2011 Annual Results
Bologna,22nd March 2012

Speakers:

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

Good morning, this is the Chorus call operator. Welcome to the presentation of the 2011 Annual results of the Hera Group. All participants are in listen-only mode. After the initial presentation there will be a Q&A session. For assistance from an operator during the conference call, please press * followed by 0. I would now like to give the floor to Mr. Tommaso Tommasi di Vignano, Chairman of Hera Group.

Tomaso Tommasi di Vignano, Chairman

Good evening, we are here with Mr. Venier, Mr. Hansen and Mr. Moroni to illustrate the 2011 results. Already from our press release and the material sent, you've been able to see that we had good and consistent results. There were no problems in any specific period of the year, even though 2011 did have some unique characteristics such as a winter, which during the months of November and December was milder than we expected.
The results show a growth that has been supported by all of the business areas and especially as we'll see later on in the details, we have had a significant growth coming in from the energy sectors, thanks to our commercial developments and thanks to the purchase policies we had in terms of procuring raw materials. Further positive elements of the financial statements include a positive cash flow performance along the lines we had illustrated in our business plan, and also very much in line with the reduction in investments which had obviously already been announced, which are at 319 million Euros for 2011. We had a net financial position equal to 1.987 million Euros, which improved compared to the previous quarter, therefore these are three elements from the financial side of things that are comforting us vis-à-vis the choices made and the improvement during the year.
EBITDA is at +37.5 million Euros and we also need to underline the fact that the results we are focusing on were also impacted by tax issues, namely the Robin Tax and IRAP, the tax on labour cost. Today the council also approved the budget and we also approved the proposed dividend which we had announced in March 2011 and it is at 9 Eurocents per share; all these elements plus another element which had a significant impact in terms of the growth of our energy business, which is the growth of our customer base. If we look at the beginning of 2007 onwards, we have had an increase of 300,000 customers in the energy sectors and this obviously brings about the increase of an often overlooked factor, which is the wealth represented by these customers which has grown to 10% percent, up to 280 million Euros based on market value. These are the basic pieces of information and now we would like to step away from the classic type of presentation we've always used and we would like to focus on the specificity that we will have in 2012. We are in the middle of our

tenth year of activity, it will be concluded at the end of October, and today we are illustrating our tenth financial statement from the beginning of the company, therefore we have decided to share a page with you, which can shed some light on the company's performance over these past years. On page two you can appreciate not only our growth in our operating results, which is characterised by a continuity and by the homogeneous nature of the steps we've made over the years, but in terms of debt. I would like to remind you of the significant efforts that the company had to face in order to build its assets, and you can see how the level of our debt is stable in terms in its ratio to EBITDA over the past two years and it is very much in line with the forecasts in our business plan. Investments have been reduced over the past two years as we had expected and if we take the entire ten years into account, we are above 3.5 billion Euros in terms of investments made, which is equal to 86% of the EBITDA produced over the last ten years. And I think this is yet further proof of the commitment of the company, of the strength of our commitments. We've also had an interesting response together with this in terms of the choices we've made in terms of increasing the dividend, with values that even in the past two years in terms of divided yield specifically have had a very interesting trend. As far as the sectors are concerned, Mr. Venier will be going into them in greater detail, but looking at the ten years, we have a clear picture of the growth we've had in all of our business sectors and we have three sectors that are above 150 and up to 200 million Euros in terms of the contribution they make to EBITDA, namely water, gas and waste. Then we have a separate line of growth, represented by power, which started from scratch 10 years ago and now contributes over 73 million Euros to the company's overall results. To summarise based on the total trends on the total results, you can appreciate stability in the performance the company has had, also vis-à-vis our competitors. Now, having said that, let's look at the results we have obtained to date. In terms of revenues, we had 11.3% growth, with a contribution coming in from the enhancement of tariffs, from energy prices, especially as far as gas is concerned, and also due to the growth of the volumes in the very sectors. In terms of EBITDA, I already mentioned that our growth was equal to 37.4 million Euros, with a growth in terms of percentage equal to 6.2. The impact of our accruals have increased of 233.8 million, because of the last Q plans that still haven't entered this phase and started the depreciation process. Together with this, we decided to continue paying close attention to our debt, due to the external reasons we're all aware of, which are typical of the times we live in. And therefore we've had conservative accruals to bad debt, equal to 49.7 million Euros. In terms of EBIT, we've had the same growth in terms of percentage compared to EBITDA, we haven't had significant change in terms of our 4 million Euros in terms of net financial interests. Therefore we have a pre tax profit equal to 221 million Euros with a 7.6% increase. To this result we also need to add the effect in terms of taxes brought about by the Robin Tax and the IRAP that I already mentioned, which together account for 4.9 million Euros. We also proposed an adjustment in terms of taxes to make a better comparison with last year, taking into account that you may remember that last year we had brought forward the payment of taxes stemming from previous M&A operations, that was the advanced payment of deferred taxes equal to 25 million Euros. This year, in terms of the same operation we are at a 6 million Euros amount, therefore in order to make a correct comparison we decided to apply this further tax effect only in the bottom line of the report. Minorities went down from 24.8 to 22.2 million, therefore the net profit is 97.1 million vis-à-vis the 92.2 million Euros last year. Taking into account the advanced payment of deferred taxes I referred to a minute ago. These are the main points and I would like just to remind you of yet another element on this page: it is the issue of productivity. We continue to see an increase in productivity in terms of our structure compared to EBITDA. Over the past 3 years we went from 82,700 Euros up to the almost 100,000 Euros per employee, which is the result of 2011. I believe this is worthy of mention because it underlines the efforts we've made also due to the M&A growth, to be able to maintain growing efficiency in terms of our organisation.

If we turn to page four, and look at the contribution from the usual drivers, we can see that there is no real news in the sense that the three main components of our typical growth are present yet again. We have a significant contribution coming from organic growth, within which the contribution of our energy activities was very significant because EBITDA grew from 106 million Euros to 138 million Euros. We have had the effect of new plants; this basically refers to the full capacity of the Rimini waste to energy plant, the last one that was completed in 2010, and finally, as far as M&A is concerned, we had two operations, which began as of January

1 and July 1, respectively. The first is the Enomondo joint venture, a biomass plant that was started at the beginning of 2011 and the second case is the merger of Sadori Gas into Hera Comm Marche on July 1. If we look to these growth values and refer to the strategic areas, the areas that our business plan is based on, we can appreciate that the effect vis-à-vis strategic areas has become more homogeneous in the sense that the relative importance of energy over the past 4 years, the years of the crisis, went from 9.5 to 21% of our total result and it decreased to the contribution coming in from our network, from the regulated areas and waste, which went from 35 to 31% in terms of its impact on growth. This is obviously due to the three-fold growth over the past four years that energy has been able to give us. In terms of our overall portfolio, we also have to mention that we are above 52% as far as the regulated areas activities are concerned on the total. I would like now to give the floor to Mr. Moroni, so that he can illustrate the financial and investment side of things.

Luca Moroni, Administration, Finance And Control

Good morning, on page 5 I'd like to begin with the lower left hand graph, because I would like to focus on the efforts made by the company in all of our activities in the last quarter to maintain the cash flows as they have been illustrated in our business plan forecast and in our budget. Specifically, in December the group was able to achieve a significant amount of cash-in, which let us have a positive cash flow equal to 68 million Euros. We were able to manage our working capital in a very positive way compared to where we were at when we talked to each other last time in September.

Moving on to the top left hand graph, you can see that the effect on working capital was pretty much stabilised and the positive effect of positive cash flows was equal to 35 million Euros, after having taken into account investments equal to 317 million Euros I will be going into later, which in this specific situation represent an interesting and very rationalised amount. We have 35 million Euros positive cash flow; therefore we met our targets to have positive cash flows before any extraordinary operations and before the distribution of dividends, which did make an impact, increasing our net financial position to 1.987 million Euros, which again compared to the previous result in the month of September is improving and it is also improving compared to our forecast that we had at the end of last year. This allows us to have some sable results in terms of financial ratios; therefore we have a debt to EBITDA ratio which is at 3.1 times, debt to equity is at 1.06 times and the net financial position, which has a very high duration, because on average it is at nine years in terms of the average length of debt.

Moving to page 6 now, we can see how the investments made during the year split up; as I said we have 325 million Euros, compared to the 345 million Euros last year. Investments were made in the main business areas the company operates in, and more specifically in the regulated areas, which are 56% of the total CAPEX. All the investments were completed in terms of introducing electricity smart meters, and we also further enhanced our distributing networks again as expected by the business plan. Therefore our investments are in line with the development that the company had in mind with a special focus on rationalising and limiting investments so that we can achieve a sustainable level of investments also from a financial standpoint.

Now I will give the floor to Mr. Venier who will be going into the business-by-business breakdown.

Stefano Venier, General manager Markets & Development

As you know, we already had the chance to comment these issues in the last quarter results and in 2011 we felt some effects of the economic crisis, especially in the second half of the year. Nonetheless our results were stable, we had an EBITDA equal to some 194 million Euros with a slight contraction in the previous period equal to 1 million Euros. Obviously this is a performance which is a first slowdown compared with the previous years and that was simply driven by the volumes.

As you can see in the second table, the volumes raised by third parties, in other words urban, waste and special waste, contracted approximately by 2.6%. And in this case it was higher in urban waste rather than special waste, and this may come as a surprise. The reason isn't necessarily linked to the overall trends. The reason is

that whereas in terms of urban waste we are limited by the territorial elements, as far as and in terms of special waste we have been able to tackle things with a more aggressive commercial approach. These dynamics also reflect significant industrial decisions because - as you can see in the lower part of the table - the waste treated in the waste to energy plant have increased and this obviously had an effect on the use of landfills; this is obviously a choice to be able to use our assets, because they're able to dispose of the waste but at the same time they can also create electricity, which benefits from incentives. As a consequence it was also brought about that we didn't lose any value, we were able to keep some of the value which is intrinsic in the landfills with the years ahead, which hopefully the market will recover.

As far as the second component of this business is concerned, there is consistency with what we have seen in terms of our business plan and turfs have grown by 3.3% on average in our territory, which is in line with our expectations.

As you know a part of all this is linked to costs and partly is linked to the size of services. Services and collection have improved and therefore we have been able to increase our sorted waste collection, which on average on the entire territory, amounts to beyond the 50% threshold, meaning that as of 2011 the Hera group is able to recycle over half of the waste it collects.

The final important element I'd like to focus on with you after a few months is the waste to energy project in Florence.

As you know we were assigned the tender, within the next few days we will be creating the company and the partnership with the local operator called Quadrifoglio, and this will bring about the process in order to obtain the authorisations, in order to be able to structure the financing and everything which is necessary in order to actually build the plant.

We have already made some significant steps; we are waiting for the final decision to be made from a legislative point of view in terms of incentives so that we can continue working on this very important project in a region, Tuscany, which lacks similar infrastructure.

Moving on to the water business - in this case something comparable to the waste sector from a tariff point of view - is the increase equal to 3.4% we should already see it in the initial nine months of the year; this is very much in line with the forecasts with the tariff plants we had negotiated with the authorities.

Within our territory we have an agreement that covers all of 2012 and then in two territories - which are the most important ones that have the largest amount of clients - these agreement to go to 2014 and 2015, respectively. Meaning that in 2011 and 2012 there is full compliance with the initial agreements we have signed with local authorities and therefore we should wait for the drafting of the new tariff schemes and the decision on the new authority in the sector. In the water sector we've had an increase equal to 1.2% in the volume of water distributed in our aqueducts.

In waste the contraction of urban waste is an exception to the rule of last years, whereas in water this significant growth is an exception to the trends we've seen in the past two years. This depends on the cyclical nature and the droughts that we have every once in a while. Last year if on one hand we suffered due to the heat we had and the impact it had on the energy business, in the water business, due to the same heat and drought we had a chance to increase the volumes sold.

Moving on to page nine, the gas business, we have a number of different elements here: the first I would like to underline, which goes back to the common thread that the Chairman was mentioning vis-à-vis our history, as you've seen in the past few years we always had a race between the waste and gas sectors. Last year waste won whereas in 2011 gas is once again the leader with its 208.7 million Euros in terms of EBITDA with a growth equal to 7.6% compared to the previous year. We had 100 million Euros coming in from distribution, 90 million Euros from sales and we also had the contribution coming in from district heating. District heating is the activity that suffered the most due to the mild winter and the higher average temperatures we had, especially in the last quarter of the year, and that's due to the fact that, differently from gas, a sector in which distribution activity is actually limited by cyclicality linked to weather, it isn't the same in district heating, therefore the results actually illustrate these dynamics.

Based on all this, if we look at the volumes, what can we actually observe?

Well, we've had a total amount of volumes sold to third parties which is above three billion, 3.3 billion actually, 1.2 billion of this which is represented by the Hera Trading wholesale activity, and the remaining part, 2.1 billion, is the amount sold to end customers. And obviously climate did have an impact compared with the previous year and significantly at that, because we had a contraction equal to 120 million cubic metres nonetheless the results were quite satisfactory. And then a final element that I'd like to underline is the one linked to our customers in the Marche region, especially, a territory in which we were able to achieve some very satisfactory results. Obviously in that region we do not simply have expectations vis-à-vis gas, we have over 118,000 customers, be we can also have customers coming in from electricity with a dual fuel offer.
In the Marche region 3 years ago we had 0 customers now we are close to 28,000, which means there's a one to four ration compared to gas customers. And this is yet further proof of the fact that we have a very lively approach which can also be seen on page 10, where we can see that the electricity business was able to make a significant leap forward, probably one of the most significant leaps in our history and we are at 73 million Euros EBITDA with a growth which is above 13 million Euros vis-à-vis 2010.
Now, in commenting this figure, three facts need to be underlined: the first of which is the growth in the free market, which net of switching from the Salvaguardia market equals to 50,000 customers, which is a significant number indeed. Contribution to this came from the activity in the Salvaguardia sector, which as you know from the beginning of the year covers six territories vis-à-vis the previous 3 territories, with one further TWatt/hour sold. These combined elements led us to reach year-end at 480,000 customers and according to the figures we were looking at today, we are close to reaching 0.5 million customers. The third factor that needs to be taken into account in looking at these figures, is that, as you know, within this activity, we also have the generation activity, the power generation asset. Therefore the results you are looking at are also the offspring of the re-absorption of that production percentage that, as you know, in 2011 - and also currently - suffers from an overcapacity situation. There's a pressure on pricing, as you are all aware of. As far as distribution is concerned, it contributes with some 26 million Euros to the results.
Results were stable compared to the previous year. This is pretty much the overall picture of the various businesses, and as the Chairman was mentioning earlier on in a very difficult context they were able to contribute in a solid way and were able to allow us to grow during the year.

Tomaso Tommasi di Vignano, Chairman

As far as my conclusions are concerned, I'd like to make two remarks and ask a question: two remarks refer on the one hand to our satisfaction. We are fully in line or haven't gone beyond all of the targets in our 2011 business plan. As you can see in terms of EBTIDA growth, which is above our expectations, also in terms of CAPEX production, also in terms in cash flow growth we confirmed our expected dividend policy. We also have soundness in our financial structure because it increased, actually improved, at the year end.
I would also like to mention what Mr. Venier just said, we've had an increase in our customer base, which does have an effect both on electricity and gas.
Therefore my first remark is that if we look at our business plan carefully, these targets could have been achieved. So we are confirming the reliability of our choices.
The second remark is on M&A: a lot has been mentioned lately about M&A, we continue with our policy based on small steps, which was confirmed in 2011, together with these two operations, we also started the Florence project we already mentioned, we are also looking into a few other opportunities, therefore we will continue to grow consistently in this area. We look to the difficulties that we are facing, but we have some solid forecast. In the lower part of the page, as you can see, these elements sound fundamental; they have a value, because if we look at the relation between our capitalisation and our book value, or the typical ratios that we always look at in terms of EBITDA and PDE, we may have some doubts, especially considering that the dividend yield is at 8.4%. This is a question that perhaps I'll leave to you. I now open to the Q&A session.

Chorus Call operator

This is the Chorus call operator; we can now begin our Q&A session. If you have a question please press * followed by 1 on your telephone. To leave the conference call, please press * followed by 2. Please ask your question using your receiver. Anyone wishing to ask a question can now press * followed by 1.

The first question is from the Italian conference, Stefano Gamberini, Equita Sim.

Stefano Gamberini, Equita Sim.

Good evening and congratulations, because your results are very good indeed. You grew and from this point of view I do understand your regrets for your current multiples.

As far as the dividend yield issue is concerned it's difficult to give you an immediate answer. I think that the market currently needs to understand what will happen in 2012 and this is the main element, because the risks linked to the performance of the Italian economy are based on a number of shares both in the sector and not in the sector. I was just trying to answer your question.
I have three questions if I may, the first of which is on the very interesting slide you showed on the debt trends. I'd like to ask Mr. Moroni, this 50 million Euro provision, what it is about? What provision are we talking about? Because there is an impact on debt during the release of provisions.
The second question is on waste. I was noticing the in Q4 waste had a negative performance, from 56 to 45 million Euros EBITDA. Can you help us understand why there was a decrease in volumes? Or are there other aspects that may have had an impact on the results? And therefore as far as 2012 is concerned, when we also lose the CIP6 incentives, what can we expect from the waste business? Will we have a flattish waste sector in 2012 as well?
This is the usual question; it's up to you to answer.
Concerning your expectation for EBITDA in 2012, do you think a flattish EBITDA is expected? And the same question as far as debt is concerned: a flattish debt to EBITDA ratio can be achieved throughout the year?

Stefano Venier, General manager Markets & Development

Let me answer your question on waste. The Q4 result for the waste business, which as you were underlining was lower compared to our expectations, it was at approximately 45 million Euros, taking into account that it suffered from a one-off occasion equal to 7 million Euros, the Net Financial Position benefitted from cash on GSE on the previous green certificates and we weren't in line with the criteria. This calculation criteria deals with summing the auxiliary services and other situations linked to FEA, they recently have a more restricted position in terms of the interpretation of legislation, so as a precaution we decided to keep that amount to decide vis-à-vis the situation that we had seen.
The positive side is that we've already been paid some of these green certificates recognising the value that we had obtained during the year. Therefore besides the cyclical nature, Q4 in the waste business suffered from the greater stock of green certificates that we had inserted in our financial statement.
I'll leave the floor to Luca now.

As far as waste in 2012 in terms of market dynamics, we're looking at two very different months. We have January, which was pretty much in line with the final months of last year, then we had February. We had twenty days of snow, which obviously brought about a number of effects both on collecting waste, on having access to landfills and in terms of having access to our logistics facilities. Therefore March and April will be the first two stable months in which we will probably have a clear indication on waste trends; for sure we won't have a significant recovery, we still haven't seen that. I don't think we will have any significant decline because

2011 had a contraction equal to 3% on urban waste, which is an anomaly and hopefully things will recover. I think it's a little too soon to give you an answer, since we had two unique months at the beginning of the year that are still not enough to have a clear view on the remaining months of the year.

Luca Moroni, Administration, Finance And Control

The 50 million Euros you were mentioning should be divided into 21 million Euros of deferred tax assets, this is the tax asset, which increased compared to the previous year due to the increased accruals we made. As far as the remaining 29 million Euros, we had 7 from the TFR fund, 8 from the landfill fund, and then we have more widespread accruals such as legal expenses, which are very much part of a normal management of a company without a significant impact.

Tomaso Tommasi di Vignano, Chairman

Then we had a third question as far as our debt forecasts are concerned. For 2012 they are very much in line with what we had illustrated in the plan, therefore in 2013 we will continue to have as a forecast positive cash flow, which will be even more positive, which we still won't be able to offset. The level we have envisaged prior to the distribution of dividends. Therefore this the hypothesis we are looking at, in that we will continue to pay close attention also to the ratio we will be able to express in terms of Net financial position to EBITDA, which as you know throughout the business plan, unless unlikely conditions, will continue having a positive trend. Therefore we are committed to move along those lines.

Stefano Gamberini, Equita Sim.

Meaning that in 2012 you expect the free cash flow to not cover the dividend payout?

Luca Moroni, Administration, Finance And Control

Exactly. This is our hypothesis, which we always expressed within the business plan. It is very much in line with the commitment we made two years ago. As far as our overall forecast for 2012, for the time being there are no reasons to think that the expected growth level won't be achieved. This is the overall group level, but should also mention two aspects: the first of which is that given the general situation, not due to our specific 2011 results, we decided to further increase our efficiency and to reduce costs on top of our business plan forecasts. This may bring about further benefits in case the outside scenarios were to become more difficult. And then, as we have already mentioned, there may be a contribution coming in from an M&A operation we are looking at which had also been expressed in the business plan. It will depend on the length of time it will take for the negotiation. Thank you.

Choruss Call operator

If you have a question, please press * followed by 1 on your telephone. For any further questions, please press * followed by 1 on you telephone.

The next question is from the Italian conference, Fabio Picardi, Banca IMI.

Fabio Picardi, Banca IMI.

Good evening, I'd like to go back to the other significant growth element in 2011, which are the gas business, its margins and your ability to manage your procurement activities. What can be expected for 2012 from this point of view?

Stefano Venier, General manager Markets & Development

Well, as you know the gas business, if you look at the entire process, is made up of two elements: distribution and sales. The distribution side of things is stable; in 2012 we will be entering the last year of the regulatory period. The final part of its effects is that we benefited from in the first three years and therefore even this year we grew by 4 million Euros and I think that this will be confirmed in 2012 as well also because the regulation has already been completed.
As far as the results of sales are concerned, these depend on two factors: amounts and margins. As far as amounts are concerned, everything is decided in the first two and in the last two months of the year. As far as the last two months of the year are concerned I don't have anything to say, I cannot make a forecasts that far ahead, but based on the first two months of the year, as you know January was a weak month, we lost ten million cubic metres in sales, whereas February was a cold month and we were able to recover. In other words we had turned to 80 million cubic metres, whereas March is already spring if not summer. Therefore we will see an erosion of the stock that we created in the month of February. If we make a year-on-year comparison, looking ahead, the last quarter of last year wasn't very cold; therefore we are a little more optimistic, not assuming that this is year will be warmer than last year, therefore in terms of volumes 2011 should be at least in line with the results of last year. As far as margins are concerned, I think we need to make a quarter-by-quarter analysis. As you know, the contracts for most of our procurements are based on thermal years. Q4 was very satisfying from this point of view. Therefore, unless we have any intervention by the authority on a share of sales, as far as CCI is concerned, for the first nine months of the year we have positive, if not better perspectives compared to 2011, unless we have any intervention by the authority on tariffs.

Chorus Call operator

For any questions you may have, please press * followed by 1 on your telephone.

Mr. Michi, Banca Akros has the next question.

Dario Michi, Banca Akros

Good afternoon. I have three strategic questions. I would like to ask you opinion on the electricity market, how are things evolving? There are companies willing to sell assets but no buyers up to now, you have had a very positive position in your short policies, and I was wondering whether or not it was time to start looking at acquiring assets.
The second question is on the gas market, what is the situation in that business? We are still in a long position on gas; therefore I think that gas will continue to be frozen for some more time, whereas a decision will be made by the end of the year, with a new perspective to the gas market.
The third question is connected to the first two: you mentioned M&A as an opportunity for 2012. What will you be focusing on? Generation, gas, or will it be on the more traditional waste activities?

Stefano Venier, General manager Markets & Development

I'll begin with your first question. As far as the opportunities for generation are concerned, you're right. There are assets for sale and we are short. From this point of view, as we've always said, consolidation on this front has a strategic meaning, also to keep the pace of developments in volumes. When I was asked this question 12

months ago, about certain type of economic performance I answered: well, within one year, or one and a half year, it may be the right moment because the expected dynamics as far as consumption is concerned would have started to erode the overcapacity situation, therefore they would have brought about better chances on the market. The truth is that the economy went quite in the opposite direction. Last year, by year-end, consumption was flat, the first two months were negative, spark has spread trends on forward prices will be negative for all of 2012 and I think that we still have to think things through because the discount that we would have to negotiate for rebuilding the asset to cover the losses we'd have or the underperformance we'd have, before we go back to a bounce situation is such that a deal would be very difficult to create. And we also need to take into account the effects that they may have on our financial statement on the short term. So, yes, there are assets for sale, they aren't still sold at very low prices and I think that we still need to think things through a little more, before we make a move or before we make a significant move on existing and functioning assets that can be consolidated within our company structure. The market is still efficiently liquid and it allows to continue having a short position currently.
As far as gas is concerned, despite the cold weather in February, to date as far as the spot price is concerned, we still have a 4-eurocent difference on the spot on Central Europe - PSV where we still have significant discounts vis-à-vis the long term CCI. Meaning that the market is still fairly long. And there is no growth because the market is stagnant, then gas and thermoelectric consumption is a driver, and that sector won't be able to grow unless we have specific temporary weather conditions. Therefore, there won't be a structural recovery in overall consumption, meaning that in the short term we won't be going back to a balance on the market. For the next 12 to 18 months I feel that we will continue having a long situation that will justify significant differences between spot prices and long-term prices.
For your third question I'll leave the floor to the Chairman.

Tomaso Tommasi di Vignano, Chairman

Well, when I mentioned M&A, I wanted to remind you of our business plan. It is true that we are going through a difficult situation due to the crisis, we all agree on this, but in terms of 2012 it is also true that what we have done over the past ten years is important. What I am saying is: "Gentlemen, trust us, we are basing our forecasts on serious information here".
Why do I mention M&A? Because in the business plan we had only two M&A elements, one was a true M&A operation, it was a multi-utility with which we have an ongoing negotiation process, and therefore that was a confirmation of what we had illustrated in the business plan. Everything else, as far as M&A is concerned or rather the second element was the item related to investments in the business plan that could be used in the final part of the business plan with the gas tenders that we are preparing for, even though they won't be happening overnight. These are the only two items that have been made explicit in the business plan. Therefore the first or the former has an impact on the 2012 forecasts. As far as the M&A issue more in general is concerned, beyond the debates we hear every day, I think that there has been more interests in M&A and we obviously are in line with this. Since you're aware of our track record in terms of M&A, without mentioning any names, if in the future we can add to something or we can increase our perimeter, well, we'll look into it, but we are not talking about negotiations. We are simply talking about information that we are gathering.

Chorus Call operator

Our next question is from the Italian conference, Maria Beatrice Gerosa, Mediobanca.

Maria Beatrice Gerosa, Mediobanca

Good evening. Also on the issue of M&A: I was wondering whether or not the fact that the municipality of Rome decided to sell a major part of its share in Acea, is this one of the things you are looking at without

having started any negotiation? Would you be interested in that opportunity to increase your presence in the water business? And also, talking about water, what is your forecast in terms of timing for the authorities output on tariffs? Can you please remind us of the situation in the current contracts you have?
Then a couple of more technical questions: first of all, can we have the EBIT division-by-division breakdown and the distributed volumes in electricity and gas and can you remind me about what your EBITDA target is for 2012? Thank you.

Stefano Venier, General manager Markets & Development

Let me begin with water. In terms of timing, obviously, timing is conditioned by the drafting of the regulation that will have to transfer these activities from the Minister of the Environment. I hope that this legislation will be drafted quickly and that its publication will finally clarify the distinction of roles between the Ministry of the Environment and the electricity authority, given that the energy authority is given the tasks that were outlined in the decree both in terms of its competences as far as tariffs are concerned and as far as the issue of service is concerned. I believe the two things go hand in had. As far as my personal perception is concerned, listening to the words of the people within the authority, I think it's clear to me that they have understood the urgent need for this issue to be solved. Therefore I believe 2012 will be characterised by a number of issues and begin with a timely decision in terms of hierarchy and decision-making process. I think that this will bring us to the heart of the tariff issue in terms of the remuneration of capital and covering costs. Therefore 2012 we believe will be the year in which we'll have the first clarifying actions. As I was mentioning, though, 2012 is a year that we are looking to serenely because there are still some contracts that expire in 2020 and in 2022. The only one that expires more shortly is the one related to the Rimini micro-province. As far as the tariffs are concerned, this is regulated by a specific plant and as I was saying in my presentation, Modena and Bologna, which represent 60% of our activities, they expire in 2014 (Modena) and 2015 (Bologna). Therefore those tariffs have already been set through to those dates. Obviously these tariffs are based on the current regulation, therefore if the authority were to modify those rules, then obviously there will be effects, otherwise they will continue.

Maria Beatrice Gerosa, Mediobanca

I am sorry to interrupt but theoretically, since the law was repealed, those who should pay the tariff may say that the law has been repealed therefore the tariff you had agreed upon based on the old rules can no longer be applied.

Stefano Venier, General manager Markets & Development

Well, there are two profiles here: we have the legal one, according to which there are two aspects of the referendum covered: the first aspect is about the referendum coming into effect the day in which the President of the Republic states that is a law, and that happened on July 1, 2010. But it does not interrupt the current contracts, meaning that the agreement will expire naturally. Then there is a second, more legal aspect; I am not sure whether the referendum was drafted incorrectly, but what it did is it repealed an article which had already been repealed. It confirms the validity of the previous rule, which was the Di Pietro's decree and it's a paradox because Mr. Di Pietro was one of the promoters of the referendum and he brought back his previous decision, which set the remuneration investment at 7%.
I am not sure whether this reflects the spirit of the referendum, that's a philosophical debate they do not intend to participate in, but if you look at the legislation, this is what it says. As far as the second aspect is concerned, you were asking whether or not one could refuse to abide by the agreement. These are actually contracts, that the two parties involved need to comply with.
What I want to underline is that there have been no situations in 2011, which brought about any kind of standstill. And I can assure you that even in 2012 the new tariffs for 2012 have been approved and the

increases are very much in line with the ones we had agreed upon, so no one actually reconsidered these agreements. Keep in mind that if someone does want to reconsider the tariffs, then we may reconsider our investments.
100 million Euros we invested last year went into the water business and that part of the tariff increase for 2012. Obviously if somebody wanted to reconsider the tariffs, at that point we could reconsider our investments. Obviously the two go hand in hand.
Now the final aspect, which is linked to our territory; the Regional Government repealed the provision on the various acts, now we have a single authority which inherited all of the competences which used to be in the hands of local authorities so in terms of governing the overall system, we had a shift in competences beginning in 2012 to a single, centralised authority which will obviously help us understand things in perspective when the new tariff scheme will come into effect.

Regarding your second question, on distributed volumes, in the business-by-business comment to the financial statement, as far as gas is concerned we distributed 2.389 million cubic metres, which is -114 million cubic metres from the previous year due to the weather, but it had no impact in terms of the margins and the profits. As far as electricity is concerned, we distributed 2.3 TWatt/hour, which is a 3% growth compared to the previous year.

Maria Beatrice Gerosa, Mediobanca

Is the financial statement already available on the website?

Stefano Venier, General manager Markets & Development

No, not yet, but if you need any other details, you can ask Jens because he has all the figures.

Maria Beatrice Gerosa, Mediobanca

What do you expect from the regulatory review on gas distribution?

Stefano Venier, General manager Markets & Development

Well, as you know, we had a long debate with the authority on electricity, also due to the changes, which have come about in the previous months in terms of the cost of debt and other aspects, and I reasonably have a positive approach whereby we apply the same criteria that were applied just a few weeks ago to gas distribution that would obtain a significant improvement. It is also true, and we do recognise it, that in the past six to eight weeks some conditions on the capital market have improved but not so much that they can recreate the conditions we had when 76 has been drafted. Therefore I think we will have a slight improvement of remuneration. This is the direction we feel we should go along.

Maria Beatrice Gerosa, Mediobanca

There is still the M&A left, now.

Tomaso Tommasi di Vignano, Chairman

As far as the Municipality of Rome is concerned, honestly we had no specific contacts, we just read the papers and I think we can safely say that we have no intention of being involved in that operation. It would basically be a financial operation. All the more so, if it would only be equal to 2%, it wouldn't make any sense at all. As far

as our EBITDA forecasts, if I understood correctly because the line was not very good, I would like to go back to what I said previously: the growth expectation we have is consistent with the business plan and it is consistent also with the past four years. Four years in which he have already had a crisis. That is our reference target. Without going into the numbers, just look at the graphs we showed you today, and that will help you understand what our targets are. That's our position with components that are adjusted along the way in one sector and the other, but overall our strength is being able to maintain the pace we've always had and that should be our target for 2012 as well.

Chorus Call operator

The next question is from the Italian conference, Edoardo Montalbano, Centrobanca.

Edoardo Montalbano, Centrobanca

My first question is whether or not the dividend you paid this year will also be kept at the same levels in the years ahead. This can be a floor for the upcoming years. But I have a question on the gas area: what was the trading area contribution to EBITDA and then a question on Herambiente: what is the Herambiente EBITDA in 2011? And finally, what is the contribution coming in from green certificates and what are your expectations as far as the new regulations on green certificates are concerned. We have been waiting for them for a few months now.

Stefano Venier, General manager Markets & Development

As far as the EBITDA of gas trading is concerned, we are talking some ten million Euros. As far as the Herambiente EBITDA is concerned, this is at approximately 160 million Euros, a little less, as far as the new regulation on green certificates is concerned, we are looking to a mechanism linked to feed-in tariffs; a few drafts of the decree were disseminated in the past few weeks, obviously the main difference here is represented by the fact that the feed-in tariff is applied over 20 years whereas the current green certificate rules recognises the incentives for 15 years, therefore the effects are spread out over time and this is obviously reflected in the financial results.
In the drafts that I was able to see, as far as subsidies for energy plants are concerned, I saw some very different figures, ranging from all-inclusive tariffs at 125 Euros per MWatt/hour to 140 Euros, others had 120 Euros plus the price of electricity.

Edoardo Montalbano, Centrobanca

What do you have in the business plan? What figures do you consider in your business plan to 2016?

Stefano Venier, General manager Markets & Development

I think that in 2015 we are at 155-160 Euros all-inclusive.

So we're looking at a range which is not stable yet, it's difficult to make any forecasts. In two months I saw three different drafts ranging from 125 to 160 or 170 reasonably. This may be even far too optimistic, so it's hard to say. I think we need to take an aspect into account, which links to the fact that in defining the incentive systems for biomass plants we shouldn't be influenced by the phenomena we have in seen in the photovoltaic sector. I don't think these incentives have been too generous: actually in the biomass business and hopefully in order to make these types of initiatives more economically feasible, and I am not referring to waste to energy but also to biomass and biogas, hopefully the incentives won't shift from the current levels, obviously excluding

the fact that we spread out over 20 years rather than 15 years. As you know we are interested in understanding this new scheme very quickly, not only because we have new projects in mind, but also because the Florence project is based on it. The economic and financial plan that we presented in Florence was in line with the business plans therefore the value was 160 Euros per MWatt/hour.

Edoardo Montalbano, Centrobanca

I had a question on the dividend.

Tomaso Tommasi di Vignano, Chairman

Yes, we heard it. We heard you and I have to say that frankly having formalised the dividend for 2011 only today, I think it's far too early to talk about the 2012 dividend, even though last year we had to confirm the same dividend and we read a number of researches that our dividend policy was unclear. Therefore, without being controversial all I can say that if you want to believe us well then, the figures are the same ones we had announced in the past and given the growth forecasts that we expect I don't see why the dividend should shift. But again, I don't think there is any reason to talk about the 2012 dividend already in March. Thank you.

Chorus Call operator

Our next question is a follow-up by Stefano Gamberini of Equita SIM.

Stefano Gamberini, Equita Sim.

Just a few brief remarks: first of all, can you give us an idea of the normalised tax rate that you expect for 2012? And the second is on the accruals level: accruals are credit of 50 million Euros this year, a difficult year, therefore I was wondering if in 2012 they will be on the same levels. As far as the cost of debt is concerned, you said 5.1-5.2, can you confirm that. And just a final question about what you just said, the incentives you expect on waste. The tariff for the bid for the Florence waste to energy is based on a return, therefore if the tariffs were to be lower, would that change anything? Or if you made a bit based on 155/160 Euros per MWatt/hour would that lower your return? If I understood correctly these are tariffs that would be for the new waste to energy plants, therefore for the one that you have in the business plan, do you see any risk for the 160 Euros per MWatt/hour that you have in your business plan with the launch of the new green certificates?

Stefano Venier, General manager Markets & Development

Well, let me begin with your last question.
You're right, the new incentives will be effective in the new plants, in that case they would only cover Florence, whereas for the older green certificates covered until 2016, after that we'll have to understand how the feed-in tariff will have to be converted. I don't have reason to believe that they will change substantially vis-à-vis the hypothesis present in the business plan. As you know there is a mechanism that links the incentives with the green certificates to the price of electricity so that it should be pretty stable. I think the discussions we have at the GSE are more relevant, vis-à-vis the subsidised share. That may bring about some future benefits including the final solution in relation to which shares should benefit from these incentives. As for the Florence waste to energy plant, that is regulated by an offer made on the economic and financial plan based on IRR. Therefore we will rebalance things worthy incentives not to be in line with the hypothesis made within the economic and financial plan, an hypothesis, which was shared with the Municipality. Obviously we need to be consistent, in other words, were there be significant changes the tariff would no longer be acceptable and it would make it

impossible to build any waste to energy plant in Italy. That would bring about some further problems therefore there is a way to rebalance things.

Beginning with your last question: as far as the cost of debt is concerned, we should continue to be at this year's levels, at 5.3. Take into account that it is made by the gross debt plus a small part of the negative carry stemming from the cash we had available which we expect to continue to have in 2012. Therefore 5.3 should be kept for 2012 as we don't have any specific need to create funding. Whereas as far as credit is concerned, this year's accruals are based on two main components vis-à-vis last year. They are on the one hand the acquired delta, the new salvaguardia customers, which we are still actually studying in order to understand the overall risk in terms of credit, we also have some opportunities to take advantage of because the authorities are looking into some sort of protection mechanism, meaning that we will adjust our position based on when these mechanisms are published, and then the economic and financial situation of the context should be taken into account; and as far as customers in our territory are concerned, I have to say that the situation is better compared to the country in its entirety. Therefore there has been a decline in certain customer segments, but on average we are doing better compared with the rest of Italy. Therefore we feel that further down the road we will be able to adjust our forecast for 2012, whereas for the time being we are looking to this type of scenario and we also have the first effects of a project that we are looking at internally on the credit control system. And we are monitoring origination and monitoring the credit recovery, and we want to complete it within 2012. This hopefully will help us to perform analysis and to recover things in a more rational way compared to what is currently being done.

Luca Moroni, Administration, Finance And Control

Your final question was on tax rate; we had opportunities in 2010 and in 2011, we took advantage of all of the possibilities we were offered by the financial laws to try to offset things, until now we have been successful. Before we actually seize these opportunities, the optimisation we had must be brought below 43%. In 2012 we hope to take advantage of the Monti manoeuvre in terms of the benefits we'll have in terms of deducting the IRAP tax. Therefore probably we should be able to have a compensating effect vis-à-vis the 3.5 or 3.6 million Euros, which we feel, will be the effects of the Robin tax that should be constant for 2012 as well. Therefore I think that the tax rate value should continue to be around 42 or 43%.
Thank you.

Chorus Call operator

For any further questions, please dial* followed by 1 on your telephone. For any further questions, please dial* followed by 1.
There are no further questions.

Tomaso Tommasi di Vignano, Chairman

Thank you very much and we'll talk to you soon.
We will continue in 2012 and we'll see how we'll be able to reach our targets with great confidence because we feel we have taken the right measures.
Thank you very much, goodbye.