Press release
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The Hera Group Approves Business Plan to 2018

A Plan that maps out a growth path with an EBITDA target in excess of €1 billion by 2018. Efficiency, gas tenders and growth via acquisitions the main focus, without neglecting excellence and innovation.

Operating and financial highlights

- **2018 EBITDA: €1,020 million**
- **Earnings per share: up 5% a year, on average**
- **Capital expenditures and financial investments: €2.1 billion**
- **Net debt/EBITDA by 2018: 2.8x**

Operating highlights

- **Group strategy based on organic growth and M&A**
- **4 priorities: growth, efficiency, excellence and innovation**
- **Confirmation of current concessions in gas distribution tenders in territories of reference**
- **Target of 2.3 million energy customers by 2018 (up 15%)**
- **Sustainability target at environmental, social and business level**

Improved operating and financial goals, despite the challenging macroeconomic and regulatory context.
A business plan still geared for growth, thanks to the Group's solid positioning in areas covered consistently for over a decade and the expected contribution of organic development and M&As.
The Plan outlines the strategies that have been driving the Group, with greater focus on excellence, growth, efficiency and innovation.
These are the key features of the Hera Group's business plan to 2018, approved this morning by its Board of Directors.
The plan maps out a growth path, despite a still challenging picture and a recovery that has not yet materialized in Italy.

According to the plan, by 2018 total revenue is projected to amount to €5.8 billion (vs. €4.7 billion in 2013) and EBITDA to €1,020 million (vs. €810 million in 2013) while earnings per share should rise on average by about 5% a year. The ratio of net debt to EBITDA, which today is among the best in the industry, is expected to decrease to 2.8x (vs. 3.1x in 2013), representing further evidence to sustainable growth also in terms of financial strength. The focus on invested capital and profitability makes it possible to project a ROIC (Return on Invested Capital) of 9.1% by 2018 (approximately 100 basis points higher than in 2013).

EBITDA in excess of €1 billion by 2018: focus on organic growth, efficiency-improvement, synergies and external growth
The EBITDA increase of €210 million over the plan's horizon will be driven by significant organic growth, the award of gas distribution contracts and further M&A expansion focused on two additional acquisitions to be completed after that of AMGA Udine, which took effect on 1 July 2014.
Regarding organic growth, attention is called to efficiency-improvement initiatives and plans to curb costs for about €80 million (accounting for about 10% of EBITDA), of which €28 million in relation to the synergies that will be extracted from integration activities already completed (AcegasAps, Isontina Reti Gas, Est Reti Elettriche e Amga Udine).

This will make it possible to improve further the already high profitability level per employee, which is expected to go up by 13% over the next five years, compared to 2013.

Capital expenditures for over €2 billion

In the 2014-2018 period, total capital expenditures will amount to €2,100 million, of which 70% will be allocated to the network and over €200 million to be used for gas tenders.
Excluding capital expenditures related to gas tenders, the Group expects to reach a balance between capex and depreciation, thus maintaining the operating and financial sustainability achieved over the past few years. In this way, the net debt/EBITDA ratio will improve to 2.8x, thanks to positive average free cash flows generated over the plan's horizon.
From a geographical point of view, a balanced allocation of investments will be attained once again among the different areas served, in view of their size and specific requirements.

Networks: the challenge of the gas tenders and the pursuit of efficiency

Over the period covered by the plan, the Group will take part in a number of gas distribution tenders, to confirm its leadership in all the areas in which it operates. This objective will be achieved by leveraging the Group's experience in the various geographies and its deep knowledge and experience gained over the years, as well as the significant levels of efficiency and financial capabilities that the Group can deploy. Confirmation of the current concessions will translate into an increase of about 200,000 re-delivery points to be served.
Attention to efficiency is brought into sharper relief in the supply network, where further economies of scale can be achieved, synergies extracted thanks to geographic proximity and innovative technologies implemented (e.g. electronic gas meters, remote management of water network, smart grid in electric distribution), allowing the Group to improve efficiency and margins.
EBITDA for this segment is expected to rise from €368.6 million in 2013 to €499.1 million in 2018 while overall infrastructure capital expenditures for the period will amount to €1,382 million, inclusive of the impact of gas tenders, the upgrading of gas meters and maintenance and development of the water network.

Waste: growth increasingly oriented to the recovery of materials and energy

The Hera Group is national leader in the environment segment and expects to firm up its position over the years covered by the plan.
The Group will focus on market expansion to increase the volume of waste treatments, thanks to greater penetration in the market for industrial customers, based on a full range of services and an efficient and capillary distribution of recovery and disposal plants (77 plants in 2013).
The plants will be progressively rationalized, so that they operate at full capacity, but most of all to align the plant mix to developments in sorted waste collection (which is projected to reach 64% by 2018) and the objectives to recover materials and energy in the communities served by the Group. This will reduce disposal of urban waste to landfills to 9% of the total "green" electricity generation of over 500 GWh by 2018.
Consistent with this objective, the Group's investment plan calls for the implementation, in the next five years, of a new plant system capable of recovering materials and energy from sorted waste.
In terms of waste collection, the Group aims to reconfirm the services in the areas of Emilia Romagna where tenders are expected to take place during the years covered by the plan. This will be possible thanks to substantial efficiency and automation projects that the Group started and that will contribute to combine cost-effectiveness for citizens and a progressive increase of sorted waste collection and improvement of the services rendered.
EBITDA for this segment is expected to rise from €239.3 million in 2013 to €319.2 million in 2018, while total capital expenditures for the period will amount to €530 million.

Energy: customer loyalty and efficiency to win the competitive challenge

The financial crisis and market conditions made the energy sector increasingly competitive, with growing customer churn rates and margins under increasing pressures. Against this backdrop, the Group's priority is to pay growing attention to customers, with the objective to differentiate itself from the competition in terms of both service quality and cost, in a mutually beneficial long-term relationship.

Today, the Group is a primary operator in gas and power sales in Italy, with over two million customers, aiming to reach 2.3 million by 2018.
The protection of the current customer base, growth in new geographies and cost-curbing are paramount for the strategy adopted in this segment. Key to becoming increasingly competitive are efficiency improvement and customer optimization processes, to reduce operating costs per unit. In addition, the plan calls for the confirmation of prudent procurement policies of natural gas and electricity which, to date, have been a strength compared to the main competitors.
EBITDA for this segment will settle at €173.9 million, while total capital expenditures for the period will amount to €109 million.

Mr. Tommasi: "growth via acquisitions, efficiencies and synergies: a strategy based on consistency and strength"
"The strategy that we have been pursuing over the years allowed us to reach substantial results, despite the challenging and uncertain context, with a fourfold increase of our EBITDA in ten years, said Hera Group's chairman, Tomaso Tommasi di Vignano. The business plan to 2018 confirms the strategies pursued so far and is based on our distinctive competencies to achieve greater efficiencies and to continue to extract synergies from the integrated companies. Thus, it is a plan based on solid grounds also from a financial point of view, with a ratio of net debt to EBITDA expected to fall to 2.8x. Our shareholders can look forward to a dividend policy in line with the past four years".

Mr. Venier: "excellence and innovation to achieve increasingly important results, without forgetting sustainability"
"Our growth focuses on the enlargement of markets, which are increasingly competitive also due to current economic conditions. Excellence and innovation of the business models applied to all of the Group's activities, including the regulated ones, are the drivers that will allow us to grow at the same pace as in the past. The objective will be to improve efficiency and to extract greater synergies as well as to continue to maintain a sustainable profile from an environmental, social and operating/financial standpoint – concluded Stefano Venier, the Group's Managing Director. This growth will be supported by capital expenditures of about €2 billion, with the objective to increase ROI and shareholder returns".

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