

press release

Bologna, 8 February 2023

Hera Group presents Business Plan to 2026

Based on positive preliminary results for 2022, the new five-year Plan builds on the solid foundations of the previous one and is enriched with important projects aimed at promoting the circular economy, the energy transition and network resilience, with more than 4.1 billion in investments furthering the creation of value benefitting all stakeholders. Dividends are also expected to increase, and financial solidity is confirmed.

Operating and financial highlights

- **2026 Ebitda: approximately 1.5 billion (+246 million compared to 2021)**
- **Total investments amount to over 4.1 billion (+53% compared to the last 5 years)**
- **Net debt/Ebitda at 2.8x in 2026**
- **Dividends further increase to 15 cents per share in 2026 (+25% compared to last dividend paid)**
- **More than 130 million in NRRP (National Recovery and Resilience Plan) grants obtained to accelerate the Group's investments in the areas served**

Industrial highlights

- **Development driven by both internal and external (M&A) growth and balanced between regulated and free market activities**
- **Target of 4 million energy customers by 2026**
- **2026 Shared-value Ebitda: 62% of total Ebitda, or roughly 910 million, in line with 2030 target of 70%**
- **Key goals for 2030 include a 150% increase in recycled plastics and a 37% reduction in emissions**
- **Solid point of reference to help local areas move towards the ecological and digital transition and social cohesion**

Today, the Hera Group's Board of Directors, chaired by Tomaso Tommasi di Vignano, approved the Business Plan to 2026, which confirms the Group's commitment to maintain a significant volume of investments over the next five years. Accelerating the evolution of all business areas in which it operates and the strategic guidelines defined one year ago, the Plan is in line with EU policies and responds to the particularly challenging external context, with the aim of continuing to create value for all stakeholders and confirming itself as a solid reference point for the areas served.

Tomaso Tommasi di Vignano, Executive Chairman of the Hera Group:

"The growth seen in the preliminary figures for the year just ended confirms the resilience of our business. We will thus continue to pursue our development strategy, relying on our distinctive know-how in the areas of circularity, efficiency and the energy transition, to meet the rapidly growing demand coming from customers who are increasingly sensitive to energy saving and environmental sustainability. In the new Plan, focused on creating value for all stakeholders, we expect to make significant investments and increase all previous commitments, including those related to the dividend payment policy."

Orazio Iacono, CEO of the Hera Group:

“Our development strategy, as defined by the Plan, relies on a solid foundation and is focused on achieving higher levels of efficiency, reinforcing all services offered and increasing the resilience and digitalisation of our infrastructures, thus supporting the areas served in moving towards the ecological transition, with the help of NRRP funding. Having already optimised emissions in our production processes many years ago, our focus will increasingly go to supporting families, businesses and all our stakeholders in this transition. As confirmation of our solidity, furthermore, the growth foreseen over the period covered by the Plan will be flanked by a conservative financial leverage, which will allow us to grasp further opportunities.”

Over 20 years at the side of the areas served, with preliminary Ebitda for 2022 rising to almost 1.3 billion

Last November, the Hera Group celebrated its 20th anniversary: since its establishment, the Group has achieved an uninterrupted path of growth which, relying on a multi-business industrial model and balance between internal growth and M&As (more than 40 since 2002), has made it one of the most important Italian multi-utilities, holding a position of consolidated leadership in the sectors in which it operates.

As confirmation of the achievements made over the twenty years since its establishment, the Hera Group expects to close the 2022 financial year with growth in results exceeding expectations: preliminary Ebitda stands at approximately 1,285 million euro, roughly 60 million euro higher than 2021 Ebitda, while the Net debt/Ebitda ratio is expected to come to approximately 3.3x, improving compared to previous quarters, which is all the more appreciable considering the extraordinary market situation, the increase in the cost of energy commodities and the higher investments sustained in 2022, totalling roughly 780 million.

These preliminary figures thus indicate the resilience of industrial margins and the validity of the Group’s multi-business model, which capitalises on the experience gained over the years, preserving its assets and accelerating the sustainable growth of the company and the communities it serves.

An effective strategy to respond to the challenging context

In a challenging external context – marked by high uncertainty caused by geopolitical instability, market volatility, rising inflation, higher energy prices and supply chain problems – the Group has turned challenges into opportunities and drawn up a Plan that follows up on the path previously undertaken. Its concrete projects are consistent with the main national and international policies on the energy transition, circular economy and innovation.

Within this framework, cities will play a key role in mitigating climate change: Bologna and Padua are among the 100 selected by the EU Commission to become “smart zero-impact cities” by 2030, and the Hera Group has already launched investments and key projects to support municipalities in achieving carbon neutrality.

Investments amounting to over 4.1 billion euro, supported by NRRP contributions

The Plan to 2026 foresees total investments coming to over 4.1 billion euro, with an average of roughly 825 million euro per year, an increase over the previous Plan. Of these investments, 60% will go to regulated businesses and the remaining 40% to free market businesses.

These figures include concrete initiatives in the areas served, to which more than 130 million euros in NRRP funding have already been allocated. Additional funds have been earmarked for urban waste collection and street sweeping projects, for which a decision is expected in the coming months.

Of the investments planned between 2022 and 2026, 70% will go towards the targets set by the UN’s 2030 Global Agenda, and regarding the European Taxonomy, all, or virtually all, of the capital allocated to eligible assets (approximately 98%) is in line with the technical criteria defined by the European Regulation.

Furthermore, 40% of investments will be reserved for interventions aimed at enhancing the safety and resilience of the assets under our management, and more than 30% will go towards promoting digitisation and innovation.

The positive cash flow over the period covered by the Plan will finance the upcoming investments, progressively bringing leverage back to below 3x, with the goal of reaching 2.8x by 2026.

The Group's main projects to contribute to current transitions

The strategy to 2026 has been designed to respond to the sector's most significant challenges, with outstanding projects in all geographical areas in which the Group operates.

This Plan also confirms the Group's commitment to the energy transition and the contribution it will make, for example with initiatives aimed at developing renewable sources of electricity and gas. This will include the installation of photovoltaic plants on sites owned by Hera and by household and industrial customers, and the production of biomethane and hydrogen, to be fed into the distribution network or for local consumption ("Hydrogen Valleys"), thanks to technologies that have already been tested (biomethane from organic sources) or are unique nationwide (a power-to-gas plant combined with the integrated water cycle).

Energy efficiency initiatives will also contribute to the ecological transition, from those reserved for industrial customers, condominiums, and public administrations to various solutions that will allow our Group to reduce energy consumption by 10% compared to 2013.

Likewise, the new Business Plan will intensify the evolution shown by the Group and our customers towards a circular economy model. On the one hand, this involves innovative plants for recycling rigid plastics or carbon fibres, which will lead to a twofold increase in volumes of recycled plastics compared to 2017. On the other, the commercial and plant solutions offered by Herambiente Servizi Industriali to its customers and the smart equipment reserved for household customers in which to deposit their waste, will be aimed at a 73% packaging recycling rate as early as 2026 and 77% sorted waste collection, with the introduction of smart collection systems and new technological devices measuring waste deposited by the unit.

Lastly, the Hera Group's strategy will be developed thanks to a solid contribution coming from innovation, an enabling element for the ecological transition broadly speaking. Our infrastructures (networks and plants) will make the most of opportunities coming from remote management, remote control and automation, to provide the area served with greater resilience to increasingly frequent climate phenomena, with the possibility of accurate and immediate interventions, and therefore risk mitigation for the services provided.

Ebitda at roughly 1.5 billion euro in 2026, thanks to internal and external growth

As regards the main economic aspects of the Business Plan to 2026, Ebitda totalling 1,470 million euro is expected, up 246 million compared to 2021, with average annual growth coming to roughly 50 million and balance between internal growth and M&A. This is a particularly considerable goal, given that strong negative impacts will also be absorbed, for example due to revised tariffs related to WACC for regulated businesses (electricity distribution, gas and the water cycle), the gradual expiry of incentives related to energy production from waste-to-energy plants and the end of certain incentives for works in condominiums (insulation bonus and 110% super eco bonus).

With a positive contribution expected from all business segments, internal growth will account for 146 million of the overall increase in Ebitda, driven mainly by the margins associated with new projects, the industrial and commercial developments foreseen by the Plan and efficiencies and synergies in the current scope of operations. A further contribution amounting to 100 million will come from M&As, of which about 24 million from recently concluded acquisitions involving two companies in the waste management sector, Macero Maceratese in the Marche region and ACR in Modena – leading to a strengthened leadership in the industrial waste sector, reclamation and global service activities in particular – and one currently being finalised in the

North East in the telecommunications sector, involving Asco TLC, in a partnership with Ascopiave. Additionally, further acquisitions of companies operating in the waste management and energy businesses will lead to an expansion of the Group's range of services or the extraction of synergies.

Focus on our stakeholders: shared-value Ebitda at 62% by 2026, dividends up 25%

Sustainability remains one of the cornerstones of the Group's growth strategy, perfectly integrated and covering all areas in which it operates, with an increasing focus on creating value for all stakeholders. Shared-value Ebitda itself, reported since 2016, has increased steadily over the years and is expected to account for 62% of the Group's total Ebitda in 2026, amounting to roughly 910 million and rising to 70% in 2030, following a path that generates concrete benefits for the areas served and local communities, at the same rate as the company's own development.

Confirming its constant focus on creating value for shareholders, the Group also plans to pay continuously increasing dividends. With the approval of the 2022 financial statements, it will in fact propose to the Board of Directors a 12.5 cents per share dividend, up from 12 cents in 2021. A progressive increase in dividends is also expected over the period covered by the Plan, reaching 15 cents per share in 2026, up 25% from the last dividend paid.

Earnings per share are expected to rise by more than 3% on average per year.

Leader in waste management, with over 100 state-of-the-art plants and innovative projects to meet carbon neutrality and circular economy targets

Ebitda for the waste management business is expected to rise by 149 million, with the total figure increasing from 292 million in 2021 to 441 million in 2026, driven by both internal and external growth. Over the period covered by the Plan, the Group aims to further strengthen its national leadership in the waste management area and, supporting this growth, it foresees roughly 1.2 billion in investments, three quarters of which in waste treatment and recovery, aimed at augmenting the Groups' set of plants.

With over 100 state-of-the-art plants, the Group is able to treat all types of waste (municipal, industrial and plant by-products), with a total of approximately 8.7 tonnes expected by 2026. To support the growth in volumes treated, in addition to expanding the set of plants, a greater commitment to waste intermediation has been planned, by establishing an international network of partnerships with European players.

The distinctive objectives of the Group's strategy also include renewable gas production. Based on the excellent results achieved by the Sant'Agata Bolognese (Bologna) plant, which produces biomethane from the organic fraction of waste, the Plan calls for a further increase in the quantities produced, reaching 12 million cubic metres per year in 2026, partially thanks to the contribution coming from the partnership with the Cremonini Group company Inalca. In early 2023, work on a plant equipped with the most advanced anaerobic digestion and upgrading technologies indeed began in Spilamberto (Modena). When fully operational, this plant will produce 3.7 million cubic metres of biomethane per year and approximately 18,000 tonnes of compost from the sorted collection of organic waste and agri-food waste.

The Group subsidiary Aliplast, a leader in plastics recycling, also plans new industrial development projects with investments reaching over 80 million euro. This will expand plant capacity in the segments already covered, such as the production of recycled PET for food use and recycled polymers for cosmetics and food, and in innovative niche segments. In particular, two new platforms will be built that are absolutely at the forefront at a European level, both from a technological point of view and for the strategic importance of the materials involved, so much so that they have also received NRRP funding for their innovative features: the Imola (Bologna) plant for carbon fiber regeneration and the plant for rigid plastic recovery that will be located in Modena. These plants will make it possible for sectors such as the automotive, nautical, aerospace and consumer electronics industries, which until now have mainly used virgin materials, to become increasingly sustainable.

Alongside plant construction, commercial development will concern the context of waste management, driven by larger national and international customers who increasingly demand advanced solutions in terms of circularity and waste recovery, and who find an ideal partner in Herambiente Servizi Industriali.

A target of 4 million energy customers by 2026, to be enabled and supported in the energy transition

Over the period covered by the Plan, Ebitda for the energy area is expected to increase by 16 million, from 423 million to 439 million in 2026, more than offsetting the discontinuities of the period, thanks to a progressive increase in the customer base and higher demand for value-added services (VAS). To support this growth, 650 million in investments have therefore been allocated for the five-year period 2022-2026.

In addition to a 16% increase compared to 2021 in the customer base, which will reach 4 million in 2026 – well balanced between electricity and gas – and thus consolidate the Group's position as third in the energy sector, over the period covered by the Plan the Group intends to further support its customers in moving towards the energy transition and electrification of consumption, with enhanced and enriched VAS offers, new products and increasingly advanced solutions. The more innovative VAS proposals include offers that allow customers to monitor and reduce losses, thanks to tools that increase energy efficiency in homes, self-production and sustainable mobility, with the goal of reaching 2,300 photovoltaic systems sold to household customers over the period covered by the Plan.

At the same time, the Group's efforts in the field of renewable energy will also be reinforced with several projects that will bring the installed photovoltaic capacity owned by the Group to over 90 MW by 2026. Including installations on sites owned by customers, from traditional photovoltaic panel systems to the new distributed power generation models, with the establishment of Energy Communities, the installed capacity by 2026 will come to 150 MW.

Innovation will also be a key lever in evolving the relationship between seller and customer towards new standards of quality and satisfaction, increasing customer loyalty through individualised offers that will make the most of data collected by second-generation meters, and through the introduction of artificial intelligence solutions to support the various business applications used in customer relations.

Increasingly resilient networks, ready for the energy transition

Ebitda for the network sector is expected to grow by 74 million, from the current 472 million to 546 million in 2026, after taking Arera's recent tariff revision into account.

Development in this area will be sustained by internal growth, in turn driven by the significant investment plan foreseen for the five-year period in question, amounting to roughly 2.2 billion. Approximately half of these resources will be allocated to the integrated water cycle, while another large portion, coming to 42%, will be invested in gas and electricity distribution.

Network infrastructures will boast increasing resilience to external effects (climatic and otherwise), thanks to numerous digitisation and automation projects, which will make interventions on the systems managed more rapid. The use of predictive maintenance and functional modelling tools will also make it possible to better classify, plan and establish the parameters of each required intervention on the range of networks managed, benefiting the end customer in terms of both efficiency and service quality.

Another boost to innovation in the sector will come from installing roughly 410,000 second-generation (2G) electricity meters, which will allow for more precise measurement of consumption, about 300,000 NexMeter gas smart meters, patented by the Group, having with advanced safety functions in the event of leaks or earthquakes and also useable for blends with 'green gas', and approximately 100,000 residential smart meters for the water cycle.

The network sector will also contribute to the energy transition, by both adapting and making a positive contribution. On the one hand, the Group will intensify projects aimed at experimenting with the production of

hydrogen and renewable gas, such as the power-to-gas plant in Bologna, one of the first of its type to be built internationally, which will come into operation within 2025 inside the largest purification plant by catchment area among those managed by the Group. On the other, tests for hydrogen injection into the gas distribution network will continue in order to prepare this infrastructure to accommodate new renewable forms of energy, on which European energy strategies are also based.

Once again with a view to decarbonisation, the Group will invest roughly 160 million in district heating, with projects aimed at developing and optimising existing systems and maximising the use of heat from renewable sources. The projects in Bologna, Ferrara and Forlì, which were recently awarded NRRP funding, are a concrete example of the path that will be pursued and, alone, will reduce emissions by almost 29,000 tonnes of carbon dioxide and will reduce fossil fuel consumption by 12,500 tonnes of oil equivalent per year.

In addition, various circular economy initiatives have been planned for saving, reusing and recovering water, at both customer locations and the Group's worksites and offices, which include optimising sewage sludge management and recycling materials coming from water cycle waste with dedicated plant facilities and innovative tools. Projects aimed at safeguarding water resources, with a focus on reducing losses, controlling energy consumption and safeguarding sources, have been developed in the North-East by Group subsidiary AcegasApsAmga, partially financed by the NRRP and presented alongside other operators. Some examples include the "Smart Water Management FVG", which aims to reduce network losses in Friuli-Venezia Giulia by 13% through asset digitisation projects, and the "Sustainable water management" project, intended to reduce losses in the aqueduct systems in the provinces of Padua and Vicenza. Lastly, in Padua, seven new biodryers will be installed in purification plants, with benefits including a significant reduction in the volume of sludge to be sent for recovery and a lower use of energy, while in Udine an innovative plant will be built to treat the sludge coming from all the purifiers in Friuli-Venezia Giulia and eastern Veneto.

The Plan to 2026 confirms the path towards the main industrial objectives for 2030 as previously defined

The many projects set out in the Business Plan to 2026, discussed here simply as examples, will make it possible to define a path consistent with all the ecological transition targets to be reached by 2030 that the Hera Group established some years ago.

As regards the Group's commitment to reducing carbon dioxide emissions, the range of initiatives make it possible to confirm the ambitious 37% reduction target to 2030, already approved by the prestigious international network Science Based Target initiative (SBTi). Furthermore, in order to make a tangible contribution to the energy transition, in energy sales the Group has set itself the goal of increasing the portion of renewable electricity out of total sales to 50% within 2030, and furthermore plans to reduce internal energy consumption by 10% within 2030 (compared to 2013 consumption).

Concerning the circular economy, the 2030 objectives to increase recycled plastics (+150% compared to 2017), recycle packaging (up to 80%), reuse wastewater (up to 18% by 2030) and reduce internal water consumption (-25% by 2030, compared to 2017 consumption) can all be confirmed.