

press release

Bologna, 13 November 2019

## Hera BoD approves 3Q 2019 results

*The Group closed the first nine months of the year with particularly positive results, higher than expectations, and with the third quarter showing further improvement over the previous quarters. All main operating and financial figures showed growth, as did investments, with a special focus on innovation as a lever for development*

### Financial highlights

- Revenues at 5,063.2 million euro (increased by 16.4%)
- Ebitda at 785.8 million (increased by 5.0%)
- Net result at 242.0 million (increased by 12.1%)
- Net debt at 2,740.7 million, with Net debt/Ebitda reduced to 2.57x

### Operating highlights

- Good contribution to growth coming from business areas, especially the gas, water and waste management sectors
- Positive results thanks to both internal growth and M&A
- Sharp increase in energy customers, now almost 2.65 million, more than triple the historical average

Today, the Hera Group's Board of Directors, chaired by Tomaso Tommasi di Vignano, unanimously approved the consolidated financial results at 30 September 2019, which shows particularly positive results and further improved the growth already seen in the previous quarters.

The trends seen over the first nine months of the year, which were higher than expected, reflected the Group's effective implementation of its Business plan to 2022, having already reached 42% of the expected 200 million euro growth in Ebitda, ahead of the projected timeline. Some strategic projects, including M&As to be concluded in the near future, will be included in the upcoming Business plan to 2023.

An excellent contribution came from internal growth, both in free market activities – which saw an increase in energy customers, now almost 2.65 million, and further expansion in the area of waste treatment – and regulated ones. The M&A operations carried out during the first nine months include the integrations of *ATR* in gas distribution and *CMV Energia e Impianti's* energy sales operations, both of which are companies operating in the Ferrara area, the acquisition of *Cosea Ambiente*, with the *Cosea Consorzio* landfill in the Tuscan-Emilian Apennine area, and *Pistoia Ambiente* in Tuscany. Furthermore, a definitive formalisation of the *Ascopiave* deal is underway, according to the timeline previously set out.

In general, the results for the first nine months confirm the Group's winning strategy, based on a business model that balances regulated and free market activities, and brings internal growth together with an eye towards M&A opportunities. Sustainability and innovation have proven to be increasingly important competitive levers underpinned higher amount of investments, focused on "circular economy model" and "resource regeneration", with the goal of creating value for the local area and all stakeholders.

### Revenues increase to 5,063.2 million euro

In the first nine months of 2019, revenues came to 5,063.2 million euro, increased by 16.4% over the 4,348.4 million recorded at 30 September 2018, thanks to the contribution coming from all business areas. Trading operations and higher revenues and volumes sold in gas and electricity were particularly significant.

### **Ebitda rises to 785.8 million**

Consolidated Ebitda at 30 September 2019 increased from 748.6 million euro to 785.8 (increased by 5.0%). This growth mainly came from the good performance seen in the Group's various business areas, especially the gas and water businesses. Positive results were also recorded in the waste treatment business.

### **Operating result and pre-tax profit up thanks to factors including financial operations**

The operating result grew to 405.5 million euro, compared to the 376.5 seen at 30 September 2018 (increased by 7.7%), and pre-tax profit rose to 338.4 million compared to the 311.0 recorded one year earlier (increased by 8.8%). Financial income and expenses at the end of the first nine months of 2019 settled at 67.1 million euro, substantially in line with the figure seen at 30 September 2018.

### **Net result increases to 242.0 million (increased by 12.1%)**

The net result at 30 September 2019 rose to 242.0 million euro (increased by 12.1%), compared to the 215.9 million seen at the same date one year earlier, while the Net profit post minorities increased to 230.8 million, compared to the 208.7 million recorded at 30 September 2018 (increased by 10.6%). These results benefitted from factors including an average tax rate that came to 28.5%, an improvement over the 30.1% seen in the same period of the previous year, thanks in particular to the Group's commitment to investing in technological and digital transformation, along the lines of Utility 4.0.

### **Over 343 million euro in investments and reduction in the Net debt/Ebitda ratio**

At 30 September 2019, the Group's operating investments, including capital grants, amounted to 343.1 million euro, increased by 15.7% over the same date in 2018 and in line with the indications set out in the Business plan to 2022. Operating investments mainly involved interventions on plants, networks and infrastructures, furthering their development and resilience in order to better face the challenges coming from climate change. Investments also went to regulatory upgrading above all in the purification and sewerage area, in addition to gas distribution, with a large-scale gas smart meter installation.

These interventions also include Hera's increasing investments in the field of innovation: yesterday, at Paris' European Utility Week, the most important conference in the sector, *NexMeter* was launched, the innovative smart gas meter 4.0 created by the Hera Group alongside leading national and international partners and provided with advanced safety functions and technology. Thanks to investments coming to 45 million euro, the first 300,000 smart meters will be installed over the next three years.

At 30 September 2019, net debt came to 2,740.7 million euro, remaining basically stable, thanks to a cash flow that entirely financed the investments made, including those aimed at development, and the annual dividend payment. The change compared to the 2,585.6 million recorded at 31 December 2018 was mainly due to figurative debts booked in application of accounting standard IFRS16 and, to a lesser degree, the M&A operations carried out recently, which will contribute to growth in results in the fourth quarter as well. Financial leverage reduced, with the net debt/Ebitda ratio coming to 2.57x, compared to the 2.62x seen at 30 September 2018.

### **Gas**

Ebitda for the gas business – which includes services in natural gas distribution and sales, district heating and heat management – came to 239.8 million euro at 30 September 2019, increased by 7.9% over the same period in the previous year, in terms of both revenues and volumes sold. These results were obtained thanks to a larger amount of trading activities and the market expansion in the *default* and *last resort* supply services. A very significant rise was seen in gas customer base – almost 1.5 million overall, at the end of the third quarter of 2019 – with growth coming to 52,400 (increased by 3.7%) compared to the same period in the previous year, mainly due to the consolidation of the companies *Sangrosvizi* and *CMV Servizi*, new customers in the default and last resort markets and marketing initiatives.

The gas area accounted for 30.5% of Group Ebitda.

### **Water**

The water business – which includes aqueduct, purification and sewerage services – showed a 7.4% growth in Ebitda, which reached 200.0 million euro, compared to the 186.2 million seen in September 2018. This growth was caused above all by higher revenues for new connections and supply; the latter reflected the results of the tariffs introduced by the Authority for the period from 2016 to 2019 and bonuses for contract quality.

The integrated water cycle business accounted for 25.4% of Group Ebitda.

### **Waste management**

In the waste management business – which includes services in waste collection, treatment, recovery and disposal – the Hera Group further consolidated its leadership, with a set of avant-garde plants that offers solutions across the board and supporting the evolution of activities towards “circular economy model”. Important results were also reached in sorted waste, which went from 61.4% in the first nine months of 2018 to 63.4% in the same period of the current year.

At 30 September 2019, Ebitda rose to 192.0 million euro, showing a 2.0% increase over the 188.2 million seen at 30 September 2018, mostly achieved in the third quarter. This positive trend – which fully offset lower revenues due to a drop in volumes treated – was sustained among other things by trends in prices for special and industrial waste treatment, the contribution coming from *Aliplast* and new structures such as the waste treatment plant inaugurated in Cordenons (PN) and the innovative biomethane production plant in Sant’Agata Bolognese (BO), both having progressively become fully operational. These results furthermore benefitted from the acquisitions of *Cosea Ambiente*, including the landfill in Gaggio Montano (BO), and *Pistoia Ambiente*. As regards the higher efficiency reached, moreover, also note the merger of *Waste Recycling* into *Herambiente Servizi Industriali*, which thus became Italy’s largest company involved in industrial waste management, and *Aliplast*, which continued to show growth through market development and the extraction of synergies through integrations.

The waste management business accounted for 24.4% of Group Ebitda.

### **Electricity**

Ebitda for the electricity business – which includes services in electricity generation, distribution and sales – went from 133.2 million in the first nine months of 2018 to 129.1 million at 30 September 2019. This result is even more appreciable considering the effects of the new tender for 2019-2020 safeguarded services, in which a high degree of competition led to lower prices than the previous two-year period. This factor was almost entirely offset by higher volumes sold and higher revenues, as well as the positive contribution coming from activities in electricity trading and generation.

Significant growth was also seen in the number of customers, which came to 132,400, up 12.7% over the same period in 2018, thanks above all to marketing initiatives in the free market area. At 30 September 2019, customers amounted to almost 1.2 million.

The electricity business accounted for 16.4% of Group Ebitda.

*The manager responsible for drafting the company’s accounting statements, Luca Moroni, declares, pursuant to article 154-bis paragraph 2 of the TUF, that the information contained in the present press release corresponds to the documentation available and to the account books and entries.*

*The third-quarter management report and related materials are available to the public at Company Headquarters and on the website [www.gruppohera.it](http://www.gruppohera.it).*

*Unaudited extracts from the Intermediate Management Report at 30 September 2019 are attached.*

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<b>Profit &amp; Loss (m€)</b>	<b>30/09/19</b>	<b>Inc.%</b>	<b>30/09/18</b>	<b>Inc.%</b>	<b>Ch.</b>	<b>Ch. %</b>
Sales	5,063.2		4,348.4		+714.8	+16.4%
Other operating revenues	366.7	7.2%	321.1	7.4%	+45.6	+14.2%
Raw material	(2,504.9)	(49.5%)	(1,966.6)	(45.2%)	+538.3	+27.4%
Services costs	(1,698.4)	(33.5%)	(1,529.2)	(35.2%)	+169.2	+11.1%
Other operating expenses	(45.6)	(0.9%)	(42.9)	(1.0%)	+2.7	+6.3%
Personnel costs	(418.7)	(8.3%)	(410.1)	(9.4%)	+8.6	+2.1%
Capitalisations	23.5	0.5%	28.0	0.6%	(4.5)	(16.1%)
<b>Ebitda</b>	<b>785.8</b>	<b>15.5%</b>	<b>748.6</b>	<b>17.2%</b>	<b>+37.2</b>	<b>+5.0%</b>
Depreciation and provisions	(380.3)	(7.5%)	(372.2)	(8.6%)	+8.1	+2.2%
<b>Ebit</b>	<b>405.5</b>	<b>8.0%</b>	<b>376.5</b>	<b>8.7%</b>	<b>+29.0</b>	<b>+7.7%</b>
Financial inc./.(exp.)	(67.1)	(1.3%)	(65.5)	(1.5%)	+1.6	+2.4%
<b>Pre tax profit</b>	<b>338.4</b>	<b>6.7%</b>	<b>311.0</b>	<b>7.2%</b>	<b>+27.4</b>	<b>+8.8%</b>
Tax	(96.4)	(1.9%)	(95.1)	(2.2%)	+1.3	+1.4%
<b>Net profit</b>	<b>242.0</b>	<b>4.8%</b>	<b>215.9</b>	<b>5.0%</b>	<b>+26.1</b>	<b>+12.1%</b>
Special items	-	0.0%	4.8	0.1%	(4.8)	(100.0%)
<b>Net profit</b>	<b>242.0</b>	<b>4.8%</b>	<b>220.7</b>	<b>5.1%</b>	<b>+21.3</b>	<b>+9.7%</b>
Attributable to:						
<b>Shareholders of the Parent Company</b>	<b>230.8</b>	<b>4.6%</b>	<b>208.7</b>	<b>4.8%</b>	<b>+22.1</b>	<b>+10.6%</b>
Minority shareholders	11.2	0.2%	11.9	0.3%	(0.7)	(6.0%)
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<b>Balance Sheet (m€)</b>	<b>30/09/19</b>	<b>Inc.%</b>	<b>31/12/18</b>	<b>Inc.%</b>	<b>Ch.</b>	<b>Ch. %</b>
Net fixed assets	6,151.2	108.9%	5,905.1	108.7%	+246.1	+4.2%
Working capital	109.6	1.9%	115.4	2.1%	(5.8)	(5.0%)
(Provisions)	(610.0)	(10.8%)	(588.2)	(10.8%)	(21.8)	+3.7%
<b>Net invested capital</b>	<b>5,650.8</b>	<b>100.0%</b>	<b>5,432.3</b>	<b>100.0%</b>	<b>+218.5</b>	<b>+4.0%</b>
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Net equity	2,910.1	51.5%	2,846.7	52.4%	+63.4	+2.2%
Long term net financial debt	2,846.5	50.4%	2,558.8	47.1%	+287.7	+11.2%
Short term net financial debt	(105.8)	(1.9%)	26.8	0.5%	(132.6)	(494.8%)
Net financial debts	2,740.7	48.5%	2,585.6	47.6%	+155.1	+6.0%
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<b>Net invested capital</b>	<b>5,650.8</b>	<b>100.0%</b>	<b>5,432.3</b>	<b>100.0%</b>	<b>+218.5</b>	<b>+4.0%</b>