario now appears to be less favourable than in the past (with interest rates rising and an economic outlook less positive than during the previous year), and yet this should not significantly influence the Group's prospects, thanks to the breakdown of its service portfolio, the changes introduced in its business models in recent years and its large degree of regulated activities. The upcoming years will witness many important events, perhaps most decisively the process, already underway, involving tenders in gas distribution, which is expected to lead to a significant rationalisation in the number of operators. In the waste collection sector as well, the five years covered by the Plan are expected to see the beginning of tenders for service concessions that have already expired or will do so in the near future. Regulatory changes for customer segments in protected services are also foreseen, intended to promote an additional

increase in the added value of services offered and higher competition on the marketplace. Mention must also go to continued progress towards consolidation in multi-utility sectors, energy sales and waste treatment services, which are still among the most fragmentary in Europe.

Investments amounting to over 3.1 billion euro, financial solidity confirmed

In light of the opportunities offered by the scenario, the new Plan to 2022 foresees investments coming to over 3.1 billion euro, up roughly 260 million over the previous strategic document. Three quarters of these investments will be concentrated in regulated activities: approximately 70% will continue to be dedicated to the network system and roughly 6% to urban waste collection. Significant interventions in infrastructure modernisation and development will be deployed, confirming the Group's commitment to investing in its reference areas and thus offering increasingly innovative, resilient and high-quality services. Investments intended for tenders for gas distribution have thus been confirmed, in order to maintain the major tenders currently managed. Overall, considering the expansion in plants, gas tenders and M&As, roughly 1.1 billion in investments will be dedicated to supporting development in these activities over the next five years.

This investment plan is financially sustainable thanks to an increasing cash generation, able to cover investments and pay dividends. The ratio between net financial debt and Ebitda is expected to settle at 2.9 by 2022, in line with the figure seen in the previous plan. Without including the effect of tenders, financial balance will remain similar to the present, guaranteeing sufficient leeway to be able to grasp any possible opportunities for growth not included in the Plan, without harming the Group's financial solidity.

A strategy aimed at grasping opportunities, with a focus on Shared Value as an additional source of competitive advantages

The Group's strategy is focused on Ecosystems, Circularity and Technology, achieved by activating its time-tested principles of efficiency, excellence, growth, innovation and agility, in addition to creating coherent projects that guarantee the full implementation of the Business Plan.

Always giving close attention to issues regarding sustainability, the Group has recently defined some lines of development intended to pursue the goals on the UN Agenda which apply to the activities carried out by this multi-utility (covering at least 10 of the 17 goals indicated). Almost 3/4 of the growth expected over the five years covered by the Plan will thus be sustained by projects introduced in order to respond to this "call to action", thus bringing the amount of shared value Ebitda to exceed 470 million euro by 2022 (corresponding to 40% of overall Ebitda).

Ebitda targets growing, balanced among the various business areas, between regulated and free market activities and between internal and external growth

Matching the investments implemented over the next five years, 2022 Ebitda is expected to reach 1,185 million euro, with an over 200 million increase compared to the 984.6 million recorded in 2017 and with an average annual increase of roughly 40 million over the period of time covered by the Plan. All areas of activity (networks, waste management, energy and other services such as telecommunications and public lighting) will contribute to this growth, with the Group's usual balance between income from regulated and free market activities, as well as between internal and external growth.

Thanks to higher levels of efficiency and ever more substantial investments, the overall contribution to the increase in Ebitda coming from internal growth is expected to reach 120 million over the period of time covered by the Plan (130 million, taking into account 10 million due to lower incentives), while an 80 million increase in Ebitda is expected from external growth. These goals are in line with the five-year growth of the previous Plan and that benefit from the already consolidated outperformance linked to the trends seen in 2018 and the outcome of tenders for last resort markets, in which Hera has become the leader in all segments.

Value for shareholders to increase, with a bold dividend policy

The Plan confirms the Group's attention towards the creation of value and transparency in dividend policies, which have become more challenging than in the past and compared to the content of the previous Business Plan. The dividend established, which had already risen to 9.5 cents per share in 2017, will indeed reach 10 cents per share in 2018 and 2019, 10.5 in 2020 and 2021 and 11 in 2022 (+16% over the most recent dividend payment), with a 0.5 cent increase every 2 years.

Networks: efficiency and resilience intended to tackle climate change; innovation and excellence to become a leading figure in a smart economy

Most of the growth foreseen by the Plan is expected to come from the networks area: Ebitda related to electricity and gas distribution, the water cycle and district heating will increase from the 424 million euro seen in 2017 to 581 million in 2022, thus making up roughly half of the Group's overall Ebitda.

Many initiatives have been introduced to make networks increasingly "smart", boosting their efficiency, circularity and resilience as well as contributing to their ability to meet the growing challenges coming from climate change and the environment. These projects include a large-scale installation of "smart" meters, understood as factors able to promote the evolution towards smart cities. One example lies in the new and evolved functions shown by the last-generation gas meters developed by the Group in a partnership with Panasonic, which will allow the service to be constantly monitored and increase safety in case of leaks, earthquakes or network disruptions.

In electricity distribution, network upgrading is expected to benefit the continuity of this service, by constructing new primary transformer rooms and carrying out targeted interventions on secondary transformer rooms, also involving network automation and digitalisation to support on-field interventions by personnel. District heating will play a significant role in decarbonising the area, since over 70% of the heat produced over the duration of the Plan will be generated from renewable and comparable sources. As regards the gas area, an opportunity for expansion lies in the tenders to be awarded for grants in gas services; after countless postponements, this should take place within 2022, beginning as of the current year, in all geographical areas in which the contracting authorities have already defined the networks' VIR (residual industrial value). In this sector, the Hera Group aims at growth mainly by confirming the areas already served, thanks to investments amounting to roughly 470 million. In the water area, lastly, the focus will go to protecting this resource, by upgrading the search for leakage and developing the districtalization of the network, also including innovative projects in water management to promote, both inside and outside the company, increasing sustainability and awareness regarding the use of water. Special attention will go to the reuse of purified water, already implemented with excellent results in the Bologna area and currently being extended to other zones.

Consolidating leadership in the waste management sector, by enhancing resource protection and maximising reuse

Ebitda in the waste management area is expected to grow from the 246 million euro seen in 2017 to almost 300 million in 2022.

The goal set for this area is to be confirmed at the forefront as an operator in the integrated waste cycle, offering concrete solutions for businesses and citizens. Protecting environmental resources will remain a top goal, as will maximising their reuse. Special attention will continue to go to promoting sorted waste, expected to rise from 57.7% in 2017 to over 73% in 2022 and to see qualitative improvement as well, through specific communication campaigns and initiatives designed to get citizens involved. Unit pricing should provide citizens with an incentive to improve the quality of their sorted waste as well, as has been demonstrated by the excellent results, exceeding expectations, reached in a few municipalities where it has already been introduced (attaining over 85% of SW in a local capital such as Ferrara and peaks of close to or over 90% in some municipalities in the Modena area).

In waste treatment and recovery, the Herambiente Group will be able to consolidate its national leadership by offering complete and integrated commercial packages. The latter consist in solutions for large industrial clients, including waste and energy services as well as purification and through an avant-garde group of plants able to offer solutions supporting a circular economy. These range from the biomethane production plant recently opened in the Bologna area, to reinforcing Aliplast's outstanding capabilities in plastic recycling, creating new business opportunities, and lastly launching important partnerships, such as the ones with Eni in biofuel and Bio-on in developing new natural and 100% biodegradable plastic materials. Collecting and analysing data coming from on-field infrastructures (bins, vehicles, etc.) and WTE plants will allow all activities to be optimised, automating processes and reducing costs.



Energy: over 3 million customers, thanks to customer experience and new “sustainable” solutions

Ebitda for the energy area will settle at 268 million in 2022, showing a slight growth over the objective set in the previous strategic document. The challenging goal the Group has set for itself is to reach over 3 million customers by the end of the period covered by the Plan, confirming its place among the sector’s leaders with a more substantial and loyal customer base, thanks to positive results in customer experience and new solutions geared towards savings and respect for the environment. In addition to internal growth in the customer base and the hypothesis of additional development along the Adriatic coast, the Group can rely on an excellent result that saw it confirmed, in recent months, as a leading player in last resort services in the energy market. One significant opportunity to reinforce the customer base will come from the end of the protected market (i.e. *maggior tutela*), which according to Hera’s estimates will lead it to gain at least 500,000 customers. Commercial development will depend on offers bringing added value, from those in support of smart homes (smart thermostats, remote sensors, etc.) to combinations of insurance and maintenance products, or again services involving energy efficiency or electric mobility. The country’s objectives in energy efficiency themselves provide an opportunity to develop the Group’s energy services through its specialised companies, able to offer solutions tailored for public administrations, apartment buildings and industrial clients.

The Group will furthermore give increasing attention to customer experience, turning to process and payment digitalisation to meet the needs of customers who are ever more “online”, as well as adopting efficient systems for data management and analysis, to guarantee an excellent service and accelerate the “time to market”. Applying behavioural science, combined with precise interventions (such as reporting consumption in bills), will lastly allow an increasingly efficient use of energy to be promoted.

Tomaso Tommasi di Vignano, Hera Executive Chairman

The growth we have foreseen over the duration of the Plan is entirely visible, considering our track record. Our investment program is significant, increasing by 260 million, and the rise in cash generation will allow the Net debt/Ebitda ratio to be maintained at 2.9x, as had been predicted for the end of the period covered by the previous plan. We have confirmed our strong attention towards creating value for shareholders and a transparent dividend payment policy, year by year. This solidity and visibility is also guaranteed by the prospects offered by the external scenario (M&As, protected services and gas tenders) and taken into account in the Plan, based on a conservative estimate which consists in maintaining current market shares.

Stefano Venier, Hera CEO

In a five-year period that will see a remarkable expansion in our plant facilities, a new phase is taking shape, with important events on the horizon in almost all our businesses. The Plan’s premise lies in affirming our leadership in services for our reference area and continuing in technological evolution, in order to persist in increasing regeneration in management models for activities and their resilience. Our risk/return tradeoff will improve thanks to a significant development in regulated activities, complemented by trends in free market activities. The Business Plan has been built around globally relevant issues, since we are perfectly aware of our role in enabling circular smart cities, but also the need to adequately respond to the new needs of our customers and the local ecosystem, brought about by digital evolution and environmental challenges.

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