First quarter 2011 Results
Bologna,12th May 2011

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 morning, this is the Chorus Call operator. Welcome to the presentation of the Q1 results of 2011 for the Hera Group.

All the participants are in the listening-only mode. After the initial presentation we will have a Q&A session. To receive assistance from an operator during the conference call, please press star followed by one.

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

Mr Tomaso Tommasi di Vignano speaking

Thank you and good morning, it's the usual team here, but the results that we are showing you are stronger.

We are coming from a good quarter, and I'm sure you've already read our press release.

Our growth was significant, and it was an overall growth, because even though with different percentages, all of the sectors, even at this time, contributed to our positive result.

This had an impact on all levels of our balance sheet and, therefore, from this point of view I believe we can be truly satisfied.

In terms of contributions I would say there was diversity between the various business areas; the energy sectors, and you'll see this highlighted in the figures, contributed significantly because, by uniting gas and electricity and other different sectors, the growth compared to last year was equal to 78%. Obviously this includes both the commercial activities and the procurement and distribution activities.

As far as M&A is concerned, for the first quarter we only had a single operation that we have already illustrated.

As of January 1st we were able to start up a biomass plant in joint venture with Enomondo. It's a 120,000-ton plant and it has been fully on stream since the beginning of the quarter.

Our management results were good and we were also able to create good cash generation, which also highlighted a further reduction in debt, also thanks to the positive cash we had.
I'll immediately give the floor to my colleagues, and I'll do this very gladly given the figures they'll be illustrating.
Let me just add a note of satisfaction: the first quarter globally was the most significant one we had compared to all the previous first quarters, and overall it brought about a result which is equal to the one we obtained in all of 2010, even though 2010 was a good year.
I now give the floor to Mr. Moroni, so that he can illustrate our financial statements and then to Mr. Venier who will be illustrating how we have managed our activities.

Mr. Luca Moroni speaking

Thank you and good afternoon; let's immediately go to page two, where we can see the economic results of this first quarter.
Our revenues were equal to 1.168 billion, with a +6.4%, vis-à-vis the 1.098 billion of last year.
Our revenue increase, as the Chairman was illustrating, stems from the combined effect of an expansion in the energy sector, in the electricity sector, also due to the acquisition of the customers in the Salvaguardia sector, and also as an effect of the increase in tariffs.
This positive effect was also reflected on our EBITDA, which grew by 39 million and that's equal to a 21.2% increase vis-à-vis the same period last year.
The EBITDA in Q1 is equal to 224.3 million Euros. Even the EBIT has grown significantly with a +28.7% and it's at 151 million Euros.
The pre-tax result is equal to 123 million Euros, after the result of the financial management which was positive in terms of our financial charges, which are linked to debt. We had a lower contribution deriving from the income of the companies connected to the group.
Another significant element is the tax rate, which is at 39.5%, and which brings about our post-tax increase to 74.5 million with a +41.6%.
The net result post minorities, equal to 7.7 million is 66.8 million vis-à-vis 47.7 million last year with a +40%.
These positive results contributed to the generation of positive cash flows, positive for the third consecutive quarter, and they allowed us to decrease our net financial position, which went from 1.86 billion Euros at year-end to 1.486 billion Euros as of March 31st.
This effect is even more positive in terms of our cash flow, if we separate the delta perimeter effect given by the consolidation of this 50% joint venture with Enomondo, as far as the already mentioned biomass plant is concerned.
The effect would have been a 34 million Euros positive cash flow.
This obviously had an impact on the financial ratios: our debt to equity ratio moved from 0.99 to 0.94, and the debt to EBITDA ratio decreased by 20% vis-à-vis the same period last year.
I will now give the floor to Mr. Venier.

Mr. Stefano Venier speaking

Good afternoon everyone, we're on page 4 here; just a brief comment on the various business areas, so that we can have some time for Q&A.

We had a growth equal to 39 million Euros, which is all internal growth. As you can see from our traditional distribution, we have 36 of the 39 million that came from synergies and organic growth, and specifically as we'll be seeing, especially from our commercial development, and from our development in the liberalized activities.

In terms of gas and electricity we had an increase which almost completely covered this development we had.

As you can see gas, on the right-hand side, increased by 15 million while electricity increased by 11 million, for a total of 26 million Euros out of a total 36 million Euros in organic growth.

The two remaining parts are two smaller contributions equal to 1.6 million Euros each.

One comes from the waste-to-energy plant in Rimini; as we have mentioned the plant started mid last year, therefore in Q1 this year it gave its contribution vis-à-vis Q1 last year and we also had a better functioning of the Imola co-generation plant.

M&A refer to the Enomondo joint venture which is a 50/50 joint venture with the Caviro partner, within which we have a 120,000-ton biomass and small composting plant.

In terms of the breakdown by business areas, we can begin from the most important one, which is the networks area, which had a 96 million Euros EBITDA, +5% growth.

This figure is very much in line with the performances we recorded at the end of last year when our growth was equal to 4.1%

This is followed by the energy sector, which is the sector which had the most significant growth, moving from 36 to 65 million Euros, and I already mentioned briefly how this is broken down, whereas the waste sector had a 58 million Euros with a +11% growth vis-à-vis the previous year.

Even in this case a small percentage of this was due to the contribution of the Rimini waste-to-energy plant and for the most part it was due to the development we had as far as special waste is concerned.

Specifically, you can find further details on this business area on page 5.

The volumes in special waste grew by 6% compared to last year. For the first time we have to highlight a small decrease in urban waste that we will be studying over the next few months, even though it is slightly different compared to the results we had last year, and therefore perhaps it's due to the overall scenario.

In terms of its contribution to the increase in profitability we also have to highlight a good performance in electricity, which had an increase equal to 33% due to the better use of our waste-to-energy plants, which as you can see in the graph in the lower left-hand corner, cover approximately 18% of all volumes treated with a +4% increase compared to the previous year.

We also had an increase in our composting, which went from 7 to 8% and a decrease in landfill use.

Obviously this increase in composting also brought about a further development in sorted collection, which is now close to 50%, meaning that for each kilo of waste we collect, we can recover fifty percent, whereas the remaining half goes into the waste-to-energy plant for the most part to recover its energy content. This is a fully balanced and sustainable approach.

On page 6 you have some figures on our water business.

The elements I would like to highlight for Q1 are in line with the trend we saw in 2010.

We had a slight decrease in the volumes of water. This quarter was slightly above last year; already in March the results were better compared to the first two months, and in April they were even better, also because, since Easter was in April, and it was a warm month, we sold less gas but we sold more water.

Another improvement in our performance in this business area is the progressive increase in our revenues, which are equal to some 2.7 million Euros, a significant part of which derives from tariff increases which are around 3.5 or 4%, but also due to the operating costs, which even in Q1 2011 decreased by 2.6%.

Moving on to the two businesses which contributed in a more significant way to the results in Q1, let's begin from gas, in which we had revenues worth 99.1 million Euros, up by 17.3 million compared to the previous months. This is derived by regulated and liberalized activities, which include the supply and trading activities.

Just a brief comment on the volume trends: the volumes contracted, as you can see, in terms of distribution – which is in line with the national average; in terms of sales it was slightly above this but it was more that offset by the trading activities that had a 24 million m3 more which were treated.

The same climate effects that brought about a compression in the distributive volumes are also reflected in district heating, in which we had a decrease equal to 3%.

This figure is lower compared to the overall gas figures, since in this business we are increasing our customer base progressively, so as to be able to draw the utmost advantage from the investment made in the Imola co-generation plant.

In terms of the number of our customers in the gas business we are stable, meaning that our churn is offset by the new customers conquered, whereas as far as the sales margin dynamics are concerned, as I was saying, a part of this is connected to the gas procurement which was negotiated last year and will last up to September, whereas in the trading sector, which contributed to the results we had in Q1, we have to say that Q1 was able to benefit from the use of the gas that we had acquired last year.

As of now we'll be working to build the portfolio for next winter.

Moving on to electricity, on page 8, even in this case we had some important results, since we pretty much doubled the business profitability.

This was due to two main reasons, the first of which is the commercial development, our sales.

As you can see the volumes sold have grown by 36.5% compared to the previous year; we also had a good increase as far as distribution is concerned with a +5.9% compared to the national average, which was 1%. We also had an increase in our customer base, which significantly increased by 50,000 in Q1.

And to these important results, from the point of view of volumes, we have two main contributors, the first of which are the Salvaguardia services.

As we have mentioned, it is a market that we gained last November, which brought about an increase of 30,000 customers of the overall 51,000 customers, and then we have the remaining activities in the commercial activities, which brought about a further 20,000 customers.

Moving on, finally, to our investments. I believe this title summarizes our situation: we have a trend which is under control, it is in line with our forecasts, and it's in line with the indications given in the business plan, and it further decreased compared to last year, also due to the completion of the investment we made on our infrastructures, on our plants, for instance, the completion of the waste-to-energy plant in Rimini.

In this first quarter we had a balance between the maintenance and conservation investment equal to 70% and certain specific developments which covered some 30% of our investment.

The floor goes back to the Chairman for some conclusions.

Mr Tomaso Tommasi di Vignano speaking

Well, since these are simply the results of our first quarter, there is not much else I can add.

Beyond the values of our figures I'm sure you can see how consistent these figures are with our strategy and how we were able to obtain results from the choices we made some time ago.

If you consider the EBITDA margin, also including our trading activities, now it's 20% vis-à-vis the 17.6% we had last year. I believe this is a further significant element. It's just a matter of moving forward along this path of ours, a path that doesn't have any strategic obstacles or doubts.

We are also working on the new business plan; in April we made a further step forward, which we had already mentioned on an earlier occasion, through the acquisition of a gas sales company in the Marche region, which will be fully integrated into our business as of July 1st and through a number of other operations we're looking into, in terms of contributing to our results, through operations which can modify our perimeter.

We are not concerned, as far as this point is concerned, we will have to consider our final offer for the Florence waste-to-energy plant.

That offer will be given at the end of June and therefore we'll be giving you further information in the months to come.

Our results are very transparent, very consistent, and very good compared to our expectations.

Now we can go into some Q&A and we are very much available for any questions you may have.

QUESTIONS & ANSWERS

This is the Chorus Call operator; we can now begin our Q&A session. Anybody wishing to pose a question can press star followed by one on their telephone. If you change your mind and wish to exit the list, press star followed by two. For any questions press star followed by one now.

The first question is from Francesca Pezzoli, Cheuvreux

Francesca Pezzoli, Cheuvreux speaking

Good evening and congratulations on your results. I have a couple of questions for you concerning the electricity and gas margins.
My first question is whether these results can be duplicated during the year, especially at year-end and what visibility you have on this. Can you confirm there will be no one-off effects linked to derivatives in these results?

As far as the duplication of these results is concerned, we have to make a distinction. In the gas business you know that there are two quarters that count whereas the other ones are a lot more marginal; the ones that count are the first and last quarters. In terms of the types of margins we'll be able to see in Q4, I'm sure that we will be able to have a clearer picture after the negotiations for procurement for the upcoming thermal year. In my opinion the context hasn't changed much compared to last year, so I am reasonably confident.

As far as the electricity business is concerned, this business is a lot more stable and in this case the type of marginality we've seen in Q1 can be compared to last year and obviously it benefited from the contribution from the Salvaguardia sector. Within these results we also have a certain effect on derivatives. Obviously in our case, since these are all hedging derivatives, it will be noticeable during the year but it is a limited amount of millions on an overall 28 million sum.

The next question is by Stefano Gamberini from Equita Sim.

Stefano Gamberini, Equita, speaking

Good afternoon, I would also like to congratulate you on the excellent results. A couple of questions for you: as far as the gas business is concerned, can you explain the trading part and how much did that help – in the sense that already last year it seemed to be a very positive one-off whereas this year it further increased. So can you quantify that impact?
And the same question as far as the sales and district heating sectors are concerned. As far as gas procurement is concerned, how are these negotiations going?
You were mentioning that there is some kind of a stalemate due to the decrease in gas coming from Libya and Northern Europe which may change the scenario compared to the previous two years. And do you truly expect to have a stable EBITDA compared to last year?
The second question is on electricity. Can you explain how much this Salvaguardia sector contributed? On the other hand, as to the contribution of power generation and trading, were there some significant impacts from these two areas?
And a final question on waste: waste increased by 11%. The contribution of the new plants is simply one million Euros, and I believe that the Rimini plant is now at full capacity. What contribution should we see from the new plants at year-end? Will this double-digit growth in waste be confirmed throughout the year also in terms of the performance of urban volumes which have been produced?

Mr. Stefano Venier speaking

Let's see if I was able to take note of all your questions, beginning from the gas business. I'll begin from the whole scenario and then I'll move on to our specific information.
The gas pipeline from Libya doesn't bring the 11 billion m3; obviously this reduced the gas offer from the market, but this lower amount of gas won't make any major changes on the gas market, in my opinion. We are reasonably confident in terms of negotiations as far as next year is concerned.
Going back to the projections for the entire year, I think that the phenomenon I had illustrated last year – how marginality will move from trading to commercial activities – has actually been confirmed in our forecasts, even though it wasn't confirmed in Q1 due to a simple reason: Q1 reflects the procurement choices made in the previous year, because as you know by March 31st you have to use all the gas that you acquired in the previous summer. We performed very well in trading because we used the gas we had procured in the summer 2010, whereas compared to Q1 2010, we had gas coming in from summer 2009 and therefore trading performed well and contributed with some 9 million Euros to the business area's result.

Moving on, I confirm our projections in terms of shifting the marginality from the trading world to the commercial world, which, as I already had the chance to tell you, grew considerably in Q1 – some 10 million Euros more compared to the same quarter last year.

Electricity, and how much the Salvaguardia sector contributed to this result. There are some 5 million Euros, so it's approximately 50%, whereas the remaining 50% comes from our commercial development.

As far as your question on the performance of our plants is concerned, our plants performed as everybody else's. They're not particularly brilliant but, compared to other competitors who are exposed to the market, our advantage is that we were able to allocate that production in the past autumn, and therefore it's all allocated to the end customers.
All we need to do is to optimize vis-à-vis the price we gave ourselves internally from the production world vis-à-vis sales to see whether or not it is profitable to produce in the plants or buy on the market so that we can reduce the pressure on a condition which in this part of the value chain isn't particularly satisfactory. Obviously in our case we also have to consider it vis-à-vis our business which in that area is pretty modest, so it's not a matter of concern.

As far as the 11% increase in waste is concerned, you said that there was some modest contribution from our plants, but the truth is that we are very much fully on stream – in the sense that the last plant, the Rimini one, contributed with a further 1-1.5 million in Q1 compared to last year, in which it wasn't functioning.
The other plants are fully on stream so we are only considering the difference coming from a single plant. Having activated the new turbine in the month of March, it was stopped for a couple of weeks to bring this turbine in, and it was only able to contribute for a reduced amount of time.
As far as the marginality coming from this new plant is concerned, also given the context of incentives, you can see an example of these figures from Enomondo (consolidated at 50%) and this can give you a projection on the overall results.

I think I've answered all of your questions, at least those I was able to take note of.

Stefano Gamberini, Equita, speaking

Just to develop on gas, as far as year-end is concerned, do you think you'll have figures in line with last year or can we project an increase given the excellent Q1 you've had? Thank you very much.

Mr. Stefano Venier speaking

I will be very satisfied were we able to replicate last year's results, which were excellent results, indeed, also because last year, as you may remember, in Q4 we were able to benefit from a contribution similar to the one we are experiencing in Q1 2011. Thank you.

Chorus Call operator speaking

For any further question press star followed by one on your phone.
The next question is by Edoardo Montalbano, Centrobanca.

Edoardo Montalbano, Centrobanca, speaking

Good afternoon, I have three questions. The first one is as far as gas is concerned: given the situation on the gas market, do you expect a speeding-up of the decision-making process for the Galsi project?
Second question: is there any news for the waste-to-energy tenders in Italy? You were mentioning the tender in Florence a few months ago.
Finally, third question, as far as electricity is concerned, since you have increased your customer base, are you thinking of increasing your generation capabilities?

Mr. Stefano Venier speaking

As far as the Galsi project is concerned, since our company, Edison and ENEL are partners in this project, we all know what the market conditions are; obviously, the Galsi project will bring gas as of 2015, given the current programme, so it is not something that will happen overnight. And I don't think it's actually feasible to speed-up this project.
Whether or not the initial scheduling will be confirmed, the topic will be discussed at the end of the year and that's when we'll be discussing our final investment decision. Therefore at the end of the year we'll have a better picture of the market conditions foreseen for 2012 and therefore I think we'll be able to make a better decision. But we have not changed our minds in terms of actually continuing with this initiative. I think that the partners have no intentions of speeding things up.

As far as the waste-to-energy plants are concerned, I don't think that there are any recent tenders. Perhaps this is also due to the fact that some Municipalities have some elections coming up and therefore they will be linked to a new phase in *terms of the political decisions of building waste-to-energy plants. We're involved in the Florence tender; we've been working very intensely on that operation before sending in our final offer, which we'll be sent by June 23rd.*

As far as generation is concerned, your line of thinking is correct; in other words, we have always wanted to make the right proportion between the generation available at home, and the number of customers. The number of customers is in fact increasing and therefore to be consistent with that we should also think of how we can further complement our infrastructural asset base. For the time being, it's not a matter of finding opportunities; so we'll be looking into the opportunities that may arise also in terms of reconsidering the prices of certain plants which are no longer updated. Therefore it would be perhaps a good idea to make some choices in this sense were these prices to be modified.

Chorus Call operator speaking

The next question is by Stefano Gamberini, Equita Sim.

Stefano Gamberini, Equita, speaking

Just a comment on the water business: what would the scenario and the consequences for you be with the referendum? Secondly, the National Authority for Tariffs: you've always said that growing in water is not one of your targets; can you explain what could happen to the already existing contracts with the referendum and what can change with a single National Authority?

Mr. Stefano Venier speaking

Beginning from the last part of your question, as far as the Authority is concerned, we have always supported the recent government's initiatives. Hopefully the decree will be approved by Parliament and we feel that this is a step that can truly help the sector, just as much as the rationalization of the gas distribution regulations helped that sector. This is a step that still needs to be completed but that does certainly go in the right direction.

As far as the issue of the referendum is concerned, we'll be looking at the upcoming events without any concerns. I think that the participation in the referendum will be very low. Regulating the sector with the investment requirements that can give an adequate service to the country, without having an adequate amount of remuneration for those making the investments is a bizarre matter. That's our opinion as far as the referendum is concerned. We're also not concerned due to the fact that usually even were we to have any repealing effects, there would have to be further passages and were the referendum to pass, there won't be a void, in other words we feel that in the short-medium term we can continue with the normal conditions that we have.

As far as the other part of your question is concerned, we haven't decided to change our strategy vis-à-vis the specific sector in terms of operating outside of our territory, also given the fact that this is a business with very specific characteristics, with long-term returns, and our region has the highest level of service and therefore acting as a missionary, *so to speak, elsewhere with high levels of uncertainties compared to the ones that we already have in the sector is not something that we're looking at.*

Chorus Call operator speaking

For any further question press star followed by one on your phone.

For any questions you may have press star followed by one on your phone.

Mr Tommasi di Vignano, Gentlemen, for the time being there are no further questions.

Mr Tomaso Tommasi di Vignano speaking

Thank you very much, we'll be talking in August, though we'll be seeing some of you before. All the best and thank you.