

Press release

Bologna, 13 January 2021

Hera Group approves Business Plan to 2024

In light of the positive preliminary results for 2020, exceeding expectations, the Group has presented its new five-year strategic document, which confirms trends showing growth and ongoing progress in sustainability. Investments and actions have been planned for an energy transition aimed at carbon neutrality and an environmental evolution towards a circular economy, alongside technological innovation, coherent with European strategy and the goals on the UN's 2030 Agenda

Operating and financial highlights

- **2024 Ebitda: 1.3 billion euro (+215 million over 2019 Ebitda)**
- **Overall industrial and financial investments: roughly 3.2 billion euro**
- **2024 Net debt/Ebitda ratio: 2.8x**
- **Further increases expected in dividends, reaching 12.5 cents per share in 2024 (+25% compared to the last dividend paid)**

Industrial highlights

- **Strategy focused on 3 areas: the environment, socio-economic factors and innovation**
- **Development driven by both internal and external (M&A) growth**
- **Target of 4 million energy customers by 2024**
- **88% of growth in Ebitda in line with "Next generation EU" goals**
- **2024 Shared Value: 648 million euro**
- **Content of the Plan already framed within Hera's objectives for 2030**

A new Plan for development and growth

Today, the Hera Group's Board of Directors, chaired by Tomaso Tommasi di Vignano, approved the Business Plan to 2024. This new five-year strategic document reflects Hera's renewed commitment towards development and growth, with expectations increased compared to the previous Plan, and actions planned in areas including energy transition and environmental protection, technological evolution and social cohesion.

The Group's strategies for industrial and commercial reinforcement have been set out according to sustainable business models, channelling opportunities coming from innovation and digital technology, and promoting the creation of shared value for all stakeholders. Hera furthermore intends to support local communities in a recovery compliant to European strategies and the goals on the UN's 2030 Agenda.

Supported by the positive preliminary results for 2020, Hera will thus proceed along the path of uninterrupted growth it has followed since its establishment in 2002, with the aim of consolidating its leadership in all main business areas. All of this thanks to the strength of a model that over the years has proven to be winning and resilient and offers, still today, a concrete guarantee of additional future development.

A solid foundation in the preliminary results for 2020

The Business Plan to 2024 is based on the solid fundamentals seen in the year-end projections for 2020: the preliminary results, indeed, confirm growth in the main indicators over the previous year. Ebitda is expected to have reached 1,118 million euro in 2020, increasing compared to the 1,085 million seen in 2019, while the Net debt/Ebitda ratio shows considerable improvement, settling at 2.9x, as against 3.02x at 31 December 2019. Last year, furthermore, Hera made investments coming to roughly 540 million euro, essentially unchanged with respect to 2019. In 2020, Hera thus overcame the difficulties caused by the pandemic and guaranteed continuity, efficiency and quality in the services provided, as well as offering concrete support to all stakeholders, first and foremost customers, suppliers and employees.

The framework of the new Plan: resilience, green transition and digital technology, for recovery

To respond to the complex scenario seen in 2020 and limit the impact of the crisis, the European Union has projected a series of extraordinary measures – including the “Next Generation EU” program – with funding going in particular to the green transition and digital technology. Alongside these measures, mention must go to the opportunities found in our country’s particular situation, which shows room for consolidation in markets that remain overly fragmentary, tenders for service concession renewal, and a further liberalisation of electricity sales with the end of the protected customer system.

Three focal points of the Business Plan to 2024: the environment, socio-economic factors and innovation

The Hera Group has enhanced its strategy, following European directives while at the same time maintaining its coherence towards the 2030 Agenda, which for years has guided the Group’s commitment towards sustainable development.

More specifically, the new Plan revolves around three strategic focal points – the environment, socio-economic factors and innovation – according to which all of Hera’s projects will take shape. The environmental focal points include promoting a circular economy by recovering, reusing and regenerating resources, interventions aimed at increasing infrastructural resilience so as to prevent and mitigate risks. More generally, this area also includes all actions aimed at countering climate change – an area in which Hera has been a leading figure for some time – in order to reach carbon neutrality, promoting bioenergies/green gas – such as biomethane, hydrogen and green syngas – and energy efficiency. Contributing to decarbonisation and saving resources will also come about through a drop in consumption within the Group itself: by 2024, energy consumption is expected to fall by 7% (compared to 2013) and internal water consumption by 17% (compared to 2017). The socio-economic factors, instead, involve creating “shared value” for stakeholders and the areas served, making the most of the Group’s physical and commercial assets, with new services having added value for customers, collaborations with external partners and projects for listening to local and social needs, as well as finalising integration transactions or tenders for regulated service assignments. Innovation, lastly, covers the opportunities linked to technological evolution, digitalisation, artificial intelligence and data analysis, to increase efficiency and service quality, with increasingly agile employment solutions, while maintaining the correct balance between people and technology.

Investments coming to approximately 3.2 billion euro, up thanks to the Group’s financial solidity

The Plan to 2024 calls for increased investments, coming to roughly 3.2 billion euro, 640 million per year on average: these figures are significantly higher (by approximately +40%) than the average seen over the last five years. In particular, an increase is expected in internal development, coming to 2.9 billion, 400 million more than in the previous Plan, with a financial commitment proportionate to Hera’s presence in the areas

served and the features of the various business areas. 280 million will go to M&A operations and tenders for regulated services, with a slight drop compared to the previous Plan due to delays in a few gas tenders, partially offset by higher amount dedicated to external investments.

More generally, 60% of these investments will be dedicated to projects respecting European objectives. 42% will go towards activities in line with the “Green Deal”, for reducing emissions, carbon neutrality, business resilience and circular economy. The remaining 18% will be channelled into technological evolution: from increased cybersecurity to remote control, and from “smarty” bins for sorted waste to new meters.

This increase in investments was made possible not only by the positive results reached in 2020, but also by Hera’s financial solidity, which leaves room to manoeuvre with additional unforeseen investments. During the period covered by the Plan, in fact, a reduction is expected in the net debt/Ebitda ratio, reaching 2.8x by 2024.

Ebitda expected to rise to 1.3 billion in 2024, through both internal and external development

The new Plan confirms the growth set out in the previous one: by 2024, the Group expects Ebitda to reach 1.3 billion euro, up 215 million compared to the 1,085 million seen at the end of 2019, with an average annual increase coming to roughly 43 million. This development will follow a solid, balanced and sustainable path, in both its internal and external directions, respecting Hera’s history and industrial evolution. All business areas will contribute to growth in Ebitda, with the Group’s habitual balance between regulated and free market activities. The contribution to growth in Ebitda expected from internal development will come to 135 million, thanks to synergies, enhanced efficiency, market expansion and investments, all of which will offset the reduction in incentives for renewable energy production. The remaining 80 million will instead come from external development, an area in which the Group will be able to consolidate its role as an aggregator, strengthened by the many integrations seen along its history, with positive effects on the areas served. Hera will thus continue to grasp the opportunities coming from a persistently fragmentary market.

In the case of Ebitda as well, it is important to note the amount involving actions in line with European policies, which comes to almost 90% of the expected increase, amounting to roughly 190 million.

A sharp increase in “shared value” Ebitda: sustainability, as an additional lever for competitiveness

In the new Plan as well, an approach based on sustainability is fully integrated within the Group’s strategies. In order to offer transparency to stakeholders, reporting on “shared value” Ebitda was introduced as early as 2016, providing information, that is, on business activities that in addition to creating earnings also respond to the drivers set out in the 2030 Agenda. Growth will continue in “shared value” Ebitda, which by 2024 will account for almost 50% of total Ebitda, reaching 648 million euro.

Hera can, indeed, count on its best practices in ESG areas (environmental, social, governance), which have been recognised by the company’s presence in the Dow Jones Sustainability Index, World and Europe, one of the most authoritative market indices for social responsibility, ranking as “Industry leader” out of the roughly 3,500 companies with the highest capitalisation in the world. Hera’s attention towards sustainability and transparency has been confirmed, lastly, by its decision to commit itself to the goal “Well below 2°C” of the “Science Based Targets initiative” and to apply the recommendations of the “Task Force on Climate-related Financial Disclosures” (TCFD) in its reporting as of the 2020 financial year, to offer all stakeholders the information required to evaluate opportunities and risks linked to the climate.

Value for shareholders and rising dividends

The new Plan further reinforces the Group’s attention towards generating value for its shareholders, who can rely on a return on invested capital that is decidedly higher than the average weighted cost of capital and on a solid and transparent dividend policy, whose payment was fully confirmed in 2020, despite the difficulties

faced by the country. The rate at which dividends will increase by 2024, indeed, is in line with the one included in the previous Plan, with a 0.5 cent/share increase each year. The dividend pertaining to 2020, expected to come to 10.5 cents per share, will increase, reaching 12.5 cents by 2024 (+25% more than the last dividend paid).

Networks: from regenerating resources to the new frontiers of “clean energy”

Over 40% of the Group’s Ebitda will come from networks, which include services in electricity and gas distribution, the water cycle and district heating: in 2024, Ebitda coming from this area is expected to reach 532 million, increasing over the 480 million seen in 2019. Hera will invest roughly 2,100 million in extending, modernising and upgrading networks. Technology will be at the root of all projects, to guarantee resilience, efficiency and business continuity, including the search for sustainable solutions in the area of “clean energy”, such as power-to-gas and green gas blending in general, in which the Group will rely on its multi-business competencies.

In the water cycle, for instance, avant-garde technologies will be introduced to monitor and remove pollutants and further improve the quality of water. In the Bubano (Imola) reservoirs, the “Water FingerPrint” project will be introduced for the first time, with the creation of a water “fingerprint” to monitor compliance, while a prototype for removing PFAS will be developed using graphene, applied to the water taken from the Pontelagoscuro (Ferrara) purifier. Furthermore, to counteract situations of water shortage, the projects for reuse of purified water already introduced in Bologna (with Idar and other minor purifiers) and currently being defined for the area surrounding Modena (with the Sassuolo and Savignano sul Panaro purifiers) will be extended to the Ferrara and Ravenna areas. Their implementation, over the period of time covered by the Plan, will potentially allow 17 million cubic metres of water resources to be reused, with the total volume of reusable waste water rising to 9%. At the Bologna Corticella purifier, a plant with power-to-gas technology will be installed, which will allow excess electricity to be transformed into hydrogen and/or green gas and introduced into the distribution networks, making the most of water, biogas and sludge in the chemical process and thus creating an innovative example of circularity that creates synergies between various business areas.

In addition to substituting metres as foreseen by compliance with legislative obligations, work will continue on installing NexMeter devices, the new 4.0 smart gas meters designed by Hera and provided with advanced technology and functions capable of countering leakage or tremors caused by earthquakes, leading to an increase in security in networks and for users. Within 2024, 300,000 devices will be installed, especially in areas with a higher risk of earthquakes.

Hera will continue its work on district heating, with solutions offering higher efficiency and environmental benefits: 70% of the heat introduced in networks managed by the Group already comes from renewable and assimilated sources. A connection is expected to be introduced between two district heating systems in Bologna (the San Giacomo location and the CAAB Pilastro system), which, along with commercial development in the bordering areas, will reduce carbon dioxide emissions by 24 thousand tons per year. The objective for 2024 is to serve district heating to over 100,000 residential housing units.

As regards new opportunities, tenders will be renewed for the gas distribution and integrated water cycle services in the upcoming years, with four concessions expected during the period covered by the Plan in areas in which Hera already operates. This is an opportunity to offer services that are even more reliable, efficient and safe.

The energy sector: goal of 4 million customers in 2024 and new proposals with added value

By 2024, Ebitda coming from the energy sector will amount to 403 million euro, increasing over the 305 seen in 2019, while the investments expected during the period covered by the Plan come to 338 million.

In the upcoming years as well, Hera – which today is already the nation’s third operator in the energy sector – will continue to make efforts to enlarge its customer base, with particular attention going to the electricity market. The goal is to reach 4 million customers in 2024, with an increase of over 70,000 customers each year, partially thanks to the elimination of the protected electricity market. This objective has been adjusted upwards compared to the previous Plan, for reasons including the Ascopiave partnership, consolidated at the beginning of 2020, which led to the creation of the largest energy operator in North-Eastern Italy.

This growth will be supported by new services with added value, which will enrich the Group’s range of offers, with combined proposals for reducing consumption. The most significant of these offers will be adapted to the customers’ differing features and oriented towards sustainability, with an increasingly “green” supply (at present, all retail customers already use energy entirely coming from renewable sources), e-billing and initiatives aimed at raising awareness on energy saving. As regards the assignment of last resort services, Hera once again ranks among the national market leaders, after being awarded, in fall 2020, 8 portions of the last resort gas supply service, 5 portions of the default gas service and 1 portion of the protected electricity service.

An increase is also expected in activities increasing energy efficiency and upgrading heating systems in residential buildings, while further solutions intended for industrial customers and public administrations will be developed. The new offers may also include photovoltaic systems for residential buildings and private customers, who will thus be able to benefit from incentives for installation thanks to tax deductions for renewable energy.

Lastly, Hera also offers circular and energy efficiency solutions in public lighting – with 660,000 lighting points expected to be managed in 2024, and increasing investments made in efficiency and resilience – and telecommunications, with plans for IT security integrated with the energy sector and solutions for smart cities.

First in waste: outstanding plants, circular economy projects and sorted waste

Growth in Ebitda is also expected in the waste area, going from 264 million in 2019 to 320 in 2024, with investments amounting to 694 million expected between 2020 and 2024.

In this area, Hera intends to consolidate its national leadership to a greater degree, beginning with the integrated waste cycle, in which Herambiente boasts an avant-garde set of plants, in line with European best practices and subject to continuous innovation, able to manage resources as best as possible and maximise reuse. The number of Group plants will increase, thanks to M&A transactions expected to take place in the short term.

The know-how acquired with the Sant’Agata Bolognese (BO) plant, which produces compost and biomethane from organic waste, fuelling sustainable mobility, for example, will lead new projects to be created, supporting the transition to a circular economy. In Spilamberto (Modena), plans have been made for a plant capable of transforming organic waste into biomethane, while in the province of Pesaro-Urbino an anaerobic biodigester using organic waste will be built, designed to produce biomethane and quality compost. This latter strategic initiative is all the more significant considering the lack of self-sufficiency concerning this type of plant in the Marche region, with noteworthy positive effects concerning the environment and employment. Overall, Hera’s target during the time covered by the Plan is to produce over 15.5 million cubic metres of biomethane from organic waste per year, more than doubling the current amount. Additional synergies will come from the environmental platform for dangerous and non-dangerous waste to be built in Ravenna, thanks to the new company established following an agreement with Eni Rewind in November 2020.

Hera furthermore aims at enlarging its customer base through means including its offer, unequalled in Italy, of sustainable and integrated solutions that, thanks to synergies among Group companies, involve the waste

cycle, water resources and energy services. It also intends to develop new circular economy opportunities thanks to collaborations and projects involving reuse with strategic partners.

In the area of plastics, the subsidiary Aliplast will extend its commitment to recycling, with the goal of selling roughly 110,000 tons of recycled plastic by 2024 (+20% compared to 2019 and +83% compared to 2017), both by increasing its plant capacity and by beginning to recover rigid plastic, with the creation in Emilia-Romagna of an innovative structure for producing high-quality recycled polymers, thanks to the partnership signed in October 2020 with NextChem, a company belonging to the Maire Tecnimont Group.

Hera also intends to be confirmed as manager of the waste collection service in the areas currently managed in Emilia-Romagna: over the period of time covered by the Plan, tenders are expected in the areas in question, concerning services for roughly 2.5 million citizens. Assigning these services to Hera will allow quantity-based tariff to be extended to over 420 thousand users, compared to 180 thousand at present, with a positive effect on sorted waste, which is expected to see a further increase, going from 64.6% in 2019 to 75% in 2024. Improvements are also expected as to quality, thanks to initiatives in involvement and communication as well as innovation, by introducing remote management of 100,000 evolved waste bins over 10 years. An increase is also expected in the number of containers for used oil deposited by citizens, which – thanks to the recently renewed agreement with Eni – will be used to obtain biofuel, thus fuelling a larger number of Hera vehicles involved in waste collection.

From 2024 to 2030: longer-term industrial objectives

In order to even more concretely orient Hera's long-term objectives, and better define its contribution to implementing European policies and the UN's recommendations, the Group has extended its perspective to 2030. The most significant challenges include pursuing carbon neutrality: Hera wants to be the Italian multi-utility with the most ambitious goal, in line with the criteria of the "Science Based Target initiative" (as concerns, in particular, the "Well below 2°C" level, intended to limit the increase in the earth's temperature to significantly under 2°C). This means lowering the amount of carbon dioxide emitted into the atmosphere by over 15% within 2024 and by roughly 33% within 2030, in both cases compared to 2019, calculating the emissions made by both the Group and its customers, as regards electricity and gas sales. Once again with an eye to 2030, the Group will continue to make efforts towards a circular economy, with a 150% increase in the amount of plastic recycled by Aliplast (compared to 2017), an over 75% rise in the amount of packaging recycled, and growth in the percentage of recycled urban waste, coming to 67%. Furthermore, the Group is now giving greater attention to the contribution that may come from hydrogen, with reference on the one hand to the evolution and configuration of its own assets, beginning with gas distribution networks, and on the other to new business opportunities, which may be pursued thanks to its own multi-utility platform and partnerships with important industrial actors.

Tomaso Tommasi di Vignano, Hera Executive Chairman

The reference scenario for the upcoming five years shows challenges and opportunities, which Hera has proven able to grasp in advance, by basing its strategy and its own approach to sustainability on them, well in advance. Today, with the new Business Plan, we can capitalise on the efforts made until present and increase our targets for growth to 2024. To support our goals, we have drawn up a significant investment plan which will expand our assets, at the same time making them increasingly sustainable, in line with the indications coming from international institutions. We have furthermore confirmed all of our operating-financial policies, most importantly maintaining a conservative asset profile, allowing us to finance potential investments not included in the Plan. All of this, without affecting the dividends paid to our shareholders, which on the contrary we expect to raise over the five years in question, with a 25% increase compared to the most recent dividend paid, reaching 12.5 cents per share in 2024.



Stefano Venier, Hera CEO

Hera has always managed its activities through a sustainable approach, integrated into its business strategies. Therefore, with our new Business Plan we can promote further development, with projects dedicated to circularity, carbon neutrality and technological innovation, fully respecting the guidelines introduced by the Authority and benefiting from our past actions, in areas including premiums for service quality. We furthermore wish to report to our stakeholders, with the utmost transparency, on the Group's commitment towards sustainability, already applying the TCFD's recommendations to the 2020 financial year. Our future path is very clear and presents no few challenges, so much so that we have already given ourselves targets for 2030, aiming to achieve increasingly ambitious goals in sustainability, based on the strict standards set by the Science Based Targets initiative and its methodology.

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