PRESENTATION OF FINANCIAL RESULTS 1H 2026

HERA GROUP

JULY 29TH, 2026, 4.30 P.M.

immagini e suoni

CORPORATE PARTECIPANTS

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

CONFERENCE CALL PARTECIPANTS

- ***Operator***
- ***Javier Suarez,*** Mediobanca Equity Research - Analyst
- ***Emanuele Oggioni***, Kepler Cheuvreux - Analyst
- ***Francesco Sala,*** Banca Akros - Analyst
- ***Roberto Letizia,*** Equita SIM - Analyst

PRESENTATION

Operator

Good afternoon everybody. Thank you for joining us. Welcome to the presentation of Hera Group's H1 2026 results. The floor now goes to our Executive Chairman, Mr. Cristian Fabbri.

Cristian Fabbri - Executive Chairman

Good afternoon and thank you for joining us. We have just wrapped up our board meeting during which we approved the first half of the year results, something we're very pleased with. And we have somewhat changed the document that we'll be sharing with you compared to what we do traditionally, also as a way of focusing on the strategic levers of the Group and on our initiatives. Now let's begin with the first page of our document, which highlights the fact that we have chosen to give a different focus to our numbers, also in light of our P&L, as a way of increasing transparency, but also as underscoring how consistent we are with the goals in the business plan, but also as a way of showing that 65% of our EBITDA result is underpinned by activities in our infrastructures, and a large chunk, 44%, is linked to regulated activities, which means that we're operating in a context in which our ability to focus on infrastructure is becoming increasingly visible.
And we're seeing that because we're working hard to support our infrastructure.

As you can see on the following page, we have entered a super cycle of investments that our Group had already started focusing on. In fact, as you can see that we have a twofold growth factor. We have a focus on investments both in the past and we intend to do so in the future. Over the past 5-year period, we've invested €1.5 billion, which is twice as much as what we had done in the previous 5-year period, and it is half of the investments we'll be focusing on in the near future. So this is a two-factor growth, which is important because we also obtained this growth path gradually.
A gradual approach which allowed us to underpin our investments. We were able to obtain the right authorizations and we were effective in execution, as you can see on the right-hand side of the slide. In the first half of the year, we have invested on development CapEx, which is 2.6 times what we did in the previous half which goes to show that we truly are accelerating from this point of view.

Now, why is this important? Well, because we are creating a value reserve, which still isn't visible in the figures we're sharing with you because these investments are ongoing. They have been done, although they still haven't fully contributed to our results.
And in a context marked by more limited growth, as we saw in previous years, it may have been useless to underscore this element, whereas now this is truly important.

But before we go back to this later on, let me just focus on the first half of the year's results. Now, the first thing I wanted to say is that we had grown a little tired of only talking about temporary opportunities and since we're a context in which 2025 was the last year in which temporary opportunities were giving us significant contributions, we decided to make an adjustment on the starting point, namely that taxes, temporary opportunities, and tariff opportunities— you may remember that last year in the regulated sector had allowed us to recover compared to previous years. But they are no longer part of our structural business, which isn't good for us, of course, because on the other hand, the adjusted result for 2026 in terms of EBITDA is down €11 million, and in terms of profit is down €8 million. But we'll be seeing this later.
Although this approach can give us a clearer picture as to the structural growth that we have been working on in recent years and which even in the first half of the year is very effective.

Now, all three of our business areas contributed positively to our growth in terms of EBITDA through different drivers, through different levers that we'll be seeing later on, with an EBITDA growth which is equal to 7.5% with structural activities.
Both levers, both organic growth and M&A, contributed.

We had €50 million in terms of EBITDA growth coming from these drivers.
Even as far as M&A is concerned, we have a contribution which will grow because we're beginning with a consolidation of activities beginning in the month of March, and therefore we'll be seeing it even better in the second half of the year.

Moving on to the right-hand side of the slide, which underscores some store of value which is locked in. The RAB has grown. We currently stand at €4.2 billion in terms of RAB, which has an impact on our economy and on the tariffs which contribute to our revenues. But we have already completed €500 million in terms of operational investments which are already completed and which will turn into RAB once the time lag will be over, which will allow both myself and Orazio to take a summer break in a relaxed way because we are already done with everything we had to do.

So basically, this is a treasure of sorts. It is a set of values which is ready to be taken advantage of once we complete the time lag.

As you know, we don't only focus on growth, we also focus on value creation and this gives you an idea of our profit. We have a €36 million growth in the first half of the year compared to the adjusted figures of 2025 so that gives you a homogeneous picture.
€232 million is the result we obtained before the IRAP tax, which is in line with the consensus we had achieved. Now, on the reported figures, we will have a further €8 million, which aren't expressed here, because by adjusting 2025, we also removed some of the value created in 2026 but this is a small reduction that we accepted, which exists in our numbers and it will be in our year-end profit, but it gives us a clearer and easier to interpret picture.
This numbers should also been seen based on the fact that, you know, we have this IRAP tax, which has a €9 million impact on a yearly basis, and 4 million were accounted for in the first half of the year.
That is the additional IRAP which was introduced by the so-called decree, the Bills Decree, which impacts '26 and '27.

So this is the value creation we saw in the first half of the year, whereas on the right-hand side you can see how much room we have for further growth. Which still haven't been completed. This is infrastructure that we will be obtaining from companies we acquired. And it also stands for the net debt-to-EBITDA ratio, which currently stands at 2.75 times, with further room for optimization and we'll be seeing that later on with Massimo's presentation.

So this is the overall picture we're looking at. Now let's go into the business-by-business breakdown, both by describing what the drivers were which continued to the growth, but also with a more strategic approach which gives us a clearer vision as to what we're doing and what will give us value in the future.

Let's begin with energy, which is especially important, as you know. All three areas of business are important, of course, but energy was very important in this first half of the year's growth and it is also a very interesting business here in terms of its profitability, in terms of its growth, in terms of profit, in terms of the Group's profitability, and it is the driver allowing us to speed things up on infrastructure without having a big impact on debt. Cash generation to us is an amplifier of sorts. It allows to be more consistent, more effective, and swifter in infrastructure growth.

We had to make a choice here; we wanted to focus on 4 initiatives to include on the slide for different areas which we think are representative of our work.
First of all, we pay close attention to our customers. Over the past 12 to 18 months, what we wanted to do was to give value to the customers we achieved through the STG market. 950,000 customers which we took over on July 1st, 2024. Many of you often asked us for further details. We are almost at the end of the process, and later on we'll give you some details as to where we stand currently as to the amount of customers.
So basically, we worked on these customers to bring them into our world, to increase their loyalty, including them in our CRM, we decided to open shops in those territories in which we still didn't have a very intense presence to give our customers every opportunity possible, but also to allow them to understand what our offers are.
Given the fact that prices tend to be very unstable currently, we wanted to be reassuring, we wanted to be a stable presence for our customers to give them visibility on their bills given the high volatility in the context. That was one of the key elements, I think, which allowed us to really speed things up in this context.
Also through our *Hybrid Offer*, which in this turbulent context allows customers which part of their energy would have a fixed price.
And that was something which was very satisfactory, had great feedback from our customers.

In the past, we may not have talked about AI very much, we didn't because this was simply a working tool made available by the evolution of technology.
We've been using machine learning for years now, and we're also working on AI generative, taking advantage of the opportunities offered by generative AI.

The important thing to note is we now have a data platform allowing us to use AI tools because, as you know, If you have plenty of data without making sure that the data is organized and clean, data simply can't be accessible, so that's something that we've been focused on for quite some time.

We're now looking at new initiatives with two focuses in mind. On the one hand, we want to increase value through the quality of our service, customer loyalty, and commercial offers. But we also want to increase our operational efficiency and that is a challenge indeed.

Now let's move on to more material things. For years now, we have been operating to support our customers, especially the more energy-intensive ones, to reduce the cost of energy by producing the energy on site. That's something we've been doing by building plants, by investing at our customers' sites, and we're doing this with a major focus on quality. Here, we have two examples, two contracts that either have been signed or which we are about to sign. These are two contracts which I think add something extra to what we do. Basically, we serve high technological development plans. In this case, on the one hand, we'll become the suppliers of a major data center near Bologna. We'll be supplying energy from photovoltaic plants and agri-photovoltaic plants, which are connected to the data center directly, giving them a direct supply of energy. Plus, we're also serving an international research center based in Trieste.

In this case, the cost of energy isn't the only important thing: this is a center which has a major consumption of energy, but they also want to focus on the quality of energy. Reference to the quality of energy may sound bizarre because it isn't a very popular topic. Although I'm sure you know that the energy we supply is made up of tension frequencies, and those who use that energy for tests, for experiments, need a clear signal, a white light of sorts, were we to make a comparison with another clearer aspect, maybe, which means you need stable frequencies. A lack of harmonics and stable tension.

This research center chose us to manage their entire energy platform for everything that we'll be doing for the next 10 years.

Plus, in June, we had the deadlines relating to the National Recovery and Resilience Plan, Next Generation EU, 70% of many of our plans were financed by the National Recovery and Resilience Plan and other funds. And some of these initiatives that Orazio will be talking to you about later also includes a project on hydrogen.

We bought a zero-cost option, an option which will easily become in the money.

We invested €34 million to build two production centers in Modena and in Trieste to produce green hydrogen, and we'll be achieving a 620-ton production.
And that allows us to achieve experience in the development of the hydrogen value in Modena and in the North Adriatic region.
As far as Modena is concerned, please consider that the city of Bologna bought 100 buses which will be fuelled by green hydrogen, which means that we already have an active demand in this field, which means that the investment we made, which cost nothing basically, and we are also looking to increase our research and development in the future, hopefully we'll be seeing some margins beginning next year already.

Now Let's look at the more tangible things, some figures, some numbers, with a more normal presentation. Basically, on this slide here we have an overview of the growth in margins in energy.
€8 million comes from power generation. We even had an insurance contribution which allowed us to offset some missing, profits from maintenance which took place in the plant at Imola. And then we have a consistent contribution from the free market.
Now, about the free market, all of our development drivers contributed to the growth, from value-added services to energy efficiency to cost optimization in terms of gas procurement, and even after years, we're still achieving optimization, allowing us to extract value and margins given the same top-line conditions.
And in these turbulent times, this is something that we're very pleased with, and we have been able to take advantage of some opportunities in this sense.

We also got some good contributions from energy, which brings me to the right-hand side of the slide. Let's go back to two years ago, July 1st, 2024, where we had 950,000 customers that we took over from the STG market. Many were skeptical as to how we had achieved these numbers.

And what we can say today is that we still have 900,000 customers more, more than that actually. Many of these have now been switched to the free market, as you can see on the top right-hand side of the slide. But I think the most striking thing is the size of the numbers the many customers we still have with an STG contract.
This is a sizable amount which I don't think exceeds our expectations.
In fact, it is well above our expectations. It very much exceeds our expectations.
We had no idea that we would have achieved such numbers of fact and this is yet another value reserve which has a time lag similar to what we have in tariffs, because turning the investments we made in networks into profits requires time.

We'll have to focus on top line, on the top line, and then all the way down to the revenues. But even in this business segment, on April 1st, 2027 the time lag we had will be concluded, which means that they will be automatically switched to free market.

Now, after this brief overview, let me give the floor to Orazio, who will be focusing on waste and networks.

Orazio Iacono - Chief Executive Officer

Thank you, Cristian. Good afternoon, everybody, and let's take a look at our waste business, which is still quite satisfactory as far as we're concerned.

Let's begin with treatment, which is the first column on the left side.
Over the first half of the year, we benefited from the Sostelia and SEA acquisitions: these were two transactions which are entirely consistent with our strategy to strengthen our leadership position in waste treatment.

With Sostelia, we have become leaders in water treatment services. We're able to intercept an increasing demand supported both by new legislation but also by water scarcity driven by the droughts that we're all familiar with.
Whereas the SEA deal allows us to extend our presence in central Italy, where we have a high density of the manufacturing industry, in which we still have major undercapacity in terms of the demand for the recovery and treatment of waste.
This allows us to increase our market share, of course, generating further demand for our asset platform, and it supports the volumes treated.
That's why we are accelerating the development of infrastructure, as Cristian was saying, we are focusing on investing in infrastructure. Let me just mention three examples: Padova, we are expanding the waste energy plant in Padova, that is the most important development project for waste to energy plants in Italy; the second example is the HEA platform, which we're building in a partnership with ENI, that will become a major platform to manage industrial waste, and we'll be serving our biggest national customer, which is ENI; and thirdly, we will be enhancing the Vallortigara plant in Veneto with the Torre Belvicino plant, which will be significantly increasing our ability to treat industrial waste, both the hazardous ones and the non-hazardous ones.

Now, these construction sites that we are working on, some of which are about to be completed will allow us to add further 200,000 tons per year of waste, which is extremely important, especially given the Italian market's characteristics, which, as you know, are lacking waste treatment assets and with very long authorization processes.
In our case, this already authorized increased capacity is a clear advantage, and it is a growth driver that will be easy to replicate by others.

Moving on to the plastic recycling business, let me just mention how we recently signed the acquisition for the Kronos operator in Poland, specialized in recycling soft plastics. This is a significant evolution in terms of our international presence.
To date, we were mainly focused on feedstock activities, whereas with the Kronos transaction, we will be increasing our presence in Poland.
And it was also in line with the investments we're making in Modena for the rigid plastic plant, which is pretty much ready. We're also doubling our production capability in Novara for low-density plastics.
So these are all investments which are focused on the premium market segments when it comes to recycled plastics.

This is the market in which we're seeing an increase in terms of demand by Europe's major industrial players. The tensions that we've been seeing over the past few months in the global supply chain along with the new EU directives.
And in a few days time, of course, the Waste Packaging Regulation will come into effect.
All of these events are increasing the demand for high-quality recycled plastic produced locally, allowing the supply chain to be more secure.

Moving on to the third sector soil remediation. Thanks to the ACR Reggiani company, we've been growing very much. We've talked to you about our presence on a number of occasions. Our CAGR is up 30% over the past 3 years, which is something we are extremely pleased with, we're continuing to generate value.
We have an increase in the demand for site remediation. This continues to offer major opportunities, that's why we're expanding our facilities and that's why we are increasing our capacity to be operational, to execute, to sign new contracts in this business.

And finally, let me conclude with urban waste collection. We are launching a new control room in Bologna, thanks to a widespread use of AI and predictive analysis, this platform will allow us to increase both the quality of our service and our operational efficiency.

Now, once we will have completed the validation phase, this model will be extended to all of the major cities we serve as a Group.
In a nutshell, therefore, all of our waste business activities are growing fast, driven by organic investments and by external development activities, along with the industrial partnerships we have, including HEA, the one with ENI.
The strategy allows us to: consolidate our market leadership, to give value to our services platform, to develop infrastructure such as the ones we shared with you, and it allows us to increase our skills. And skills nowadays are one of the main barriers in terms of entering the market.

Now let's move on to the first half of the year results. Waste Management posted an EBITDA growth close to 2%, and we'll be coming back to this figure later.
If we look at the main components underpinning the result the urban waste collection segment contributed with €2 million.
You remember that we have very long concessions which we obtained after tenders, one of the only territories that had a tender was the one that we were awarded.
Even more significant is the contribution from the free market, which generated €11 million in EBITDA, both organically and through M&A, which is our typical recipe, and in treatment, we've had higher levels of energy produced in treatment and in recycling, we increased the volume sold by Aliplast and as far as soil remediation is concerned, we were able to develop contracts through the ACR company.
Now, this growth more than offset the one-off elements, which you can see on the right-hand side of the slide.
We had a Feronia landfill temporary stop which is now up and running again and then the energy produced by WTEs, which we had seen over the past 2 years, although the current energy context is favoring the residual part of production that we aren't covering, which is worth some 10%, and it is further flattening the negative effect that you can see reflected here and which may further be reduced over the past few months. Which brings us back to the growth percentage. If we don't consider these two one-off events, we have a 7% growth without considering the extra treatment capacity that we are obtaining thanks to the various developments that I illustrated.
Let me now focus on the right-hand side of the slide, which shows the high level that special waste treatment prices still have. This is something which underpins our business. Beginning in 2020, you can see that there has been an average growth of prices upwards of almost 4%.

This is extremely significant, and it is linked to a market which is structurally very favorable, marked by a significant difference between supply and demand. All in all, the results obtained in the first half of the year show that we are in line with the execution of our portfolio and our business plan, with an increase in demand and a strengthening in our asset portfolio, which gives us high visibility on future value creation.

Moving on to networks. The first message I'd like to convey here, which goes back to what Cristian was saying earlier, is the fact that we are speeding up on our investments in infrastructure. We have 3 examples here.
The first is the Rimini PSBO infrastructure, which is worth over €100 million and it is one of the most significant infrastructure investments on the European level in terms of managing stormwater and in urban climate resilience.
Next to that, we have the new Bubano Purifier, with an investment worth over €50 million that will increase the quality of service and the safety of water supply.
Then we have another investment worth over €60 million to reduce water losses.
We are champions in that sector, we are the leaders when it comes to the quality of service. And we will be replacing pipes and we'll be digitizing the network. In this specific sector, we use AI very much. It is becoming increasingly central in what we do.
Through our Forlì control room, we're able to monitor the health of our network, and we use plenty of advanced predictive tools to identify the more vulnerable parts of the network and by doing so, we can increase the efficiency of our interventions, thereby reducing operational costs and reducing water losses.

So these examples give you a flavor of our approach when it comes to developing networks, and we're driven by two major priorities: on the one hand, we want to constantly improve our network so that we can be in line with new regulation, climate change, and the energy transition, secondly, we always want to have high levels of quality in our assets by maximizing the regulated profits of our infrastructure.
The use of AI is one of the main driving factors in the strategy, as Cristian was saying earlier, we may not have communicated this very much, but we have been using AI over the past 5 years. We've been extending it to all of our processes.
We've been using it to the max to create value, to create resilience. Better quality and an increasingly smart network.

Let me conclude with the results we posted in H1.
We now stand at 285 million with a 5.8% growth compared to the figures we had last year over the same period. In this case, we had the contribution in all of our business lines, which are progressively benefiting from the very intense investments we made over the past few years— €4.1 milion in gas, €5 milion in electricity, plus €5.2 milion in water, we also have a positive contribution from district heating.

So all in all, this is a growth which was driven both by tariff increases and by the regulatory and inflation adjustments as provided for by the ARERA framework.
Let me also underline the fact that the regulated business has a time lag between when you make investments and the full remuneration, of course, which gives us full visibility when it comes to the future, which means that the major investments we are currently making will have progressive impacts on our future EBITDA growth.

Thank you for your attention, and let me now hand it over to Massimo

Massimo Vai - Chief Financial Officer

Good afternoon, everybody. It's good to see you, and let me give you a brief overview through two slides underscoring our cash generation and the net debt-to-EBITDA ratio, and then I'll be commenting our rating, which hasn't changed.

Beginning with the graph on the left-hand side, as usual, let's look at our operating cash flow. This year's H1, it now has a value of €561 million, which is a growth of €246 million compared to what we had at the end of Q1.

The net working capital is worth €65 million, a positive contribution therefore.

Then we have the provisions, which brings us to the core of the slide.
This goes back to some of the concepts that have been already illustrated this afternoon, namely how much we have been investing. We're all in all between maintenance and development CapEx, we stand at €510 million. And if you compare that figure to the same period last year, we have a growth which is over €100 million, as we've already said but I think what really stands out is the growth in development CapEx, which has a value of €220 million compared to a value for the same period last year of €114 million, which means that we've been growing very much on development.

Now, differently from what we saw in late March. when we were commenting the Q1 results, here we have the payment of dividends, which as you know took place in late June. A negative impact on debt, therefore. To that we also have to add the outflow that we had illustrated at the end of Q1, linked to the M&A activities we completed in March this year, for an overall debt increase worth €304 million, which is very much in line with our expectations compared to the end of the first half of this year.
You may remember that given the same scenario conditions we have a certain seasonal element in our numbers which means we have a favorable situation in late March and a more difficult situation in June to September when we pay dividends, with a more favorable context at the end of the year.
So again, this is all in line with what we were expecting.
We also began our campaign to stock up on the gas supply. You may also remember that on June 30th we concluded the reference period for the Next Generation EU investments, which means that we had to complete the payment of the various activities that we still had to complete so that we could then proceed to the contributions that we'll be seeing with cash-ins by H1 next year.
So things are looking very well from this point of view.

Moving on to the right-hand side of the slide, the net debt-to-EBITDA ratio stands at 2.75 times. It is slightly up compared to the Q1 figure, which was 2.6 times.
This too is in line with our expectations and if you consider the energy price scenario we currently see, it is, I think, an excellent result and again, it's in line with the forecast we had in this year's budget.

Moving on to the following slide, very briefly, we have no news when it comes to ratings. The ratings have all been confirmed compared to what we showed you in the more recent past.
Let me just focus on the central pie chart, just to give you an idea of our medium to long-term interest rates, the fixed part is 91%, the variable part is 9%.
In late May, as you all know, we emitted our very first European Green Bond, in a very favorable moment for interest rates compared to what we had previously and what we saw later, which allowed us to take advantage of an excellent demand - it was 7 times supply - giving us a yield worth 3.57%, which means that we were able to deal with the payment of the bonds a few months in advance.
As you know, our long-term debt envisages a 10% reimbursement of the bonds each year, in this case, we were able to make that payment earlier.
It's something that we're making a profit from. And this availability of cash is something very comforting, given the high turbulence we're seeing on markets.

And therefore, this allows us to mitigate the growth of our average cost of debt, which, as you can see on the graph on the right-hand side, compared to last year's value, it grew by less than 0.1%, and compared to the value we shared with you in March, which was 2.8%, is only up by 0.02%, which means that we're keeping the average cost of debt under control which will give us a favorable contribution to the bottom line, despite the fact that we're seeing an increase in interest rates currently compared to the past, where some of the emissions we saw at especially low rates, which need to be reimbursed, and therefore they will be replaced by new emissions with higher interest rates.

I'll give the floor to the Executive Chairman for some conclusions. Thank you.

Cristian Fabbri - Executive Chairman

Thank you, Massimo. Thank you, Orazio. Let me just mention a couple of things before we take your questions.

A supercycle of development of investments ahead of schedule.
2026, I think, shows how much we're speeding up in our investments and this acceleration in investments will give us some value reserves which are very visible on the regulated part of the business with €500 million in operating investments which we've already completed, which are ready to be transformed into profit.
And since the time lag is blocked, this amount will only grow from here to the end of the year.

We also have a regulatory time lag in the STG market. We still have 9 months to go, as I was saying earlier, which means that basically we've already covered all the investment we made in our P&L, it's behind us now, and therefore we can look forward to the positive cash flows that we'll be seeing beginning on April 1st. As far as M&A is concerned, we signed some deals which are in line with the target we had in the business plan for the year. Orazio was still working on some new files so that we can look at further M&A initiatives that we hope to tell you about in the near future.

Now, all these things, I think, are things which show how much we're focused on the future, not because we don't like the present. In fact, we like the present very much. And seems to me that the first half's net profit in terms of growth is very consistent, very relevant, very visible. So again, we're looking towards the future while we create value in the present. Thank you, and let me open the floor for your remarks, your questions.

We took a little bit more time than expected to give you a clearer picture. I know you have plenty of commitments this afternoon, and we'll try to keep our answers to your questions as short as possible. Thank you.

QUESTIONS AND ANSWERS

Operator

Good afternoon Mr.Fabbri. The first question is from Javier Suarez, Mediobanca.

Javier Suarez, Mediobanca - Analyst

Good afternoon, everybody. I have a few questions for you.
I was very interested in your comments showing the stability in the customers you acquired.
My question is, how can you explain the resilience of your customers in a context in which you may say that the level of competitiveness is very high. So tell us a little bit about your commercial strategy, which leads to the fact that your customer base is very resilient despite the very competitive context. Is that due to your physical presence locally? Is it due to the fact that customers are becoming increasingly interested in services, in which they've come to see that do-it-yourself isn't the most successful strategy in this moment in time. What is your philosophy? What is your strategy which leads to this resilience?

So that was my first question, and connected to that question, I was very interested in what you had to say regarding your new accounting showing your structural growth.
It seems to me that the Executive Chairman was referring to recycling the cash flow generated in the supply business into infrastructure. Is that your philosophy? Did I understand correctly? You're saying that we have a very low capital-intensive business which generates cash, and that cash can be reallocated into a more infrastructural business, and therefore looking forward, that 65% infrastructure should be growing every year.

Which brings me to my third question on M&A. In other slides, you showed us that there is plenty of room on your balance sheet to focus on M&A. You've always been very visible and are you shifting your focus on M&A on infrastructure? More so compared to the past. Thank you.

Cristian Fabbri - Executive Chairman

Well, thank you for the questions, Javier. Well, the stability of the STG customers is one of the strategic— is linked to these— our strategic levers leading to customer loyalty.
Now, I don't want to give you too many details, because of course that is linked to our competitiveness.
But all in all, our churn rate, both in STG and in the free market, as you know, our churn rate is much lower than the market average. This is something we've seen in the past and it's something we continue to have in the present.
Of course, the churn rate grows on average, although we're doing better compared to the market, and we continue to have a positive gap compared to the market.
That applies to everything. That applies to the initiatives we've built over the years.
We went from a 1% market share to an 8% market share.
And as students, we were taught that if you want to increase your market share, you need to have a competitive advantage. What we're seeing is the opposite. In fact we were able to grow, and that means we had some good ideas to obtain that advantage. That applies to the STG market as well, of course but there's also a very clear trait these customers have. These customers have never changed suppliers, and to them, we want to be a focused supplier, a careful one.
We want to create a bond with them, the same bond they had with their previous suppliers, since these customers aren't used to switching.

Which brings me to the comment you made about do-it-yourself.
What we're seeing on the market these days is that with an increase in competitive pressure, the churn rate is dropping. What that means is that probably, given the fact that this is something that the entire market has, customers are getting a little tired of this competitive pressure. And that, I think, creates value.

Moving on to our business model and moving on to how we can optimize our cash flows.
Of course, energy supply is a business which has its infrastructure, and even in the context in which we have already paid for the investments made in the customer cash flow when it comes to the STG market, and this can generate cash.
And compared to a purely infrastructure player, we can grow more quickly and therefore to invest in infrastructure ourselves.
That allows us to speed things up. We can double our development CapEx with a great deal of flexibility, financially speaking, without expanding the lever.

And definitely, allowing the regulated businesses to bring value to our balance sheet without killing the financial lever by moving the investments forward.

Of course, when it comes to the investments, we're now focusing more on infrastructure. You saw that with the most recent M&A we signed. That's because we want to develop our infrastructure, of course, but also because we want to assess the valuable customer portfolios we have in this day and age. There are plenty on the market, although for the time being we still haven't seen something especially interesting in terms of the portfolio value. So we're focusing more on infrastructure.

Operator

The next question is by Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni, Kepler Cheuvreux - Analyst

Good afternoon. And congratulations for your constant improvement in communication and reporting. My first question is on the second half of the year, on your outlook for the year-end this year. We have seen a progression when looking at Q1 compared to Q2 and so on. And given the things you explained regarding the single business units, do you think we can expect improvements, further improvements in H2 2026 compared to 2025?
So what are the main moving parts from this point of view? So that was my first question.

My second question is more on some numbers on your customer portfolio. I can't remember the number. Specific number of your total customer base and electricity and gas, what was the churn rate from the initial 950,000 customers? Thanks to the adjustments you made, we can see that in the breakdown, in '25 and '26, we have a very clear idea of the EBITDA growth thanks to the migration of the STG customers with a €12 million growth in energy supply, electricity only in H1.
So going back to the first question, what are your expectations for H2?
Given the fact that we have the current market conditions and the volatility of electricity is in fact favoring this migration that you're taking advantage of.

Then I have a third question on data centers and on the two projects which have €150 million in terms of accumulated revenue.
So this is obviously a project which will take over 10 years. So EBITDA contribution will be single digit, so let me just ask you for a confirmation of that. Thank you.

Cristian Fabbri - Executive Chairman

Thank you Emanuele. I'll leave your question on our outlook for the remaining part of the year for last. As far as our customer portfolio is concerned, we have 4.3 million customers, 2.5 in electricity and you can do the math for the rest.
In this portfolio, of course, the number of customers also drops given the lower contribution for the last resort markets.
Some customers are the ones that have value, other customers are more opportunities. Last resort market customers are opportunities, whereas free market customers are an asset that we want to protect.
Last time when you had touched upon the topic of market turbulence, on the possibility of accelerating the STG customers. I had told you that we would have been happy to hire you in our company's marketing division.
Now, the number I showed you is the sum of the 24 months that have expired so far. Although, of course, currently we are focusing on this market segment too.
Obviously, last year the percentage of these customers was lower, so we had a lower effect. On the one hand, we had the effect of the payment of the bonus, the discount that we had offered. We no longer have that payment and we have margins now. And therefore, the two elements are heading in the same direction. We'll be creating margin and we'll continue to see the creation of margins for the second part of the year.

And moving on to your question on the moving parts we remove the two main elements, the extra, the extraordinary opportunities we no longer have the last resort markets, nor do we have the extraordinary margins on regulated businesses.
Basically, we're seeing a business that is progressing well. We don't have any significant elements of discontinuity from here to year-end. Some things will be going better than expected, something less than expected.
All in all, the things which are going better than expected are more than the ones that are less than expected. We're certainly not going to disappoint you, and we expect to do a little bit better.

Now, when it comes to the initiatives we have for the more energy-intensive customers, and we mentioned two recently signed contracts, in this regard, these are initiatives which aren't all very long. One has a 10 to 12 year duration, the other is 20 years.
So in terms of EBITDA, I think it's worth 10% of our turnover as a contribution to EBITDA. The point isn't so much the value of those initiatives, it's more of the strategic supply chain.

For example, now we are making a bid in a tender linked to public housing companies, which through ESCO can obtain 110% financing for these buildings. These are some financing schemes that are worth €1.2 billion, which can be further expanded, linked to Next Generation EU. So we are making a bid for some initiatives worth a few hundred million euros, and we're confident that these initiatives will be accepted because we have received requests for further clarification, which means that we'll probably be giving you some further information for our Q3 report.
And these contracts have very short durations, which means that we'll probably be seeing contributions in 2027. So again, there are a number of things that we're already working on to accelerate in this regard.

Now, as far as our outlook for H2, I think I've answered that a bit.
Ongoing business - the closest thing we're looking forward to is our summer break.
We've already created some value, we've already launched some initiatives on a number of businesses, so we're working well with a good pace, with a good level of intensity.
The international context is one we're concerned with, although as far as our businesses are concerned, we don't have any major concerns.

Operator

The next question is by Roberto Letizia, Equita SIM.

Roberto Letizia, Equita SIM- Analyst

Good afternoon and thank you very much for your presentation.
I have a question on the last thing you mentioned, which is the international context that you're concerned with. Can you give us some insight as to the more recent decisions?
The softer EU approach on the ETS, price of energy €170 per megawatt hour, whereas it was €150, €160 during the year. What are your positive and negative remarks, even the 10% you mentioned earlier on your waste business? In an environment with higher pricing, maybe the situation is more difficult for smaller competitors. Therefore, you may not be seeing a higher churn rate. So what are your comments, both regarding H1 and H2, regarding the scenario.

The second question is on your value of reserves. You've mentioned this a number of times, your CapEx, your RAB.

You also mentioned a number of projects that you'll be working on.
Can you give us an initial snapshot of the overall EBITDA? Regardless of the timing that you'll be developing linked to the RAB eligible CapEx, what is the overall size of the EBITDA given this value reserve that you'll be unleashing? And then it'll take 3 or 5 years, but what is the overall EBITDA amount of all of these initiatives? What impact does it have on your overall figures?

And then I have a final question on the STG market. Even considering the price scenario, this is probably a huge value reserve.
Is there something that can have an impact on customer switching, customer switching next year, competition? Maybe you have to contact your customers or some mandatory information, or will the transition be smoother?
Because with prices at €170, we'll probably be seeing a repricing for customers at much cheaper prices compared to the current market levels, although they'll be extraordinary compared to your initial offer to achieve those customers on the market.
So are there technical elements that can have an impact on customer switching or will the scenario lead to much more positive scenarios for you?

Cristian Fabbri - Executive Chairman

Thank you. We could talk about the scenario for hours, but you don't have time for that, so even though the discussion may be interesting, I'll try to keep my answer short.
As we've mentioned a number of times, we want to be fully hedged when it comes to our activities. We have no significant concerns compared to the scenario. We are filling up our gas storage units and in fact, storage is always linked to a time lag, a term that we've been mentioning quite a few times today. And it's a way, of course, of understanding the difference in prices that may take place over the same day or over the week.
And we have the financial flexibility, which is very positive, as Massimo was saying earlier. So we have a few million in our net working capital that we can invest without any major problems, with the awareness that we'll be reabsorbing those figures once prices go down. So from this point of view, we're not concerned. We have some opportunities in 10% energy, along with a few other things. We have hedged our risks regarding shaping costs in gas and energy.
So we feel that we're very well equipped when it comes to our business and the current context.

Second question, what will happen to the market? Well, in 2022 and 2023, I think the market was cleaned up a bit. We still have plenty of players on the market who aren't very good or very reliable, nor are they compliant with legislation.
There are plenty of those. I'm sure you've all received phone calls from players who call you up and offer the best possible things, although there's always a bit of a con there.
We're still the largest player in the default market and the safeguard market and were there to be any disruption, we have a safety net in place.
So that may be an upside we have in this context. When it comes to the value reserves, well, let me just do some very simple math.
We have been investing on development CapEx worth €800 million over the past 18 months. They still haven't been profitable. We have an ROI of 9.5%.

When it comes to STG, ARERA has defined a procedure that we have to comply with.
We have to send out information to customers, we have to give them the best offer in our portfolio and obviously, it'll be the best offer in our portfolio. And there's a technical procedure that we have to comply with.
Obviously, some customers may ask some questions. Some may leave, of course. We still haven't lost any of those customers. It would be incredible were we not to lose any customers. So we will be losing some, but again, the churn rate is very low compared to the figures we have. They aren't very relevant. Which means that there are some things that we have to comply with, and we'll certainly do our part with a full awareness as to what our customers needs may be, with the idea of giving them value so we can hold on to a part of that value as well.
We serve our customers to promote energy efficiency, to reduce their costs, the deal we have with them is that we work together, we invest together, and we both profit from that value. In this case, we gave them the cost that we would have paid for them, for the customers. That has allowed us to increase our brand awareness.
Keep in mind that half of those customers are present in territories in which we were already present, customers who were familiar with us, who may have had all the other services with us, and who may have simply completed the services portfolio with a single bill, a single CRM, and a number of other things.
So I won't give you the numbers, but I think you can do the math yourself.
Our target is to maximize the value of these customers with a win-win approach.
Customers are not a “cash cow” as far as we're concerned, they are our customers.
We want to give them a good service level. We want to create value over time so that we can continue to have a churn rate which is lower than the market average.

Operator

The next question is by Francesco Sala from Banca Akros.

Francesco Sala, Banca Akros- Analyst

Good afternoon and thank you for this opportunity.
The first question is on gas distribution. I was wondering what you think of the new regulatory evolution, especially the move to the ROSS and how that may have an impact on your business in gas distribution.

The second question is on M&A. I was just wondering which segments, which sectors you feel are the most interesting?

And the third question is on the expiry of the gradual protection for the STG customers. They'll be shifted to the more convenient contract.
Do you already have an estimate as to what impact that could have on your figures beginning in Q2 2027? Thank you.

Cristian Fabbri - Executive Chairman

Thank you, Francesco. Let's begin with your last question. It's something we're working on. Obviously, we'll be deciding also based on the energy scenario at that moment in that time. As you know, we're seeing huge volatility in oil prices these days. It's so volatile that we'll have to make our decisions as close as possible to April 1st.
So these are things that we'll be considering based on the goal we've given ourselves, which, as I mentioned earlier, is to create value for our customers as well.

As far as M&A is concerned, as I was telling Javier earlier, if you look at our most recent transactions, we've invested in infrastructure, especially in waste, not because we aren't interested in the other businesses, but because that is a strategic area for us. We are the market leaders. There are plenty of opportunities there, including a few opportunities which continue to create value, both in terms of the agreement on the price but also in terms of how they can be integrated in our portfolio. At the same time, we're also looking at other things which are out there on the market in the infrastructure sector.
And we also focus very much on customer portfolios because what we want to do is look for customer portfolios such as the one Ascopiave had, namely high-quality customer portfolios, loyal customers.

Looking at customer portfolios that have a 30 to 40% churn rate would be useless for us, something we're not interested in. So that's it as far as I'm concerned.
Let me give Orazio the floor for the question on gas distribution.

Orazio Iacono - Chief Executive Officer

Now, as far as the ROSS is concerned, we read the most recent decree on the gas ROSS, and we have a favorable opinion as far as the company is concerned.
It's an evolution of the full recognition of operational costs compared to the company's own costs. So as far as the business plan is concerned, we are confident that our plan is accurate.

Operator

Mr. Fabbri, there are no further questions.

Cristian Fabbri - Executive Chairman

Great. I mentioned summer vacations. If you've already been on vacation, good for you.
If your vacations are upcoming, have a wonderful summer break, and we'll see you soon at a few conferences, and then we'll be meeting for usual conference call in November.
Thank you all, I know you have a very busy afternoon. Thank you very much for joining us.