press release
Bologna, 25 September 2013

Hera Group approves Business Plan to 2017

In a complex regulatory and macroeconomic framework, the Company focus is on efficiency, gas tenders and growth through acquisitions. Forecasts for 2017 include EBITDA of 951 million, earnings per share increasing by 5% per year and a debit/EBITDA ratio falling by 2.9 times

Economic-financial highlights

- **2017 EBITDA: €951 million**
- **2017 net financial position/EBITDA: 2.9x**
- **Overall business and financial investments: €2 billion**

Business highlights

- **Focus on efficiency and synergies, especially in network and waste management division**
- **Development through acquisitions as well (M&A)**
- **Objective to confirm gas distribution concessions in all reference territories**
- **Expansion of asset base to service recovery of materials and energy**
- **Market expansion in energy and waste management sectors**

Economic-financial objectives in a macroeconomic and regulatory context that is still difficult

A Business Plan to continue growth and development in spite of a scenario which will still be extremely difficult over the next 5 years and, above all, to confirm the Group as an essential leader of local public services sector consolidator. This is the ethos of the Hera Group Business Plan to 2017, approved this morning by the multiutility's Board of Directors.

The document projects a total turnover of 5.6 billion in 2017 (compared with 4.7 billion in 2012), EBITDA[1] of 951 million (662 million in 2012) and a ratio between net financial debt and EBITDA decreasing 2.9 times (it was 3.3 in 2012), as evidence of a continued sustainable growth from a financial point of view as well. ROI (Return on Investments) in 2017 is predicted to grow to 9.3%, compared with 8.2% in 2012. The background in which the development targets have been set is affected by a macroeconomic and regulatory framework which, particularly between 2013 and 2014, will have a negative impact on operating results. Specifically, the slow recovery of the GDP will continue to cause stagnation in energy demand, connections to consumers and waste production, while the anticipated decrease in gas tariffs both for sales to protected customers and for distribution, in addition to recent interventions in the CIP6, will contribute to a reduction in margins.

EBITDA driven by a focus on efficiency, organic growth, gas tenders and M&A

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[1] By EBITDA the Company is referring to the sum total of the operating result plus amortisation and depreciation and provisions.

The growth in EBITDA, 289 million in total, will receive a boost, not only from a significant organic increase, which will benefit from the positive effects of the recent internal reorganisation and other cost-cutting initiatives saving 20 million overall, but also from the awarding of tenders for the distribution of gas in the historical stronghold territories and further expansion of the corporate scope through M&A, also accompanied by several portfolio rationalisations. The 30 million worth of synergies which will be gained over the next 5 years as a result of the merger with AcegasAPS. This expectation has been made possible thanks to the excellent performance of the integration operations put in place in 2013.
In total, profitability per employee will exceed €110,000, an increase of 10% over the 2012 figures.

Investments of 2 billion
The further improvement of a financial position which already currently exhibits a good balance will allow the policy of investments in the services offered to the territory to continue. Overall, the Plan includes investments of almost €2 billion (1,975 million, on average, approximately 400 million per year), concentrated, to a great extent, in the network business, also on account of the imminent gas tenders. The commitment to the latter will not, however, adversely affect the balance between investments and depreciation and amortisation, forecast at 1.07 at the end of the plan, in spite of the effects of the gas distribution tenders.

Networks: the challenge of gas tenders
This business covers distribution management activities. Therefore the entire integrated water cycle, distribution of gas and electricity and the management of district heating.
The period of the Plan (especially 2014 and 2015) will feature gas tenders, in which the Group will participate with the aim of consolidating its position in all traditionally strong areas, armed with the know-how acquired, investment capacity and a very tight-knit presence in the areas served. This result will allow the acquisition of approximately 180,000 delivery points currently pertaining to other small local operators. The entry into force of the new tariff method is also expected to have a positive impact on the water cycle, where the service will be directed towards fully covering costs and a strong commitment to operating efficiency.
The business EBITDA will increase from 310 million in 2012 to 486 million in 2017, while overall investments in the period will stand at 1,342 million including the impact of the gas tenders, renewal of gas meters and maintenance and development of the water network. The commitment will also be directed at pursuing and consolidating the best levels of service (for example, in the water sector the target is to get below 25% for leaks, compared with the current figure of 27%).

Waste Management: a business increasingly at the service of recovery of materials and energy
This business includes all activities relating to waste collection and the treatment, recovery and disposal of waste. The reference period will feature an important change in the overall scenario because of the persistent stagnation of the levels of waste produced, but there will also be an increasingly higher focus on the environment, which is translating into a gradual increase in the levels of separate waste collection. The focus of the Group will therefore be directed, on the one hand, towards strengthening the sales drive in the treatment of special waste (where the volume will double from 1.6 million tons in 2012 to 3.0 million tons in 2017) and, on the other hand, to maximising the value from the recovery of materials and energy from waste, also thanks to an investment plan which includes the construction of six treatment and recovery plants, including the AKRON platform for urban waste from separate and non-hazardous waste collection in Bologna. This commitment will also be translated into achieving significant targets in terms of sustainability in 2017. These include the production of 400 GWh of electricity from waste, the achievement of an average of 63% of separate waste collection (including the area of Trieste, where this figure is traditionally lower) and only 7% of treated waste destined for landfills.

The business EBITDA will increase from 184 million in 2012 to 311 million in 2017, while total investments in the period will stand at 480 million.

Energy: sales drive to balance the tariff impacts

The previously mentioned tariff impacts on the most protected gas customers will be offset particularly by sales activities and by possible growth opportunities through acquisitions. As far as the growth in the customer base in particular is concerned, the current policy, which involves a commitment to protecting gas customers, will continue. Hera is the third largest operator in this field. The target is to grow from the current 1.1 million customers to 1.3 million in 2017, with a strong drive to acquire new customers in the electricity sector with the aim of increasing from the current figure of 690,000 customers to reach 1 million. Efforts will also continue to migrate more customers to free market agreements. Special attention will be paid to the control of the net working capital, through monitoring of the solvency of customers and to the reduction of the cost to serve, thanks to the development of further economies of scale and virtual contact channels with customers.

As far as upstream is concerned, the flexible policy for the procurement of raw materials will continue, exploiting gas spot market opportunities and only hedging one third of electricity requirements through the generation of Group plants.

The medium to long-term perspective includes the recent agreement with the Shah Deniz consortium for the purchase of Azerbaijani gas.

The business EBITBA will be confirmed at 135 million, while overall investments in the period will stand at 86 million.

Tommasi, "external growth, efficiencies and synergies: appropriate choices to deal with a difficult situation"

"This updating of the Plan includes important changes in the scenario which have characterised the macroeconomic, regulatory and competitive context over the last year", explained Hera Group Chairman, Tomaso Tommasi di Vignano. "When faced with an overall situation which has become increasingly difficult and features elements of uncertainty, we believe that we have identified the most appropriate strategic choices to deal with these difficulties, by continuing with the expansion policy for external lines as well and by focusing on efficiencies and exploiting synergies within the Group".

Chiarini, "investments and environmental sensitivity, in spite of the period of stagnation"

"In spite of the period of stagnation caused by the macroeconomic situation and the regulatory framework of the country, we have presented a plan which, over the next 5 years, includes investments of almost €2 billion, which will have extremely important positive repercussions nationally in terms of employment. All of this is set within a financially balanced context which is gradually improving and consistent with the expectations of the ratings companies".

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