



press release

Bologna, 10 January 2020

Hera Group approves Business Plan to 2023

In light of the positive preliminary results for 2019, showing higher growth than expected in the previous Plan, and the M&A transactions carried out, the Group has presented its new five-year strategic document. This reflects its commitment towards further industrial development, sustained by investments, innovation and an eye to sustainability. Hera has confirmed its role as a “local multi-utility”, capable of creating value for the areas in which it operates and for all stakeholders

Operating and financial highlights

- **2023 Ebitda: 1,250 million euro (+219 million over 2018 Ebitda)**
- **Overall industrial and financial investments: roughly 2.9 billion euro**
- **2023 Net debt/Ebitda ratio at 2.8**
- **Further increase expected in dividends, reaching 12.0 cents per share in 2023 (+20% over the five years)**

Industrial highlights

- **Strategy based on 3 directives: industrial growth, risk management and circular economy**
- **Development driven by a balanced mix between internal and external (M&A) growth**
- **Goal of 3.5 million energy customers by 2023, with strong growth thanks to the recent partnership with Ascopiave, which allowed the target included in the previous Business plan to be met 2 years in advance**
- **2023 Shared Value: 530 million euro**

Preliminary results for 2019 show Ebitda at 1,081 million; a new Plan to accompany development

Today, the Hera Group's Board of Directors, chaired by Tomaso Tommasi di Vignano, approved the Business plan to 2023. The year-end projections confirm results exceeding expectations, due to both the highly positive results seen in the third quarter report at 30 September 2019, and the performances projected for the last quarter of the year. Ebitda is expected to reach roughly 1,081 million euro, up 4.85% compared to the 1,031.1 million seen in 2018, with the Net debt/Ebitda ratio settling at roughly 2.5, before including the financial impact of the Ascopiave transaction, which brings this indicator to roughly 3.05.

In light of these positive results – and following up on 17 years of uninterrupted growth, which has led Hera to consolidate a position of leadership in all businesses – the Group now presents its new five-year strategic document, which reflects its strong commitment towards further industrial growth, along with a renewed emphasis on circularity and risk management and mitigation. The new Business plan confirms and consolidates Hera's role as a “local multi-utility”, which bases its own growth on the creation of increasing value for the ecosystem in which it operates and for all its stakeholders.

The scenario: options for growth, along with a range of opportunities

Even within a complex national economic scenario, marked by limited prospects for growth, Hera intends to continue along its path of development and maintain the resilience it has shown over time in this type of context. This will be achieved by relying on its noteworthy available asset portfolio, the skills of its employees, the diversified portfolio mix and the opportunities now emerging in its various business areas.

The growing attention shown by European institutions towards promoting sustainable growth, with interventions such as the recent “A European Green Deal” program, will give further value to the goals already pursued by

the Group in recent years, in terms of sustainability, innovation and circularity in its business management models.

In regulated sectors, growth opportunities are linked to the reassignment of concessions through tenders and ongoing changes in Arera tariff regulation which, as of 2020, will be responsible for the waste management sector as well. In free market waste management activities, the persistent shortcomings in waste treatment plants on a national and European level sustains a positive trend in prices and demand, going to the advantage of operators provided with adequate infrastructures. As regards free market energy sales, over the period of time covered by the Plan, new yearly/two-year tenders for assigning last resort services are expected to be held and a process of liberalising protected electricity customers “*maggior tutela*” is expected to be gradually introduced.

Growth, risk management and circular economy: the three pillars of the new Business plan

In such context, Hera has defined its Plan to 2023 by elaborating marketing and industrial growth strategies based on an increasingly sustainable business model, making the most of the opportunities offered by new technologies and digital evolution.

The new strategic document aims at leveraging upon the competitive advantages of its multi-utility portfolio: a wide service portfolio marked by a significant amount of regulated services; solidity in assets and finance; an ability to fund significant investments; a corporate environment and experience geared towards efficiency and innovation; and the investments constantly made in training its roughly 9,000 employees.

In particular, the Group has set out its Plan to 2023 by following 3 strategic directives. Firstly, industrial growth, which is indispensable in order to be able to continue distributing value to an increasing degree. Secondly, risk management, with the medium- long-term approach required to anticipate the actions involved in mitigating the risks to which multi-utilities are exposed, first and foremost the ones tied to climate change. Lastly, circular economy, continuing to promote projects and concrete initiatives that are effective in orienting objectives including reduction, reuse, recycling, recovery or regeneration.

Attention towards sustainability remains a fundamental aspect of the Group’s strategy, reflecting the goals set out in the 2030 Agenda that concern the Group’s activities (covering 11 of the UN’s 17 SDGs): almost 3/4 of the growth expected over the period covered by the Plan will be sustained by projects that respond to this “call to action”, thus bringing shared value Ebitda – i.e., the value of business activities which, in addition to generating operating income, respond to the drivers for sustainable growth – to reach 530 million euro in 2023 (or 42% of overall Ebitda).

Almost 2.9 billion euro in investments; solidity confirmed in assets and finance

The new Business plan foresees investments coming to roughly 2.9 billion euro, of which roughly 2 billion will go towards maintenance of currently owned plants and 900 million in plant expansion. In particular, investments for internal plant development are expected to rise, now coming to 540 million, 120 more (+30%) than in the previous plan.

The investments included in the Plan, as usual, will mainly be concentrated in regulated activities, which have now acquired higher visibility thanks to the new tariff system recently approved by the Authority. 73% of the total will go towards networks and urban waste management, with interventions aimed at modernising and developing infrastructures, confirming the Group’s particular attention towards resilience, innovation and quality in the services provided to local areas.

The investment plan, lastly, is entirely covered from a financial point of view, thanks to both the results that exceeded expectations in 2019, and an increased cash generation foreseen over the period covered by the Plan, which will also be able to cover the dividends paid.

On this matter, one must note that the attention Hera has shown over time to the solidity of its assets and its financial balance has allowed it to include projects for expansion through M&As in its new strategic document, in addition to the ones already finalised over the previous year, including the partnership with Ascopiave. At the same time, space to manoeuvre remains, as does the flexibility required to grasp any additional opportunities for external growth in the upcoming years, not included in the current Plan.

The ratio between net debt and Ebitda is expected to settle at 2.8 in 2023, improving over the previous Plan, which forecasted this ratio at 2.9 in 2022.

Ebitda up to 1,250 million, showing a balanced mix: between business areas and localities served, between regulated and free market activities, and between internal and external growth

In line with these investments, the Hera Group expects Ebitda to reach 1,250 million euro in 2023, increasing by 219 million over the 1,031.1 million seen at the end of 2018, with an average annual increase coming to roughly 44 million, and 65 million higher than the final figure projected in the previous plan (in 2022). The trends expected in Ebitda are the result of contributions coming from all areas (networks, waste management and energy, but also telecommunications and public lighting), with evenly distributed and sustainable growth, and the usual balance between internal and external development, and between regulated and free market activities.

Thanks to synergies, efficiency-enhancing initiatives, expansion in market share and investments supporting industrial development, the contribution to increased Ebitda coming from internal growth amounts to 112 million (123 including lower incentives for waste-to-energy activities), while external development is expected to provide an additional 107 million in growth.

Value for shareholders and rising dividends

The new Plan confirms the Group's attention towards creating shared value for all stakeholders, beginning with shareholders, and towards transparency in its dividend policies. The dividend due for 2019, set at 10.0 cents per share, will indeed rise to 10.5 cents per share in 2020, 11.0 in 2021 and 11.5 in 2022, ultimately reaching 12.0 cents per share in 2023 (+20% compared to the last dividend paid in 2018). The rate of growth is thus higher than the one included in the previous Business plan, which called for an increase in dividends every two years.

Innovation, resilience and resource protection for networks: from new meters to interventions for the business continuity and the reuse of water

Almost half of the Ebitda expected by the end of the period covered by the Plan will involve networks, which include services in electricity and gas distribution, the water cycle and district heating: Ebitda forecasted for 2023 comes to 537 million euro, up over the 464 million seen in 2018.

The Hera Group will invest most of its resources from 2019 to 2023 in networks (roughly 1,900 million), dedicated to extending, modernising and technologically upgrading them, to guarantee resilience and business continuity in its services. A significant part of these resources will go towards renewing meters: over the period covered by the Plan, over 500,000 water meters are expected to be installed, along with 150,000 electricity meters and 650,000 gas meters, of which 300,000 NexMeter, Hera's new smart gas meter 4.0, provided with advanced technology and functions in the event of leaks or earthquakes. These interventions will help further improve the services provided to customers and will contribute to making localities we serve become smart cities.

The greater resources available for networks is partially linked to changes in the timing expected for tenders in gas distribution in areas served by the Group. Indeed, based on an updated analysis of the state of progress of activities of contracting authorities, as well as the timing and the outcome of the few tenders already concluded nationwide, a decision was made to postpone the expected tenders by roughly two years, thus shifting beyond 2023 part of the investments that the previous Plan had designated to detecting outgoing third party delivery points following the expected confirmation of the Group in the areas it serves.

In the water cycle, the Group's main projects will be designed to provide a response to climate change, contributing to facing it through a notable reduction of the Group's "water footprint": "water management" responsibilities will be developed and reinforced both inside and outside the Group, interventions will take place supporting the resilience of water networks, even in case of drought or excessive precipitation, and projects favouring protection of water resources will be promoted. As regards the latter point, the focus will go to reusing purified water, as a fundamental tool to manage situations in which water is scarce. Among the initiatives already ongoing, note the projects launched in Bologna (Idar and other minor purifiers) and a potential extension in the area surrounding Modena (involving the Sassuolo and Savignano sul Panaro purifiers). Over the period covered by the Plan, these initiatives are expected to be extended to other areas as well (Rimini, Forlì, Ravenna, Ferrara), so as to reach an overall volume of purified and reusable waste water coming to roughly 20 million cubic metres per year.

As regards the district heating sector, Hera has confirmed its growing interest in the technological solutions that will play a significant role in decarbonisation across the area, with 75% of the heat injected into networks

by the Group coming from renewable and comparable sources. Among the projects currently under evaluation to extend the contribution coming from district heating networks, note the possible connection between the two district heating systems found in Bologna (in San Giacomo and the Pilastro CAAB system), in order to generate significant synergies and extract further environmental benefits that go to the advantage of the area.

Leader in the waste management area, thanks to sorted waste, solutions for waste transportation and outstanding projects for a circular economy

Increases are also expected for Ebitda in the waste management area, which will go from 252 million in 2018 to 307 in 2023, with 618 million in investments expected between 2019 and 2023.

In this sector, the Group aims at confirming its commercial and technological leadership in the integrated waste cycle, thanks to its avant-garde set of plants which are in line with European best practices, which will be further developed in the years to come with the goal of increasing resource protection and maximising reuse.

One example comes from biomethane production plants. The experience acquired from the Sant'Agata Bolognese (BO) plant – which transforms the organic portion of sorted waste into compost and biomethane which fuels buses, taxis and private vehicles – will lead new projects to be introduced in areas served by the Group, supporting the model of a circular economy. In particular, over the period covered by the Plan, the Voltana anaerobic digester, located in the area surrounding Ravenna, will also be partially reconverted to produce biomethane.

Within 2023 the Hera Group furthermore expects an additional rise in sorted waste in the areas served, up from the 62.5% seen in 2018 to 75% in 2023. The Group's objective is to improve its quality as well, thanks to numerous campaigns designed to raise awareness and initiatives meant to get citizens involved.

The circular model, indeed, in addition to the appropriate type of plants, also requires coherent individual and collective behaviour. A larger and better amount of sorted waste leads to further circular business opportunities. One example can be seen in the partnership between Hera and Eni intended to produce biofuel from waste oil brought by citizens, which is expected to be extended to other areas served by the Group, outside Emilia-Romagna, where the pilot project took place.

A second example lies in the 62% growth, compared to 2017 and expected by the end of the period covered by the Plan, in the amount of plastic recycled by Aliplast, which results from the company's new activity in recycling rigid plastics. In this way, the Group will further contribute to a sustainable development of the plastic sector, a central issue in Italian and European policies, as well as current debate.

The possibility, unique nationwide, of offering integrated and circular solutions and of extracting synergies between Herambiente and Aliplast's customer portfolio will boost growth in customers in the waste sector, with marketing offers adapted to specific needs and able to offer the largest customers a complete consultancy, with across-the-board solutions, also covering circularity in water resources and energy services.

The energy sector: over 3.5 million customers in 2023, thanks to factors including the partnership with Ascopiave and new opportunities for growth

In 2023, Ebitda for the energy sector will amount to 363 million euro, up compared to the 286 seen in 2018, while the investments foreseen over the period covered by the Plan will come to 295 million.

In the next few years, the Group will continue along its path of enlarging its customer base, with the goal of reaching 3.5 million customers in the energy sector within 2023. This target has been revised with respect to the previous plan, now higher thanks to the effect of the recent partnership with Ascopiave, which consolidated the Groups presence in the North-East and allowed the previously defined target (3 million customers) to be met over 2 years in advance. The transaction with Ascopiave furthermore brought Hera to rank third in energy sales nationwide.

This growing customer base will be achieved thanks to both marketing development – supported by innovative offers, services with added value and increasing customer experience for each type of customer – and the opportunities ensuing from new assignments of last resort services and the gradual disappearance of the protected electricity market. The most noteworthy marketing offers will be those oriented towards promoting circularity within the energy sector, i.e. accompanied by "green" supply or new initiatives in energy savings, with methods including the application of behavioural economics to modify individual habits. Energy



efficiency interventions will affect not only Hera's customers, but Group companies as well: the new objective for 2023 in reducing Hera's consumption Hera comes to 6.5% compared to the amount required in 2013. Again reflecting a rationale of circularity and attention towards resources, and in line with national and European objectives, the Group aims at developing further solutions for energy saving in local authorities, industrial units and apartment buildings, with offers tailored to the specific needs of each category. Lastly, Hera also creates multi-business circular and energy-efficiency solutions, combining energy services and public lighting. In the latter area, over 560,000 lighting points, 25% of which Led, are expected to be managed by 2023.

Tomaso Tommasi di Vignano, Hera Executive Chairman

The goals set out in the Business plan we are presenting today are in line with our history: for 17 years, we have been growing uninterruptedly, creating value for the areas in which we operate and for all stakeholders, beginning with our shareholders. This value translates into concrete benefits, concerning for example the investments made in services and plants, which become assets of the area itself, and in the activities in which Hera involves citizens, institutions, workers, suppliers and members of the third sector, acting as an "enabler" for their own growth. Our Plan is able to rely on both a solid initial basis – with preliminary year-end results 3% higher than expected – and significant growth in 2020, sustained among other things by the transaction with Ascopiave, which will now begin to contribute to our results. At the same time, we expect our growth to continue thanks to further M&As, while maintaining the financial flexibility required to grasp additional opportunities. The Group's development has indeed been achieved by always maintaining, and even improving its financial soundness, now expecting the net debt/Ebitda ratio to reach 2.8 in 2023, instead of the 2.9 set down in the previous Plan. Dividends will also rise, with a rate of growth coming to 0.5 cents per year, ultimately reaching 12.0 cents per share pertaining to 2023.

Stefano Venier, Hera CEO

Our Business plan's orientations, just like the initiatives carried out by Hera in previous years, reflect our growing attention towards sustainable development, circular economy and decarbonisation. Within the Group, sustainability is built into our corporate strategies themselves: by 2023, 42% of Ebitda will involve "shared value", that is, projects that respond to the goals contained in the Un Agenda. In this area, investments will come to over 950 million euro over the period covered by the Plan, of which 330 million to make our cities increasingly smart, thanks to innovation and technological evolution, or again projects promoting energy efficiency, recovery and reuse of materials, air quality and network resilience, in order to face climate change. What's more, we are looking even farther into the future, with the objective of reducing the impact of our activities up to 2030, in all areas in which we operate: this involves our "footprint" not only as regards carbon, but also water and the use of natural resources. Our goals for 2030 include an increase in the amount of urban waste recycled, reaching 67% and thus overcoming the EU target set at 65%; a further reduction in the Group's energy consumption, which will fall by 10% compared to 2013; and eliminating linear leakage in the water cycle by 7% compared to 2018. These commitments are perfectly in line with the principles of a circular economy and the very nature of our businesses.

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