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Q4 2021 Hera SpA Earnings Call

EVENT DATE/TIME: MARCH 23, 2022 / 2:30PM GMT

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PRESENTATION

Stefano Venier *Hera S.p.A. - CEO & Executive Director*

Good afternoon, and welcome to the Hera Group Earnings Conference Call Fiscal Year 2021. My name is Stefano, I will be coordinating today's event. (Operator Instructions) I'd like to give the floor to your host, Executive Chairman, Tomaso Tommasi di Vignano. Thank you very much.

Tomaso Tommasi di Vignano *Hera S.p.A. - Executive Chairman & Group President*

Good afternoon, everyone. We have just finished a very long Board of Directors meeting, which went through a very lengthy agenda, and we are here to give you an update, although, of course, some of these final figures are the very same you heard throughout the year because we did give you an update during our quarter reports. Let me begin by an initial assessment regarding the events which took place during an intense year, which was also quite pleasing as far as we're concerned, despite the fact that much like everyone else, throughout the year 2021 that we were emerging from the health emergency, which, of course, had, had an impact on both 2021 and the previous year.

Having said that, our Board approved the results for 2021. And some of us highlighted a number of elements, beginning with M&A transactions. Even this year, we continued with a number of acquisitions, both in the industrial waste treatment sector with 3 transactions that we had already underscored, which contributed to the 12-month EBITDA period with EUR 21 million. Considering the full integration within the group of all of the companies we made the acquisition of -- we also made an acquisition in the energy supply sector, which as a way of further expanding our presence along the Adriatic coast, which we had already focused on in the past with a number of operations.

An entirely new item is marked by the beginning of the tenders for the renewal of the regulated sector concessions. The previous concessions had already expired in fact. Those concessions were waiting for the tenders to happen. Once the tenders were called, we decided to focus on all such tenders. The first of which was in Udine for the gas distribution concession. Then we had the water concession tender Rimini for water distribution throughout the product. And then we had the 3 tenders of the largest provinces in our territory, Ravenna, Siena, Bologna and Modena for the Maggior Tutela market. Now these tenders, which we have been waiting for, for quite some time, are tenders we were awarded. And now our concessions will have a 12- to 18-year duration depending on the individual businesses we're focusing on, which means that we were off to a very positive start. And we will be looking into making our bids in the other provinces we're present in.

As always, we also made a bit in the Maggior Tutela tenders for a small segment of small companies. We were awarded 3 out of 9 tenders, namely 1/3 of the concessions being tendered off, although we are very well aware of the fact that the real competition will happen in 2024 when most of that market will be liberalized. We also focused on the tenders for the last instance markets for gas supply, and we were able to expand our presence compared to what we previously had in our portfolio.

Now moving on to the growth elements from another point of view. As far as organic growth is concerned, we had a number of specific opportunities, the first of which was the demand for energy efficiency, which was something entirely new, in which we had a major boost when it comes to awareness on environmental issues and fiscal incentives leading to a very good result. Also due to the fact that from this point of view, we already had an organization which has been tested in the past and devoted to this sector specifically. We also had a very strong boost from the Aliplast company, which, as you know, recycles plastic waste, which obtained good results also due to the fact that regenerated plastic seem to be more competitive in the market in this moment in time. And therefore, the company performed very

well following the problems linked to the pandemic in the previous year. We also had a good growth underpinned by investment in our asset base, with a further EUR 570 million in CapEx, up 8% compared to the previous year.

Now the overall sum of these results brought about a growth level that we will be describing over the next few minutes and which is above our forecast for the year, given the fact that our budget was slightly lower. The EBITDA was above EUR 101 million, up 9%, moving up to EUR 1.224 billion, which is the overall result we achieved during the year, which is a good increase and it is consistent to our results progression year-on-year, which we had already presented to you. Now please consider that this is one of the biggest organic growth rates, if we exclude the amount stemming from M&A, the most significant growth posted over the company's 20-year history with the contribution of very sustainable and very green activities along the lines of the elements set out by the new business plan.

As far as EBIT is concerned, this is another positive element because our growth is equal to 11% following amortization and provisions, which again underscores that our consolidation continues in a very positive way. Finally, after a reduction of financial costs and after having kept our tax rate at 26.8%, which is very much in line with the previous years, we have an EPS, which is up to \$0.228 with a growth equal to 11% even here compared to both 2020, 2019. Generally speaking, the soundness of our performance is very consistent and very operational and also very positive from a financial standpoint.

Now to these results, as I was mentioning, we also had a further improvement as far as our soundness is concerned. Our net debt-to-EBITDA ratio is down to 2.66x with an improvement performance, which as you know, we were already targeting below 3x. And therefore, this further improvement is something we welcome. Our debt at the end of the year stands at EUR 3.26 billion, which is in line with the previous years. This is a result that we feel is especially positive also given the CapEx, which is up by EUR 130 million in 2021 compared to 2020, meaning that our investments over the year were equal to EUR 666 million if you consider both the operational CapEx and M&A.

Finally, another element to take into account is the increase in the dividends paid in minorities with an overall value equal to EUR 200 million. Again, we are trying to continue in the very sound and satisfactory approach to our business, also given the new turbulence scenario, such as the one we have been currently experiencing over the past few months. Now EBITDA growth of EUR 201 million, as in mentioned, was supported by a number of different drivers. We have significant contribution from the energy services with plus EUR 42 million. And this increase was made possible also in the condominiums of the cities we serve. Also taking into account the benefits stemming from the ecobonus.

Organic growth is equal to EUR 28 million thanks to the expansion of our customer base, which as far as the energy sector is concerned, it's up to 3.5 million customers, meaning that our growth is continuing slowly but surely. And it is an element which continues to guide our (inaudible) even as far as M&A is concerned. We had the contribution from the significant develop at CapEx. I mentioned earlier, plus a positive trend as far as prices and volumes are concerned on the waste -- on the industrial waste throughput market with a plus 3.8% compared to the previous year. Another important driver I mentioned earlier is the demand for recycled plastic, which boosted the Aliplast company following the rough times over the previous year due to the pandemic.

I'd now like to give the floor to our CEO, for details regarding the various business areas. Stefano, over to you.

Stefano Venier Hera S.p.A. - CEO & Executive Director

Thank you, and good afternoon. As usual, I will be focusing on the 3 business areas, beginning with networks, the regulated businesses, followed by waste and energy. As far as the networks are concerned, as far as the regulated businesses are concerned, as you can see from Page 5, the results for the year were equal to EUR 472 million, up EUR 11 million compared to the previous year's results with a number of differentiated effects from one business to the other.

Let me begin by the water business in which we've had a slight contraction of our results equal to EUR 3 billion, a result which was brought about by a number of extra operational costs because, as you know, the criticality and the commodity sector had begun as far as other materials before energy other than continued moving on to energy and the chemical products stemming from oil. Meaning that we have had a scarcity of material available plus further costs. Plus in 2021 in the water sector, we shifted from the technical and commercial quality from the territorial standpoint to a more central approach as defined by ARERA, the national authority, meaning that

for the time being, the effect is negative and is worth a few million.

Cash distribution went well, very well rather, besides having benefited from further connections. It also benefited from the review of the white (inaudible) certificate criteria now, as you know, which we had registered in previous years and which we are now illustrating given the differential effects we are seeing.

Electricity went well. It was boosted by the increase in RAB, but also by the request for new connections, which were especially significant both here and in the water sector, where respectively, in electricity was worth 1.5 million, whereas in the water sector, we had some 3 million. District heating was marked by a good performance, both through an increase in distributed volumes with a significant growth in district heating volumes equal to a plus 10% given the thermal season on the one hand, but also due to new connections. We also had a good mix in production in this specific sector. Overall, all of the businesses in a cross-cutting way, we were able to benefit from the increase in RAB up roughly 2.4%, from [EUR] 3.4 billion to EUR 3.5 billion, which as far as tariffs are concerned, give us a positive result. This was the more general situation.

And moving on to one of your typical questions. Let me give you the breakdown of the EUR 472 million of the results posted in 2021, broken down into each individual business. We had EUR 262.5 million in the water business, EUR 143.5 million in gas distribution, EUR 49 million in electricity distribution and EUR 17 million in district heating. This is the breakdown of the result, and it is the outcome of the variations you can see on the graph.

Moving on to Page 6, the energy business. In this case, we have to break down the effects into 2 major components. On the one hand, we have the contribution stemming from the energy service section linked to the refurbishment of buildings, which, as you know, has 3 different forms of incentives. On the one hand, we have the incentive linked to energy efficiency, which is 60%. Then we have the incentives for the refurbishment of facades just to use a more frequently used terminology and then we have the so-called super ecobonus.

As far as these 3 different types of incentives are concerned, we had very intense activities throughout the year with over 600 in contracts which we signed and their contribution equal to plus EUR 42 million. On the other hand, we have the more traditional part of our supply business with an organic growth worth EUR 22 million. On the supply side of the business, linked on the one hand to the further expansion of our customer base with a further 63,000 net customers along with the development we mentioned during our business plan -- presentation, the so-called value-added services, which in 2021, had a further 80,000 contracts with a net margin worth another EUR 4 million, plus the dynamics we saw on the last instance markets and the auctions for the Maggior Tutela market customers, which, as you may remember, we manage, and we have some 60,000 customers as of the month of July last year.

We then have the power generation trend with a contraction due to the fact that 2020 was an especially positive year from the MSD market standpoint, whereas 2021 had a twofold situation. During the first part of the year, we continued working quite well now with the same level of demand we had in 2020 on the MSD market. While over the last quarter, as a consequence of the situation arising from the electricity demand with a major bounce back over the past -- over the last 4 months of the year, worked much more on the so-called MPEG market. Meaning that we had a negative effect on this business equal to minus EUR 9 million stemming from minus EUR 15 million on the dispatchment market, which were offset by plus EUR 6 million in MGP and in the optimization of our operational management.

In a nutshell, therefore, the overall result of this part of the business is equal to EUR 423 million in the regulated part of the business with a significant 15% growth, which, as I mentioned, was driven for the most part by our energy activities, which, as you know, even in 2022 are continuing, and they will continue over 2023 as well.

Moving on to the last business area, waste. We kept the best news for last, but also because -- in this specific business, our performance recovered significantly with a major bounce back compared to 2020, a year during which we were able to hold our ground, especially vis-a-vis the industrial dynamics, whereas during 2021, we were able to fully benefit from the industrial recovery, which we started seeing the beginning in the month of June and July, especially. Take Aliplast, for instance, their margins improved 100% during 2021. And this was driven by a significant growth in volumes by double-digit figures in demand. Udine sales, Aliplast is now above 100,000 tonnes in

2021, with a growth, which was almost up to 20%.

Now to that result, there was also a major contribution played by the margins beginning in the month of August and September with the growth in energy value. We also had an increase in the virgin polymer price, the recycled polymer being, of course, a direct competitor. And therefore, we were able to grow from that point of view as well. Waste collection was up EUR 2 million mainly due to the operational efficiencies we implemented. The tenders we were awarded in 2021 will start giving, at their effects beginning in January this year, and then we also had an increase in waste treatment up [EUR 3 million]. Even in this case, this growth is the direct consequence of a further slight growth in prices along with the growth in demand and volumes, which means that together, we have the extra margin, you can see on the graph. Whereas a further EUR 8 million to EUR 9 million is the M&A contribution, and more specifically from the [Rishika] and Vallortigara companies, which were consolidated during the year.

The third acquisition, the SEA company is a company in which we are gradually increasing our stake, beginning with a 30% stake, so that over the next 2 years, we'll be taking over the majority stake of the company. In general terms, the underlying volumes were up by 180,000 tonnes or 170,000 tonnes more specifically. Following a stability in urban waste volumes, whereas the growth is fully due to industrial waste and Aliplast recycled material, as I mentioned earlier, which is equal 15,000 tonnes to 16,000 tonnes. If we go beyond EBITDA figures and if we go down along the various lines. On the one hand, we have an improvement of our average cost of debt. Over time, we described our liability management activities.

You may remember that in 2021, we had 2 major operations, one in the spring and one in the fall to refinance part of our debt, with the emission of a new ESG-linked bond last fall. And through these operations, we were able to reduce the average cost of debt over the medium to long term from 3% to 2.8%. And given the fact that the expired -- the expirations in debt are very limited. We will be able to consolidate these figures. We were able to benefit from this improvement in 2021 already, by saving a few million euros when it comes to the cost of debt. Tax rate stands at 26.8% as mentioned by the Executive Chairman. We also mentioned the optimization actions.

As you know, we have EBITDA to employee ratio, which is one of the KPIs we focus on. And as you can see, consistently with the growth in EBITDA, this ratio grew 10% -- in fact, it grew 11%, more specifically, which means that we are on track with our constant efficiency gains. And then we have ROI and ROE, which as you can see, have further recovered back to the 2019 figures. In fact, ROE is slightly above those figures. All of this, of course, was accompanied by the development of our ESG profile. As you know, for a few years now, we've been measuring and certifying the share of our CSV margin. The growth this year, as another years was quite proportionate, which means that we are up to 47% of our corporate shared value to EBITDA ratio. As you know, our target is 70% by 2025. This is something that we have constantly been feeding throughout the years.

Now 2 other KPIs are other indicators that our ESG bond are -- is linked to. We had a good step in 2021 with a reduction in emissions by 11.6%, which refer to [scope] 1 or 2 and 3, which is consistent with the trajectory leading to minus 37% by 2030 as certified by science-based targets. We also had a significant growth in the recycled polymers by Aliplast, which is equal to 36%. When it comes to the returns on the valuations offered by third parties, you have a slide here which summarizes the most important third parties.

Now let me hand it over to Mr. Moroni, who will be commenting on our cash flow, its dynamics and the debt structure characteristics following the reconfiguration in 2021.

Luca Moroni Hera S.p.A. - Group Director of Administration, Finance & Control

Thank you. Good afternoon, everyone. 2021 was a very positive year in terms of our economic results. But not only that, as you can see here, we have a financial performance, which is extremely positive. We generated EUR 838 million worth of operating cash flow, which is the highest figure in the group's history, allowing us to fully finance our dividends and M&A transactions, along with the good chunk of the bond buyback on the market, which was a very farsighted operation, I have to say, given the fact that we were able to reduce some of our costs, thanks to the opportunity brought about by the realignment of some of the elements we mentioned earlier, allowing us to continue along the optimization of our debt in terms of costs for the business plan, which means that our debt is in line with the previous years. It stands at [EUR] 3.26 billion with credit indicators, which are extremely positive, given the fact that the cash flow on debt data report is at 26.7%. Last year, it was at 24.9%, which means that it made a further step forward.

The cash flow per share is very positive, too, with EUR 0.259. Last year, we were at EUR 0.235, which means that the increase was equal to 10%. And that we have a net debt-to-EBITDA ratio, which is at 2.66x as the Chairman was mentioning during his introduction. We have also consolidated our debt in terms of average duration, meaning that the average maturity is now above 7 years, giving us an extremely sound position. So much so, in fact, that we are almost fully covered by fixed rates. And therefore, we aren't exposed to any possible increase in the rate -- in an extremely positive position, allowing us to close the year very well from the financial standpoint thus guaranteeing the soundness, which is one of the group's main traits.

In conclusion, I think it's safe to say that -- we're very pleased with the results posted last year, and we will be conveying the message to our shareholders meeting. The Board of Directors greeted the news very well. The news being the same that I am sharing with you. And of course, all of these figures are very positive. And in the second to last presentation, you can see another new element linked to our 20-year history, our 20-year track record, which never had any stops in our growth despite the external factors, which we too had to deal with. And therefore, the response we were able to offer over the last year is very interesting indeed. We will be making a proposal to increase our dividend to EUR 0.12, up 9%. And therefore, this goes to show that we are on track with the rest of our activities.

As you know, we're already working on a number of new M&A opportunities along with a major boost in our investments. The size of which, as you know, is something that we are experimenting for the very first time compared to previous years. And with these 2 elements in mind, I think you now have a clear picture as far as the forecast for the company are concerned. I'm sure you agree that these are very challenging figures and hopefully, we won't have the external problems we've been seeing in the more recent period, in the future as well. Thank you. We're now open for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We now have a question from Javier Suarez, Mediobanca.

Javier Suarez Hernandez Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research

I have a few questions for you. The first refers to regulation for the waste collection and treatment activities. ARERA has published a new WACC for waste treatment following your business plan presentation, and that should be very positive as far as visibility is concerned and as a way of allowing other regulated activities to be more aligned with ARERA's approach. Can you give us a flavor of the positive elements you can expect from this news vis-a-vis the previous business plan?

The second question refers to the measures presented by the government last week as a way of mitigating the current situation linked to extra profit. The impact for you seems to be very small. Do you confirm that? And give us your interpretation regarding the impact of these government measures? Third question is on the supply business. Some of your competitors mentioned the fact that they are stopping their contracts for fixed price supply given the current situation. Can you describe your policy when it comes to fixed price supplies for 2022? And I also read the management's comment in the press regarding monthly installments for your customers? And what do you think of this measure to help your customers?

Stefano Venier Hera S.p.A. - CEO & Executive Director

Let me answer your questions in the same order you asked them. Certainly, the recognition of remuneration on capital for this activity, which is equal to 6% for waste treatment, 5.6% for waste collection is fully consistent with the indicators and the decisions made for the other regulated businesses, which means that this is something we understand. And as far as the scenario we had, in fact, they are slightly better with a plus 10 to 20 basis points. However, keep in mind that the economic effects we will be seeing are directly linked to the increased caps on tariffs, which are set in waste collection at 1.2% to 1.7%. Whereas for waste treatment, this can go up to 6%. And that has to be shared with the authority.

That doesn't mean that the money, which isn't recognized in the tariff will be forever lost, it will be recovered further down the line. Although as far as our balance sheet is concerned, we have a proportion of the benefit, which is reflected there, and this is good news as far as we're concerned. Now what will we obtain and how will all of this be made manifest between 2022 and the next year is down the

line? Well, this is the subject of the ongoing negotiations. As you know, the government postponed the approval of the economic and financial plans for each of the areas it manages to late April, which means that March and April are the period during which we share our figures and negotiate with the territory authorities as we have defined the tariffs for these activities.

Your second question was the extra profits. Well, the first answer is that based on the very first assessments made of the impact as far as our group is concerned, is fairly limited. We're looking at a few million euros. Obviously, though, it's difficult to make a forecast now and let me explain why that is. I hope you can still hear me.

Javier Suarez Hernandez Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research

Yes. We just lost the line for a second there, but we're still connected.

Stefano Venier Hera S.p.A. - CEO & Executive Director

So, Javier, could you tell me what was the last thing you heard?

Javier Suarez Hernandez Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research

Well, you were mentioning that the impact may be worth a few million euros.

Stefano Venier Hera S.p.A. - CEO & Executive Director

That's correct. It's difficult to make a forecast because the government decided to take the VAT figures as a benchmark. And therefore, we have to look at the invoices sent and received, a more accurate overview will be available in late March when we'll be seeing the actual figures in the invoices sent. Meaning that we'll have to look at the invoices, which will be effectively sent out and received as cost invoices. So it's slightly more complicated to give you an ex-ante assessment. However, also based on what our expectations are, the effects should be along the lines of what I mentioned earlier. And it's quite logical, I think because we, in fact, are commodity sellers, and therefore, we have no extra profit. So there was no gap between the cost of the raw material or the commodity and the cost to our customers.

This leads me to your third question. Whenever we sign a fixed price supply contract, our position is closed, and we are no longer exposed to the underlying variations. So this is an estimate we were able to make. And then, of course, the government's measure leaves us some room to maneuver as an operator because, for example, the dimension of the credit for energy consuming activities was extended. And of course, plastic recycling, it requires the use of energy. And therefore, this increase will give us a benefit, not a major one, but we're looking at EUR 1 million to EUR 2 million. And furthermore, the clearly to the (inaudible) which is equal to a plus 12% for an increase in costs, which means that all of the activities in the water cycle should be included in this category.

As far as our commercial policy is concerned, let me just specify the fact that the mix of our supplies, if we take 100 as an imaginary figure, 25% is linked to fixed price contracts for the domestic market, whereas 29% to 30% is on the industrial market. Which means that we don't have a major amount of fixed price contracts. But whenever we sign a 12-, 24-, 36-month contract at a fixed price, at that point we closed our position, and we no longer have any substantial issues when it comes to covering the fixed price supply as signed over time. Obviously, from now on, we will continue to use this tool also because given the high volatility we currently have, we can have some interesting opportunities for our industrial customers. It's certainly true that with the current commodity prices, signing fixed-price contracts is a pretty complicated decision for our customers to make.

And as a consequence, it's more difficult to go in that direction, especially during the summertime, when we expect a certain decline in the price of commodities because otherwise, we will never be able to close the summer/winter spread for the stockpiling of the commodities. That means that there will be some opportunities for our [cloud] customers. As far as the installments offered to our customers are concerned, from the very beginning, we made this offer to our customers that means both our domestic customers and our industrial ones. This is something we had already envisaged in the past. Last year, for instance, we had 188,000 installment plans. This is also linked to the recent government's decisions.

As of last Friday, we had 94,000 installment plans, with a 60% increase roughly compared to the previous year. But let me also mention the fact that the use of this installment mechanism was used more by families due to the fact that these installments are worth slightly below \$80 million, which means that -- given the figures I mentioned, the average installment is less than EUR 1,000 per individual contract, meaning that these are for the most of residential contracts or the so-called SOHO segment. So this is a snapshot as far as the present is concerned. Of course, when it comes to year-end, we'll be seeing how prices evolve over the next few months, but an impact worth some EUR 200 million in terms of working capital from now to year end is something we may expect.

Operator

The second question is by Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni *Kepler Cheuvreux, Research Division - Equity Research Analyst*

I have a few questions for you. Beginning with an update on the water business and the energy cost recovery. Could you give us an update on that since energy costs will have a major effect, and they will be recovered with a delay. Can you explain the impact of that on Hera? My second question is a more general question in fact. On the 2022, moving past -- as far as EBITDA per business unit is concerned, can you give us an update on the current scenario with the business-by-business breakdown with a comparison with 2021? And then I have a third question. I noticed an increase in the net addition in power compared to 2020.

Can you give us an update for Q1, also given the changes on the scenario, given the fact that a number of small- and medium-sized operators are going bankrupt. And therefore, the larger and more solid companies such as yours can gain further market share? And then the final question linked to the new energy scenario. Among the various assets, which have to be built to increase Italy's energy independence, an aspect which may affect Hera directly could be the topic of waste energy plants.

Do you expect an improvement, a removal of the bottlenecks and swifter authorization processes for waste energy plants? And do you think you'll be able to invest more in building new assets given the fact that capacity was an issue with the current asset base. And of course, now there is a huge need for further capacity in waste energy plants in the country?

Stefano Venier *Hera S.p.A. - CEO & Executive Director*

Let me answer in the same order, beginning with the impact of electricity on the water business. As we know the cost of electricity has been historically considered to be a pass-through cost. Also according to the current regulations, the average cost of the company has to be included in the average cost, which ARERA considers exposed and a maximum difference equal to 10%. Now up to last year, it made no difference which procurement choices were made by the various players. There were those who made their procurement at a fixed price and the variable price didn't have much of an impact because the difference between the fixed price and variable price, but with a stable market on which the commodity price moved by EUR 5 to EUR 10 per megawatt hour, brought about an indifference apart from specific situations that I'm not aware of. But on average, the recovery of the energy cost, although that happened through (inaudible) with a 2-year delay could be referred to the previous fiscal year.

Now this year's situation is a little bit different, because the procurement choice at a fixed or variable cost and the constant amendments with the exoneration mechanisms on system burdens as we have continued the cost of electricity, is leading to a certain degree of uncertainty. And therefore, I'll be able to answer that question only in December this year. Because before that, I'll have to understand, well, my position is vis-a-vis the average cost stemming on the sector level. Having said that, that is an extraordinary condition, of course. And any possible differences vis-a-vis the full coverage won't be due to a low degree of diligence but rather from an extraordinary situation with price dynamics, which are absolutely abnormal and unforeseeable, which, of course, leads to a certain degree of uncertainty, which is it links to the water business per se. And of course, it will have to be reconsidered along with the regulator from my point of view.

The truth is that a company such as ours consumes 350 gigawatts per hour in electricity for the water cycle. And you can do the math quite easily. If the average price is EUR 100 higher when it comes to electricity, that means EUR 35 million in extra costs that we have to cover. What are the business drivers? Well, in the regulated businesses, the main driver is the one that we've been reviewing as of January -- as of the 1st of January this year. The review on remuneration. The review of the recognized return will be worth EUR 21 million. This is something we were aware of even when we drafted the business plan, that we started working with some extraordinary efficiency

actions because if you won't be able to cover the entire amount during the first year, we'll try to do as best as possible. Of course, the major recovery and the increase of new connections and the interventions on behalf of our customers.

And the last quarter of the year is one thing, and we'll be seeing the performance in the next few months. In January, we were consistent. In February, we had a slight dip, and we'll have to wait and see what the performance will be in the next few months. Of course, that certainly is a tool to improve our business' profitability. But of course, we also have some news to share. As you know, we introduced the very first regulations on the technical quality in the waste sector. But even more importantly, last week, the authority published the second document referring to the technical and commercial quality in the water cycle. And we'll be seeing how we're positioned there and we hope to recover something from that point of view.

Moving on to the trends we're seeing in our supply business. As far as volumes are concerned, honestly speaking, and I'm referring to electricity, of course. Honestly speaking, we're not seeing any major dips. In fact, the monitoring area we have, shows that as of last Friday, at the end of the 12th week, the demand for electricity stood at minus 1% compared to last year with a figure which is pretty much in line with the first 12 weeks of 2020, which means that the pace we're seeing is quite good as far as our activities are concerned. Then of course, last year, Q2 was much better than Q1.

Although for the time being, we're not seeing any sudden dips, such as when we have the lockdown due to the pandemic. As far as the acquisition of new customers is concerned, our commercial activities are continuing along the lines of what we did last year. I haven't seen any effects stemming from the fact that some companies went bankrupt as you mentioned. We did see that on the last instance market, where we had a significant increase in volumes both for gas and for electricity. I have a very significant sample at this point on the gas side of things since we serve most of the default and FUI market, and the volumes there compared to traditional volumes have grown threefold.

Of course, that includes the effects stemming from the fact that some operators going through a difficult patch gave up their supply business, and other operators which decided to breach their supply contract with default situations which are more convenient compared to the market. These were conditions that, of course, these suppliers had with their suppliers (inaudible). As far as M&A is concerned, the difficult conditions that you were mentioning will probably lead a number of operators to reconsider their position in the market. Frankly speaking, we had one such case a couple of weeks ago, and we'll be seeing if that will turn into a tangible transaction.

Moving on to your question regarding new waste-to-energy plants. I don't think it's enough to have an energy crisis. The environment crisis we're seeing in some territories isn't enough either. If you consider the fact that despite these 2 crisis, there doesn't seem to be any kind of will to use waste energy to have solve a part of the problems we have. That, of course, has to be accompanied by the building of biodigesters for the organic part of the waste, another waste treatment assets for the (inaudible) the waste. I don't see any signs of improvement from that point of view. That doesn't mean that we are at a standstill. We're focused on refurbishing and repowering some of our units. We are working on a plus 20% repowering of the industrial waste-to-energy plant we have, bringing the capacity up to 50,000 tonnes compared to the previous 40,000 tonnes.

The plant should be completed in Q4 this year. We are also refurbishing and increasing the line in this waste-to-energy. And then we have a similar intervention planned at the Padua waste energy plant, which means that things aren't at a standstill. We're working on optimizing things and we're working to update our plans with the best available [technology for] energy performance. I think that is a good snapshot of the current situation. Having said that, we are there to be more suitable choices to be made to deal with the current criticalities. Well, then given the fact that we are the market leaders with the biggest asset base in Italy.

And given the fact that we have always designed and built our assets, given the fact that we have the right skills, we'll have to wait for the right sites to be chosen and a clear will to be stated. Of course, given the right conditions, we have the industrial skills required to support these kinds of choices, which is something we had already done, as you may remember, with the project we had in Florence.

Operator

There are no further questions for the time being. (Operator Instructions)

MARCH 23, 2022 / 2:30PM GMT, Q4 2021 Hera SpA Earnings Call

Stefano Venier Hera S.p.A. - CEO & Executive Director

Well, then if there are no further questions, thank you very much indeed for your presence, and we are always available and always working to offer continuity to the things we've described today. Thank you very much, and goodbye.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]

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