

press release

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Hera Group looks forward to 2016 with its new Business Plan

The business plan, which includes the effects of the merger with AcegasAps, is deeply rooted in territorial development and environmental sustainability. EBITDA in 2016 is forecast at almost one billion and investments at Euro1.9 billion

Economic-financial highlights (to 2016)

- **EBITDA: Euro 990 million (+53% compared to 2011)**
- **EBIT: Euro 543 million (+62%)**
- **Net financial position/EBITDA: 2.7x**
- **Synergies with AcegasAps of Euro 25 million to 2016**

Business highlights

- **Increase efficiency and further improvements in quality of services**
- **Development of technologies in the management of networks in an integrated framework**
- **Expansion of selection and recovery chains**
- **Increase commercial presence in energy and waste management sectors**
- **Further growth in the production of renewable energy**
- **Development of integration synergies with AcegasAps**

Economic-financial macro-objectives

A Group which, thanks to growth fuelled by the enlarged perimeter and a financial position which seems on course to maintain a solid profile, can guarantee a flow of substantial investments to ensure the continued development of the service model and the size of the company, with a strong focus on sustainability. This is the ethos of the Hera Group Business Plan to 2016, approved this morning by the multi-utility's Board of Directors and which will be presented shortly to the market. The document, which sets out the main drivers for development while taking into account the effects of the merger with AcegasAps (operational from 1/1/2013) and the entry into the share capital of Fondo Strategico Italiano (Italian Strategic Fund – FSI) in 2013, forecasts a production value to 2016 of more than 6 billion (+38% compared with 2011); EBITDA of 990 million (+53%); EBIT of 543 million (+62%) and a net financial position of slightly more than 2,600 million, below 2.7 times EBITDA (a slight fall compared to 3.1 in 2011).

ROI (Return On Investments) in 2016 is forecast at over 10%, an increase of almost two percentage points over 2011.

Merger with AcegasAps

All businesses will continue to make a contribution to growth: waste management services, network management (water, gas, district heating and electricity) and the sale of gas and electricity. An important

driving force behind the growth will also come from the merger with AcegasAps, with expected synergies of up to 25 million divided between the various businesses, both as a result of increased economies of scale and shared technological platforms and know-how.

Investments

The growth in margins and further improvement of a financial position which is already well balanced will allow Hera to continue its investment policy for expanding and developing services provided throughout the area. Overall, the 2012-2016 plan includes investments of approximately 1,900 million (on average almost 390 million per year), of which more than 1,200 in the networks, with a significant 600 million to be spent on the integrated water cycle and almost 500 million on the waste management sector.

Action plans

The Business Plan, which has been approved, will leverage eight areas of intervention which embrace the entire range of activities. They can be summarised as follows.

- Service. Further efficiencies as a result of operating activities and improvements in levels of service.
- Business mix. Maintaining a balanced service portfolio between the various activities and regulated and free market businesses.
- Sale of energy. Increase in the sale of energy (gas and electricity), while increasing the number of customers with free market contracts and the use of online channels.
- Upstream. Updating the position of the Group in upstream energy in relation to market developments.
- Network services infrastructures. Development of networks following a smart area/smart city approach, accompanying the development of service quality through an integrated procedure designed to leverage opportunities resulting from innovation.
- Waste management. Further development of waste collection and plant models with the improvement of infrastructures dedicated to the recovery of materials and energy.
- Renewables. Further development of energy production (electrical and thermal) from renewable sources especially in relation to the waste/biomass chain.
- Merger. Exploitation of the options for growth, both organic and through acquisitions, consistent with local area strategies and the core businesses.

Networks, development with a view to efficiency and quality of service

This business covers distribution management activities, namely the entire integrated water cycle and distribution of gas, electricity and district heating.

Cumulative investment in the period came to approximately 1,250 million, including commitments to the water cycle and gas tenders already mentioned. The Plan calls for a significant focus on improving the efficiency of activities, with the goal of reducing the incidence of fixed costs and improving service efficiency and effectiveness.

Some of the most important interventions include the expansion of the network remote control systems and the adoption of innovative technologies capable of making the delivery of services increasingly flexible, safe and eco-friendly. There will be a strong commitment to renewing gas meters, which will take up most of the 50 million-plus earmarked for network innovation. As well as efficiency, efforts will also be directed towards pursuing or consolidating improved levels of services (for example, in the water service the target is to be below 25% for leaks). As far as gas tenders are concerned, the objective is the confirmation of Hera's presence in the areas currently managed.

The EBITDA will increase from 294 million in 2011 to 466 million in 2016, taking also into account the contribution resulting from the change in Group consolidation perimeter.

Waste management, a chain servicing recovery and safeguarding the reference territory

This business includes all activities relating to urban hygiene and the treatment, recovery and disposal of waste. Cumulative investment covered by the plan will amount to approximately 480 million. An appropriate amount will be used for the expansion of plants for the recovery and recycling of materials, both for dry waste (separate and non-separate waste collection) and organic waste. Further development of the collection and management model will make it possible, just in the area currently covered by Hera, to bring the amount of waste recovered to approximately 1 million tonnes per year, while the remaining amount will guarantee production of renewable energy of more than 400 GWh/year. This means that the amount of waste destined for landfill will decrease further (up to 12% of urban waste collected in 2016 and represented only by final waste which can no longer be recovered), broadening the gap compared with the rest of the country for which the current figure is 46.2%, and thereby consolidating an alignment with best practices in Europe. This strategic policy results from the commitment that the Group has demonstrated, which will continue throughout the Plan, to increase separate waste collection in the areas served through an evolutionary approach which is simultaneously consistent with the various regional contexts.

Regarding energy recovery, the Plan includes the purchase from Veolia Servizi Ambientali di Energonut S.p.A. of the Pozzilli (IS) energy recovery plant, for the production of electricity from refuse-derived fuel (RDF) produced by urban waste treatment plants. The transaction, which aims to conclude a private tender procedure, which has seen the establishment of an enterprise value of 49 million, will be completed by the end of the year, once authorisation is received from the Antitrust Authority.

The development of commercial activities to optimise the use of available plants and safeguard the market will continue.

Overall, also courtesy of the contribution of AcegasAps and Energonut activities, total waste treated by third parties will reach 4.8 million, of which 2.4 will be urban waste, with almost 600 GWh of renewable energy generated.

The chain EBITDA will increase from 194.2 million in 2011 to 331.0 million in 2016.

Energy: a target of 2.5 million energy customers

The business combines all the activities of selling gas and electricity. Thanks to the contribution of the merger with AcegasAps, the target is to achieve 2.5 million in energy contracts. Planned operations will aim to expand cross-selling with the goal of increasing the customer base with more services, improving quality perception (through constant monitoring of services provided) and expanding customer management information tools (e.g. multi-service bills, electronic bills, online services, etc.). Special attention will be paid to reducing the cost to serve, thanks to the development of further economies of scale and virtual contact channels with customers, and the active management of the customer portfolio.

The policy of carefully managing the upstream presence and related projects will continue, also with regard to the expected development in this market, partly dependent on economic dynamics, which will develop. Meanwhile, as already anticipated in the previous plan, domestic photovoltaic production will reach a total of 10 MW.

This area will benefit from total investment of 180 million and EBITDA will rise from 137.9 million in 2011 to 170.0 million in 2016.



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