

press release
Bologna, 10 January 2018

Hera Group approves Business plan to 2021

Based on the forecast for year 2017, EBITDA amount reached roughly 980 million, the Group's path of growth will continue to focus on investments, innovation and agility, in order to seize the emerging opportunities in the utility sector. Internal growth will be favoured by efficiencies and by innovative and sustainable solutions, while the Group's financial soundness will allow external growth to proceed.

Operating-financial highlights

- **2021 EBITDA: € 1,135 million (+218 million over 2016 EBITDA)**
- **Overall industrial and financial investments: almost € 2.9 billion (+62% over the investments seen in the past five years)**
- **Net debt/EBITDA ratio remains below 3**
- **Profits/share to increase by an annual average of roughly 5% over the duration of the Plan**
- **Dividends expected to keep rising, reaching 10.5 cents per share as early as 2020 (+17% over the last dividend paid)**

Industrial highlights

- **The 5 strategic priorities confirmed: growth, efficiency and excellence, with an increasing focus on innovation and agility**
- **Group development based on a balanced mix of internal and external (M&A) growth**
- **Reconfirmation of current grants in tenders for gas distribution and urban waste collection, and confirmation of the trends of growth in the waste recycling and treatment sector, in line with the principles of a Circular Economy**
- **Strategy reflects the main transitions currently underway in the sector: Circular Economy, Customer Experience, Utility 4.0**
- **Objective of over 3 million energy customers at 2021, with 30,000 new gas and electricity customers acquired as of the current year and a reinforcement of commercial synergies, thanks to the recent acquisition of a further 29.5% of Hera Comm Marche**
- **Shared value to reach over € 450 million**

Preliminary consolidated results for 2017 show roughly 980 million in EBITDA, and a plan geared towards growth

This morning, the Hera Group's Board of Directors, which met to discuss the Business plan to 2021, also examined the preliminary consolidated results for 2017, which confirm a year-end EBITDA of roughly € 980 million, up almost 7% over the 917 million seen at 31 December 2016 and exceeding the forecast of the previous business plan. The Group's financial solidity will thus see an improvement in the net debt/EBITDA ratio, at approximately 2.6x.

On the firm basis provided by this result and by an increased financial flexibility, the Board of Directors approved the new Plan to 2021, which reflects a strong commitment to further growth in the Group's businesses, within a scenario marked by far-reaching changes.

A deeply evolving scenario

The scenario promises to be denser than ever in events that will bring about a profound evolution in almost all sectors in which the Group is active. In a framework showing clear and positive signals of economic recovery, Italian operators will be called to participate in the process, already underway thanks to the tenders for gas distribution announced by the Authority, of a significant rationalisation in the number of operators. In the waste collection sector, considering the recent transfer of power to the national Authority for energy, gas and the water service (renamed ARERA), service concession tenders which have already

expired or will do so during the next five years are expected to be initiated. Other regulatory changes are also expected for segments involving protected energy service customers, intended to promote a further increase in added value for the services offered and greater competition on the marketplace. To this one must add the ongoing processes of consolidation in the energy sales and waste treatment sectors, which are currently among the most fragmentary in Europe and are, in the environmental services sector, at the root of the country's shortcomings in efficiency and infrastructures.

The investment plan and the solidity of the Group's assets

Faced with the numerous and diversified opportunities offered by the new scenario, the Plan to 2021 foresees investments amounting to almost € 2.9 billion, up roughly 400 million over the previous strategic plan. On the one hand, they will serve to fuel growth over the upcoming five years, and on the other to spark a transformation of Group businesses towards the new industrial paradigms of Circular Economy and Utility 4.0.

Over 70% of the investments expected by the Plan will in fact be dedicated to networks, partially going towards a reconfirmation of the concessions for gas distribution in the areas served, and partially to significant interventions in infrastructure modernisation and development, such as installing electronic meters, completing the Rimini seawater protection plan and upgrading the Servola and Cà Nordio purifiers. Furthermore, investments in innovative projects, such as extending smart grids to aqueducts or introducing new technologies for optimising purification sludge recovery, will allow an increase in network efficiency and a reduction in energy and material consumption.

This investment plan proves to be sustainable from a financial point of view, thanks to a positive and rising cash generation, sufficient to cover the investments themselves and dividend payments. The Group's financial solidity, as foreseen by the Plan, expressed in a 2021 net debt/EBITDA ratio of 2.9, will potentially leave room for additional investments, used to grasp opportunities not currently included in the Plan, without jeopardising the parameters that the Group has long maintained as a reference point.

Strategy confirmed for seizing the opportunities offered by the scenario and creating shared value

The actions envisaged by the Group will be founded on its fundamental principles, efficiency, excellence, growth, innovation and agility; this set of strategic priorities has led the Group to set in place, ahead of time, the necessary preconditions to adequately deal with the changing scenario that lies ahead.

The strategy outlined in the Plan is concretely articulated according to the paradigms of a Circular Economy and the opportunities offered by Utility 4.0, through a growing digitalisation of processes, data collection and analysis and the widespread use of "intelligent" infrastructures. The Group, which has always been attentive to the issue of sustainability, in 2016 furthermore began financial reporting as to Shared Value, i.e. the portion of profits generated by projects that benefit the company and at the same time contribute to reaching the UN's 2030 Agenda (covering at least 10 of the 17 objectives indicated). In 2016 this portion accounted for roughly 30% of Group EBITDA and it is expected to rise to 40% or € 450 million overall (amounting to a 150 million increase) within 2021.

Increasing EBITDA objectives, balanced between the various business areas, between regulated and free market activities, and between internal and external growth

In view of the investment plan to be launched covering the upcoming five years, EBITDA is expected to reach € 1,135 million in 2021, with an almost 220 million increase over the 917 million recorded at the end of 2016. This growth will prove once again to be balanced between the Group's various business areas, while maintaining its current conservative risk profile thanks to the breakdown of its activity portfolio and the wider range of opportunities for growth offered by the reference scenario. A contribution to the increase in EBITDA over the duration of the Plan will indeed come from all areas (Networks, Waste and Energy), and will also be balanced between profits coming from regulated and free market activities and between internal and external growth.

As regards internal growth, a high degree of attention towards extracting efficiencies has been confirmed, as has the continuation of plans to expand in markets, with an overall contribution at 2021 of € 138 million (up 17% over the 118 million of the previous five-year plan), sustained by progress in innovation in addition to the support coming from development investments.

Further impetus towards growth will come from the lever of gas tenders, with an incremental EBITDA expected to reach 29 million through a reconfirmation of concessions in the current reference areas. For tenders involving waste collection the Plan is based on the idea of reconfirming services in the areas now served, while waiting for the future arrangements set out by the national Authority, ARERA.

Concerning external development (M&A), the Plan expects a 107 million euro contribution to growth in EBITDA over the five years in question. This contribution is in line with what the Hera Group has achieved in the past, ever since it was established, through both mergers with other multi-utilities and acquisitions of mono-business companies operating in the energy sales and waste treatment sectors. The latter have been included in the Plan only as regards the operation concerning the Aliplast Group, carried out in 2017 (through the subsidiary company Herambiente, Hera now holds 80% of this Group, with the possibility of acquiring the remaining 20% within 2022), while additional opportunities offered by liberalised markets have been left “on top” of the objectives contained in the Plan.

Increasing value for shareholders and an improved dividend policy

The Plan confirms the Group’s care towards creating value for shareholders, with profits per share increasing by an annual average of approximately 5% and an improved dividend policy with respect to both the past and the forecast of the previous Business plan. The dividend will indeed rise to 9.5 cents/share as of the payment pertaining to 2017 (to be made during the current financial year) and settle at 10.0 cents in 2018 and 2019, reaching 10.5 cents for 2020 and 2021 (+17% compared to the last dividend paid).

Networks: smart infrastructures and excellence in services at the root of the Utility 4.0 model

The majority of the growth over the duration of the Plan is expected to come from the networks area: EBITDA traceable to electricity and gas distribution, the water cycle and remote heating services will go from € 424 million in 2016 to 552 million in 2021, thus contributing to roughly half of the Group’s overall EBITDA.

A strong impulse will come from the over 2 billion in investments dedicated to the evolution and modernisation of networks, by adopting innovative technologies able to guarantee an excellent customer service (efficiency, safety, information exchange) and improve management competitiveness, with the aim of reconfirming the concessions already gained in the Group’s reference areas. Efficiencies remain a strategic priority, and will contribute to growth over the five-year period with 24 million overall, to which one must add 15 million coming from the innovations introduced in networks (from energy efficiency projects applied to the most energy consuming activities, to automation systems in networks).

Consolidating the Group’s role as a reference point in the waste sector

The waste sector EBITDA is expected to grow from the € 231 million seen in 2016 to 282 million in 2021.

This growth will be sustained by the current positive trends in demand, and by approximately € 600 million in investments over the duration of the Plan. The latter will be dedicated to fuelling innovation in environmental services and maintaining an appropriate capacity of waste treatment in the reference area, without neglecting trustworthiness and sustainability. One concrete example of the application of the best technologies currently available is the creation in the Bologna area of the first biomethane production plant, which will become functional within 2018 and allow the circle to be “come home”: from collecting the organic part of sorted waste and agricultural trimmings to introducing the methane produced into the network, achieving a particularly sustainable cycle and clear benefits for air quality. Particular attention will continue to go to developing sorted waste, expected to grow from 56% in 2016 to 70% in 2021, including improvement from a qualitative point of view as well, in order to gain the most value from the portions collected and increasingly reduce both environmental impact and tariffs for citizens. Efficiencies remain a cornerstone for the expected results, which will also be sustained by the innovations foreseen (the latter will contribute roughly 8 million to overall growth in the waste area).

Furthermore, in 2017 the entrance of Aliplast within the Group’s scope of operations has allowed Hera, already a leader in the sector, to introduce a new phase and be among the nation’s precursors in developing a model of a circular economy. In the future as well, attention will go to solutions able to further increase the circularity of the Group’s activities. The avant-garde position it has reached in treatment, reuse, recycling and energy valorisation thus becomes a heritage made available to industrial customers. The latter already see the Hera Group as a point of reference and a trustworthy partner, able to provide

them with support in the evolution of their production processes, in line with the principles of a circular economy, by offering them an all-round service in waste management.

Energy: over 3 million customers

The energy sector will increase its EBITDA from the € 241 million seen in 2016 to 259 million in 2021. The challenging objective set by the Group is to reach over 3 million energy customers by the end of the Plan, making the most of both internally developing its own customer base, in line with its track record, and the opportunities offered by the market. These involve, for example, extinguishing protected categories in electricity, or the upcoming assignment of last resort services, in which the Hera Group has accumulated a solid experience over the years.

Beginning with the over 2.3 million customers reached in 2017, the enlarged customer base will be able to rely on 30,000 new energy clients in the current year: 13,000 protected electricity customers in the municipality of Gorizia, recently acquired through the subsidiary EnergiaBaseTrieste, with 17,000 further gas and electricity customers soon added in the Marche and Abruzzo regions, thanks to a binding deal signed in the last few days. The strong point of both operations lies in integrating a local presence, in a physical sense, that is typical of smaller businesses, with the potential for innovation in services and offers, and the competitiveness that come from belonging to a Group that is among the main operators in the Italian energy market. This is the light in which Marche Multiservizi's acquisition of 29.5% of the share capital of Hera Comm Marche must also be seen, as brought to completion last December, in line with the consolidated decision to reinforce both the integration between Group companies and synergies across the areas served.

The customer base will be enlarged thanks to the introduction of new offers, increasingly innovative and personalised, that combine energy sales with the supply of services with added value that are closely tied to the commodity itself (for example, tools for increasing energy efficiency in households). Furthermore, the Group will be able to defend its own customer base with increasing attention to customer experience, turning to digitalised processes and adopting efficient data management and analysis systems to guarantee an excellent service and accelerate the "time to market".

Lastly, thanks to the knowhow gained in energy efficiency both within the company and when acting for third parties, the Group will be able to interface with public administrations, condominiums or businesses as reference partners for defining and implementing effective solutions for energy saving, an element which is increasingly crucial in local and national energy strategies.

Tomaso Tommasi di Vignano, Hera Chairman

The reference scenario shows deep changes occurring in all sectors in which the Group is active, and requires us to "change gears" in order to seize the opportunities that we have been preparing to handle for some time now. The challenging objectives contained in the Plan rest on the solid results achieved until present, and that we wish to turn into further growth from all points of view, both in terms of size and regarding improvements in quality, risk profile and sustainability. The targets reached, as is also demonstrated by the 2017 forecast, allow us to look towards an incremental profit projection compared to the previous Plan, and towards growing payments to shareholders, with an additional increase in dividends, following up on the one announced last year.

Stefano Venier, Hera CEO

Already today, the new frontiers of circularity and shared value are a reality for the Group, which it can use as levers for an increasingly avant-garde industrial development, with the goal of meeting our customers' evolving needs and facing the urgent drive towards sustainability set out in the agendas of all countries. Our Plan envisages an intense investment program, amounting to almost 3 billion euros, confirming the Group's financial solidity and leaving further room for additional opportunities.

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