

Q1 2009 Results
Bologna, 15th May 2009

Speakers:

Tomaso Tommasi di Vignano, Chairman
Stefano Venier, General Manager
Jens Klint Hansen, Investor Relations Manager

Good afternoon, this is the Chorus Call operator. We'd like to welcome you all to the Q1 '09 results of the Hera Group.

All participants will be in the listening mode only. After the presentation we'll have a Q&A session and you'll have the opportunity to ask questions at that time. To receive assistance from the Chorus Call operator during the conference call, please press star (*) followed by the number 1 on your telephone keypad.

Now I'd like to hand the call over to Tomaso Tommasi di Vignano, Chairman of the Gruppo Hera. Please Sir.

Tomaso Tommasi di Vignano speaking

Good afternoon to everybody, I'm here with Stefano Venier and Jens Hansen as it is customary for us to talk you through our Q1 '09 results.

The first quarter of 2009 as we had already envisaged it to be, turned out to be quite a complex quarter, but let me say right away that we are rather pleased about the performance and the results and numbers we delivered. As a matter of fact, we are here to confirm growth trends as it was the case ever since the establishment of the company. The growth which we have recorded was mainly driven by organic growth, by organic elements and it was also driven by the growth in the energy businesses thanks to the increase in sales volumes. Also our regulated businesses held up quite well.

What I've just mentioned here is not meant to be a statement to belittle the impact of the economic downturn on our Group. As you will hear later during the presentation, if we look at our consumption levels, we have seen on average consumption level reductions between 4 and 5% compared to the numbers or the levels which we reached at year-end 2008. There was a peak recorded by this phenomenon and this trend which was recorded in the area of new connections.

So, we're here to say that we saw the impact of the economic downturn indeed, but on the other hand we are quite pleased to show you how our company and how our group held up thanks to the measures it rolled out.

Our EBITDA was in excess of 12 million Euro compared to last year and you can see the make up with the major aggregates there on this slide.

In the regulated business we saw 7.6 million Euro worth in terms of contributions and the contribution of the other businesses instead was 4.7 million. As I mentioned at the beginning of my presentation, this part of our business portfolio was positively affected by increased volumes in electricity up 32% compared to last year and also excellent performance in the area of recruitment of new customers. As a matter of fact, we had 27,000 new sign-ups compared to the number we had at year-end '08.

If we now look at our accounts, the numbers we have achieved are sort of self-explanatory. I'd like to draw your attention to both our EBIT as well as our bottom line. Let me just clarify one point in this specific regard, that is: if we look at our financial charges, here we should take note of the end of the so-called fiscal moratorium. The inclusion of the Modena utility that was acquired by us really changed the consolidation that was subject to the inspection of the IRS and we have a sanction outlay of 4.8. 2.1 has been posted as financial charges and then 2.7 instead is included in the line or the heading of the non-operating expenses.

So, that's really the end of the all issue known as the fiscal moratorium. They were our Bologna-area municipal shareholders [*which*] really paid the taxes right at the beginning when these measures were levied and enacted and so there are good chances revamped to recover some of the money that they had originally paid but, once again, as for us the thing is over. We didn't make any adjustment and our net profit if adjusted for this one-off, known as the fiscal moratorium, would have grown 11%. As for our tax rate, nothing new to report here, that's the 41.7% which is the rate that you can see in the last fiscal year's account. As for revenues and sales, they were up 28% overall and if we once again break it down by regulated and deregulated businesses we can see that regulated business was up 7% whilst sales in the deregulated business was up 34%. For a short while let's spend a couple of words about the EBITDA growth drivers. There are no contributions or impacts from any M&A and therefore the build-up is quite easy: 8.6 million that comes from synergies and organic growth. Synergies which we have been increasingly focused on in order to extract as many synergies as possible and then we have a contribution of 3.6 million from new plants that have gone on stream in WTE business. Let's have a look now at the EBITDA breakdown by business segment or business line. Let me stress right away that gas and electricity which make up the energy business inclusive of all the related distribution operations, as a share to our total performance for Q1, exceeded the 49% so, as you can see, there has been almost an equal contributions from the other businesses. There is no coincidence or overlapping between regulated and deregulated businesses because the energy business includes also contributions of our distribution operations. Having said this, we can move quite rapidly to a review of the individual businesses.

Stefano Venier speaking

Thank you and good afternoon to everybody. Let's start from the waste business which, as you can see, saw revenues up 3.8% compared to Q1 '08. This increase was mainly driven by a considerable growth in the volumes of electricity which we sold and which was generated by our WTE plants up 36 GWh approximately and this has also offset some declining volumes in this specific business segments. EBITDA-wise the major negative impact was driven by special waste volumes that as you know were negatively affected by the diminished activity on the part of industrial customers. Let me stress, however, that we've already detected some positive signals as early as the beginning of March also thanks to a series of initiatives that were rolled out, so there was first of all some signs of economic pick-up in April, but as you can see on the left-hand side of the table we saw a quite a visible growth of

the amounts or volumes of the waste disposed of by our WTE plants. Volumes that were originally disposed of to landfilling. The WTE plants gave a 3.6 million Euro positive contribution and that was driven by several factors. On the one hand, the electricity price was slightly lower than in the past and, please, also note there was some accounting of green certificates that in Q1 '09 was fully compliant with the rules that were enacted in late 2008, equalling 56% of the amounts treated and disposed of, conversely to what we did in Q1 '08 when instead there was a 100% of full recognition of the amounts treated. In addition to this, during the Q1 '09 the Rimini plant was switched off: as you know that's meant to go to a repowering process and therefore we saw no contribution from that plant during Q1 '09.

On the other hand, we saw instead a kick-off for the start of operations of the Modena plant. Only the waste treatment unit went on stream...while the electricity generation unit went on stream only recently.

Overall the net result of all this was a decline of 2.4 million EBITDA-wise.

Now, let's move on to the water business and here revenues benefited from higher tariffs. The tariff rise was equal to 4.7%. There were two negatives which instead offset the good performance to a certain extent. So a lower number of new hook-ups as a consequence of the fact that there were fewer construction sites or fewer new buildings and then we also saw a decline (3.6%) of water handled. Now, that number is partly a reflection of the lesser activity among industrial companies, in particular in some geographical areas and other relevant geographical markets. Overall, as you can see in this slide, the performance gives us a 4.8% increase moving up some 29.4 million Euro to 30.8 million.

Now, let's move to the energy sector and let's start by commenting on our gas business. Here growth is really meaningful. As you can see, we moved from 58.1 million Euro EBITDA-wise in '08 to 69.5 million Euro in Q1 '09.

Here the growth drivers are diversified. On the one hand we have increased sales volumes and increased also trading volumes and then we also have a positive contribution of the regulated business of gas distribution.

Overall, distribution and sales volumes were higher than what we saw in the same period last year because of better weather conditions. Despite this, however, it should be noted that the industrial segment of this business saw a 4% decline at least in our relevant geographical market.

As I said, we saw a strong growth that was driven by increased sales which in turn went better than last year and another growth driver was the increased trading volumes which overall gave a 1 million Euro contribution.

As for our gas distribution business, if you look at the numbers we've recorded here, you see the reflection of the new regulatory period, whereby now we have a full metering of the thermal year and the calendar year.

Now, let's move on to electricity. Now, in this business segment we saw again quite solid growth, 16.7%, that's the EBITDA growth rate in absolute terms approximately 2 million Euro. Growth drivers or the main growth driver was trading, which gave a 1.5 million Euro positive performance, whilst sales benefited or recorded quite an increase in volumes up 32% and also an increase in the number of customers, who have exceeded the number of 300,000 customers which is 27,000 customers up against last year.

If we want to review the impact of the economic downturn, we can see that we saw the impact in Modena and Imola distribution volumes went down

approximately 4% compared to last year whilst, as for our industrial customer portfolio, the decline was comprised between 7 to 8%. Now, that was largely offset by the expanded customer base. If we now go to page 8, where you can see the progression in results in other businesses, there are basically two: district heating and public lighting. As for the first one, district heating, as we saw with gas, we saw the positive impact of favourable weather conditions; volumes were up 8%, quite a sizeable growth rate, partly driven up by favourable weather conditions and partly driven up by the expansion of our operating base over the course of 2008. Public lighting, on the other hand, saw an increase in the portfolio of facilities which we currently manage to nearly now 327,000.

Let's now have a look at our capex on page 9. I think that here I really have to share a few considerations with you. Total capex equalled 86 million, approximately 4 million below the level we saw last year. These two absolute numbers really lead me to stress two points:

firstly, even if we look at our performance and what we see at the P&L level, a rigorous focus was on some cost areas. Both in gas and water investments were lower than in the past year, whilst capex was higher in the waste business segment as a consequence of the investments that are still being made on some incinerators. Out of the 30 million or so spent on the waste business, $\frac{3}{4}$ are devoted to the construction of new plants.

Let's have a look at our NFP which slightly changed moving from 1.571 to 1.636 and that's also due to the fact that [for] companies operating or having a medium presence in the gas business, March is a deeply seasonal period in time since the invoicing of the winter consumption starts in January and ends in May.

Mr Tommasi speaking

So, in a nutshell we're really pleased with the upward trends recorded in Q1 '09, we have proved to be quite effective in defending and holding up the impact of the economic downturn, but in addition to this we have kept a consistent stance vis-à-vis our traditional business approach and business guidelines and we have been quite resilient in adopting measures to offset the negative downturn on a case-by-case basis. In particular, you've seen what we've done in the electricity business and here we have expanded our presence in this business segment but we have done so in a very conservative way. We've been very conservative in terms of generating sufficient electricity to meet our trading requirements and at the same time we've been very conservative also in managing our internal production, a capacity given the year we're going through.

Let's look at the foreseeable future. We are strongly committed in a few areas, one of them is the support to our waste business that has slightly suffered as it was reflected by the numbers in Q1 '09. We really think that the market preconditions to recoup the terrain which we have lost, we think that the preconditions are there.

As for capex and NFP there are really no news to be reported. We are working in line with our schedule and I'm also here to restate and confirm the spin-off of the business unit devoted to waste disposal that will be turned into Hera Ambiente, effective July this year. I think that this, combined with the

rolling out and the fact that we are going on with our efficiency gain and synergy extraction, I think that the combination of all these factors will allow Hera to overcome this difficult year.

That's the end of the presentation, we're now glad to take your questions.

Q&A Session

This is the Chorus Call operator, we will have now the Q&A session. To ask a question, press star (*) followed by the number 1 on your telephone keypad. To exit the question [omissis], please press star (*) followed by the number 2. To ask a question, press star (*) followed by the number 1 on your telephone keypad now.

First question comes from the line of Francesca Pezzoli with Chevreux. Please Madame.

Good afternoon to everybody. I have a question about your waste business. Could you please elaborate a little bit on decline in volumes recorded in Q1 and could you give us some guidance giving us a preview of numbers in March-April? And, last but not least, what sales policy will you be adopting?

Stefano Venier speaking.

Well, if you go back to the slide devoted to waste, which is slide 4 in the presentation, well, if we focus on special waste, overall in Q1 we saw a 10% decline in volumes. If we look at the first two months, the decline was between 13-14% compared to April, which, as you probably know, also includes some bank holidays more than other months. Well, April was full in line with March. If instead we look at urban waste, here the benchmark of the two quarters gives us a 1.6 positive result. Now, maintaining accounting...on a like-for-like basis from the accounting standpoint, the decline in urban waste would have been 1.5 to 2%. Now, that's what I can say volume-wise.

As for our sales policy, the measures we've been adopting are pointing towards the enhancement of our asset base, therefore we're trying to push, so to speak, the volumes of the highest margins of the most lucrative type of waste up. Once again, let me stress it, our market or the waste market, the waste industry in Italy is such whereby large amounts of waste are exported to foreign countries, so we are working in this area to increase waste volumes and we're also devoting our attention to the optimisation of flows to channel to our plants. If you look at the bottom of the table, you can see that we have been moving waste from landfills to WTE but also to waste selection, waste sorting and composting installations. We have been reaping excellent results through sorted collection, 44% that's the rate or level which we reached at the end of March and here too we're trying to optimising the use of our plants as much as possible.

Thank you.

Next question comes from the line of Stefano Gamberini with Equita SIM.

Good afternoon, I too have three questions.

So, first of all, could you give us a split or a breakdown... so you mentioned the regulated and deregulated activities. When it comes to gas, could you please give us a split of the regulated number and the same for electricity? Could we have the EBITDA for the two regulated businesses and then could you elaborate again on the growth which you've you posted? Is there a tariffs impact on margins which maybe is meant to stay there also in the next few months? I have a question on your waste business. 4 or so million Euro over Q1 and 3.6 as the positive contribution from new plant. So, net of the new plant contribution, we would have a 6 million Euro EBITDA, which I think comes from special waste. So my question is the following: could you please help us understand whether that's the case or whether that's true or could you also give us some guidance about the rest of the year, maybe assuming a recovery in volumes or a pick-up in volumes and, last but not least, I have a question on your debt. I think that you have quite a high debt despite the fact that, how could I say or how could I put it, despite the seasonality effect. So, will you, like other players, or have you, as other players did, have seen a worsening of burden consequently or worsening of payment terms or have you seen any bad debt problems? Our tax rate is not 41%, so could you please explain this?

Stefano Venier speaking

I will take the first part of your questions. So, I'll give you the breakdown of the EBITDA growth in gas between regulated and deregulated. So, we're talking about 11.4 million. Approximately 7 of that number come from our distribution activities; the remainder instead comes from sales and trading.

As for electricity, there are no benefits coming from tariffs, so declining volumes resulted in lower revenues from distribution, approximately 600,000 Euro, but to that you also have to add the same amount coming from fewer new connections. So, we are in the negative for 1.2 but that was largely offset by the positive contribution from sales and trading. As for trading, let me stress that I also included the contribution coming from our plants' optimisation. So, that's both outright trading contribution as well as improved asset management or asset optimisation.

This is what I had to say about gas; let's move on to waste instead. Now, what you said has to be put in a different perspective: well, on the one hand it is true that plant contributed 3.6 million Euro but the remainder was partly driven by lower volumes. So, 50% of the amount that you mentioned is special waste, while the rest is partly correlated to smaller or lower volumes of urban waste and also lower or lesser revenues coming from the sales of by-products generated by our waste sorting, principal among them recycled paper. So, these by-products saw lower margins and here we are talking about 1.5 million margins left, so it's not lower volumes in special waste, but there are also these three drivers.

At year-end, what do you expect the waste business to go or to be at year-end 2009?

Well, for sure we'll be strongly committed to recover the terrain which we've lost, so to speak. We expect to get a stronger contribution from the Modena incinerator WTE plant which has started to see the contribution from the electricity generation unit and then we will probably see a strengthening of a positive trend which emerged already at the end of March and throughout April in special waste.

Mr Tommasi speaking.

I will take your question about our debt. Well, we are acting and taking measures full in line with the guidance which [we] originally gave you; so, at year-end 2009 we expect to reach 1,600-1,700 and I think that the delta or the change which we've seen in Q1, as it is always the case at the beginning of any given year, so the change which we saw was driven by the seasonality effect and also by the impact of excise duties or tax on our working capital. However, I think that we are really moving along the lines of the guidance which we gave to the market. As for receivables, there are two different indicators I'd like to draw your attention to: there has been no worsening of our receivables position overall, whilst in Q1 '09 we received an increasing number from residential customers scheduled to pay our invoices on an instalment basis. This is however a phenomenon which we have full control over but which, nonetheless, is, how could I say, still at normal levels and which is not to be considered as a sort of concern for us. The estimate which we have given about receivables and debt, well, we're full in line with what we've done.

Mr Gamberini speaking. This is a follow-up question.

What's the investment or capex which you expect to see?

Well, as you probably remember, we have set a capex target which is in the range of 350 million Euro, quite different from the target of the previous years.

If you have a question, please press star (*) followed by 1.

Next question comes from the line of Fabio Picardi with Banca IMI. Please Sir.

Good afternoon to everybody. I did not understand the part of the EBITDA increase driven by distribution and apologies, it's probably my fault. I don't really think that it to be entirely attributed to volumes that were up 4%. So, basically, what's the impact of the new regulatory period? Has this an impact on tariffs? Is that something that can be offset throughout the year? But apologies again, it's really my fault, I did not understand this specific aspect.

Stefano Venier speaking.

As you know, we have a bracket-base tariff system, it's a staggered tariff system with some flat rate for certain consumptions. So, amid the new legislation there is a shift of the start of accounting for the new regulatory period from Q1 to the end of the year because the thermal year now coincides and fully overlaps the calendar year. So, if we compare Q1 '09 and Q1 '08

they are not fully comparable because they are positioned at two entirely different parts of the consumption curves. So, the number I mentioned is that the benefit coming from flat rate equals 7 million Euro. That's the contribution from the flat rate. In the next quarters that will be brought down, of course. This is clear?

Yeah, very very clear, indeed but if I compare your performance with the numbers of other companies, what's still not clear to me is how these numbers were accounted for.

Well, I realise but I think that all companies and also comparable companies have used the same accounting method because that's the only possible way.

Thank you.

Again, to ask a question, press star (*) followed by the number 1 on your telephone keypad.

Next question comes from the line of Edoardo Montalbano with Centrobanca. Please Sir.

Good afternoon. You've spoken of the waste business. Could you give us the year-end '09 EBITDA target for this business segment and then could you please give us some guidance about your 2009 expected tax rate?

Mr Tommasi speaking.

Well, as for waste, we've never given any year-end guidance, we've never done this, this is our policy, so we're not giving this number now. We've told you how much the economic downturn impacted our performance in this business in Q1 and for us the target or the commitment is that of offsetting the number with a minus which we have shown to you, but I don't want to release any specific number. The tax rate is what we expect to have on the full year basis and that's 41.7%.

Next question comes from the line of Dario Michi with Banca Akros.

Good afternoon to everybody. Could you give us your view on the industry? So, the Italian Senate has passed the 1% increase in Robin tax. I don't know whether that will be restricted only to companies operating in the oil or energy sector. Some companies have appealed to recover the impact of the fiscal moratorium. You see various governments with State aid, including ours, with State aid in various forms that are still there. So, I don't really see why this industry should provide support, financially speaking, to other businesses.

Well, frankly speaking, this is Mr Tommasi speaking, what you've said is quite legitimate. We don't want to play the victim role but with special reference to the behaviour shown by the legislator, well, we do agree with what you said and my personal opinion is that we have sometimes the impression that the legislator's decisions are not stable, are not well-grounded. So, I'm more concerned by the fact that many decisions, many resolutions are not well-

founded, are not stable, they are questions raised after they have been passed. Considering the complexity of issues such as that of the fiscal moratorium, undeniably that was a law passed by the law. It was not tax avoidance or tax evasion and we have a two-level system, so the upper law-making level decided to consider...the EU level considered that as a State aid. Now, undeniably these are bad situations to be in but if I were to choose, I would like to see a more stable, better-founded legislated system.

Now, in the wake of enthusiasm, can I ask another question?

Of course.

So, excellent performance in Q1, so things are running very well, so, what I'd like to hear from you is what should we expect in the year of M&A.

Maybe the fact that your stock price is very very low and that would probably lead us to be very depressed but maybe you could give us some hope and elaborate a little bit and that's probably the end for my questions, at least for the time being.

Tomaso Tommasi speaking.

Well, the question is a strategic one in nature. We cannot but confirm that we are working on M&As and we will keep on doing this and this is to dissipate any doubt. As for our position in the second half of 2009 or where should we expect to be in the second half of 2009, as you know, it's very difficult to turn negotiations into a real deal. So, I cannot really tell you right away whether we will see anything concrete in the second half of the year or at the end of the year, but we do hope that good results will be seen.

Now, public or government decision-makers are currently distracted or defocused from these issues because they're all involved in the political elections and the related political campaigns and we have to consider this.

Next question comes from the line of Roberto Larotonda with Unicredit.

Good afternoon. I have a question about green certificates. Could you give us some guidance about the levels or how much are green certificates been accounted for at and what sort of development should we expect to see?

Stefano Venier speaking.

Well, your question equates to giving you a forecast of the oil price in 24 months' time. Well, I would like to address two different aspects of this issue or point. As you know, a rule has been introduced whereby green certificates can be transferred or sold to the grid operators on an annual basis and if you are familiar with what has happened, this has had an instant impact on the market because market prices have gone rapidly towards that level and consequently that's the level which is meant to be used for the next three years, by three years meaning '09 onwards. But that will represent the ceiling and that's at that level that the price will become stable. What are we talking about? Well, the price is 98 Euro that was released this year, and I think that

the 2010 price will be something between 95 and 96 and later we will see more likely 90. I think that something between 85 and 90 Euro is to be taken as the reference price, also to support the growth of renewables. I'd like also to tie back in with what our Chairman said: what we need is a more stable legislation. You know that a major amendment was proposed aiming at changing the way green certificates are handled. So, you're all familiar with works whilst some aspects and some factors should be shifted from generators to traders. Then, it is very difficult again to foresee what might happen given the very unstable legislative framework we have and I'm really restating this because once again we are facing signals of attempted changes to a mechanism or a system which has been hardly and painfully striving to reach a sort of equilibrium or a balanced position. Now, given the current condition, I would assume and, incidentally, these are prices which we have been including as assumptions underlying the update of our business plan. So, the numbers or the price assumptions are in the range I mentioned earlier. Thank you very much.

Next question comes from the line of Stefano Gamberini with Equita SIM.

A very quick question. The 7 million Euro in gas EBITDA. Should we expect them to be fully recooked? And, second question, this is a question to Stefano Venier, what's the RAB in gas and electricity distribution?

As you know, we are making tentative moves in the sense that 2009 is the first year in the new regulatory period and there have been two major changes. Changes were actually several but there are two major changes. The first one is the start and the end of the thermal year and the second major change is tariffs.

Now, tariffs envisaged two major changes. The first one is linked to the offsetting of the so-called thermal volatility, which... leave me to say that unless there's a major change in the number of customers, allowed revenues should be stabilised. And then there's a second change which ties back in with your second question which is the allowed invested capital in order to define and set tariffs. In this specific regard, the regulator has issued very complex regulations that have forced all operators to assess or to work backwards the number corresponding to the invested capital for the previous years. Now, we have, according to these new criteria, we have got the number of our invested capital at the end of April and then the regulator has allowed itself two months' time so that the new tariff system will be approved in July. So, getting back to your original question, if I were in a situation whereby regulations remain unchanged, the reply is that the 7 million will be partly offset or recovered. How much of that will be recovered will depend on the weather we will have in Q4. Instead, in a scenario of changed tariff system such as the one we are witnessing or seeing start in July, effective January, 1st this year, now, given this scenario we should see a partial recovery of the 7 million we've mentioned. Well, for the time being, since we don't have any certainty about the new tariff system, given that, we are operating in line with our previous assumptions when elaborating our forecasts and I think that we will see some impact coming from this changed tariffs. How much, I don't know. If I were to be 100% sure that the authority regulator accept 100% of

the proposed changes, well, then I would be in a position to be more accurate, but the regulator has also reserved the right to adopt a gradual, so to speak, mechanism. So, it's really too early to tell you. As for your question about the RAB in the water business, overall we have 1 billion Euro (1.040). I think yes that capex in electricity will [*omissis*]. Electricity is more complex because the system in electricity is more parameter-based, unlike gas and water because in gas and water we are talking about tariffs that are based on the reference point which is ENEL and so our invested capital makes more sense as a reference point there.

To ask questions, press star (*) followed by 1.

There are no more questions. Thank you very much. This is Mr Tommasi speaking. Have a nice weekend. Thanks again.