

H1 2009 Results
Bologna, 27th August 2009

Speakers:

Tommaso Tommasi di Vignano, Chairman

Stefano Venier, General Manager

Jens Klint Hansen, Investor Relations Manager

Good afternoon, this is the Chorus Call operator, welcome to the presentation of H109 result presentation by Hera. Let me remind you that all participants are in listen-only mode. After the presentation there will be a Q&A session. If you wish an operator to help you during the conference call press star followed by zero on your keypad. Let me now hand it over to Mr. Tommaso Tommasi di Vignano, President of the Hera Group.

Tommaso Tommasi di Vignano, Chairman

Thank you, good afternoon to all of you, we are here with Mr. Venier and Mr. Hansen; we have just concluded the Board meeting and H1 results, as I hope you've probably seen from the handouts, are satisfactory. And we're really taking stock of a timeframe during which we had to face a downturn in consumption, in the different business lines we are active in, and we are taking stock of results that in spite of the consumption reduction were overall stable in the different business areas and the gap between this year and the same period last year is very small compared to last year so we more than compensated, as far as results are concerned, we more than offset the economic downturn that characterised the first half of the year. What were the events that really enabled us to achieve a growth result despite the economic downturn. First and foremost a very strong sales policy that we undertook, especially in the electricity business, where we won 30,000 new customers and the sold volumes went up 30%. Just to mention a very important component of our growth path. Also in the gas business, let me remind you, we performed well, because also as far as gas sales are concerned, volumes are similar to the ones we recorded last year. As far as the regulated business is concerned, we reached an agreement with local authorities, both concerning waste and water, and there was a 4.7% tariff increase applied in the water business and a 3.4% in the waste business. As to the contribution provided by the new WTE plants, the new plants that that came on scene last year, the one in Forlì and the one in Ferrara, really gave an outstanding, very

satisfactory contribution because they are working at full capacity. The Imola plant and the WTE plant in Modena instead were only just started up and these new plants have now completed the preliminary stage, they are working and will soon provide a full contribution to our results and we're expecting them to do so in the second half of the year. We were not standing still as many thought on the M&A front. We worked on a project that we had at heart, i.e. a third multi-utility that is present in Emilia Romagna, that was opening up to an investment and we've nearly completed the acquisition of a 25% stake in AIMAG, which is Multi-utility in the territory of Carpi and Mirandola, in the Modena province. It was major step in further consolidating our franchise in the territory. In addition to that we also started reconsidering some projects as far as our organization and our company structure are concerned; we did a first step by establishing Herambiente as of July 1st, a stand-alone entity, which will be fully devoted to the management and sale of waste disposal activities. That is paramount for our group. The setting up of Herambiente is only very recent but in its first month of activity sent out precise signal about its will to grow even outside its relevant geographical market, taking part in a tender bid for the building of a new WTE plant in Tuscany. We hope we'll soon get a reply to the competitive bid we made and we are confident we'll get a positive result and a contract for a joint-venture for the building and management of a thermoelectric plant working with biomass in our territory. As to the figures, let's have a look at them. Together I think you had a chance to have a look at them before now, but let me have a look at the highlights. The significant growth in revenues mainly triggered and driven by the growth in trading activities both in electricity and gas, up 22% vs. 08, then we kept on working for efficiency gains and cost saving so we achieved an EBITDA growth at the end of the first half up 5.3% from last year for a total of 271.3. Also charges are same level as the previous year, 51.6 million last year and 51.8 this year, including a portion of the item relevant to the tax moratorium that we have already described during the key 1 presentation. Part of it is under financial charges, with 4.8 million, of which 2.7 are net of interest and the delta is included in financial charges. Tax rate for 41.8 i.e. in line with last year's levels and values. We get to good results in terms of net profit with 51.8 million; if you strip off minorities it equals 36.8 i.e. up 13.5% vs. last year. If we look at these projections against the 2009 slowdown scenario I think we definitely achieved very positive results. As to the growth drivers that characterised the first half of the year, let me say that there are no major changes as far as the consolidation scope is concerned, so they can be split

down into two main growth drivers, i.e. on the one hand synergies and organic growth on the other hand, and the contribution from the new plants, they've only been started last year but the full contribution is to be felt only this year, because that's when they started working at full capacity. So they both gave a sizeable contribution, 50% each, to the EBITDA variation. As to our portfolio position, as you will hear, we have realized part of our other business or minor business, the way we describe it, but the main portfolio variation is a higher weight of gas that caught up with the position it had last year, it went from 30 last year to 33.5 the weight of gas in our full breakdown. There's nothing else to say in this respect, I now hand it over to Mr. Venier to tell you about the individual business results.

Stefano Venier, General Manager

Thank you, good afternoon to all of you, let us start, according to our tradition, let's look at waste first, as our President was saying beforehand on July 1st, there was a change in our organization as we established Herambiente and in this business area results were stable vs. H1, or in line with the same half-year in weight, at least part of it. This is one of the business that was mostly affected by the economic downturn, especially in the first months of the year, but we managed to retain our results in the regulated business, garbage collection and road cleaning, with an increasing service volumes that enabled us to retain a margin that is in line with last year, whilst this happened, as far as special waste is concerned, we suffered, especially during the first months of the year, from a reduction in industrial activities, thus originating a reduction in volumes treated by 130 tonnes, about of 13% of the total treated waste. This reduction was offset by the excellent work of the Forlì and Ferrara WTE plants, as it was mentioned by our President at the beginning of the presentation, so overall this business was stable as far as profitability is concerned. Then in this waste business we also benefited from the fact that our WTE plants fully came on stream so we were able to preserve landfill capacity. Thanks to the WTE work so we made sure we were lengthening the residual life of our landfill asset. Let's now have a look at the water business, as mentioned before there was a positive contribution by the tariffs increase, up 4.7%, and this beneficial effect was partially offset by the downturn in volumes sold, especially as far as the aqueduct is concerned. There was a reduction of 1.3 million m³ in H109, we must also say when assessing the results of H109, we have to remind you that in H108 there were one-off

proceeds of 3 million coming from the consolidation deal we had in the Marche region which of course was not repeated in H109 so it must be adjusted by the one-off effect of 3 million related to the extraordinary income incurred in the Marche, otherwise there would have been a further growth. Let's have a look at the gas business now. Indeed we can say that the very favourable results we achieved in this business are mainly due to two main factors: on the one hand the increase and distribution tariffs and the thermal year modification, that was applied as of 2009 with the zero sacking of the regulatory period as of January 1st and also affected by the excellent performance of sale activities which performed 5 million better than in 2008. As you can see despite the economic slowdown, both distributed volumes and sold volumes in particular were rather stable if not growing. That also enabled us to achieve the results we mentioned before. On the sales side, the main contributors were the sales activities to end customers and also the trading activities. Our President beforehand was mentioning minor adjustments in the consolidation scope to better express our internal organization structure and the relevant responsibilities thereof. So the gas business now also includes district heating activities and to have a perfect comparison between figures we also consistently realigned 2008 figures so that we could compare data with the same consolidation scope. Overall district heating contribution that was included in these figures was stable between H109 and H108 at 8.5 million. Let's have a look now at the electricity business, here we have a 3.5 growth in the business area results, 26 million EBITDA – is the current figure – thanks to the growth and the important developments as mentioned by our President, we had sales increase in excess of 31%. So sales grew and we won more than 30,000 new customers. This enables us to almost fully offset the reduction in industrial volumes sold, but also led to a growth of about 700 gigawatts per hour. Overall the business was affected by rather hard times especially at the beginning of the year, especially as far as production activities were concerned, while sales activities performed well. The regulated portion of this business i.e. distribution activities, as you well know, account for 280,000 users that are connected to the Modena and Imola area, led to a profitability that was stable vs. the previous year. So the growth delta is driven by the sales activities that offset our lower profitability coming from the production side. And then we have the co-generation plant in Imola that completed its start-up phase and that in H209 will start working at full capacity especially as the new thermal year will start. Generally speaking the release of the Scajola Law Decree that

also extended the time frame for the recognition of the green certificates to 2009 will enable this plant to provide a better contribution also as far as green certificates are concerned going ahead. Another very important aspect to be taken into account when analysing results is that for both gas and electricity we factored in, for instance, micro co-generation activities with a flat profitability around 1 million euro, factored in both for H108 and H109 but it's marginal to the overall result, so to say. Other services. Here we see a growth that is mainly driven by the consolidation of our activities in the Telecom business or in communication business. Those activities were already controlled in the past; they're now included in the consolidation scope, also because we consolidated our partnership with our industrial partner called Infracor. But we are talking about minor figures. Let's now briefly and quickly go through Capex and net financial debt. As to Capex we are on schedule with our plan and with the figures we had in H108. Over the last couple of years the larger portion of our Capex is on the waste business for our WTE plants, that's the lion's share, so to say, 2/3 of the total, and as you can see there was a reduction of Capex in the water business also to somehow be in line with the reduction of business in the real estate industry that led to a reduction of some million euro because there were no new connections to new real estate entities or units being built. As to debt we have an increase of debt of about 200 million euro half of which is mainly due to the paying out of dividends we performed at the beginning of June and about 60 million for the variation of working capital increase which is mainly due to the sales activity growth. Revenues went up 400 million vs. the previous half of the year, H108, and that led indeed to an increase of sales receivables. We are strictly monitoring that item and if you look at the results at end of June and you compare them with early July; our net financial position was improved by about 100 million at the beginning of July thanks to working capital enhancement and strict monitoring of sales receivables. Another important aspect that needs to be underlined according to us is that during July we re-balanced the position between long-term and short-term debt through the issue of a bond for about 150 million euro with 15-year duration. I think I can hand it over to our President for the closing remarks.

Tomaso Tommasi di Vignano, Chairman

Thank you. If you want to draw conclusions, let us think about things going forward. Second half of the year will rely on the results we have achieved in

the first half, so we can expect results at year end with still a growth, compared to the outstanding performance we managed to achieve last year. We were very balanced in managing the slowdown by increasing efficiency and there will be a tariff progression growth in the next half year, too, especially in the last province we mentioned before, we haven't yet signed the contract because it was coming to maturity one year different compared to other provinces. It will give a full contribution as of January 1st, 2010. The negotiation will therefore take place in the last quarter of 09. New plants: the main contribution will come from the coming on full scale of the Imola plant and the new large WTE plant in Modena. It's very complex, it's already working and it will soon work at full capacity so the full contribution will come in the second half of the year. We mentioned Fierambiente, it is up and running, so to say, structure-wise, and it's ready to seize any growth opportunity that might come along in the waste business and market. Above and beyond this slowdown for industrial customers that we are experiencing, we are fully equipped to really undertake new initiatives to really offset the situation or seize new opportunities that may come along even outside our territory. We are about to also complete the drawing-up of our business plan, we are going to be ready by mid-September, and this business plan will be up to 2013, so with a longer visibility compared to what we traditionally provide. This will be our new opportunity to meet or talk to investors starting from the second half of September 2009. Let me briefly hint at rationalization initiatives we have undertaken, and talking about plants as well, we will have an extraordinary general shareholders' meeting in October where we will review our by-laws with reference to voting rights or private investors and we're going to propose to go from 2% in the old by-laws to 5% in the new by-laws, in order to be able to be in line with the reference market. We will complete our activities at the end of this year, also as far as the voting of this modification is concerned so we'll be able to have it up and running as soon as 2010 starts. We are now open to any questions you may have, thank you.

Chorus Call operator

This is the Chorus Call operator; we are now starting a Q&A session, whoever wishes to ask a question, please press start followed by 1 on your phone keypad. Should you change your mind, in order to be removed from the question queue, please press start followed by 2. Whoever wishes to ask a question, please press start followed by 1 now.

The first question comes from the line of Stefano Gamberini from Equita.

Stefano Gamberini, analyst

Good afternoon, I have a few questions, one is in the waste area, can you elaborate on the EBITDA breakdown, what is the contribution provided by plants? What is the contribution by the other items and what are the effects determined by the lower contribution of special waste? And then, talking about a reduction in special waste in the second quarter vs. last year, could you elaborate on that? Can you help us better understand the special waste trend throughout the year? Do you expect a trend reversal or what do you expect? Can you give us greater details as to special waste volumes and the relevant trends? And then a second question on the EBITDA breakdown in the electricity business. Can you tell us about electricity distribution? What about generation and sales and the gas business, and then year-end targets? Can you maybe give us an idea of the EBITDA target and the next debt target at year end as well? Thank you.

Stefano Venier, General Manager

I'll start by replying to the different question. Let me start from the waste business. Regulated business in the waste business was flat and had a positive impact of about half a million, so basically stable. Plants give a net contribution of about 6 million, 6.9 million to be precise, and the contribution is driven by the opening up of new plants, i.e. 13 million, and the contribution that is no longer provided from the old lines that were replaced by the new ones. Special waste: the impact of the negative volume variation and margins of course, because the economic downturn also affected margins, can be expressed as 8 million euro. Concerning volumes, percentagewise there was a slight increase, but also last year from quarter to quarter volumes were progressively growing, so what we saw in absolute terms is what I was mentioning before when I talked about this business area. It's not that we saw a sizeable deterioration in Q2 vs. Q1. Electricity: 26 million euro the result, half of which is contributed by the distribution activities, that were flat, while the other half was contributed by the sales, trading and production activities that went up about 1 million euro. As for the Gas business, we had distribution, that improved by about 8 million, and about 5 went to improve trading and sales activities. In absolute terms this means distribution activities accounted for 50% of those 91 million euro we mentioned before, and the remaining part is accounted for by 35 million trading activities and 9 million roughly district heating and in the consolidation scope we had Marche

Multiservizi which had about 4 million in that geographical area. Targets: I'll hand it over to our President, Mr. Tommasi di Vignano.

Tomaso Tommasi di Vignano, Chairman

Mr. Gamberini should know, because he's been following us for quite a few years now, that we are not very happy to disclose targets, we are very conservative. If you remember, last year 528 was our EBITDA, and despite this difficult half year we are confident that we can carry on with this EBITDA growing trend at year end. I think I've already disclosed more than I did in the previous year. I'm getting older in this respect, maybe. As to your last question, concerning debt, we confirm that our year-end target is around 1.7 billion. That's really reinforced by the motivations that were provided by Mr. Venier, in relation to figures as of June 30th, dividend payout and then the figures we have already had in July in line with the figures we had disclosed.

Stefano Gamberini, analyst

Can you give us a few more words on special waste? What do you expect as to special waste? Any improvements as to special waste?

Stefano Venier, General Manager

Mr. Draghi said that if you see one sparrow it doesn't mean spring is coming. But you see some sparrows flying around, that it means there are some positive signals that the spring will come. First of all I want to say that we will have to wait and see how things are going in September. We are working to improve the performance of our plants. The Ravenna plant is now running and it's a critical plant, it didn't suffer from volume downturn or anything, it's now working at a pace of 40.000 tons. What we missed out on special waste somehow were those products that were poorer, not-so-critical products, I would say. Those are the products that somehow generated a gap on the market as they do not require very specific plants to be treated. So we suffered from the competition of some players who mainly have landfills and took advantage to collect or treat that type of waste to offset their decrease in volumes. But as soon as we start seeing signs of recovery, we will be among the ones who will be the first to benefit from the recovery. This time of the year we are witnessing a squeeze out of smaller, more marginal payers, we think after the economic downturn, those players won't be on the market

anymore so there will be some reshuffling in favour of larger players in a post-crisis scenario, so to say.

Chorus Call operator

Let me remind you that if you want to ask a question you may press star followed by 1 on your phone keypad. The next question comes from the line of Maria Beatrice Gerosa with Mediobanca.

Maria Beatrice Gerosa, analyst

Good afternoon to all of you, I have a couple of questions. First one: could you give us average cost of debt in this first half and maybe an idea of the figures for the entire year and the D&A broken down by businesses? And last question, the 25% Amiga acquisition. Could you give us some guidance as to possible or potential developments along the axis and possible benefits you may have by acquiring this 25% stake?

Stefano Venier, General Manager

As to the last question you asked, the AIMAG one, it's a deal we have been focussing on for quite a long time now, it was a call for tender organized by the municipalities to offer this 25% so we sent in a bid for that. We think it's an excellent player, it has some good potential and it's clear that once we get to know each other better there's plenty of room for synergy to be triggered between us. The pathway to follow is playing a bigger role and increasing our stake in that company as we did in other cases. Had we wanted to be a minority shareholder forever we wouldn't have closed this deal at all. This is just a first step of a phase. Average cost of debt: in the past we have all had fixed rate debt, so average cost of debt is around the value that we disclosed in the past, i.e. 4.5-4.7%. You have to consider that, as for financial charges, you see in the P&L 51.8, the actual charge on debt is about 43 million euro, the remaining is IAS effect, leasing, items and other related items. And then last but not least we have to remind you that when it comes to assessing the cost of debt you have to take into account that in H1 debt cycles had a peak, especially for the gas business. In April, May we have a peak and then, of course, it progressively decreases over the following months, July, August and September. I don't remember what the third question was.

Maria Beatrice Gerosa, analyst

Can you give us a breakdown of D&A for the different business, EBIT at business level?

Stefano Venier, General Manager

I don't have it right here but Mr. Hansen can get back to you and give you the data you require.

Maria Beatrice Gerosa, analyst

Thank you.

Chorus Call operator

For any further question please press star followed by 1 on your phone keypad. Let me remind you that if you wish to ask a question you may press star followed by 1 on your phone keypad. Mr. Tommasi di Vignano there are no more questions.

Tomaso Tommasi di Vignano, Chairman

Well, let me give you a follow up on the previous question, because in the meantime I managed to retrieve the figures. On the balance sheet page 131 in the document you find on the website there's a breakdown according to IAS14 of P&L and operating income per business area so D&A is included there. You'll find those results and figures there. If there are no more questions we would like to thank you very much for joining us and we hope to meet you soon with the new business plan. Thank you very much and see you soon.