

press release

Bologna, 27 January 2022

Hera Group approves Business Plan to 2025

The new five-year strategic document builds on the Group's path of growth, with investments coming to over 3.8 billion and concrete energy transition and circular economy projects. The Plan is solidly based on twenty years of experience, with positive value creation for shareholders, local areas and the communities served, and on the results for the 2021 financial year, whose Ebitda is estimated at over 1.2 billion euro

Operating-financial highlights

- **2025 Ebitda: 1.4 billion euro (+277 million compared to 2020)**
- **Total industrial and financial investments: over 3.8 billion**
- **Net debt/Ebitda at 2.8x in 2025**
- **Further increase in dividends, reaching 14.5 cents per share in 2025 (+32% compared to the last dividend paid)**
- **All five-year operating and ESG targets revised upwards**

Industrial highlights

- **Confirmation of strategy focused on 3 areas: environment, socio-economic factors and innovation, with a wide range of concrete projects in all business areas**
- **Development driven by both internal and external growth (M&As) and balanced between regulated and free-market activities**
- **Goal of 4.5 million energy customers by 2025**
- **Shared value at 780 million euro by 2025 (roughly 55% of total Ebitda)**
- **Among the objectives for 2030: reducing CO2 emissions by 37% and increasing recycled plastic by 150%**

A Plan that combines growth, value creation and sustainable development

Today, the Hera Group's Board of Directors, chaired by Tomaso Tommasi di Vignano, approved the Business Plan to 2025, which consolidates the Group's commitment to balanced and sustainable development in all business areas, with the aim of continuing to create value for shareholders, local areas and the communities served.

With Ebitda expected to reach 1.4 billion in 2025 and investments totalling approximately 3.8 billion over the period covered by the Plan, this five-year strategic document shows increases in all main targets and outlines a wide range of actions for the energy transition, the circular economy and technological evolution, with concrete and innovative projects that will also benefit from funding opportunities coming from the Recovery and Resilience Plan.

20 years of uninterrupted growth, and 2021 Ebitda expected to total over 1.2 billion euro

The new Plan is based on a trend of uninterrupted growth, as is proven by Group Ebitda, which has increased more than sixfold in 20 years. This consistent and linear path has been seen since the establishment of the Hera Group, which is characterised by a full correspondence between the commitments made and the initiatives implemented, capital and financial solidity and a multi-business strategy that balances regulated



and free market activities, internal growth and M&A transactions. This model, which has proved its resilience and capability of supporting stakeholders, even during adverse scenarios, has enabled the Hera Group to consolidate leading positions in all business areas.

Projections for 2021 year-end results are also positive, exceeding expectations, with a preliminary Ebitda rising to over 1,220 million euro, compared to 1,123 million at the end of 2020, and a net debt/Ebitda ratio coming to approximately 2.7x, an improvement on 31 December 2020. Last year, in addition to increased dividends, significant investments were seen, amounting to over 650 million euro, with strong growth over 2020.

A recovering macroeconomic scenario, with coordinated actions for a fair and sustainable transition

After the slowdown seen in 2020 due to the health emergency, global trends are now positive, with the European and Italian economies returning to rapid growth. This recovery, moreover, is generating tension in some sectors, such as raw materials, causing a significant increase in market volatility, which is set to continue in the coming months, and which will see the Group further strengthen both its risk management strategies and its actions to support stakeholders. In this framework, European and national institutions are implementing coordinated and convergent actions aimed at a fair, sustainable and inclusive transition. In particular, with its Recovery and Resilience Plan, Italy has entered the executive phase of the Green Deal, with funds supporting carbon neutrality interventions and regenerative and circular development models. The opportunities seen in the Italian context also include those related to the consolidation of markets that are still overly fragmented, tenders for the renewal of services under concession, and the further liberalisation of electricity sales, with the elimination of protected markets.

Three focal points of the Business Plan to 2025: environment, socio-economic factors and innovation

In a context undergoing recovery, with an increasing emphasis on sustainability and the utilities sector set to benefit from the most significant share of the Recovery and Resilience Plan, the Hera Group will be able to continue to leverage the competitive position it has cultivated over the years and thus grow.

In full compliance with national and European policies and the objectives on the UN's 2030 Agenda, which have been guiding Hera's strategies for some time, all projects in the Business Plan to 2025 are structured around three focal points: the environment, socio-economic factors and innovation, with initiatives for the green and digital transition, capable of generating positive effects in the areas served.

The environmental focal points include initiatives to combat climate change, in order to achieve carbon neutrality, with actions to reduce emissions, increase infrastructure resilience and promote the circular economy. The socio-economic aspects, on the other hand, aim to create "shared value": under the Plan, the Hera Group will extend the range and quality of its services in areas where it has been present for quite some time, reinforced by the newly awarded tenders for regulated service concession renewals, and in new areas as well, and will seize further development opportunities through external growth. Lastly, innovation will embrace all opportunities linked to technological evolution, with the aim of further increasing the efficiency and quality of services, and above all introducing changes in its model of organisational management.

A strong increase in investments, coming to over 3.8 billion euro, thanks to the Group's financial solidity

The Plan to 2025 calls for a sharp increase in investments, amounting to more than 3.8 billion euro, or approximately 770 million per year. This is a very significant rise – equivalent to 60% – compared to the average seen over the last five years, and is possible thanks to its solid financial structure, reinforced over the years and in 2021 as well. Investment allocation combines internal development opportunities with

actions to increase system resilience (accounting for roughly 1.2 billion). Significant investments for innovation will be made in all business areas and support will be given to the ongoing transition.

In general, of the total investments envisaged in the Plan, more than 1.7 billion are aligned with the criteria with which the European Taxonomy identifies opportunities that contribute to environmental policy objectives, in particular the two areas regulated for now, relating to mitigation of and adaptation to climate change. Furthermore, many of these interventions respect the directions indicated by the Recovery and Resilience Plan.

Thanks to an optimisation of financial and fiscal costs, the Plan outlines an increasing creation of value, as seen among other factors by ROE and ROI, projected at 10.6% and 8.7% respectively in 2025, a particularly appreciable result considering that the recent reduction in WACC for regulated activities concerns 60% of the invested capital. Moreover, the net debt to Ebitda ratio at 2025 is expected to be 2.8x, consistent with the current figure and indicative of a strong self-financing capability, providing room for manoeuvre that will allow the Group to take advantage of any additional unforeseen opportunities that may arise during the period covered by the Plan.

Ebitda expected to rise to 1.4 billion by 2025, thanks to both internal and external growth

The improved scenario and the increase in investments have enabled the Hera Group to revise all its five-year targets upwards, first and foremost Ebitda, which is expected to reach 1.4 billion euro in 2025, 277 million more than the 1,123 million seen at the end of 2020. The average annual increase comes to 4.5%, higher than the 3.7% forecast by the previous Plan (this data already includes the impact of the reduction in tariffs following Arera's WACC revision for regulated activities included in gas, electricity and water bills).

Besides the positive contribution coming from all business sectors, internal growth and operating efficiencies will contribute 192 million euro to Ebitda, while 100 million will come from new M&As, plus any synergies that the Group will be able to extract, in line with its previous trends. A further 22 million in Ebitda will be generated by the operations concluded in late 2020 and early 2021: the acquisition of the company Wölmann, which operates in photovoltaic panel installation, the energy sales company Ecogas and three companies in the industrial waste sector: Recycla, Gruppo Vallortigara and SEA. Synergies, efficiency gains, expansion of market shares, new projects and investments will thus make it possible to offset the negative impacts, totalling 37 million, deriving from the loss of some incentives, such as those on the production of renewable energy, and the cut in the WACC on regulated services mentioned above.

Sustainability as a strategic priority: "shared value" Ebitda at 55% in 2025, almost 70% in 2030

Sustainability remains one of the cornerstones of the Group's strategies for growth, perfectly integrated and relevant to all operating areas, with an increasing focus on creating value for stakeholders, as shown by the recent introduction of the concept of corporate purpose in the Group's Articles of Association. "Shared value" Ebitda itself, reported since 2016 and referring to business activities that meet the sustainability goals on the UN Agenda, has increased steadily over the years. It is expected to reach roughly 55% of total Ebitda in 2025, equivalent to 780 million euro, and to amount 70% in 2030, along a linear path that generates concrete benefits for the areas and communities served, proportionately reflecting the company's own development. The Hera Group's best practices in ESG areas, in any case, have long been recognised both nationally and internationally. Along with ranking first in the 2021 Integrated Governance Index, which measures the integration of sustainability into corporate strategies, Hera has been included, as leader in its sector (Multi-Utility & Water), for the second year in a row, in the Dow Jones Sustainability Index, World and Europe, one of the most authoritative stock exchange indices in the world assessing social responsibility.

Further increase in dividends, rising to 14.5 cents per share

As confirmation of its focus on generating value for shareholders, the Group plans to pay steadily increasing dividends: upon approval of the 2021 Financial Statements, the Group will in fact propose to the Board of Directors a 12 €cents/share dividend, compared to 11 €cents/share for the 2020 dividend, thus showing an increase of 1 €cent instead of 0.5 €cents, as initially planned. This additional increase will thus benefit all prospected dividends, which will reach 14.5 €cents/share in 2025 (32% more than the last dividend paid). This higher dividend payment is in line with the expected trend in earnings per share, which will also rise by 5.7% per year on average until 2025.

The networks sector: resilience, resource regeneration and development of “clean energy” solutions

Ebitda expected in 2025 from the networks sector – which includes electricity and gas distribution services, the water cycle and district heating – comes to 533 million euro, up 73 million compared to 2020. This target is all the more significant considering that it fully offsets the revised WACC, effective as of 1 January 2022, which will have a -22 million impact over the period covered by the Plan.

Most of the internal growth will come from two main drivers: infrastructure development, with investments bringing overall RAB to 4 billion euro, and further cost efficiency coming to 40 million euro, made possible among other things by an increased use of digitalisation and innovations on infrastructures that introduce new operating models.

More specifically, Hera will invest approximately 2.1 billion euro in extending, modernising and evolving its networks, focusing on integrating traditional methods with technologically innovative solutions to ensure resilience, efficiency and business continuity even in the event of extreme weather events.

Interventions for the smart transition include installing approximately 420,000 second generation (2G) electricity meters that will measure consumption more precisely. As regards gas distribution, in addition to replacing gas meters in compliance with regulatory obligations, installation of “NexMeter” devices will continue, patented by the Group and equipped with advanced safety functions in the event of leaks or earthquakes, and cutting-edge technology in terms of reducing gas dispersion into the atmosphere. By 2025, 300,000 will be installed, 200,000 of which in the new recycled plastic version and ready to measure blends with “green gas”. This green version of NexMeter will be at the centre of the first trial in Italy concerning the use of gas and hydrogen mixtures in household gas distribution, in the Modena area.

Hera’s multi-business competence, indeed, represents a strategic opportunity to develop solutions in the field of “clean energies”, as shown by the project for a unit with power-to-gas technology at the Bologna Corticella purification plant, already at an advanced planning stage, with start-up expected by 2023.

As regards tenders for gas distribution, Hera aims to confirm its position as service manager in the areas already covered, with two more tenders expected over the period covered by the Plan, in addition to ATEM Udine 2, which the Group was recently awarded.

In district heating, Hera’s goals include increasing volumes distributed and developing the heat generation mix, with the goal of reaching 77% of energy from renewable and assimilated sources in the networks managed by the Group within 2025.

Lastly, in the water cycle, Hera will aim for an increasingly efficient use of water resources, with a reduction in consumption and circularity solutions, and will invest in new technologies to increase network efficiency and resilience, through means including enhanced automation and remote monitoring.



The energy sector: 4.5 million customers by 2025 and focus on value-added services and energy efficiency

By 2025, Ebitda in the energy sector will amount to 444 million euro, up 76 million compared to the 368 million seen in 2020, while the investments made during the period covered by the Plan period will come to approximately 550 million euro.

Hera will continue its efforts to expand the customer base, with the aim of consolidating its position as the third largest operator in the energy sector in Italy and reaching 4.5 million customers by 2025, due to factors including upcoming competitive procedures for eliminating protected markets. This will be due to significant investments in customer experience, to improve its effectiveness and efficiency, introducing new functions and tools to encourage customer involvement and interaction with the company, while maintaining the “cost to serve” per client stable over the years.

Ebitda will be sustained first and foremost by extracting commercial expansion and cross-selling activities – amounting to approximately 27 million – due in particular to the integration of EstEnergy, the internal growth created by sales campaigns and the increased amount of value-added services and energy efficiency, continuing also to take advantage of all the opportunities related to the so-called super-ecobonus. The range of value-added services, in particular, will be further expanded with solutions for reducing consumption and new integrated proposals for protecting the environment, such as photovoltaics. This focus on sustainability is confirmed by the fact that proposals are already made to all retail customers for 100% energy from renewable sources. Hera will also continue to invest in developing electric mobility, with the aim of installing more than 4,000 recharging points by 2025, integrating its offer with a series of advanced products and services.

Lastly, as regards external growth, following up on the acquisitions already completed, the Group will aim to acquire new customer packages in a market that is still highly fragmented and in which smaller operators, vulnerable due to the currently high volatility of energy markets, are disappearing.

A leader in waste management, with outstanding plants and innovative projects for the circular economy

Ebitda for the waste management sector will also rise, going from 258 million euro in 2020 to 380 million in 2025, with investments expected to amount to almost 1.1 billion over the period covered by the Plan.

In this sector, the Hera Group is the leading operator nationally, with a set of approximately ninety state-of-the-art facilities in line with European best practices, capable of treating all types of waste. Under the Plan, the Group aims to consolidate its leadership through new acquisitions, commercial development, growth in volumes treated, increased recovery and recycling activities. It will thus meet the rapidly growing demand and continue to implement projects in support of the circular economy.

Group subsidiary Aliplast, already a leader in plastics recycling, will play a central role in promoting the circular economy, extending its efforts by increasing the capacity of plants dedicated to treating flexible plastics (PET and LDPE). Thanks to its partnership with NextChem, part of the Maire Tecnimont Group, it will also enter the rigid plastics segment, with the construction in Modena of an innovative plant producing high-quality recycled polymers, which will promote the sustainability of certain sectors, such as IT and consumer electronics, which until now have only been able to use virgin plastics for their products. A new plant is also being planned to recycle carbon fibre, which can then be reused to make new products, particularly in the automotive sector. In general, the objective is to increase the volume of recycled plastic by 125% in 2025 compared to 2017.

In addition, Hera plans to double its production of biomethane – reaching 16.8 million cubic metres per year in 2025 – by replicating the positive experience of the Sant’Agata Bolognese plant in Bologna area, which produces compost and biomethane from organic waste, fuelling sustainable mobility. Through the NewCo

Biorg, born out of a partnership with the Cremonini Group, a plant in Spilamberto in Modena area will be restructured to produce biomethane and compost from organic waste and agro-food waste, while in the Marche region Hera is continuing to work on an anaerobic biodigester from organic waste, generating positive effects in an area currently lacking in facilities of this type.

Thanks to its unique offer of sustainable and integrated solutions, Hera also aims to expand its industrial customer base. The synergies between the Group's companies make it possible to offer businesses customised "turnkey" service packages that include all activities relating to the waste cycle, water resources and energy services. A further contribution to enriching Group's proposals and its geographical coverage will come from recent M&As in industrial waste treatment: in 2021, in fact, Hera acquired 70% of the Friuli-based company Recycla, 31% of Sea in the Marche region and 80% of the Vallortigara Group located in Veneto. Lastly, as regards municipal waste services, the Group has already won tenders in the Ravenna-Cesena, Modena and Bologna areas and aims to confirm its management of this service in the remaining areas already covered in Emilia-Romagna. In these areas, Hera intends to further improve the percentage of sorted waste collected, reaching 76% by 2025, with measures to increase its quality as well, such as involving citizens and businesses with dedicated initiatives and communication campaigns, and installing around 62 thousand "Smarty" computerised bins, automated and remotely controlled, during the period covered by the Plan.

The main industrial objectives to 2025, with an eye on 2030 as well

The Group's commitment towards the content of the Plan to 2025 translates into industrial objectives consistent with European policies and UN recommendations. Moreover, in order to define its contribution even more precisely, Hera has extended its perspective to include a series of targets to 2030.

One of the most important of these goals is to work towards carbon neutrality. Hera has set itself one of the most ambitious greenhouse gas emission reduction targets for a company in Italy: 37% by 2030, after achieving 26% in 2025 (in both cases compared to 2019). This target – validated by the prestigious international network Science Based Target initiative – is even more significant since it takes into account both the Group's activities and those of its suppliers and customers in electricity and gas sales.

The Group has also confirmed its commitment to the circular economy and regenerating resources. Some targets include: increasing the percentage of packaging recycling, from 73% in 2020 to 76% in 2025 and over 80% in 2030, and increasing the percentage of wastewater reused, from 5.1% in 2020 to 8.5% in 2025 and 15% in 2030.

Tomaso Tommasi di Vignano, Executive Chairman of the Hera Group

The Hera Group's Business Plan to 2025 outlines new development objectives for our company, in economic terms and as regards sustainability. In order to achieve these goals, we have allocated significant investments to continue introducing cutting-edge projects in the areas where we have a consolidated presence. These investments will also allow us to expand our scope, seizing the best opportunities for competition in the still highly fragmented sectors in which we operate. In an increasingly complex economic context, we wish to concretely contribute to recovery and the sustainable transition in Italy, with a multifaceted series of interventions, in line with the notices of the Recovery and Resilience Plan. Our multi-utility has now reached maturity, and not only in terms of age: this Plan crowns 20 years of progressive and linear growth, which has also generated value in the communities served. We have proved able to look to the future, extending our knowledge and perspectives, while being able to count on the solid foundations provided by our heritage and a consolidated strategy. Above all in the difficult times that our country has recently experienced, we have continued to guarantee quality services – as demonstrated by being awarded all tenders for regulated services held to date in the areas we cover – and to support those who have believed



in us. This means our employees, customers, suppliers and shareholders, to whom we plan to pay dividends with further increases compared to what was previously defined, reaching 14.5 cents per share by 2025, following a growth rate of approximately 6%, in line with the expected trend in net results.

Stefano Venier, CEO of the Hera Group

The strategies set out in the Hera Group's Business Plan to 2025 confirm and consolidate the orientations we have defined in the past, proving the effectiveness of the guidelines adopted by our multi-utility, which perfectly reflect European policies and the drivers of the UN Agenda for Sustainable Development. The improved cash flows expected will make it possible to self-finance our entire investment plan and remuneration for our shareholders. In order to focus our actions even more effectively, over the last two years we have begun measuring our progress with respect to the ambitious targets set for 2030, thus strengthening our commitment to the energy transition, the circular economy and technological evolution. Business activities and attention to ESG factors have always gone hand in hand for us, and over the years "shared value" Ebitda has grown at the same rate as the Group itself: in 2025 we expect this figure to reach 55% of total Ebitda, rising to 70% in 2030.

<https://eng.gruppohera.it/>

JENS KLINT HANSEN

Head of Investor Relations

Ph.: + 39 051 287 737

e-mail: jens.hansen@gruppohera.it