



**Hera Q3 2010 Results  
Bologna, 11<sup>th</sup> November 2010**

*Speakers:*

- *Tomaso Tommasi di Vignano, Chairman*
- *Stefano Venier, General manager Markets & Development*
- *Luca Moroni, Administration, Finance And Control*
- *Jens Klint Hansen, Investor Relations Manager*

***Chorus Call operator speaking***

Good evening, this is the Chorus Call operator. Welcome to the presentation of the Q3 results of the Hera Group.

I would like to remind you the fact that all participants are in the listening-only mode and after the initial presentation there will be a Q&A session.

To receive assistance from an operator during the conference call, please press "Star" followed by "one". And now I leave the floor to Mr. Tomaso Tommasi di Vignano, Chairman of Hera Group.

Mr. Vignano, you have the floor.

***Mr. Tomaso Tommasi di Vignano speaking***

Good evening, this is Mr. Tommasi, I am here with Mr. Venier, Mr. Moroni and with Mr. Hansen to make a presentation during these very stressful days of the good results we have obtained in Q3 2010.

Hopefully you have already received our presentation and I think I can introduce it not only by expressing our satisfaction for the results but also by expressing a concept that I am very happy to highlight, in other words the fact that these results represent an improvement in all of the main points of the business plan, exactly the ones that we illustrated to the market when we announced the plan. There is nothing that can state that the results obtained and the commitments made cannot be in line with the results of Q3.

Moving on then, beginning from the most exciting part, on page 4, the Group's net profit has increased by 62.6%. This is a result which sums up the things I will be going into in a few minutes, it is the product of an important growth period, all of which came about through organic growth. There were no variations in the size of the company and all the businesses positively contributed to EBITBA growth and you will be hearing that from Mr. Venier; overall the EBITDA result is above 10% in terms of growth compared to the previous year.

As I said these positive results came from all areas of business with a significant contribution coming from the energy business which contributed with some 25 million euros on both parts of the energy business: both from the trading side, the results of which were relevant, but also due to the excellent commercial activities which enabled us to broaden our customer base along the lines that you are very much aware of.

Also in terms of investments we are very much in line with the trend we had already announced, in other words we are reducing capex following the completion of the building of the large plants and we have a

difference compared to the previous year equal to 40 million euros, so it is in line with the announcement we made at the beginning of the year.

The good results that I have just commented on brought about a positive free cash flow even in Q3, which grew in Q2 and Q3 thus allowing us to reach the goal which we had committed to which is that of ending the year with a pre-dividend free cash flow.

Another important bit of news which does not have a direct impact on the results we are commenting is that during yesterday's Board Meeting we examined the fact that Eiser Global Infrastructure exercised the 5% option to raise stake to 25% of Herambiente. The operation has therefore been concluded from this point of view and execution will take place by year-end.

As far as profit and losses are concerned, we have some very obvious remarks: we have had a reduction equal to some 17% in revenues which was due to the trend in commodity prices and to a reduction in electricity trading equal to 500 million almost.

These effects had an impact on revenues but in terms of volumes we can confirm the fact that both in terms of gas, electricity and waste we have had an increase in volumes and therefore the trend confirms what had happened in the first half of the year except for water which had a slight reduction in its volumes, probably due to seasonal events.

As far as the regulated businesses are concerned, we also have to underline the positive growth of tariffs which was in line with our forecasts. Depreciation has increased by 9.5 million euros due to the effect of the coming on stream of the new plants which were completed in the past solar twelve months which is considered up to September 30<sup>th</sup>. We have increased accrued provisions equal to 6.8 million. A consequence of the good result of EBITDA and the interventions made in terms of depreciation and accrued provisions brought about a growth of EBIT equal to 12.9% in the past nine months. Compared to the nine months in 2009, at the same levels of 2009, which were brought in by the effects of the fiscal moratoria, we had a reduction of financials.

Also in terms of the fiscal moratoria the tax rate went down by 1% vis-à-vis the same period in 2009 and therefore the increase in profits which I mentioned a few minutes ago was substantially supported by the good performance we had in terms of operations. We also had a positive free cash flow which went down to the bottom line.

This is the path that we intend to continue on, also in the coming period.

Moving on to page 8. This was a page that we included only to remind you of a few facts: this is the page in which we highlight the fact that besides the growth we have had in the past nine months, in September last year, which was the period to which we are comparing these results to, we had benefitted from a one-off operation which was the acquisition of the gas and district heating networks which was equal to 16 million euros in the 2009 EBITDA result. And this gives even more value to the efforts made in 2010.

On the same page on the right-hand side we have highlighted the absolute values of growth in terms of EBITDA and the contribution made by the various businesses and you will appreciate the fact that these three sets of figures represent the period of time going back to the beginning of the financial crisis and it underlines the good performance that the Group had regardless of the crisis.

And now I will give the floor to Mr. Venier who will be going into each business individually and then we will go back to our conclusions.

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

Thank you and good evening. I will begin with the waste business as usual, which had an increase in EBITDA equal to 10 million euros. This is a consequence of a development in volumes equal to 6.3% compared to the same period last year, with an increased amount both in terms of special waste and in terms of urban waste.

We have to add that the growth rate had been higher in the first half whereas we have a slight reduction in the growth rate in Q3 but we have a +6% compared to last year.

Most important of that, which you are very much aware of since it was already announced during the business plan presentation is that we put the Rimini plant on stream and this plant was not able to contribute in the same amount compared to the other waste-to-energy plants due to the fact that during the summer it continued using the turbine of the old plant whereas the new one will be installed shortly and therefore production in the Rimini waste-to-energy plant did not benefit from the incentives linked to waste-to-energy plants and therefore its contribution in Q3 was a partial one but it was also limited given this aspect.

As far as tariffs are concerned, we had an increase equal to 2.3% which is in line with our expectations, slightly below the first half, which is something you must have noticed for sure, whereas we have increased sorted collection which is now at 47% with yet another important increase compared to last year, which means that we are leaders.

In terms of business drivers, among the main business drivers we have electricity produced which achieved a +6.5% with 400 GW/h over the nine months which were then reconsidered on a yearly basis which is in line with what we had anticipated during the business plan presentation.

That was the waste business.

Moving on to the water business, the most significant element was highlighted by the Chairman, in other words the large amount of rain we had during the summer, which we were not pleased at, had an impact on the consumption of water which was reduced by 1.4%.

Regardless of that, the result made by this area of business is significant because, as you can see, we had an increase equal to 13 million euros which was driven by an increase in regulated tariffs equal to +2.8% and it was accompanied by the continuation of the increased efficiency in the sector which we have already discussed during the presentation of the business plan and we are very much on track compared to our expectations.

At this point the business has now reached a satisfactory level in terms of revenues where we have an EBITDA margin which is above 30% which is a significant figure also if compared to the Italian context.

Moving on to the two energy businesses, beginning from gas followed by electricity, in these cases figures are slightly more surprising also compared to the situation that Italy is going through and Europe is going through.

Gas. In this case we had a significant increase which was supported by a very positive increase in terms of volumes which was partly connected to the increase in commercial activities but also the good thermal season) that we had in the first quarter and we have positive results indeed.

This was accompanied by an equally important growth in terms of district heating; as you know, in the past two years we made significant investments in this sector, the most important of which is the Imola co-generation plant which during the 18 months also benefitted from important developments in terms of commercial policies and we are now seeing results. In terms of EBITDA, to give you an idea, 3 million euros of the total 15 million euros were contributed by district heating and this is mainly linked to the commercial and trading activities.

In this case this is a pretty important result that can allow us to have a positive view for the remaining part of the year because October already showed volumes which are in line or slightly higher compared to the budget we had and this is a very good introduction for the remaining two months of the year.

Moving on to the electricity market, even here we have had a significant growth which in proportion is even higher compared to the growth we had in gas; we refer to a growth equal to 8 million. The value is even higher if we consider the conditions that electricity production is going through currently.

We are in a situation of overcapacity; as you know, we are quite short, we have a certain amount of production and therefore we are suffering in that specific area, in a very limited way though, which means that the commercial and trading activities were able to give a significant contribution partly supported by a

development in the volumes sold: as you see we went from 5.1 to 5.7 TW/h, which means we will be above 7 TW/h for the entire year which is the result we had last year. We also had trading activities and commercial activities which improved significantly in margins due to the optimisation that we were able to perform.

Moving finally to investments which complete the overall business picture, in this case we can confirm what we have already seen in the first half of the year; there were no variations compared to the plan we had and the reduction at September 30<sup>th</sup> as far as investments are concerned is equal to 40 million euros which will then continue until the end of the year.

Our target is to reach 350 million euros which is significantly lower compared to last year. Obviously, the most significantly reduced part of the investment is linked to the waste business but also in the water business we have had a certain amount of reduction as far as investments are concerned.

Electricity is a business in which we continued to invest in: we are investing in the big plant that we are building in Central Italy which is a joint venture with the BKW.

I leave the floor to Mr. Moroni for comments on the financial side of things.

### ***Mr. Moroni speaking***

Good evening, I would like to go back to something that has already been mentioned by the Chairman in his introduction in terms of all of the targets being worked towards in the right direction in line with the presentation of the business plan.

I would like to go back to this to say that the Group's net financial position is going in this direction thanks to a continuous containment and monitoring of the financial position.

Compared to the figures as at June 2010 we have seen an improvement equal to 8 million euros and therefore we have a net financial position equal to 1.963 billion euros compared to 1.971 billion euros. This was made possible by the positive free cash flow, and specifically due to a good control over net floating capital and therefore we have a pre-dividend free cash flow equal to 97 million euros.

The structure of the debt is now at 67% with the fixed rate and 33% with the variable rate.

The deadlines that the company has to face from now until 2014 amount to some 200 million euros, all of which are divided in the various years and therefore we do not have an objective liquidity risk, also because the committed and non-committed lines of the company have an amount which is significantly higher compared to the maturities that we will have to manage.

Today you will see that we had a convertible bond placement for an amount equal to 130 million euros which can have an over-allotment option of 10 million euros, the duration is of about three years and we had a very positive response to the placement.

The interest rate, that the market appreciated, is equal to 1.75% fixed which is positioned in the mid range of the fork that had been considered as our target and the conversion price is equal to 1.834 euros per share which is a premium of 23.5% and even in this case it is in the middle of the fork that we had as our target.

The investors who have bought the bonds (the issue was dedicated to institutional investors and these were outright investors for more than 85%) and overall subscription was equal to 4.7 times the entire amount of the bond.

Therefore this is a very positive operation that will allow the company to have more flexibility from a financial point of view in terms of costs and it will also allow us to face the differences that we will have in terms of the business plan after paying dividends, meaning that we will have some low cost funding capacities to face this delta.

During conversion it will allow the company to have a stronger debt to EBITDA ratio which is very much in line with the business plan targets. We will be able to improve the EBITDA over net debt ratio and it will also allow us to improve the ratios we are measured with by the rating agencies.

I will now leave the floor to the Chairman for conclusions.

***Mr. Tomaso Tommasi di Vignano speaking***

I think that we have said everything. It may seem easy work but over the past month we had the presentation of the business plan and these results and the things that Mr. Moroni just reminded us meant that our company was working very hard and as I said during my introduction besides the quality of the results obtained this proves our commitment to the market.

I do not want to repeat the figures that are present on the conclusion's page since I am sure that you are very familiar with them.

An interesting thing that Mr. Moroni was saying is the flexibility that our financial structure will be having and that was the objective of the operation that we concluded today and that is very comforting in terms of the possibility the company can have in looking at further development opportunities compared to the targets that we have in the business plan, meaning that we can be very positive for any future opportunities.

Just think of the target we have for the debt to EBITDA ratio... Our goal is 3 times and this business plan forecast would have brought us to a 2.8 times whereas with these two further operations, the one which involved Herambiente and the other which involved the convertible bond placement we now have these two further important elements which can allow us to have a target on the one hand and can give us room to be able to be consistent in terms of our dividend policy which hopefully was fully understood after it was illustrated a number of times and it can also allow us to seize any possible opportunities for further growth.

That's all as far as I am concerned and we are now available for any questions you may have.

***Chorus Call operator speaking***

This is the Chorus Call operator. We will now begin a Q&A session. All those wishing to ask a question can press "Star" followed by "one" on their telephone. To exit the questions' list press "star" followed by "two" and please make your questions over the telephone. All those wishing to make a question can press "star" followed by "one" now.

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

***Mr. Gamberini speaking***

Good evening, I have three questions.

First of all, the debt to EBITDA target you described in the business plan – the 2.8 times which was 2.1 billion euros to 2014. I was wondering whether it includes the conversion of the convertible bond placement and the 25% sale of Herambiente. If not, can you tell us what else is included in that business plan target?

My second question goes back to the quarterly results. In the gas business I noticed that we have Q3 results equal to 21 million euros compared to the 25 million euros of last year in terms of EBITDA. Last year we had a one-off of 15 million euros. Can you please explain what happened in Q3 this year to bring about this result? And could you also comment on the waste business where the results went down from 45 to 42 million euros in Q3 since you have all of your plants on stream? Do we have to expect flat results even in Q4 or are there other elements that can have an impact on that line of business?

And finally, the last question is for the target to be reached at year-end. Can you confirm the 600 million euros EBITDA? And what is the net debt that you expect at the end of the year (also considering the sale of 25% of shares of Herambiente)?

***Mr. Venier speaking***

You broke the ice and I will do the same. 2.8 times is the goal that we had for 2014 in the business plan which as we always do, was considering things at that moment in time. It did not include the convertible

bond placement and the 25% of Eiser Global. It did not include that further 5% because when we drafted the business plan those were the elements that we were aware of.

The 2.8 times goal stems from a positive reduction of debt. The effects of the convertible bond placement made today plus the 5% option, keeping in mind that the bonds will be converted, will speed up that process in 2013 and 2014 when we will be seeing an improvement of the goal we had which is equal to 2.8 times, equal to a 0.2. Therefore we will be going down to 2.6 times which we feel is a very comforting result, also in order to be flexible for any possible development options which is the goal that we have admitted having.

That goes back to the references in the business plan to the new context that we are in and for us it was important to grasp any possible opportunities and to recreate a certain amount of free cash flow that can be given to qualified international investors.

Your second question. The quarterly results. Gas.

As I was saying the result is particularly good. Q3 last year was equal to 21 million. Now, in these 21 million we also had the effects of the extraordinary operation... excuse me, 25 million which included the 14.8 million of the extraordinary operation. This year we had 21 million and it is all stemming from business. What happened here? Well, I feel we worked very well on the opportunities which we had in the summer and in terms of optimisation. We used and exploited to the max the ability we have on TAG to be able to grasp and give value to the spreads of the international and national market and this brought about the benefits that you noticed.

As far as waste is concerned there is another fact: we have had a slight decrease compared to Q3 last year and this does not have a single explanation. In terms of volume, Q3 last year was very good and it had not suffered significant effects in terms of price whereas last summer we had a few actions made by a foreign operator which had an impact on prices.

As I was saying, last year the Rimini plant was fully on stream with the old plant whereas this year it was on stream with the new plant but with the limitations that you also noticed whereas some effects are coming from the prices of electricity.

It is especially in Q3 that we have seen throughout October that the prices decreased considerably and for a plant that can make margins from the price of electricity this obviously has an impact.

So, as you can see there are a number of reasons behind the result, a number of fragmented reasons.

In terms of volume we expect to make a recovery and Q4 will have a more significant contribution, also because the Rimini plant will be fully on stream.

As far as the target for the end of the year is concerned, I leave the floor to the Chairman.

***Mr. Tomaso Tommasi di Vignano speaking***

Well, we have just two months left to the end of the year. Therefore, the figures we are presenting today are comforting in terms of our forecasts and the positive results that we will be having at the end of the year. This means that what I was saying one year ago is all the more true today.

In other words, our target is to be able to move towards the 600 million target which was what we had announced in the spring. Now, how much will we be able to move towards that target depends on a number of factors that we are continuing to work on very intensively.

Other figures or other indications are not available at the moment.

As far as our net financial position is concerned, I think that we will be able to be below 1.9 billion.

***Mr. Stefano Gamberini speaking***

So, a brief follow-up. Does the 1.9 billion euros include the cash in from the Herambiente sale operation?

***Mr. Tomaso Tommasi di Vignano speaking***

Well, yes because that will happen in December as I said.

***Mr Gamberini speaking***

Thank you.

***Chorus Call operator speaking***

For any questions you can press "star" followed by "one" on your telephone.

Mr. Tomaso Tommasi di Vignano the questions are over.

I apologise, there is another question from Mr. Stefano Gamberini, Equita Sim.

***Mr. Stefano Gamberini speaking***

Since there are no further questions, I have another one. I would like to better understand the flexibility linked to the bond placement that you were mentioning. That surprised me, I did not think that you needed it. So, what does this further flexibility mean? Does it mean that the 200 million that you have in mind for further acquisitions will become 400 million or do you mean something else by the term flexibility?

***Mr. Venier speaking***

Well, having financial flexibility was one of our targets. We want to make the company more solid. We have always said that we want to go back to the Champions League, to go back to an A rating. These are things that will cover the development targets we had for our business plan and we will be free cash flow positive. A part of the cash flow will be used to pay dividends but this is not enough. With this further operation we will stabilise our debt which will keep us stably under 2 billion euros and we feel that this is an important target for us and we are satisfied.

We do not have a single target in mind but we are committed to the fact that there will be opportunities and we felt it was best to carry out such an operation now. It is not a direct increase in capital, it will not dilute dividends for shareholders and the operation is very much limited, it gives us three years to have low cost financial resources and then, at the end of the period, it will increase our company's strength, in the sense that this is a weakness in Italy right now and we feel that we have made a significant step forward in this direction and we feel that we now have a good balance sheet that will be able to support any more or less large operations that may appear in the future.

***Chorus Call operator speaking***

The next question is from Eduardo Montalbano, Centrobanca.

***Mr. Montalbano speaking***

I would like to ask what the average cost of debt was for the first nine months of 2010 and how much this bond will contribute to the reduction of the debt. What the impact will be on the average cost of debt?

And then another question on the waste business. You were referring to actions of foreign players on the Italian market. Do you think this is a phenomenon that we will be seeing constantly in the months or years ahead? And how will Hera act accordingly?

***Mr. Venier speaking***

Let's just say that German players acting on the Italian market are not a novelty. This is something which happens systematically. In the past their activity was satisfied by the waste in Naples. This has not been happening for some time and therefore these are things that they have always done. You cannot have a specific strategy because they come in, they buy a certain amount of waste and then they take it back to Germany and I hope that the economic recovery in Germany speeds up even more not only for the benefits we can have in Italy but also because they can start filling up their plants in Germany and therefore we will not be suffering from that. And these are commercial activities.

So, there is very little one can do actually. The strategy needs to be very clear. The more saturated the plants are, going after an exceedingly low price to bring the waste to the landfills and therefore destroying value is something which is not rational as far as we are concerned.

We feel it is better to preserve the value for those amounts paying the right price. But this reasoning can work for a player who has a certain amount of capacity or a limited amount of capacity in landfills.

Since these foreign players have caverns which have been adapted to landfills, these are former mines where capacity is not in issue, obviously their perception is a different one but, again, this is a phenomenon which only happens once in a while and it has happened for some time, so I would not be too concerned and the pricing they have is not reasonable as far as we are concerned.

***Mr. Moroni speaking***

I will try to answer now to your first question. The cost of debt in the first nine months of the year is slightly above 5%; the impact of this operation will be calculated in the future but I think it will continue being around 5% in terms of the total cost of debt.

***Mr. Montalbano speaking***

Thank you.

***Chorus Call operator speaking***

The next question is by Roberto Mascarello, Kepler

***Mr. Mascarello speaking***

I have a question on the dividend policy. When you illustrated the business plan you said a few things. Now, in terms of the dilution what will be happening for the convertible bond placement? Will there be variations?

***Mr. Tomaso Tommasi di Vignano speaking***

Our dividend policy is actually confirmed. It would be madness to change our commitment in just ten days time, both for 2010 which we formalised in the press release we published today and which was highlighted once again by the Board of Directors and also in terms of our policy for the years ahead which we had cleared, which means that we will have a growing dividend policy which will have to be spread out over the remaining four years of the business plan.

***Chorus Call operator speaking***

For any further questions you can press "star" followed by "one" on your telephone.  
Next question is by Eduardo Montalbano of Centrobanca.

***Mr. Montalbano speaking***

A further question on the waste business. Some time ago, a few months ago you mentioned an opportunity which was emerging in Tuscany, in Southern Tuscany if I am not mistaken. I would like to know how things have evolved in that area of business.

And in the Campania region there are tenders coming out for two waste-to-energy plants. I was wondering if you are interested in taking part in those tenders on principle? I know that the tenders have not been called yet but would you be interested?

***Mr. Tomaso Tommasi di Vignano speaking***



I will answer immediately. I think that the tender in Florence is also an implicit answer to the previous question concerning the on-top operations that may come about in the four years ahead. As far as Florence is concerned we are working; as you know we were selected, we made the short list, there are two left. We were asked to send in our offer, we are studying the matter and the two remaining companies will have to send in their bids by January 31<sup>st</sup>, 2011.

As far as the Campania region is concerned, you made a general question: "Are we interested in building those waste-to-energy plants?" I have always said that it is one of the missions that we want to have, both in terms of managing the situation through Herambiente, and in terms of the engineering part of things by involving our engineering department as it has always been for our plants. And therefore we will consider all tenders and obviously we will be selecting the ones that we feel are best in line with our prerequisites. We have already examined the Salerno tender, we read that there is another tender coming up near Naples but we do not know where these two plants will be built and what characteristics they need to have, it is a little bit premature.

***Mr. Montalbano speaking***

Besides Florence, in Tuscany was not there another opportunity?

***Mr. Tomaso Tommasi di Vignano speaking***

Yes, there is but up to now we have had an initial call for tender which... [*Interruption: Can you press "mute" on the speaker, please?*]. As I was saying, the second option in Tuscany is for the Southern provinces in Tuscany which are grouped in a single-offer tender that covers both waste collection and waste disposal. We have taken interest in these tenders but just to gather further information.

Well, Florence is a different issue altogether. We are in the final stages of the tender and therefore these are two very different types of operations and that's why each tender needs to be examined individually, case by case, not simply in terms of the economic content but also in terms of the content of the activity itself.

***Mr. Montalbano speaking***

Thank you.

***Chorus Call operator speaking***

Next question is by Federico Pezzetti, Intermonte.

***Mr. Pezzetti speaking***

Good afternoon. I have one question on gas sales, on the gas sales margins in Q3. It seems that there has been a tariff review made by the Authority which will have an impact on your figures in the last quarter. I want to know if you can give us some information on the margins you will be able to obtain and can you highlight some of the actions that you are carrying out to protect your margins?

***Mr. Venier speaking***

I have to comfort you. The counter initiatives are in line with being able to broaden our portfolio to offset the cuts made by the Authority and that is something that we will be able to fully achieve.

***Chorus Call operator speaking***

For any further questions press "star" followed by "one" on your telephone.  
There are no further questions.

***Mr. Tomaso Tommasi di Vignano speaking***

Very well then. Thank you very much for your attention. We will talk to you soon and in the meantime we will continue working as we have always done to reach our year-end targets. Thank you.