



press release

Bologna, 11 January 2016

Hera Group Approves Business Plan to 2019

A Plan once again envisaging growth, aimed at a 2019 EBITDA of over € 1 billion. Development to be based on a balanced mixture of internal growth and M&A, including the benefits expected from gas tenders, in line with the Group's track record.

Operating and financial highlights

- **2019 EBITDA: € 1,030 million**
- **Capital expenditures and financial investments: € 2.2 billion**
- **Net debt/EBITDA by 2019: 2.9x**

Operating highlights

- **Group strategy based on a balanced mixture of organic growth and M&AS**
- **4 priorities: growth, efficiency, excellence and innovation**
- **Confirming current concessions as the outcome of gas distribution tenders in reference areas**
- **Target of over 2.3 million energy customers by 2019**
- **Sustainability as the main strategic element underlying Hera's business model**

Higher operating and financial objectives, in spite of an ever more challenging scenario

This morning the Hera Group's Board of Directors approved its Business Plan to 2019.

A Plan oriented towards growth, thanks to the solid positioning of the Group – whose activities are concentrated in areas it has uninterruptedly covered since it was established – aimed at creating value within its current operating area and making the most of future perspectives for sector consolidation. The strategies that have guided the Group until present have been reconfirmed, with a focus above all on expansion and efficiency, as a response to today's challenging scenario, without neglecting the cornerstones of innovation and excellence.

From an operating and financial point of view, for 2019 the Plan foresees a total revenue of over € 5.8 billion compared to € 4.7 billion in 2014, an EBITDA of € 1,030 million against the € 868 million recorded in 2014. The ratio of net debt to EBITDA, which is already among the best in the industry, is expected to decrease to 2.9x (vs. 3.04x in 2014), confirming the Group's sustainable growth in terms of financial strength, with an increase in cash flow.

Moreover, the Business Plan to 2019 confirms that one of the strategic elements at the root of Hera's business model is sustainability, in all its aspects: environmental, social and economic. The strictly economic objectives are flanked by targets such as reduced environmental impact, greater attention towards energy efficiency and a continual improvement of customer service, fully aware of the important role played by the company across its operating area.

A context marked by regulatory, economic and competitive complexities

The Plan to 2019 has been elaborated with an eye to a more complex scenario than the one envisaged in the previous strategic document. The most notable new factor that creates challenges for utilities consists in the new regulations concerning return on invested capital in regulated services, which will have a significant impact on operators' revenues. Furthermore, on a macro-economic level, Italy's economic upturn still appears to be weak, while the level of competition is rising in all businesses, including regulated ones; indeed, during the period covered by the Plan, both gas distribution and urban hygiene services will be put to tender. Lastly, regulatory changes are also expected, having been repeatedly called for by national institutions, and alongside competition in tenders they will lead to a progressive consolidation among the operators active in Local Public Services, in such a way as to increase the overall efficiency of these sectors.

Over 1 billion of EBITDA in 2019: focus on efficiency improvement, synergies and external growth

The Business Plan includes two tools that will be used to reach the objective of € 1,030 million of EBITDA in 2019, with an increase of € 162 million compared to 2014: internal growth and M&A. These tools are both part of the



Group's history, having contributed constantly over the years to developing a growth model that has been confirmed in the Plan and thus represents an important factor of continuity in the strategy pursued until present.

As regards organic growth in particular, on the one hand initiatives will be taken to increase efficiency and curb internal and external costs for € 72 million, taking advantage among other things of partnerships with the Group's suppliers. On the other, plans have been made to extract a further € 21 million in synergies from integration operations that have already been concluded (AcegasAps, Isontina Reti Gas, Est Reti Elettriche and Amga Udine), to be added to the € 15 million already reached in 2014. This will allow further improvement in the high level of Ebitda per employee, which is expected to go up over the next five years by approximately 6% compared to 2014.

Thanks to these results, Hera will be able to withstand and more than compensate for the impact expected over the period covered by the Plan of regulatory changes, among which lesser incentives for roughly € 30 million, and the negative effect – estimated at roughly € 25 million – of the new return on capital in regulated services (WACC) recently revised by the Authority.

As regards growth by M&As, four mid-sized consolidations are expected to be completed within the period covered by the Plan, with an overall contribution of over € 110 million to EBITDA growth in 2019. This objective is in line with the average results achieved in the M&A operations successfully completed since the Group's establishment.

External growth will be further enhanced, by an estimated € 14 million, by the confirmation of the Group as manager of gas distribution services in its own reference areas, thus being able to benefit from the application of its own efficiency and service quality standards to new networks.

Capital expenditures for over € 2 billion

In the 2015-2019 period, total capital expenditures will amount to approximately € 2,200 million, predominantly (72%) allocated to networks, which also includes over € 300 million to be used for gas tenders. An even distribution of investments over the geographical areas served will once again be guaranteed, according to their size and their specific requirements as to modernisation and optimisation.

Excluding gas tenders, over the period covered by the Plan the Group expects to reach an overall balance between capital expenditures and depreciations, in order to maintain the operating and financial sustainability that has already been reached in recent years.

Networks: the challenges presented by gas tenders and the pursuit of efficiency

Approximately 40% of the growth foreseen through 2019 will be due to the results achieved in the network sector, which includes integrated water services and gas and electricity distribution services, and whose EBITDA at 2019 is expected to rise to € 483 million, compared to € 416 million in 2014. Over the period covered by the Plan, overall investments in infrastructures are foreseen for € 1,610 million, including the effects of gas distribution tenders. The objective of confirming service management in all areas currently covered will be pursued by relying on the Group's highly compact presence in the areas served, its deep knowledge and the experience it has gained over the years, the high levels of efficiency already reached and its notable investment capability. Confirmation of current concessions will be expressed as a variation in the Group's operating area that can be estimated at 260,000 extra re-delivery points to be served.

Thanks to gas tenders, it is estimated that the value of the distribution networks managed by Hera (RAB) will go from roughly 3 billion in 2014 to 3.5 billion in 2019.

In order to reach the EBITDA objectives, attention to efficiency is once again considered to be essential, in particular in the supply network, where scale economies can be further pursued, synergies extracted thanks to geographical proximity, and innovated technologies implemented (e.g. electronic gas metres, remote management of the water network, smart grid in electricity distribution), allowing the Group to compensate for the negative impact of the recent reformulation of tariff systems.

Environment: growth increasingly oriented towards recovering materials and energy

The Hera Group is a national leader in the environment sector and expects this position to be further reinforced over the period covered by the Plan, thanks among other things to better market conditions, as recorded over 2015, which saw a trend towards recovery in prices and demand. Sector EBITDA is expected to grow from 242 million in 2014 to 302 in 2019, while overall investments in the period in question will amount to roughly 460 million and will be dedicated to sustaining the development of existing plants, in order to face the rise expected in market volumes, with treatments ever more oriented towards recycling and greater environmental sustainability. This framework also includes the objectives of bringing sorted waste to 65% in 2019 (from 54% in 2014) and decreasing to below 10% the use of landfills for solid urban waste, in line with EU legislation on landfill diversion, and in any case well under the national average.

The plants will be progressively rationalised, maximising their yield and above all aligning the range of plant types with the evolution of sorted waste and objectives concerning the recovery of materials and energy in the areas served. Furthermore, authorisation has recently been obtained for the construction and management of the Sesto Fiorentino waste to energy plant.

A great degree of attention will be dedicated, lastly, to developing commercial activities, with the objective of increasing the volumes of waste treated through a stronger presence in the market of industrial clients. The Group will be able to pursue this strategy thanks among other things to the recent acquisitions of Geo Nova and Waste Recycling, that offer solid coverage in the Tuscany and the Triveneto region markets.

In terms of waste collection, the Group aims to reconfirm its services in those areas of Emilia Romagna in which tenders are expected to be held during the years covered by the plan. This will be possible thanks to the substantial efficiency and automation projects that the Group has already set into place and that will contribute to combining cost-effectiveness for citizens with a progressive increase in sorted waste and a higher quality of the services provided.

Energy: customer base development and efficiency, to overcome the challenges of competition

In a context that foresees a slight recovery in demand for both gas and electricity, this sector's EBITDA at 2019 will settle at 214 million, up 188 million compared to 2014, while total capital expenditures for the period will amount to roughly 80 million. Protection of the current customer base, growth into new geographical areas and cost-curbing remain the essential elements of the strategy adopted in this segment. Greater efficiency in customer management, which will allow costs per unit to be reduced, is also fundamental in increasing competitiveness. The Group will also dedicate its attention to the expectations of a smarter customer base, more attentive to the issues involved in energy efficiency, introducing innovative commercial offers that are able to meet the new demands of the retail market.

Today, the Group is a primary operator in gas and electricity sales in Italy, with over two million customers, and aims at reaching over 2.3 million contracts in 2019.

Tomaso Tommasi di Vignano, Executive Chairman of Hera

"The recently approved Plan is fully in line with our tradition of growth, which has allowed us to consolidate competitive advantages on which we will rely while facing the challenges and the higher level of competition, expected in coming years, in all business areas found in our portfolio. This strategy is aimed at creating internal growth by pursuing greater efficiency and market expansion, in addition to taking advantage of our "open" governance model to achieve further sector consolidation. The growth envisaged will imply a cash flow sufficient to cover all expected capital expenditures and a continuation of our policy of dividends with an annual return of approximately 3.6% (based on current stock exchange values), and will guarantee room for further expansion through M&A with mono-business companies, as was recently seen with the acquisitions of Geo Nova and Waste Recycling in the sector of waste treatment."

Stefano Venier, Chief Executive Officer of Hera

"Our Plan has been designed, respecting the financial balance that has characterised our Group until now, with the dual objective of reinforcing our credit standing by maintaining a conservative risk profile, and creating ever greater value for all our stakeholders, from investors to customers, by further improving service quality, as well as suppliers, by creating partnerships. In addition to reconfirming all aspects of sustainability, from environmental to social and economic stand points, as the underlying strategic element of our business model, we will pursue new challenges in terms of innovation and excellence, to reconfirm our current concessions in regulated services and continue expanding in liberalised markets."