



## First quarter 2010 Results Bologna, 13<sup>th</sup> May 2010

### Speakers:

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

### Chorus Call Operator

Good morning. This is the Chorus Call operator speaking. Welcome to the presentation of the first quarter 2010 results for the Hera Group. I would like to remind you the fact that all participants are in listening-only mode.

After the initial presentation we will have the possibility to go into a question and answer session. To receive assistance from an operator during the conference call, press star followed by zero.

And now I would like to give the floor to Mr Tommaso Tommasi di Vignano, Chairman of Hera. Mr Tommasi di Vignano, you have the floor.

### Mr. Tommaso Tommasi di Vignano speaking

Thank you and good evening to everybody, we are here to present the results of the first quarter. We are very satisfied because we feel that we obtained some truly good results. As you were already able to appreciate, all the operational results grew compared to the previous year, which was a difficult one, but despite that, Q1 – as you can see from the slide – had a good increase in EBITDA. And now we have added to this a more significant result in 2010. As we will be seeing, the growth was fully driven by internal development drivers, and I think that this truly underlines the positivity of our policies.

Now, besides the economic results we will be going into and besides the contribution made by the various business areas, what is interesting to note – also vis-à-vis the doubts that still exist as far as the general economic conditions are concerned – is that we had a positive result as far as growth is concerned in all sectors, also in terms of volume, meaning that the signals that we had as far as a recovery of our activities last year is concerned, fully strengthened in this first quarter of the year.

Just two figures: we had an increase in our customer base in the energy sector, which compared to last year is up 30 thousand customers, but what is even more interesting to you, given the attention paid to this issue last year, was the significant recovery we had in the waste business, where the volumes of special waste which was managed went up 13% compared to last year and overall in the waste business, also including urban waste, we increased figures by 16%. These are two very strong figures which prove our capacity to increase our plant portfolio and also underline the commercial efforts made, as we had promised last year.

As far as our plants are concerned, we are currently focusing on two initiatives. The first, which you are aware of, is the completion of the Rimini waste-to-energy plant, which – as you know – is the last of the major plants in our territory that we had programmed a few years ago. I am pleased to say that we will be fully compliant with the June deadline to start operations in the new plant, as we have already illustrated.

The second plant we are working on is an important biomass plant which will be on stream in the beginning of 2010. We are already making our first experiments and therefore this is another area that we are focusing a great deal on.

Just a couple of comments on the good results we obtained. We are no longer holding fast as we may have been last year, this year we are growing, which proves how despite a difficult to interpret fluctuation on commodity prices, the result of our commercial policies was able to fully offset what was happening as far as prices were concerned, as we have fully offset what had happened last year in terms of volume. Now these

two different visions of the same issue can confirm the quality of the Hera model, and it is a model we will certainly be continuing working on and investing on.

As far as our financial situation is concerned, our debt is stable, in line with what we had illustrated when we had presented our budget. There was a modest variation which was basically due to the effect of the seasonal nature of our business. Also thanks to the fact that in Q1 this year we have had an investment level which further highlights our commitment which will allow us to go back to sustainable levels and cash generation, given the fact that the new plants have all been completed, this profile is fully compliant with the things we have declared previously.

Let's go into the figures concerning revenues. We have had a contraction which is basically due to two very well known factors, the first of which is the decrease in commodity prices, which is a general figure, and the second is a specific figure, given the fact that in the electricity trading sector we had had conditions which forced us to reduce our trading activities equal to 180 million euro compared to the previous year. In terms of EBITDA we had a significant growth, we have a +11% vis-à-vis 2009, which as I was saying is basically due to our organic growth in all of its components and which can also be seen in the EBITDA margin also vis-à-vis the reduction in the electricity trading margin and therefore the EBITDA margin grew to 17.1%.

As far as our depreciation and allocation situation is concerned, the variation is equal to some 12 million euro, which is due to 8.5 million euro to depreciation relating to the depreciation of the plants which were started up in the past few months, and 3 million euro in terms of allocations for the aspects concerning credit.

As far as EBIT, we had a +5.7% growth and as far as financial charges are concerned, we had a variation equal to 2 million euro which reflects the growth in debt which happened during 2009.

The net financial position is equal to 1.919 billion, which is close to the 1.891 billion euro at the end of the year. We also have figures which are due to the seasonal nature of the gas business and therefore they are due to the positive business we had in the gas sector, again also due to the seasonal nature and the harsh winter we had which allowed consumption to increase.

In terms of pre-tax profit we have a +9.4% growth, and in terms of net income post minorities growth is equal to 5.8%.

These are the fundamental figures; we need to add some figures concerning the level of this growth in terms of drivers. As I was saying, 14 million euro derives from synergy and organic growth, tariffs for the regulated businesses, volume increase and market expansion and – as I already mentioned – we also had a cold winter which increased consumption. This happened in the gas business and also in district heating.

The remaining part of the EBITDA growth is due to the contribution made by the last two plants which were activated – the Imola co-generation plant, which certainly Mr Venier will be talking about, and the Modena waste-to-energy plant – which together brought about an increase equal to 4.5 million euro.

Keep in mind that Modena represents the majority of this 4.5 million euro, with 3.5 million euro and keep in mind that this plant already had its usual maintenance month in Q1, meaning that the plant was only able to operate for two months out of the three.

There are no significant differences in the business contributions, besides underlining the fact that the waste business grew. Compared to the previous year we had an increase from 25.2% to 28.2%, which is equal to the importance that this business had in the past and that it will continue having in our results.

I now give the floor to Mr Venier to go into the business-by-business breakdown and the assessment on the investments made in the last quarter.

### **Mr. Stefano Venier speaking**

Good evening. As usual I will begin by the waste business, which, as you may remember, is managed by Herambiente for waste management and for waste collection. As the Chairman was already mentioning, in this sector we had an important growth, equal to 10 million euro in terms of revenues in Q1. We also had a significant growth in terms of the percentage profitability which increased by 3%. This is also the effect or the consequence of the increased volume which was managed in the waste-to-energy plants, which, as you can see in the lower left-hand graph, grew by 25 thousand tons and which will allow us to manage figures above 800 thousand tons.

This activity was also supported by an increase in volumes which happened in special waste, which was up 13% compared to the previous year, and which in overall terms reached the levels of the first quarter of 2008, meaning that we were able to offset the effects of the crisis. We also had an increase in urban waste, which grew compared to Q1 of last year by some 4%.

Now, within these results we have to underline the fact that Herambiente contributed with 39 million euro to the overall 52 million euro result.

Moving on to the water business results, in this case the industrial fundamentals, in other words the volume dynamics, saw us going back to the distribution water levels which are in line with Q1 of 2008, and this certainly had an impact on the business margins which is now equal to 32 million euro. The volume effects were able to offset the lower new connections and this indicates that the real estate industry still has not been able to recover, as we have already been seeing in other industrial sectors within our region of reference.

Moving on to the energy sector, which together with the waste business had some significant and important results, beginning with the gas business, we can notice how this specific area improved by 4.5 million euro, equal to 5.9% compared to Q1 last year; this result was made possible by sales activities equal to 28 million euro (sales and trading activities are together and they are more or less along the same line as last year) and the distribution business which increased by 6 million euro. In terms of volume, also due to the cold winter we had in the first quarter of the year, we had a growth equal to 8.5% in terms of distribution and an increase equal to 20% in terms of volumes sold and wholesale trading. Now, within this 20%, sales to end customers equal to a growth of 6.5%.

We also need to notice the development we had in our district heating activities, which in Q1 were able to benefit from the contribution made by the co-generation plant in Imola, on the one hand due to the increased activities and the commercial activities which we developed last year, on the other hand due to the cold winter we had. In this case we had a growth equal to more than 17% with further 40 thermal GWh which were sold in Q1 of this year. These results highlight the fact that in this area of business we had positive contributions both from an industrial point of view and also in terms of our margins, as highlighted by the margins we had in terms of sales.

Moving on to the electricity business, in this case we have less significant variations – even though they are positive nonetheless. In Q1 we went above 14 million euro, 9 of these are due to sales and trading activities – which, as you know, benefit from the strong commercial activities we were able to develop last year and which we continue developing in Q1 this year – and due to distribution for further 5 million euro.

In terms of volume, in the lower left-hand graph, even in Q1 this year we will be able to record a 13% increase compared to last year.

In terms of customers, as we mentioned earlier, the number of new customers which we were able to acquire and activate in Q1 was equal to +30 thousand vis-à-vis Q1 last year, and a few thousand customers were acquired in the last month of the quarter and they will be activated in the months of April and May.

I have nothing specific to comment on the other businesses, whereas I would like to focus on the investments. In this case we had a significant reduction in terms of absolute figures since, as you can see, we went down from 86 million to 63.8 million. In this case the most significant contribution came from the waste business because, as we have already mentioned, we are now in the final stages of the investment made to build the new waste-to-energy plants. We have also had a general contraction, or rather a general decrease in terms of investment in all of the sectors, as you can see on the graph by comparing the results in the water, gas and electricity businesses.

In terms of our net financial situation, we closed Q1 with a 1.9 billion euro, as we mentioned earlier, which is slightly above the figures we had last year at year end. This result was also due to the results of the operating cash flow since, as you know, for a company such as ours which is focused on energy and gas and in a particularly cold winter such as the one we had this year, this represents the quarter in which we are more exposed during the year.

Variation this year was less compared to last year, and this allows us to keep our debt level at a substantially stable level, with an improvement compared to our net working capital which is down 1.1 times.

I would like to give the floor now to the Chairman for a few remarks to conclude the presentation.

### **Mr. Tommaso Tommasi di Vignano speaking**

Well, the conclusions are fairly simple, I would say. I think that the positivity of our performance in all businesses is obvious in terms of growth, and it is a performance which has the characteristics of resilience and professionalism. It touches all the businesses we are involved in and it further underlines the balanced weight with which we deal with our portfolio.

Beginning in this quarter, we will be able to take advantage of the completion of our plants and we will be able to receive the fruits of the investments made over the past few years.

Now, without being boring and without going into other things, there is another element which highlights the compliance with the programs we illustrated to the market over the past few years: it is always a good thing to benchmark your results.

Having said that, there is nothing else to add except for two last things. An update on the negotiations that we have for the choosing of the Herambiente financial partner: in the past week we have been going into exclusive negotiations with a partner and we hope to be able to complete this goal by the end of June. And last point, obviously a good quarter such as this one allows us to be confident that we will be able to be in line with the dividend policy we had, because we believe that we will be able to be consistent with what we had anticipated to the market.

And now we are available for any questions you may have.

## **Chorus Call Operator**

This is the Chorus Call Operator. We will now begin our Q&A session. All those wishing to ask a question can press star followed by one on their telephone. If you change your mind and to exit the question list press star followed by two. All those wishing to ask a question can press star and one now.

The first question is from the Italian conference call, Stefano Gamberini of Equita Sim.

### **Mr. Stefano Gamberini speaking**

Good evening. Let me compliment you on the good results obtained, which are beyond our expectations. I would like to ask two questions.

The first is on the gas business: can we have the EBITDA breakdown between distribution, sales and district heating activities? And can you tell us in the gas distribution business how you were able to take into account the regulatory amendments which you made compared to Q1 last year?

The second question is a question on the waste business: we had an increase in volume equal to 13% in the special waste; what do you expect for the entire year? Are prices increasing in this area? And also as far as the waste business is concerned, I would like to know what the situation is concerning the regional government approval of the use of biomaterial in your waste-to-energy plants and, if I am not mistaken, you would be able to obtain an upgrade to green certificates also for the management of this type of waste; therefore what will the impact on the waste business be? Finally, do you have some guidance as far as EBITDA over the entire year? Can we expect some small acquisitions this year that will have an impact on your results?

### **Mr. Stefano Venier speaking**

I will begin with the first question on the gas business. In terms of the breakdown, as I was saying, the 82 million euro can be divided into 28 million euro for sales, 10 million euro for district heating and 45 million euro for gas distribution.

In terms of how we can account for the profits in the gas distribution, we have not made any amendments: we continue to calculate the distribution revenue as we have done traditionally and based on distribution volumes, taking into account the fact that we no longer deal with the regulated tariffs but with recognized revenues and therefore we take into account the shares which need to be accrued. So, from this point of view, the result in 2010 is fully comparable with the results obtained in 2009; even though in 2009 (still not knowing the curves that the authorities would have decided on) we had adopted a proxy – based on the calculations we made this morning – the difference would have been 2-3 million euro, which is negligible. Other companies opted for a change in criteria and, if I understood correctly, they now have a flat monthly distribution quarter. I will not go into the reasons behind this choice, nevertheless, we felt it would be better to continue with the criteria we have always had, and this allows us to have a better comparability of the year-by-year results.

The second question was on the waste business. As I was saying, we recorded an improvement in terms of volume, with a recovery that we were referring to, and from this point of view our hope is that this type of recovery will be confirmed even in the months to come. Obviously the events of the past few weeks do not help recovery but the latest figures we have are pretty comforting.

As far as prices are concerned, as we had already commented in the past, our choice was that of maintaining our market prices since, according to the assessment we had made, there were no volumes on the market and therefore reducing prices would have been absolutely useless – obviously, within reasonable ranges, as we had already said, around 10%. We continue being in line with this trend and therefore, as far as we were concerned, we did not feel we had to recover as far as prices were concerned.

As far as the biomass project is concerned, in this area we completed an important phase: the regional elections. As you know, the path we are going along foresees an initial stage in which the regional government approves the project and the same regional government is now drafting guidelines for the provinces, so that the executive proposals that we made to them can become operational.

The projects that we have given the regional authorities were approved. In the past few weeks we slowed down slightly because the elections brought about the nominations of the new regional government which only began its work a week ago, and therefore the new councillors will have to go back to the guidelines and hopefully by the end of June this document will be completed.

The last question is slightly more complex and therefore I will hand the floor over to the Chairman.

### **Mr. Tommaso Tommasi di Vignano speaking**

Concerning our EBITDA view, with this quarter we are slightly ahead of our expectations. It is simply a matter of seeing whether or not in the rest of the year we will have similar results or if we will have a slight contraction, but I am confident – given the results of the first quarter – that we will continue along this line in the months ahead, meaning that we will be in line with your consensus, which is slightly below 600 million in terms of EBITDA.

### **Mr. Stefano Gamberini speaking**

Just a follow-up: the 45 million euro in terms of gas distribution, how did they compare to last year results?

### **Mr. Stefano Venier speaking**

It was 3 million euro lower.

### **Mr. Tommaso Tommasi di Vignano speaking.**

As far as your question about M&A is concerned, well, we will continue doing our job in the sense that we have already announced a significant goal to the market, which is that of being able to complete the AIMAG negotiations, where we are now minority shareholders and our goal is to actually control the company and this is a result that we will be able to complete reasonably within the end of the year, but this will not have an impact on the 2010 results. As you were rightfully saying, it is no small matter.

There are some smaller opportunities which we are noticing, which are due to the effects of the Ronchi Decree, which allows smaller companies to look for a partner or for a new majority shareholder, and this will be even more important in light of the upcoming tenders for the renewal of concessions. We still have some important opportunities in this area and we will obviously work towards obtaining the best possible results.

There is nothing major going on, but again, we are working on M&A besides the work we have been doing on AIMAG, which is strategic in terms of our activities.

### **Mr. Stefano Gamberini speaking**

Thank you.

### **Chorus Call operator speaking**

I would like to remind you that for any questions you may have you can press star followed by one on your telephone. For any further question, press star followed by one on your telephone.

The next question is from the Italian conference call, Edoardo Montalbano of Centrobanca.

**Mr. Edoardo Montalbano speaking.**

Good afternoon. Capital gain deriving from the sale of Herambiente: how will it be used? Will it be used to reduce debt for M&A or for the increase of the dividend in 2010?

**Mr. Stefano Venier speaking**

Well, basically the income we will be having from the sale of the share of Herambiente will go into supporting Herambiente for the future. Obviously, we will have to look into any opportunities which may arise: as you know, we qualified for the waste-to-energy plant in Florence. The day before yesterday, the Board of Directors met and decided that they would be handing in all the documents needed to build the waste-to-energy plant; relevant resources will be used in this direction. Also in terms of timing, we will have to assess this effect also in terms of our debt. As coach Trapattoni says, we have to wait to see, wait and see before we can actually make a decision.

**Chorus Call operator speaking**

The next question is from the Italian conference call, Dario Michi of Banca Akros.

**Mr. Dario Michi speaking**

Good evening. I would like to compliment you on your results. I would like to know what your strategic view for the gas business is, what is the situation and what is your vision concerning the development of the gas business.

**Mr. Stefano Venier speaking**

Well, as you know, as of now the gas market is extremely long and our Algerian shareholders know this. In Algeria this time we had some difficulties and even though the technical activities are on schedule, as far as shareholders are concerned obviously we are assessing market conditions and therefore the timing for the initiation of the building of this infrastructure. As of now we are focusing on 2013 and the beginning of 2014, as we had said, though we will also have to see how the gas market will respond in the 12 to 18 months ahead of us. The final investment decision will be made towards the end of the year and we will also be making our assessments based on the decisions made by our Algerian partners, but we are optimistic nonetheless, also because the partners in this initiative are industrial partners, for the most part, who have downstream abilities vis-à-vis this gas.

**Chorus Call operator speaking**

For any questions, you can press star followed by one on your telephone.  
Mr Tommasi di Vignano, the conference call questions are over.

**Mr. Tommaso Tommasi di Vignano speaking**

Thank you very much and I hope to talk to you again very soon.