



Results as at 31<sup>st</sup> March 2016

Bologna, 11<sup>th</sup> May 2016

**Speakers:**

- ***Tomaso Tommasi di Vignano, Executive Chairman***
- ***Stefano Venier, Chief Executive Officer***
- ***Luca Moroni, Administration, Finance And Control***
- ***Jens Klint Hansen, Investor Relations Manager***

**Chorus Call operator**

Good afternoon. This is the Chorus Call operator. Welcome to the Q1 financial results for Hera Group. All participants are in listen-only mode. At the end of the presentation, there will be a Q&A session. (Operator Instructions)

And now I'd like to give the floor to Mr. Tomaso Tommasi di Vignano, Executive Chairman of Hera Group. Mr. Tommasi di Vignano, you have the floor.

**Mr. Tommasi di Vignano – Executive Chairman**

Good afternoon, everyone. We can begin our conference call. We have just concluded our Board Meeting and we are keeping up in our tradition, we are -- we have decided to stay in touch with you and despite the recent legislation innovations we have decided to disseminate our Q1 results, and I believe that we can be virtually satisfied with the results obtained. There have been no major events happening, nothing which has changed our scenario. We tackled this quarter with a certain degree of concern because there were some external elements such as tariffs, which would have had an impact in our figures for the very first time. So we worked hard and I believe that we were able to be successful.

And as you can see from the document you received, all of our results are positive, except for our revenues. This is all external because the underlying motivation in terms of the reduction in revenues stem from the weather, the climate which obviously had an impact on some of the commodities we work with. And then this was also the first quarter in which we had to apply the WACC cut as decided by the authority for the first time. And the first quarter obviously includes the largest chunk of the total that we imagined as affecting the entire year given the seasonal nature of our businesses. That explains why the combined sum of the two elements or the two main factors which had an impact on our revenues.

The WACC reduction I was referring to is equal to 9.5 million, which is equal to 3.4% of the Group's EBITDA. This obviously applies to all the sectors that it is applied to. Therefore the element which emerges from this figure is 38% impact in the first quarter, which these norms were applied vis-a-vis the 25 million, which we had envisaged for the entire year.

As I was saying, the weather was somewhat less favorable compared to the first quarter in 2015 with temperatures which were below our expectations and below average. The work that we will have to do to promote organic growth and efficiency was also accompanied by the contribution we obtained from the new operations in the M&A sector,

which helped us -- which helped both organic growth and efficiency bypass the negative effects I was mentioning. And already in my introduction I'd like to underline the fact that from the financial point of view as we'll be stating later, Q1 went well with a major reduction of our financial debt equal to EUR147 million approximately. Therefore, we are now down to 2.5 billion vis-a-vis the 2.65 billion debt we had previously.

As far as the items in our profit and loss are concerned what I wanted to further highlight were a good improvement in our EBITDA margin vis-a-vis a dip in the revenues, a stability in depreciation and provisions. And as far as financial costs are concerned, financial expenses are concerned, we had a good performance with a reduction from 31 million down to 27 million, which is the figure we had when we completed the quarter.

Our tax rate is at 33%, which equals one point less compared to Q1 in 2015. And another important element to underline is that the net profit post minorities was up to 91.2 million. This is our profit and loss sheet. Within this and concerning volumes, I think the most positive elements refer to electricity, power and as far as waste is concerned, we certainly had the positive elements in industrial waste. These are the two sectors which posted growth in volumes. As far as our customer base is concerned, we started very well this year, because in the first three months we were able to add a further 66,000 customers in the energy sector. These are the main elements I wanted to mention.

And now we can move on to page three to underline the drivers behind our performance. And as I was mentioning, we have a negative element concerning WACC equal to 9.5 million, compared to which we had a plus EUR7.2 million from organic growth and synergies. And then we had the M&A contribution, which refers to the two transactions we concluded at the end of 2015, which, for the first time, contributed to the quarter with a plus 3.6 million growth, which brings us to a total of EUR278 million in EBITDA, which would have had a 3.9% growth had we not had the reduction in WACC, which I mentioned earlier. These are the main elements I wanted to mention, which confirms our recipe and it also shows that we were able to holdfast in a very difficult quarter that I was mentioning.

As far as -- that was all as far as I'm concerned and now I would like to give the floor to Stefano, who will be going into a business-by-business breakdown.

## **Mr. Venier – Chief Executive Officer**

Thank you and good afternoon. As usual, we can begin on page four with the waste sector. In this case, we posted a result, which contracted by 2.5 million, which should be explained because this 2.5 million contraction refers completely to the waste collection and street sweeping business. And compared to 2015, as far as this business is concerned, this EUR2.5 million difference exists also because in comparison with last year, we had to withstand a number of further costs, which will be covered in the next years and we also had to intervene as far as procurement was concerned, and we still weren't able to fully achieve cost efficiency in 2016. And this explains this EUR2.5 million contraction, which has an impact on organic growth. During the months of June to September, we hope to recover. As far as the waste management and waste disposal is concerned, it would make sense to start with the volumes in the bottom left-hand corner with stable figures in urban waste and that they increased by 110,000 tons in special waste. This refers to the contribution of Geo Nova and Waste Recycling transactions. When we were commenting these transactions at the year-end results, we had already mentioned that their contribution to commercial growth would have been in between 400,000 and 500,000 tons and these figures confirm that trend.

We are still completing, as we mentioned about a month and a half ago, on the development of our landfills. Reasonably we will be working on expanding [ph] landfill in July whereas the other of the two landfills will be completed towards the end of the year. Vis-a-vis this commercial dynamic which confirms the price trend, I think it's safe to say that for the most significant products of the year-on-year growth was in between 2% and 2.5%, which confirms being improvement we had vis-a-vis the end of last year, which was offset by the energy market dynamics with the single and national price for power, which is lower, plus we also had the end of the incentives in the Ferrara waste-to-energy plant with a reduction in green certificates as of January 1st this year and that accounts for a further EUR1 million less.

And therefore the sum of these two effects was completely offset by the contribution brought about by the two acquisitions that we made at the end of last year. And as far as the waste treatment and disposal business is concerned, our figures are in line with Q1 2015. Therefore, as I was saying, in this case, the contraction refers to waste collection and street sweeping activities for the many reasons I already mentioned.

On page five, we have an overview of the regulated activities. Here we had the impact of tariff changes. Of course we were able to partially offset this impact through increased efficiency we've mentioned. As the Chairman was mentioning, that accounts for a 50% offset of the negative WACC effects. We will expect to have further positive contributions. The impact of WACC is distributed vis-a-vis the amount of volumes, for instance gas distribution, which doesn't make -- which doesn't give us an average distribution over the year. Therefore, in the second and third quarters, this impact will be reduced in the various network sectors.

We're also seeing some slightly positive signals in the new connections. Compared to the same quarter last year, we had EUR1 million increase, which is especially concentrated in the water sector. As far as distributed volumes are concerned, the trend seems to be slightly depressed as far as distributed energy is concerned, especially in the north eastern part of the country we posted a contraction vis-a-vis the previous year, whereas in the Emilia Romagna territory the situation is more stable.

Finally, in the energy sector, on page six, we posted a major growth, which is equal to some EUR9 million, which completely offset the problems in networks and in waste. These positive results were brought about by a number of factors as we can see on page six. The first of which refers to improved margins on sales, on supply and trading both for gas and power, especially in power where our customer base grew by over 58,000 customers -- 4,000 customers, excuse me. And another as positive result came about from the ancillary services market for MSD and in the first three months this year, we were able to post a EUR5 million result, which we hadn't envisaged in our budget and wasn't foreseeable, but which we certainly accept as good news since last year we had suffered a contraction compared to the previous year of worth some EUR10 million.

As far as district heating is concerned, we're seeing the initial positive effects of the redefinition, and the re-launching which we -- activities which we carried out over the first 12 months -- over the last 12 months. As I was saying, the development of volumes was characterized by a significant growth as far as electricity sales were concerned, a plus 6.2%, whereas gas sales suffered due to the weather with a contraction equal to more than 60 million cubic meters, which accounts for a rate which is about 6.5% to 7%.

Finally, we concluded the acquisition of a small commercial company as we had done in 2015. This is the Julia Servizi Piu company. This is a transaction which will give us a further 15,000 customers in the Abruzzo market region. I think that this is an important activity since a few years ago, we had identified that territory as a target we have to focus our efforts on, meaning that now we have a size which allows to be perhaps one of the top two players in the territory. Luca, you have the floor.

#### **Mr. Moroni - Administration, Finance And Control Director**

Good afternoon. The beginning of 2016 was very positive from the financial standpoint. As you can see on page seven, our cash flow generation was pretty positive for a total amount equal to 147 million, which allowed us to reduce our net financial position from 2.65 billion, which is how we ended 2015 down to EUR2.505 billion. As in every first quarter, we benefited from the seasonality which includes the positive performance from the sale of gas, especially. And we were also able to use the net working capital, which allowed us to improve our performance by some EUR50 million compared to March 2015. These good results allowed us to have a debt-to-equity ratio on a quarterly basis, which is equal to 0.96, on a yearly basis equal to 2.83. This should be considered as an indicator. It certainly is positive in terms of an improving trend, but we have to continue to focus for the remainder of the year, since, in June, as you know, we will be paying dividends which will bring us back to 2.65.

Therefore the financial results were very good not only in terms of how we managed the net working capital but also given what the Chairman was saying, we had a good performance from the operational standpoint with good financial management, with improvement of the cost of debt and better tax rates due to the effective rules which were approved at the end of 2015, which also had a positive impact on 2016.

And I'll hand it over to the Chairman for some conclusions.

#### **Mr. Tommasi di Vignano – Executive Chairman**

The fact that in Q1 we were able to fully recover the effects of the WACC review was a major test for us, something that we will continue to work on. As far as the waste sector is concerned, Mr. Venier had mentioned what our perspectives are. We will continue to work to broaden our landfills day and night. And therefore our focus for this year will be to put this sector back on track, the landfills of course. Since our waste-to-energy plants and our selection plants are working very well, both last year and in Q1 this year they posted some very good results indeed. As far as the dividend is concerned, you heard it all, we are ready to pay the dividend and there are no surprises there for us as far as we're concerned.

And now let's see whether you have some questions for us.

## **Q&A**

### **Chorus Call operator**

This is the Chorus Call operator. We will now begin the Q&A session. (Operator Instructions) The first question is from the Italian conference by Javier Suarez, Mediobanca.

### **Mr. Suarez, Mediobanca**

Good afternoon and thank you for your time. My first question refers to the Company's financial structure, slide seven. The free cash flow generation in Q1 was especially good and I focused on the working capital improvement. Can you give us some further details on the reason why the net working capital contributed in such a positive way? And I also wanted to know what average interest rate you have for your debt at the end of the quarter? The second question is on the waste business. The organic dip [ph] is equal to EUR5 million, in your press release you said that the waste collection tariff still haven't been updated. Can you give us some further details as to what is happening and when these tariffs will be corrected in 2016? And then I have a last question on the energy business. I focused on the positive contribution stemming from power generation. You mentioned a very positive contribution coming from the dispatching market, can you tell us why that is?

### **Mr. Stefano Venier – Chief Executive Officer**

As far as the waste sector is concerned, as I was mentioning, waste collection had a minus EUR2.5 million effect. The part concerning the approval of the new economic and financial plans for 2016 was completed at the end of April. We are currently receiving the -- at the end of April, it was approved by the local authority. It now has to be ratified by each individual local municipality, but it is a process that I'm sure will be concluded within the coming two weeks.

Some positive contribution will be stemming from the rationalization and renegotiation activities that we announced a few months ago, and that we applied to a number of service contracts in this area, the activation of which happened between the months of February, March and April. And therefore, this will obviously have an impact on the upcoming nine months. And it will obviously require a rebalancing vis-a-vis the March results.

As far as power gen is concerned and its contribution in energy, we had this contribution on MSD, but we still weren't -- we still did not review why this situation is as it is, or according to our technical experts, we were able to benefit from the maintenance activities of two or three groups in the Puglia region. And this required the need for further power production in Southern Italy. We have two energy plants in Campania and in Abruzzo, those were the two plants, which worked more, especially the one in Campania. So that's probably the reason why we had an increase in MSD.

If you want a detailed explanation, honestly I don't know what to say. It was a positive event of course. Just like last year we weren't expecting the major contraction we had. This year we were very happy to see this increase. I'm not sure how we will be able to replicate this in the upcoming months. The same trend continued in April. As far as May is concerned, I think it's a little too early to say, I still don't have the information needed to answer your question. As far as the completion of the maintenance processes I was referring to, they should be completed by June or July. But again I'm not sure whether or not that is the real reason why we have this increase in MSD. As far as the working capital improvement, I'll leave it to Luca.

### **Mr. Moroni - Administration, Finance And Control Director**

As you can see on the slide, we were certainly helped by the effects of volumes given the reduction in commodity prices. But as we already mentioned on a number of different occasions, our commitment, our investments on the active cycle [ph] especially was significant on a number of different areas. Therefore not only on recovering credit, but also on the various invoicing cycles for over a year now, we have been paying close attention to our invoicing cycles. And this focus of ours especially in the high seasonality months is bringing about some excellent results. This allows us to be speedier in terms of invoicing. Therefore, we reduced the value of invoice to be sent and therefore we can receive payment earlier. And this is certainly one of the main drivers, which has increased the efficiency for a net working capital.

As far as the cost of debt is concerned, we were able to reduce a few basis points. We're at around 375 vis-a-vis the 385 we posted at the end of last year, due to the combined effect of two elements. The first is that, we reimbursed the final part of the 2016 bond equal to EUR260 million or the 4% yield. And we also dried up the cash available. We reduced the negative carry, which obviously helped somewhat in the cost of debt performance, which presumably given the important effect on the reimbursement of the 2016 bond should be stabilized at around these levels.

### **Chorus Call operator**

Our next question is by Enrico Bartoli, MainFirst.

### **Mr. Bartoli, MainFirst**

Good afternoon. I have a few questions for you. First of all concerning the water business, you have a greater visibility on the quality awards, or on the quality premium, when will this start to be introduced in the tariff? And can you quantify the amount? And more in general, given the fact that the water sector EBITDA was flat despite lower financial returns, do you expect the same trend in the upcoming quarters?

I also had a question on the waste business on volumes and specifically the 24% increase in special waste that you showed us. Is this entirely due to the consolidation of the acquisitions made at the end of 2015 or has there also been an improvement of the market? And also as far as the waste business is concerned, are you continuing in your scathing [ph] activities for a possible external growth opportunities as the ones we saw in 2015. Can we expect something in the next quarters as well? And then a final question on M&A. Can you give us an update on your view on anything happening and anything you may be doing and more specifically on the IMAC [ph] company?

### **Mr. Stefano Venier – Chief Executive Officer**

As far as the water business is concerned, quality premiums. With our local authority we have already sent our request.

We have set some meetings with them for the upcoming weeks and hopefully along with other aspects concerning the application of new tariffs, hopefully all of this will lead to some good news in the month of July reasonably. In July we'll be a little bit more specific as to how much and when we will be seeing in 2016 and '17.

Then as to what we expect for the end of the year, as you know, out of the EUR24 million, the impact of WACC on water tariffs is equal to some EUR12 million. Our target, our ambitious target perhaps is to be able to fully sterilize this impact. We're working on this especially on increasing efficiency and on a number of other components and hopefully we'll be helped by a recovery in new connections and new contracts, which is what we saw in the year's first quarter. As far as the waste is concerned, the special waste volumes are equal to some 120,000 tons, 113,000 tons to be specific.

These are almost entirely due or they are entirely due actually to the Geo Nova and Waste Recycling acquisitions. The reason being is that the further capacity that we obtained from the broadening of our landfills is still work in progress. And that's why we made those acquisitions actually as a way of -- taking advantage of the Geo Nova capacity and on the Waste Recycling plants.

Therefore, in our traditional perimeter, we did not have an increase in volumes. And to a certain extent that allowed us to focus on prices. Since we didn't have any capacity to saturate, we were able to focus on price. And that accounts for the 2 point to 2.5 point increase that we posted, but compared to March 2015, which in the first quarter of the year is equal to an increase in price equal to EUR1 or EUR2 depending on the various category, the various types of products on average of course, whereas in the industrial waste, especially the hazardous waste business, the increase was a double-digit and this is a consequence of a European phenomenon actually. The large amounts of waste from the UK to the waste energy plants in Germany and Holland are reducing capacity in Europe and therefore they're increasing the value of capacity in Northern Italy for those companies such as ours, which have that capacity.

### **Mr. Tommasi di Vignano – Executive Chairman**

As far as the M&A question, we have to make a distinction between two different elements. The first element is that, we are taking part in two competitive phases, the first of which refers to the very long choice made by the IMAC

shareholders, that we are obviously a part of, the part of -- we're a part of their shareholding structure. They were asked to -- they asked us to reiterate our proposal to merge and therefore by the end of May we have to relaunch and reconfirm our project by reiterating the fact that our choice matches the one that they themselves have chosen. And they will have to see what the other competitors will be doing for that same company, and I am referring to local competitors, especially.

So that transaction is something that we will be working on for the entire summer if they stick to the time frame that they announced publicly and that they conveyed to the companies interested in them. We are also competing on a different sector, which refers to the energy customers and that too requires the outcome of a tender with a number of participants, therefore it's very difficult for me to make a forecast. All I can say is that, it is a part of the ITMs [ph] that Venier was mentioning, which refers to our intention to further expand our presence in energy customers' in neighboring territories.

And these two comments refer to transactions, which are in the public domain already. As far as our so-called secret activities are concerned, we are looking closely at two opportunities in the multi-utility sector and we're also focusing on a possibility in the waste sector, especially in waste recovery. These are some opportunities that we're studying, but there is nothing to confirm yet. There is no formal decision as of yet.

### **Chorus Call operator**

The next question is by Dario Carradori, Goldman Sachs.

### **Mr. Carradori, Goldman Sachs**

Good afternoon. I have one question left, I seem to understand, for the entire year you expect to improve your EBITDA, could you summarize what the drivers are in this case, which elements could bring about an improvement in growth?

### **Mr. Stefano Venier – Chief Executive Officer**

Well we certainly expect an improvement stemming from the energy sector as we saw in Q1 already. On the regulated activities and the waste activities, we would like to continue to grow from the commercial standpoint.

### **Chorus Call operator**

Mr. Tommasi di Vignano, gentlemen, there are no further questions.

### **Mr. Tommasi di Vignano – Executive Chairman**

Thank you. And we will all talk to you soon and we will continue to work on your project as usual. Good bye.