



Results as at 30th June 2017

Bologna, 26th July 2017

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 morning. This is the Chorus Call operator. Welcome to the H1 2017 Financial Results for Hera Group. All participants are in a listen-only mode for the time being. Following the initial 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, Hera Group's Executive Chairman. You have the floor.

Mr. Tommasi di Vignano – Executive Chairman

Thank you, and good afternoon, everybody. We just concluded our board of directors' meeting for the first half of the year. It was a dense and lengthy meeting and we wish to illustrate what we presented to the board. The situation is quite satisfactory and positive. I am sure you have already perceived our figures. We have had a 10% growth in revenues during the first half of the year, a 7.6% growth on EBITDA compared to the previous year and 8.5% growth of our pre-tax result and a 16.5% growth of our net profit which means that the results are extremely satisfying. They are in line with our expectations.

We obviously have had certain effects on two specific sectors, namely energy which (inaudible) we were expecting which as far as the energy sector is concerned account for the Salvaguardia customers which we achieved as of January 1 this year. And then we also had a good performance in the waste sector. Besides the governance of the sector, we also took advantage of the Aliplast performance in our H1 figures and Aliplast company was the most significant acquisition we made in the same period which means that the results are very much in line with our business plan expectations and we are quite satisfied.

Now, moving on to our performance as far as the earnings per share are concerned, Mr. Hansen, our Investor Relator decided to give us a new graph and he had -- gives us a graph with the EPS performance over the past five years -- in the first half of each year. As you can see, we have been able to increase this result and in fact this year we were able to achieve a EUR0.096 growth, which is equal to an average 8.1% on average for the five year period. And given the importance of the first half of this year, we are extremely confident for the second half of the year ahead. And there isn't very much else to highlight from this point of view except for a specific information. For the first time, our ROE is at 9%, a figure that we had never achieved before.

Moving on to page three in the presentation, we have a breakdown of the contribution to our EBITDA growth. 33.4 million is the growth which stems from our internal growth, whereas 8.6 million is the growth stemming from the M&A transactions. The sum of the two -- in order to achieve the EUR506 million we factored in at the end of semester, actually this figure we also have to subtract the expired incentive on the Pozzilli waste to energy plant, which accounts from minus 6.2 million.

Moving on to the details, as far as the waste sector performance is concerned, we had a major strategic contribution from the Aliplast and Teseco acquisitions. And just to wrap up the acquisitions part, we also have to mention that we made the acquisition of an energy company in the Abruzzo region that you are aware of, the Gran Sasso company, that was the most recent acquisition we made which means that, as far as M&A is concerned we were able to grow, despite the fact that the general scenario did encounter some setbacks in recent months.

As far as the waste sector is concerned, I also wish to highlight the fact that our good performance in the sector is due to the good performance as far as prices are concerned, but also due to the comeback of our landfills which happened at the beginning of next year -- at the end of last year. And as far as the Pozzilli waste to energy is concerned, we also have to underline the fact that we were able to fix a damage in the Ferrara waste-to-energy plant. Have we not fixed the problem, we would have a minus 4 million. These were the more significant areas I wanted to mention.

I would now like to give the floor to Stefano to give you a business-by-business breakdown.

Mr. Venier – Chief Executive Officer

What I can add is that the first half of the year was a sound half of the year and it was in line with our expectations. Thank you, and good afternoon. On page four of the presentation, you have the summary of our performance in the waste sector. A number of things have already been mentioned by the Chairman. Therefore, I will simply briefly comment these slides, by giving you some further details.

You can see that the waste business performance was able to post a growth close to EUR5 million, which was the combined effect of the expired Pozzilli incentive, which is a negative EUR6.2 million plus a EUR3.9 million due to the stop of the Ferrara waste-to-energy plant, and a prolonged maintenance work on the Modena waste-to-energy plant, which we had already accounted for during the Q1 report equal to a EUR3.9 million impact, which is made up for the most part of a minor production of electricity and a minor amount of waste disposed off.

Besides that, besides the growth of our perimeter, we have EUR7.4 million stemming from internal growth, of which 2.5 million are referred to the pricing effect of special waste. For a number of quarters now we have been mentioning the performance in special waste prices. We have had a further consolidation, in fact a slight growth, even in the second quarter of the year, besides the growth we had in Q1. Obviously, on the market, there is a certain degree of tension, also brought about by the economic recovery.

As there is a very tense situation at a number of Italian regions, which means that there is an ongoing demand. And the offer is of course limited by the constraints which characterize our country. Which means that this is a good sign as far as we were concerned, and it allows us to have a visibility for the upcoming 6 to 12 months since contracts as you know have at least a 12-month duration. Besides this effect, we also witnessed a contribution stemming from the production of electricity, and green certificates related to -- which accounts for 4 million. And this accounts for most of the internal growth shown in the graph.

The sign connected to price dynamics namely demand, you can see there has been an increase in the special waste we managed. There was a fairly positive trend that grew by 6.4% year-on-year, whereas urban waste is stable for the most part. And the total amount of waste managed over the first half of the year is equal to almost 2,300,000 tons, well above the 2.1 million tons that we had achieved in more recent years. This of course is also brought about by an increased demand of the market, but also a higher capacity and higher volumes that we now have which refers to the acquisition we made with the Teseco Company and the Aliplast Company. As far as urban waste is concerned, profitability was stable. It was constant over time, and it is equal to some EUR35 million to EUR39 million.

Moving on to page five, we have the networks business. I have to explain some figures here. We have to explain the results concerning organic growth. As you may remember, in June last year, we had started to introduce the tariff changes, namely in the electricity sector and we adopted the same criterion which a number of other players had adopted previously. This includes a number of larger company of course. And as you may remember, at the end of last year, we tried to come up with a homogeneous policy. We realigned this criterion also vis-a-vis the other sectors, namely gas and water, which means that the extraordinary profits that we had registered in first half 2016, it's the one we don't have this year. And therefore, the difference between organic growth, we were able to post in the network sector vis-a-vis the lack of this extraordinary proceed brings to a minus 6.4 million, which is partly compensated by EUR2.4 million growth in terms of efficiencies.

Although, the volumes currently is positive in the waste sector, it is slightly less good in terms of new connections, which means that the construction sector hasn't gone back to a full and reasonable growth on the territory. If we break it down by businesses, you also have a graph which shows you the various sectors. Water has an EBITDA worth 111 million, with a growth worth 4.5 million year-on-year, half of which can be explained by our commercial quality. As you may remember, this incentives mechanism for the more virtuous players was introduced as of July 1, 2016. Therefore, in the first half of last year there were no figures related to it whereas this year, we have posted results allowing us to account for some EUR2 million. The remaining portion of the growth was brought about by efficiency and the WRG on recognized returns.

As far as gas is concerned, we have a EUR1.5 million growth compared to last year, which is fully due to an increase in recognized revenues, whereas distribution has a contraction equal to EUR10 million given the reasons I would explain.

As far as district heating is concerned, we have a result which is in line with last year's, and therefore, we were able to consolidate a slight benefit on the one hand due to the higher volumes sold during Q1 vis-a-vis Q1 last year, which is partly compensated by higher costs on the business. This is the scenario as far as networks are concerned.

Moving on to energy now, which brought about the largest portion of our growth, which is almost equal to EUR34 million. Of the EUR34 million, 7 million -- EUR6.9 million to be exact, refer to gas sales. In this case, default has an impact equal to 4.8 million, whereas the remaining part refers to the marginality which is a consequence of the higher volumes sold, which were equal to 67 cubic meters.

As far as electricity is concerned, we have the electricity sales of course, including the full contribution of the Salvaguardia market which has an impact worth 21 million to 22 million of the 23.4 million, the remaining portion is brought about by a higher degree of margins on the free market activities compared to the previous year. Power gen is also growing.

You may remember that there was a significant portion of this result we had already accounted for it in the first Q of the year due to the well-known effects, which had an impact on the Italian market in January. Even Q2 had a positive contribution due to the difficulties which emerged in the hydroelectric production in Q2 this year compared to the previous year. We also had a EUR1.8 million contraction on other coal generation activities with lower margins.

To support the profitability on the liberalized market, worth some EUR2 million in gas and 2 million in electricity, we have once again the progress made as far as our customer base is concerned, which over the past 12 months allowed us to achieve a further 122,000 customers. 25,000 in electricity, and 47,000 in gas, and the 122,000 customers stem from an increased perimeter. The acquisition of the Gran Sasso company above all which contributed to this growth with some 20,000 customers, plus another 10,000 stemming from an increased presence in the Salvaguardia market and in the default market, whereas the rest was posted through the typical expansion policy we use, especially in the electricity sector.

These are the more important elements as far as the performances below EBITDA are concerned. The portion concerning to the financial expenses was reduced significantly compared to the previous year by some EUR12 million. Apart from these 12 million stem from the optimization, and a better debt volume compared to the previous period, plus we also have the active management of our interest on expired credits on the Salvaguardia market.

The tax rate performance is also very important. They went to well above the benefit of the (inaudible) reduction, which is almost equal to 3.5%, whereas, in this case we are seeing a contraction worth 4%, which means that the remaining portion was obtained with further optimization, both using the levers made available by the government on the incentivization, on innovation and investments, but also relating to the opportunities which are offered by the Italian system in terms of the optimization of taxation. As far as the result on EPS is concerned, as the Chairman -- the Chairman said it all.

And I will now give the floor to Luca Moroni, who will be commenting our cash flows, because even here we were able to achieve some significant results.

Mr. Moroni - Administration, Finance And Control Director

Thank you, and good afternoon. Things went very well in terms of our cash flows, which as you can see, after having invested EUR150 million, which were in line with the investments made last year, and in fact this figure should be read as EUR170 million which we invested to need to account the contribution worth 20 million which testifies to the fact that the company is continuing to invest consistently throughout the territories we are present in.

We also had a good performance as far as working capital is concerned with a very modest variation in fact, which is still due to the effect of the constant attention paid to our invoicing cycles, and the attention we paid to credit, which means that -- thanks to all of these effects we are able to obtain a free cash flow worth EUR189 million roughly, which fully allow us to pay the EUR140 million relating to dividends. And we also paid for a major portion of the investments made in M&A.

The net financial position at the end of June is equal to 2.616 billion, which compared to last year's 2.624 billion is pretty much stable. It is always pretty much stable also vis-a-vis year-end where we had posted a 2.658 billion, which means that we are keeping up the debt level in line with our expectations in a very stabilized way. The debt-to-EBITDA ratio is equal to 2.74 -- 2.7 times vis-a-vis 2.8 times we had at the end of December and 2.9 times last year which means that even in terms of our credit metrics are concerned, our performance is headed in the right direction.

Well, before we take it by, I would like to conclude by going back to the good EPS growth we were able to post.

Because after having paid the EUR0.09 dividend for the last time, the results I illustrated earlier shows that our growth for H1 this year was equal to EUR0.096 which in fact allows us to achieve six months ahead of schedule, the dividend that we will be paying next year, which was our commitment for the business plan.

Mr. Tommasi di Vignano -- Executive Chairman

And having said that, I have nothing to add. And I'd like to allow you to ask any questions you may have. Thank you.

Q&A

Chorus Call operator

This is the Chorus Call operator, we can now begin our Q&A session. (Operator Instructions) The first question is from the Italian conference call, Javier Suarez, Mediobanca.

Mr. Suarez, Mediobanca

Good afternoon. Thank you very much for your time. I have two or three questions for you. The first refers to slide on page four, on the waste business. I was quite interested in the growth you posted on special waste. There was a significant growth. Obviously, there is a major contribution brought about by your M&A including Teseco and Aliplast. What is the underlying growth for the waste business, and what are the underlying dynamics for prices? You commented the fact that in the second half of the year you expect to continue to have a positive feedback for the market. Can you give us some further details just so that we are appreciating the market dynamics and what Hera can do to benefit from said dynamics?

My second question refers to the energy business and slide -- on the slide on page six. There was a significant growth of your customer base. I was wondering that the underlying growth should be worth some further 90,000 customers.

But besides the growth in your customer base, I was interested in the evolution you're seeing on the unitary margins. In other words, what are you doing to capture customers in terms of unitary margins, both in electricity and in gas?

And my final question refers to taxation. You commented that taxation in the first half of the year was especially low. Do you think this will continue in the second half of the year as well? Thank you.

Mr. Venier – Chief Executive Officer

Well, beginning with your question on special waste, all the dynamics we are observing are a sustained form of dynamics. Out of the 76,000 ton growth we registered in the first half of the year, roughly 60,000 tons refer to the increased capacity we made available. Thanks to the acquisitions of the Teseco and Aliplast companies. The remaining portion refers to a greater availability of our landfills as our Chairman said.

What can we do to further take advantage of these opportunities? Well, certainly the Teseco acquisition especially allows us to address the central Italian market with a potential capacity, the plans that we made the acquisition are only partially saturated. Therefore, our target for the next 12 months is to fully saturate this capacity we acquired. Keep in mind that in the first half of this year, we used 30,000 tons which would have been 60,000 to 70,000 for the year the average. And we have a capacity, which is over 100,000 tons. We are referring to liquid waste for the most part and not solid waste. It is a category which has lower prices compared to solid waste.

Nonetheless, there is a very strong demand in this segment, which is one we wish to tackle. And as we mentioned a number of times already, we are also working to increase our landfill potential. We are currently working to expand three landfills, which we hope to complete by the end of the year so that we can start to using this further capacity beginning with the end of the year. And for the next few months, we will continue to work with the landfills we currently have available.

Therefore, this has been an especially favorable moment in which our limit is represented by our ability to ensure that our projects are approved to have further capacity. This was the issue we are committing on. And then of course, besides this, in 2018 -- for 2018 we're already building a biomethane plant, which will be worth a further 100,000 tons in terms of organic waste. So this is the scenario we're looking at. Of course, the national context is one -- how will I rephrase this. We are [ph] the only constraints to be our financial capacity we would have very many opportunities to seize the good market demands. Of course, it's not just a matter of financial availability, it's also a matter of waiting for authorizations which sometimes take more than what we would expect.

Although, for quite some time now we haven't seen the demand, the dynamics that we have been witnessing over the past six to nine months. As far as the energy business is concerned you were asking a question on our customer base and on the underlying margins. Currently, as a matter of fact, we are witnessing an increased pressure on the medium to large sized customer margins, because, as you know, renegotiating and renewing contracts is more complex in a context or in a trend in which prices are increasing, everybody waits the following day to close their store, to close their business waiting for the price to lower by one or two years (inaudible).

Whereas the figures are steadily above last year's levels, therefore, there is a certain pressure on renewals, whereas on the retail market there is usual competition, the usual battle, focused on the larger cities, but there haven't been any major changes. And as I had already mentioned during a recent conference, we have in fact re-discussed the contracts for gas for the next thermal year. And the conditions we were able to achieve are pretty much in line with the current contracts, which means that from this point of view, we don't expect any squeezed margins beginning with the upcoming fall.

As far as the tax rate is concerned, Luca can go into the details.

Mr. Moroni - Administration, Finance And Control Director

As we were mentioning, we took the opportunity to fully take advantage of the possible tax optimization, so we reached a 31.6% tax rate. Our forecast was at 32% roughly, so this is the target we expect to have for the end of the year. Therefore, roughly 32% will be our target for the most part.

Mr. Suarez, Mediobanca

Thank you very much.

Chorus Call operator

The next question is by Enrico Bartoli, MainFirst.

Mr. Bartoli, MainFirst

Good afternoon. I also have a few questions for you. The first question is on the energy business. In the slide on page six, I was noticing the EUR5 million growth stemming for power generation. Can you give us some further details? Is this due to ancillary services? And how sustainable do you think this will be for the remaining part of the year? Then I also have a question on (inaudible) Out of the 244 million, can you give us the figures relating to provisions? And for the full year, since this item increased by some EUR30 million compared to H1 2016, do you think this trend is also an assumption for the second half of the year? And then, I also have a typical question. Can you give us an update on any possible talks with other multi-utilities as far as M&A is concerned? What does the situation look like currently? Are there any possibilities, any opportunities in the short term?

And then, a question on slide number nine. You underlined the fact that the dividend for 2018 is already covered by the EPS for H1 2017. Are you rethinking your dividend policy in any way?

Mr. Venier – Chief Executive Officer

Well, as far as the EUR5.2 million stemming from power gen, the graph on the page six, this is the outcome of the current plans we have, 1 million of the 5.2 million is linked to production, in other words positions we have on the production of electricity. The remaining part is due to two components. The first is our participation in the MSD ancillary services. For the first part of the year especially as we had mentioned during our Q1 presentation whereas the other parts refers to the optimizations we did concerning our position on the trading side of things. This explains the 5.2 million.

As far as depreciation and provisions were concerned, the 244 million refers to 49 million or -- amortization and 55 for provisions. The increase on credit evaluation was worth 12 million, which is consistent with the expectations we had since in line with a EUR22 million increase for the Salvaguardia market in order to have a -- in order to be able to cover our credit risks, we have to accrue some EUR12 million. So, this is the balancing which is in line with the Salvaguardia market.

If we look at the unpaid ratio we have in the business, we're noticing that there is a constant improvement. And as far as large businesses are concerned, we are at 0.2%, whereas as far as the retail sector we are at around 1%. And these are very good results I think.

As far as the increase in amortization and provisions, one third of this is linked to an increased permit or linked to Aliplast and Teseco. We also have an increased business in the waste sector, which means that we have more accruals for the post-mortem fund. And how do we expect to see year-end? [ph] Well, we can project these figures, since they aren't linked to an extraordinary event. They can be projected two year end on a normal basis.

Mr. Tommasi di Vignano - Executive Chairman

As far as the dividend is concerned, I won't be disappointing you. I wish to confirm the projections we illustrated when we presented the business plan. As far as M&A is concerned, we did not sit still as you saw for last year, even during the first half of this year, we'll continue to work on M&A. Of course, were we to have some support from the regulatory side of things, especially for the waste sector, which is an often debated sector, were we to be supported from the regulatory standpoint, we would receive support other than transactions concerning acquisitions from single business companies. We are looking at the scenario, but we cannot make any announcements so far.

Mr. Bartoli, MainFirst

Thank you.

Chorus Call operator

The next question is by Stefano Gamberini, Equita.

Mr. Gamberini, Equita Sim

Good afternoon. I would like to go back to the topic of waste regulations. Do you have an idea of whether or not the Madia Decree will be approved? And any news on the tenders in the Emilia-Romagna region? Has there been any change? And then, I would like to ask a question on the waste business slide four. Internal growth is in line with Q1. So, let's ask what happened in Q2 given the general positive scenario and what can we expect for the second half of the year, given the increase in prices? Do you think there will be an increase or an improvement in power gen. And the last question of financial charges. Can you give us some guidance on financial charges and of the debt you expect by year-end, given the improvements you posted in the first half of the year?

Mr. Stefano Venier – Chief Executive Officer

As far as the Madia reform is concerned, I was referring to the regulations which were lost along the way and I am referring to the waste sector of course. Time and time again this issue reemerges also because there is the Ministry of the Environments will to implement this into legislation. And therefore, time and time again, they say that they're looking for the right vehicle, the right way to reinstate those two rules by the end of the year. It seems credible to me also -- also given the current difficulty there is in terms of regulating the sectors that you also mentioned, namely the tenders. Without the rules, there can be no tenders, of course.

And then for those who pretend that this isn't an issue -- don't have a clear picture of things. And you yourself in fact were referring to the intervention by ANAC on this field, simply isn't enough. An operator has never have the possibility of declaring that they wish to take partner tender in the (inaudible). Obviously, we are operating based on an extension. There is a regional decision on this topic. Our concessions had expired and they have been extended, thanks to this original law. But until we don't have the rules for the tender, there can be no tenders. It's not that we do as a partner tenders, no one has.

And the rules will have to be drafted by the national authority based on indications by the government. Without these rules there can be no tenders of course. We will continue with extensions to the concessions. But our situation is exactly the same as every other operator. And in fact, we are more covered than other players, because we do have a provision by the regional authority. I'm not sure that it could be the same for other accounting regions.

As far as the organic growth is concerned in the waste sector, in the second quarter, we were affected by the maintenance of the Modena plant and the accident with the turbine in the Ferrara plant, which kept the plant stopped for some 20 days. For the most part, compared to Q1, there was an erosion in the profitability in waste. Given some further costs we had compared the previous year on Q2, but in Q2, we were able to confirm the dynamics for the other volumes. So, these are the three elements I want to mention. And we will now try to recover vis-a-vis the turbine accidents in the Ferrara plant. And we will be looking to have an insurance dealer to recover at least 1 million.

As far as the financial charges are concerned, compared to last year we wish to have change this EUR10 million benefit compared to the previous year. We would like to take it all the way. Obviously, in H1, to recover the active interests on unpaid credits in the Salvaguardia market, we have worked to recover the backlog of the previous two years, which is a large portion of the overall sum, which means that we're left with trying to recover the emerging part of the new Salvaguardia market for the first half, which is a lower amount. We try to achieve the previous part as much as possible. As far as the cost of debt is concerned, I would like to confirm the overall costs which by year-end will be at around 3.6%, which is in line with the guideline we have given. And I think that covers all your questions.

Mr. Gamberini, Equita Sim

And do you have an idea as far as debt. And can you give us a follow-up on the topic of waste. The 7.4 million of H1 considering the general positive scenario, can we multiply that by two by year-end, or is that a little bit too optimistic?

Mr. Stefano Venier – Chief Executive Officer

Well, as far as our debt position is concerned, compared to the 2.611 billion that we accounted for at the end of the first half, we wish to consider being under 2.7 billion, because of course, by the end of the year some working capital on the credits due to the effects of the Salvaguardia market is an effect we will be having. Therefore, from this point of view, this is the projection we have, which in fact should allow us to consider to have a debt structure, which is certainly above the 2.7, which is in line with the 2.8 we had last year. As far as the part concerning the overall result of the waste business is concerned, in H2, we expect to replicate the results we were able to post in H1. 2.7 meaning debt-to-EBITDA. Net debt to EBITDA, yes. That should be at around 2.8 by year-end. Thank you.

Chorus Call operator

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

Mr. Tommasi di Vignano - Executive Chairman

Which means that we can think about our summer holidays. I wish you wonderful holidays, and we'll talk to you in September. Thank you very much.