

PRESENTATION OF FINANCIAL RESULTS AS OF 31.12.2025

HERA GROUP

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CORPORATE PARTECIPANTS

- Cristian Fabbri - Executive Chairman of the Hera Group
- Orazio Iacono - Chief Executive Officer of the Hera Group
- Massimo Vai - Chief Financial Officer
- Jens Klint Hansen - Head of Investor Relations of the Hera Group

CONFERENCE CALL PARTECIPANTS

- *Operator*
- *Javier Suarez*, Mediobanca Equity Research - Analyst
- *Emanuele Oggioni*, Kepler Cheuvreux - Analyst
- *Davide Candela*, Intesa SanPaolo Equity Research - Analyst

PRESENTATION

Cristian Fabbri - Executive Chairman of the Hera Group

Apologies for the delay, but we had our final board meeting of this current board, and therefore we had a number of documents which we had to approve before the end of the mandate, and therefore the meeting was longer than expected. But here we are, on time compared to the delay that we had warned you about. So as usual, we will be going through our presentation on the year's results. We'll be speeding things up to allow you to have some time for questions.

Let's begin with our presentation, with the net results, which as we had mentioned was up 4%, in line with what we had said when we gave you a forecast on 2025. And it is a result which is bang in line with what we have defined in the business plan. The financial leverage is doing fine. We're below 2.6 times as promised 2.57 times is the final figure, which confirms our low leverage and our ability to deal with complex moments, but also to take advantage of opportunities on the market, as we had said during our business plan presentation.

Now moving on to the main EBITDA elements. The EBITDA, of course, had to take into account a reduction in temporary opportunities worth €114 million, for the most part linked to the last resort markets, but we'll be seeing the details later.

We are in the final tail of the last resort market contribution. We had already recovered over €100 million last year.

A further €120-114 million are being offset thanks to these results. We're just left with the final piece to be accomplished in 2026, which is roughly half that amount.

Beginning from this reduction, let's see what contributed to growth from 1.474 billion, which is the homogeneous figure compared to 2024, except for these temporary opportunities, up to 1.537 billion, with a structural growth worth 3% in our traditional businesses. Let's begin with a tariff one-off element.

As you know, in 2025, we were able to take advantage of a number of interventions in the network sector, especially on electricity and gas, which allowed us to recover the delays of costs which hadn't been recognized in the past and they gave us a sizable contribution to the 2025 results.

As far as energy is concerned, we have a minus sign. We'll be going into that, minus €17 million, and later we'll be seeing the details of that.

Networks had a good growth performance based on the growth of RAB, on the recovery of inflation, but we were also able to offset the decrease in WACC which took place in 2025 in electricity distribution and in gas distribution.

The waste business went well. It offset a lower contribution stemming from electricity, given the fixing activity we had focused on last year at high prices.

And despite that, we were still able to have a positive contribution.

And the other businesses also are up 4 million.

Now, if we look at the distribution pie chart, at the mix, you'll see that we have a greater balance between the 3 businesses, meaning that we are in line with the goals we had set in the business plan, namely to have a more balanced approach in our 3 businesses.

Energy is down from 42% to 35%. Networks are up to 38% from 32%, and waste goes up from 23% to 24%. So the portfolio is fully balanced at this point.

Now, given the size of the EBITDA reduction, which is roughly €50 million, let's see how we were able to come up with a growing net profit compared to the previous year, up by some €17 million. Let's begin with provisions. You can see that provisions have a value worth €592 million, which is up €30 million compared to last year.

This is a figure linked to the growth we posted in terms of investments made in recent years, and that is a carryover in terms of depreciation, but it was offset by the provisions, which went from €195 million to €243 million, with a €52 million reduction, leading to an EBITDA worth €803 million.

The other major benefit comes from the normalization on the financial side of things, which is in line with what we had already started doing in 2024 compared to 2023. We had gone from €200 million to €142 million whereas we now stand at a result of €92 million. These results are obviously linked to optimization efforts, but also consider that the €114 million less contribution of margins were also linked to depreciation, amortization, and provisions.

Therefore, the reduction of these elements allow us to give value to the structural growth that we had in EBITDA, which goes down to the bottom line. In taxes, we were able to have a tax rate benefit worth half a point. We now have a tax rate which is slightly below the one we had last year, despite starting from a higher pre-tax condition. And the contribution of minorities went up slightly, although it is in line with the previous year's figures, which brings us to our number, which is €464 million.

As you can see, we are working to increase efficiency, to boost organic growth so that we can continue to confirm the positive track record in terms of net profit, which was our commitment in the more recent period and for the business plan too.

We are running a little late because this was our final board meeting for this mandate, which means that 3 years have passed during which we had to face an always complex scenario with diverse levels of complexity over the period. But despite that, despite the scenario, we were able to give a cumulative return to investors that was 77% over the 3-year period, which was supported by a dividend yield which is roughly 5% despite a constant increase in the value of our stock, which stands around 16%, 17% each year. So all in all, 77%, and only in the last year, we had a total shareholder return equal to 22%

Now, this continuity in this context is once more proof of the fact that our multi-business approach to the way we manage things is focused on limiting the impact of external macros on our numbers. Now, another important item to us is sustainability. As you know, we have an aggregate way to understand the contribution of those activities which give us economic benefits but also sustainable benefits as defined by the UN. We began these reports in 2016. At the time, 33% of EBITDA was shared value.

We currently stand at 60% with a value which is up to €916 million, which means it grew threefold over the past 10 years in which we've been monitoring shared value with a 13% average growth each year. As far as taxonomy is concerned, we currently stand at 63% of our investments which are in line with the taxonomy.

Moving on to the business areas, let's take a look at the EBITDA dynamics in the energy supply sector which began with the decline in temporary opportunities.

80% of our contribution is linked to last resort markets, further 20% is linked to the final part of the SuperEcoBonus that we also had in 2024 and the expiry of the extraordinary margins we had in the business.

We were re-awarded the salvaguardia tender with much lower margins. And in the final part of the year, we were reconfirmed in the default market, although we left the FUI market because - from our point of view - the price levels there meant that that sector was no longer an opportunity.

Last year, we began in the STG market in the second part of the year. This year, we also included the first part, which means we had a negative contribution worth €25 million. We also had another margin normalization during the energy crisis in 2023. We had made a bid in the CONSIP tenders that we were awarded. We're very proud of that. Those margins can no longer be replicated in a normalized context, which eroded €10 million in margins in those tenders. But again, it goes back to the normalization of margins that we are witnessing as we leave the energy crisis behind.

The energy services are doing very well, as are the value-added services which we offer to our clients, both as a way of increasing the services portfolio we sell to our customers, but also as a way of allowing them to decarbonize and saving money.

This is a very positive item. We also had a positive contribution from public lighting, a business we're continuing to grow in.

Then, with the other businesses, we have some activities in our customer base that allowed us to offset the growth of costs with a benefit worth €2 million if you consider some small benefits in terms of our power generation assets, which brings us to a grand total of €540 million.

Our customer base declined to 4.4 million, which is in line with what we had forecasted in our business plan, a decline which can be explained by the lower number of supply points in the last resort markets in the CONSIP market and with the normal reduction in STG customers. Let me now give the floor to our CEO for a focus on waste and networks.

Orazio Iacono - Chief Executive Officer of the Hera Group

Thank you, Cristian, and good afternoon. Before we look at the 2025 results, let me just confirm the fact that last week, we finalized the closing of the Sostelia Group transaction which means that we are the market leaders in the civilian and industrial wastewater sector. We are broadening our services to support the Italian industry and we're seeing some very positive demand dynamics on the market. And along with that, we are constantly looking for new ways forward that can support us in consolidating the *exciting story* of this business.

Now as you can see on page 10, we have a summary of the growth we posted thanks to the contribution of all of our business activities, including the regulated ones.

This is a growth which is even more valuable given the fact that the macro scenario we operate in is especially challenging, and it was especially challenging in 2025, which once again goes to show that our Waste division is especially resilient.

The growth is driven by all of our activities, and it is a growth which was able to more than offset the reduction in extraordinary energy revenues, as Cristian was saying earlier, minus €29 million, as you can see from the first column, following the fixing set in an energy context with high prices due to the previous energy prices, which dates back to 2022.

If you look at the various businesses which contributed to growth, you can notice that collection finally has positive results. Which means that the goodwill, the initial part of the new collection activities is over, and we can now manage our activities more efficiently, and we can broaden the services we offer.

Moving on to the recycling business it is up by €10 million. We have the Aliplast company thanks to which we are the undisputed leaders in the secondary raw materials and top-of-the-range raw materials. We can intercept demand, and the growth factors are due to volumes but also due to the improvement in margins. We were able to buy waste better, and we sold the secondary raw material better. Waste treatment is up €16 million.

With a good performance in our waste-to-energy. They performed better than last year. There was a higher level of productivity and a better waste mix. This is something we often discuss with you even when we illustrated the business plan, we spoke about our ability to optimize the thermal saturation of our plants.

This worked well in 2025 and the rest is linked to the price effect on waste, especially on urban special waste.

Then we also have soil remediation, a business which is also on the rise. It is up 5 million. We are market leaders in this segment.

This growth in margins is linked to the most recent acquisition we made of the ACR Reggiani Company, which we acquired some 3 years ago, which allowed us to consolidate our leadership in the soil remediation sector, a market with a major backlog.

And thanks to ACR, we can use a killer application, our global waste management approach, allowing us to increase the loyalty of our customers with a number of end-to-end activities.

We support them in their production, we select, recycle, and give value to their waste, along the lines with what we do with Fincantieri and other companies operating in sectors such as the Oil and Gas one.

And M&A also has a growth worth €4 million, and that is linked to the Ambiente Energia and TSR platforms, which we made the acquisition of at the beginning of last year, which are now fully a part of our perimeter.

And then finally, volumes, which stand on the same level of last year. Although the mix has changed a little bit, the regulated urban waste collection was slightly down, but as you know, there is no impact on margins here because tariffs are linked to costs for the most part. This allowed us to use our treatment capacity at 100% with a focus on special waste, which has a much higher margin.

These are all structural and solid growth drivers. They are resilient, and even despite the macro variables we are currently seeing, they allow us to have a healthy and positive dynamic when it comes to dealing with the Italian market demands, which, as you know, is especially profitable.

Moving on to Networks, we posted a sizable growth here which is supported by a number of positive and non-recurrent components, as you can see in the first white column, which we isolated here, also as a way of underlining the structural parts of the growth, which supported the results posted by all of our networks.

As Cristian was saying earlier, we were able to more than offset the decrease in WACC on gas and electricity decided by the authority for 2025. We always say that water networks play the lion's share. They are up €19 million, also after the development CapEx and also with the premiums we obtained for 2022 and 2023, which confirms our leadership in the quality of service, both in contractual terms and from the technical standpoint. The gas and electricity distribution networks posted over €10 million combined. Also, given the investments and the inflation review, along with our focus on efficiency, allowing us to obtain results which are always more than the previous years. On the group level, we posted a record in investments. We were above €1 billion with our regulated asset base, which, as you can see, is close to €4 billion, with a very good execution of our investments which we also discussed a few weeks ago during our business plan presentation.

So we're very pleased to note that both in Networks and in Waste, we posted a solid growth in our results.

Thank you. And let me now give the floor to Massimo Vai.

Massimo Vai - Chief Financial Officer

Good afternoon, everybody. Let's just comment the slide which summarizes the cash generation in 2025 with all of its main components.

As you can see, this year our net financial position is pretty much in line with last year's. It's in fact, it's slightly better. This was possible despite a significant growth in the investments we made, as our CEO is mentioning, and despite a growth in our dividends, which is consistent with the dividend path that we illustrated during the business plan, this is all thanks to the great cash generation that we illustrated all the way to the month of September but even the final portion of the year contributed positively.

We have an operating cash flow on the left, which is above €1.3 billion, so it's almost €200 million more than the figures we had in 2024 and compared to the numbers from September, it adds a further €400 million.

Net working capital in the previous year and two years ago had absorbed cash, whereas this time, it grows by almost €80 million.

Then we have €59 million worth of provisions. Then we have the 2 CapEx components, the investments, both on maintenance, which is worth €592 million, which you can see before the free cash flow, and the development CapEx, which is worth €436 million, which combined absorbed 1.028 billion.

The free cash flow is worth 761 million, almost twice what we had in 2024. We then have the dividends. I already commented development CapEx.

Then we have a small M&A component which we financed, which leaves us with a reduction in debt compared to January 1st, worth €19 million.

This was a very positive result, allowing us to keep our net financial position below €4 billion. On a number of occasions, you asked me for my expectation as to the evolution of debt and the free cash flow, the net working capital.

I always said that it's complex for a company like ours to give you a forecast of the net working capital and of the net financial position. And I had mentioned €4.1 billion with a certain error margin. And in fact, we were able to perform better than what our forecasts were, in line with the expectations we had mentioned as a forecast in January - which means that, as the Executive Chairman was saying earlier, we can have a net debt-to-EBITDA ratio which stands below 2.6 times, which means it is in line with 2024 and the previous year.

So this is a way of supporting the growth that we posted in 2025 and the one we forecast for the business plan years while maintaining a high level of flexibility, allowing us to seize any opportunity and to be sufficiently resilient vis-à-vis the market volatility which over the past month we have been experiencing.

And therefore, we feel we are able to deal with these events with the right degree of financial solidity and flexibility. Moving on to the following slide. To give you a summary of our ratings, interest rates, and the cost of debt. On the left-hand side, you will see the news following the improvement of the sovereign rating, which isn't automatic, but also thanks to our financial performance, we received an upgrade from Moody's.

We are now Baa1 compared to last year. As far as the pie chart of our debt is concerned, 93% of our structured debt, slightly more than €5 billion, 93% of that has a fixed rate. As you know, on average, we replace 10% of that amount every year with a market issuance. And we use bank debt and a more flexible way of using our financial counterparts to support us every day in our activities.

That is worth some 20%, 13% of which is linked to the EIB, 7% to other banks, whereas 80% is given to us by the bond market.

As far as the cost of debt is concerned, our challenge was to try to limit the growth trend of our group's structured debt in a context in which interest rates are on the rise. Over the years, we have been giving back bonds which have a lower debt compared to the one we would obtain now. Therefore, our challenge is to slow down and to limit the cost of debt, so flexibility and shorter durations to slow this growth down and to continue to have a good contribution in the lower lines, as we saw including 2025.

One of your questions would certainly be that currently, as a way of managing the market's volatility and to deal with the potential increase in the cost of raw materials, besides the great closing of our net financial position, which gives us a large amount of cash, much higher than what our expectations were a few months ago - it's a benefit that we can take advantage of in 2026.

Along that, we have over a billion in revolving committed lines and 800 million in non-committed lines with our financial counterparts that I was able to meet in recent weeks. And they have guaranteed wonderful support for any further needs we may have. So from this point of view, we are well equipped and with great support from our counterparts who believe in our group's solidity, which they saw in 2022. Therefore, they know that our growth journey can be guaranteed by an adequate and balanced financial support.

I'll leave it at that, and I'll give the floor back to the Executive Chairman for some conclusions.

Cristian Fabbri - Executive Chairman of the Hera Group

We took the usual 30 minutes to give you an overview of 2025 before we open up the floor for some questions.

Let's just focus on some of the things we saw in the presentation we have a high double-digit TSR. 22% is the result of the closing figures of 2025, as promised during the business plan presentation. Today's board meeting will propose to the Assembly a dividend worth €0.16, with a 6.7% growth compared to the dividend we paid in 2025, and with a debt level, which is very low, in fact lower than the one we had in 2025, so with a leverage standing at 2.57 times. We began well with our M&A activities.

We concluded the Sostelia acquisition, as Orazio said earlier, in the waste sector.

We concluded that transaction in recent weeks.

We also have 52% of the SEA company, we used to have a 31% stake in that company, which means that we will be consolidating this commercial and plant platform in the Marche region to broaden the scope of our activities in the waste treatment business and in our global waste management services.

So we're off to a good start in 2026 with the M&A that, as you may remember, we had included in our business plan and which we are working to complete over time.

QUESTIONS AND ANSWERS

Operator

Good afternoon. Our first question is from Javier Suarez, Mediobanca.

Javier Suarez, Mediobanca - Analyst

Good afternoon and thank you for your time.

The first question I have is on the macro context. I'm sure you trained hard in 2022 and in 2026 we are once again facing a geopolitical crisis which has an impact on the price of commodities. What kind of an impact will this have on the supply business? What impact will it have on your hedging strategy and your commercial policies and on your dynamics? We may be entering a scenario in which the geopolitical volatility will be more structural than what we had imagined last year.

So that was the first question. I'm very interested in hearing how the company will have to adjust its political and its commercial policies to adjust to this more volatile geopolitical context.

Second question. On the first page of your presentation, you mentioned a certain balance sheet headroom, which is quite obvious. And can you give us an update on your discussions, your proactive approach to M&A, which is very much a part of your DNA? You've done a lot, but can you give us a qualitative comment of the actual amounts and what opportunities Hera has to grow in a non-organic way? Can you give us an update, given the context, on any ongoing conversations to increase your stake in Herambiente?

And the third question is more on your business.

In your slides, you mentioned a normalization of provisions and a significant improvement in financial costs for financial management. Now, these numbers, the numbers we're seeing in 2025 for provisions, is that a level that you think is recurring for the upcoming years, '26, '27, and '28? And in financial management, where you mention a reduction, do the figures in 2025 already take into account the financial improvements, which are low-hanging fruits, or do you still see the possibility of further increasing efficiencies?

Cristian Fabbri - Executive Chairman of the Hera Group

Good afternoon, Javier, and thank you for your questions.

Let's begin with the energy context. Well, the answer to your question, in other words, if we are changing our commercial policies, well, we aren't.

In fact, the instruments we had activated before the energy crisis in '22 and the ones we implemented in '22 and '23 are the same tools we're still using.

So, on February 28th, when the war broke out in the Persian Gulf, we asked ourselves the same question basically, we went over all the things we had already done and which we were still doing, just to understand if there were other things we could do.

And all we got was positive confirmations from this point of view.

As you know, we are very focused on hedging for all of our businesses.

We have plenty of offers on the market, including fixed-price offers which cover all of our hedging costs. Think of our hybrid offer, which has a variable offer through which we can modulate, so things are good for the time being.

The fixed part of our contracts is 15% of all of our volumes, they're all hedged so there are no criticalities. When it comes to the balance sheet or the P&L, of course, we're not especially— there may be some changes, but we're not especially - concerned for the time being. We're looking closely at the supply policies.

We're looking at any potential opportunities there may be to cover margins.

As far as provisions are concerned, we feel we can further improve during 2026, also given the normalization of the last resort market contribution. So this will certainly be one of the themes we'll be seeing in 2026.

As far as the optimization of financial costs is concerned, well, we did a great job so far. We significantly optimized costs. And as far as the future is concerned, what Massimo was saying earlier, that is, we replace the debt, which currently has an average interest rate of 2.8%, replacing that with new debt, we'll have to see what elements we'll be seeing on the market in future years as far as interest rates are concerned.

For the time being, in the business plan, we have embedded a growth in this component, also given the fact that in future years some of the benefits we have on that item may expire, and therefore we had already expected a growth of that, but it's already been included in the business plan, so it's nothing new.

As far as M&A is concerned, we are working to complete the efficiency and integration of Sostelia. You know that we made the acquisition of a group which had been created recently. So it's an aggregate of a number of companies.

So over the next few months, we will be implementing a number of projects that we had already set in the acquisition plan to extract further efficiencies besides optimizing margins through our cross-selling activities for customers with a focus on internal efficiencies with other businesses we have. As you know, the company I'm referring to is at a crossroads between civil wastewater treatment and industrial waste liquids coming from companies operating on that territory. So given the fact that they are at this crossroads of sorts, we can optimize things on the purification side of things. As you know, Sostelia used to be a supplier of ours, so we're already working on some businesses together so again, that is one of the focuses we have currently, plus we also want to allow the SEA company to grow.

We have to build a new plant with them and therefore we will try to speed that development activity up a bit.

Our conversations on M&A are ongoing, as you know. It's very time-consuming. It's tough. In recent days, we focused on closing the financial year, but Orazio and I talk every week and there are plenty of opportunities that we can look at.

I won't give you any further details, as you know, we only share information when we close the opportunities for obvious reasons, given uncertainties and given the negotiations which there may be. Therefore, we won't give anything away. Thank you very much.

Operator

Thank you very much. We have a question from Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni, Kepler Cheuvreux - Analyst

Thank you for the presentation. I also have a few questions. My first question is on the outlook for 2026. In qualitative terms, can you give us an outlook on the moving parts and the various business units? A recap, basically, of what we should expect in 2026. As far as EBITDA is concerned, but also regarding net working capital and net debt, are you confident with the current consensus or the current forecast?

Of course, with an energy crisis which won't last very long. If it, of course, does last long, for a long time, then of course we may be facing a different and worse scenario. So that was the first question on 2026.

Second question on gas procurement. You're not directly exposed, as other Italian peers, you're not directly exposed to supplies from Qatar or the Middle East in general, although of course your suppliers are exposed at least partly, some 10 or 20%. And let's just imagine an extreme scenario, a force majeure scenario for some of your gas suppliers. From the contractual standpoint, what implications would Hera have to face since you are part of a chain of suppliers uphill and you have signed a supply contract with your customers? So what implications would there be legally and in terms of your contracts?

And then a question on energy supply. Can you give us an update on the market, on competition, on the migration of STG customers on the market? It could potentially be an opportunity to take advantage of this increase in prices to facilitate the transition to the free market, and therefore how you could also leverage this situation positively from a commercial perspective.

Finally, one last question on waste-to-energy: given that there was a negative contribution, with a year-on-year decline of €29 million in EBITDA due to lower realized prices, what is the current contribution to EBITDA? And what hedging strategies have you implemented? The wholesale prices are higher year on year for the time being, and therefore, what is the potential net benefit you may be seeing in 2026 in your waste-to-energy plants.

Cristian Fabbri - Executive Chairman of the Hera Group

Thank you, Emanuele, for all of your questions, some of which have 3 or 4 questions within them.

Now, what will be happening in 2026 as far as the moving parts are concerned compared to 2025? Well, let's begin with all of the growth elements. The M&A transactions, SEA and Sostelia, will allow us to grow.

We'll also be seeing growth in the Networks business. As you saw, it'll be worth €30 million this year regardless of the WACC reduction in 2025 whereas in 2026, it will be in line with the past.

So we will continue to grow organically in that sector. We're doing well in waste, despite some specificities that Orazio will be talking to you about.

We'll still be seeing some organic growth in 2026. So as far as structural growth is concerned, we're doing well.

We expect to see some positive one-off elements, some reimbursements which we are expecting, which will help us offset some negative elements. Think of the €40 million contribution in the Networks business for past inflation recognition and also, we also have deliberation 87, which allowed us to recover 5-year costs.

So these are some one-off elements that can contribute and which will allow us to partly offset things. Then we'll have a reduction in the last resort markets, generally speaking. So that's the overview of EBITDA.

And then, as I was mentioning to Javier earlier, the elements we're seeing both this year and last year in terms of optimization will give us extra benefits this year. And we're still optimizing provisions in a context in which we'll be seeing further normalization, also given the decline in last resort markets. So that is the pre-crisis macro scenario.

If we then take a look at the impacts of the crisis currently, as I was saying earlier, on EBITDA, it will depend on what levels we'll reach and for how long, although we are implementing a number of actions that make us feel pretty confident as far as EBITDA is concerned. We may have to increase provisions, although our unpaid ratios are very low. They're below 1% and therefore, the impact of provisions is minimal compared to the growth in turnover. And then as far as the impact on net working capital is concerned, as Massimo was saying, on the one hand, we have a good financial flexibility allowing us to cover that. But we also have a number of tools allowing us to intervene on net working capital. So for the time being, we're not especially concerned.

Moving on to cases of force majeure, which is with the gas supply in Qatar: as you know, we don't have direct supplies. We buy on PSV. And therefore, it is PSV which will have to deal with that. We buy on spot prices with a number of variable formulas.

So I think the whole issue will be linked to the overall availability of gas on the European level. And that has a different scope, meaning that if we will have gas, it will be supplied. Otherwise, this will be a problem for everyone. And as far as our contracts are concerned, we also have force majeure clauses when it comes to the supply of gas. Of course, without gas, there can be no effect from this point of view.

As far as competition is concerned, of course, no one thinks that competition is on the decline because we have some newcomers on the market. There has been an increase in the overall Italian churn rate. Ours has also slightly gone up. Although we're in line with what we expected, we're not seeing any specific tensions on the margins.

And as you saw, our 2025 results, despite the reduction of the CONSIP margin, and we always talk about temporary opportunities, you know that we always refer to last resort markets. But you know that we always look at any tenders, and when they're in the money, they're interesting, whereas everything else is stable and they tend to compensate one another.

STG things are going well. You yourself could come and be one of our managers. We've seen a growth in prices, and therefore some customers are already moving to the liberalized market to try to hedge themselves from the growth of prices. So this may end up being something useful that we're trying to take advantage of. As far as waste-to-energy plants are concerned, let me give the floor to Orazio.

Orazio Iacono - Chief Executive Officer of the Hera Group

We have seen some benefits in our waste-to-energy plants. The -29 million euros we saw in 2025 is more different. Surely, 2026 will be below half that amount, just to give you a rough figure. As you know, we have hedging policies as far as our volumes are concerned, those volumes have been covered some time ago in 2026, so we have covered the volumes at around 90%.

So those are the sizes we're looking at. And as far as any positive impacts we may expect in 2026, which we haven't said so far, well, that will come from the recycling business.

As we saw in the crisis in 2022, whenever we have shocks on the supply chains, thanks to our Aliplast company, we can have local supplies, we can support the industry through stable flows and quality flows, so we can support the industrial supply chain.

We're currently seeing a hike in the cost of virgin plastics and PET and PE, virgin PET coming from Asia and PE, which we treat and which arrives from the United States.

All this is beneficial to us because without the supply of virgin raw materials, many of our customers are turning to us. And the price of recycled plastics, as you know, will grow hand in hand with the price of the virgin raw material. So prices are growing gradually.

And also, as far as the recycling business is concerned, we will be launching the rigid plastics — the Modena plant will be up and running next year. But this year we'll be starting to see some degree of activity on that plant.

It is a plant which treats PP, polypropylene, and that too is affected by the difficulties in virgin raw materials reaching Europe, and that too can become an advantage for our secondary raw material, namely our recycled plastics.

I hope that answers all of your questions, Emanuele.

Operator

Our next question is from Davide Candela, Intesa Sanpaolo.

Davide Candela, Intesa SanPaolo - Analyst

Good afternoon and thank you for the presentation and thank you for giving us this opportunity. I have three questions for you.

The first is on the energy supply business. You mentioned how you see competition on the market. Were the situation to continue for the next few months, have you considered a potential evolution of the churn rate with higher prices or maybe lower churn rate? So perhaps you may benefit from this situation. What is the sensitivity you have which you might want to share with us?

Then I have a second question on the waste business. With the current tense scenario, and were it to last for a longer amount of time, how could the mix possibly evolve?

The CEO was saying that you may benefit in terms of the sale of recycled raw material, but maybe lower industrial activities may have an impact on volumes.

I don't think so, but I'll ask you - maybe, and perhaps it can also be some pressure on prices for industrial treatment.

And the third question on debt and cash generation. For 2025, we have a cash conversion which is above 80%, and doing some simulations on the business plan numbers, you had a distribution of 70-75%, which means that in 2025 you did somewhat better.

Was that a one-off condition for this year, or can it be recurring, which means that at the end of the business plan period you may have extra headroom compared to what you're currently seeing? Thank you.

Cristian Fabbri - Executive Chairman of the Hera Group

Well, as far as prices and the churn rate are concerned, it's difficult to see a correlation there. Typically, the higher prices are, the more concerned customers are, and their concern is linked to two elements. You can lose more clients, but you can also gain more clients.

In the past, things tended to compensate each other. Customers don't always have rational behaviour. In 2022, customers were concerned with prices and they would change their offer. They would leave prices worth €30 for gas and €70 for electricity, and they chose other offers which were more expensive at the time.

So, it really depends on how this crisis will evolve. It's difficult to interpret this crisis because prices have gone up a little bit. Currently, prices are slightly above €50 on gas. So, yes, they have gone up, but they've gone up compared to December and compared to March, but if we look back at January and February last year, the numbers were the same. So we're still not seeing price levels that can lead to anxiety or concern, so it really depends on how the crisis will evolve, its duration, its intensity. That may have an impact on dynamics. Of course, customers are concerned for the time being. They are especially careful regarding the offers they take because, of course, a fixed offer nowadays would mean possible risk in the future, and forwards are higher compared to the past. Whereas if you choose a variable price, that too can be a matter of concern. Therefore, we think that a hybrid offer can be a good solution given the current market context, both in terms of increasing customer loyalty but also in terms of conquering new customers. So that is the overall situation we're seeing.

Moving on to the topic of cash conversion in 2025, as we also mentioned in the business plan, in 2025, things went better than expected, as Massimo was saying. That's linked to some extra benefits we saw on our net working capital, allowing us to keep a stable debt level. But what we embedded in the business plan, we think is the best possible forecast as far as this is concerned. And maybe Massimo wants to add something. Otherwise, I'll give the floor to Orazio for waste.

Orazio Iacono - Chief Executive Officer of the Hera Group

Well, thank you, Davide, for your question. As far as the waste mix is concerned, as you know, Italy is short as far as capacity is concerned, which means that were there to be a decline in waste, the waste treatment plants abroad would be the first to suffer.

So we don't expect to see a decline in waste coming into our plants, which as you know are all located in Italy.

Then you had a second question on prices. They are stable and high which is what we saw in 2025. In fact, we saw a slight increase in special waste deriving from urban waste sector we're present in. These prices are stably high, even with a few extra euros on top. And why is that? Well, again, because Italy is short in terms of capacity, and logistics and transport costs to ship waste abroad are high. Then you have the carbon tax.

In some northern European countries, because you know the prices are set in Europe where most of the treatment capacity actually is, so all that is going up, and those of us who own plants in Italy can only benefit from the situation.

Operator

Mr. Fabbri, there are no further questions.

Cristian Fabbri - Executive Chairman of the Hera Group

Well then, thank you for spending this hour with us. Thank you for your attention, and we'll see you in May for our Q1 results.