

Company Name: Hera
 Company Ticker: HER IM
 Date: 2018-03-27
 Event Description: Y 2017 Earnings Call

Market Cap: 4,373.29
 Current PX: 2.936
 YTD Change(\$): +.026
 YTD Change(%): +.893

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 0.170
 Bloomberg Estimates - Sales
 Current Quarter: N.A.
 Current Year: 5397.625

Y 2017 Earnings Call

Company Participants

- Tomaso Tommasi di Vignano, Executive Chairman
- Stefano Venier, Chief Executive Officer
- Luca Moroni, Group Manager - Administration, Finance and Control

Other Participants

- Javier Suarez, Analyst
- Roberto Letizia, Analyst
- Enrico Bartoli, Analyst

Presentation

Operator

Good afternoon, this is the Chorus Call operator. Welcome to the presentation of the 2017 Financial Results of Hera Group. All participants are in listen-only mode. Following the initial presentation, there will be a Q&A session. (Operator Instructions) And I'd now would like to give the floor to Mr. Tomaso Tommasi di Vignano, Hera Group's Executive Chairman. You have the floor.

Tomaso Tommasi di Vignano, Executive Chairman

Good afternoon, everybody. We have just concluded very interesting board meeting , which lasted more than expected. We are in the usual team with Stefano Venier, Mr. Moroni, and Jens Hansen. The presentation that we have sent you is focused on something that is actually being completed initially. We are completing the very first 15 years as far as our company is concerned. 2017 allowed us to take stock of the results posted in numerical terms over the past 15 years, during which we grew at constantly and in a homogeneous way in terms of allowing all of our different businesses to grow. As you can see on page one, Mr. Hansen decided to give us an overview, which highlights the fact that our EBITDA growth is worth 5.1 times the amount we began with 15 years ago. Our net profit growth has been equal to 7.6 times or over 7.6 times of what we had when the company was set up. Our productivity rate has increased and currently the EBITDA-to-employee ratio is equal to 2.8 times what it used to be when the company started.

And we would also like to mention that the major effects stemming from mergers over the years, besides, of course , all of the other transactions we concluded. We merged 25 companies over the years, but besides the mergers we also cleaned up so to speak, many of the businesses which no longer matched our profile. And therefore, we have fully integrated them into the company structure. I think these four figures say a great deal about what we have achieved through our efforts and through the strategic choices we've made.

Now if we look at 2017, the results of which were approved 15 minutes ago by our Board. You'll notice that the EBITDA in 2017 grew by 7.4% with a 11.2% increase on the pre-tax level whereas the net profit grew by 21.3%. And these figures too speak for themselves. I don't think they need any further explanation , plus we also had a good performance as far as the debt-to-EBITDA ratio is concerned. And it too improved and moved from a ratio equal to 2.79 times to 2.56 times with which we closed 2017. In general terms, this is an important result in terms of the continuation of our growth and in terms of the company's financial soundness, which has reconfirmed once again and

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in fact in 2017, we were able to reduce our indebtedness which also brought about the result I mentioned as far as the net debt-to-EBITDA ratio is concerned.

The growth posted this year was amongst the highest in recent years in terms of the growth of EBITDA. Only in one year, were we able to exceed the results we've posted this time, and this again shows the strong continuity in our track record. The contribution to this result besides the 7 million which we decided to include, which refers to the negative elements since in 2017, the incentive for the waste-to-energy plant in Isernia expired. Whereas the very positive results were brought about by an excellent performance as far as organic growth is concerned during the year.

And as you can see, this is in fact one of the best results posted over the years, and the organic growth was brought about by all of our businesses with the two specific businesses or two specific areas which contributed. On the one hand, we have the market and sales, supply rather, which stem from the excellent results posted in the Salvaguardia market and then the increase of our customer base in the energy sector, which grew by 90,000 new customers also through M&A.

And then of course we have the second best driver, which was the waste sector in which we were able to grow significantly also as far as M&A is concerned, and in fact, M&A includes the Aliplast transaction which was concluded in 2017, plus, it also includes the Teseco transaction. This was a Tuscan company, which further increased our presence in Tuscany, an area in which we are already present through the waste recycling company. Another contribution in terms of supply is the continuation in 2017 with a very focused acquisitions of smaller companies of the Marche and Abruzzo regions, which is something which also continued in the very first month in 2018 with two further acquisitions. At the end of 2017, EBITDA grew by 68 million, which is an important growth, which as you will be hearing from Stefano, goes all the way down to the bottom line.

And I'd now like to give the floor to Stefano for some details concerning the various businesses.

Stefano Venier, Chief Executive Officer

Thank you, and good afternoon. As usual, let me begin with the Waste sector, which for the year-end results also confirms those trends which we had already highlighted during the various quarters in the year. Prices were stable, in fact, they also increased slightly at the end of the year. We were also stable as far as volumes were concerned. And as the Chairman was saying, we also have the contribution from the Aliplast acquisition and by the increased presence in Tuscany with Teseco.

I was referring to the organic growth development. Prices, in fact, during the year were able to allow us to grow by over EUR4 million in terms of profitability vis-a-vis the previous year. We also managed higher volumes and we also increased volumes in terms of three different [ph] waste, which gives us a further EUR3.5 million, leading to a grand total of EUR8 million growth in organic growth. Special waste as far as volumes are concerned, are now to 2.5 billion tons with the growth equal to 180,000 tons compared to 2016, whereas urban waste were stable at around 2 million cubic meters, which is the figure we had in 2016. M&A supported the development of the Waste business with a further EUR18 million, 17.5 million relate to Aliplast and the remaining 0.5 million links to Teseco.

Generally speaking these results mark a EUR26 million growth, allowing us to offset the expired six incentive in Pozzilli, which is worth minus EUR6 million, plus another EUR4 million worth of extraordinary operations. Therefore, generally speaking, the Waste sector grew by some EUR15.3 million, all the way up to 246 million. Within the business we also have to include a EUR170 million which refer to the waste treatment and a recovery of material sector. The remaining part refer to the entire sector concerning waste collection and street sweeping in the various city served by the company. And as far as 2018 is concerned you may remember that we are completing the construction of the bio-methane plant in Bologna, which will start operating in the Q4 2018, with a productive capacity worth of 120,000 tons with 8 million cubic meters of methane within the company's perimeter.

Moving on to the Networks sector, in this area we posted stability as far as results are concerned, which is the result of some positive notes and some less positive notes. The positive notes refer to the contribution of the quality of our

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commercial service and the water cycle, which gave us slightly above EUR2 billion in growth. We also have to include organic growth as far as tariffs are concerned, stemming from the investments and, as you can see, RAB grew on the right hand side. We also increased our recognized returns and considering rationalization and customer synergy we're at a EUR7 million growth. This overall figure equal to EUR9 million was eroded to a certain extent by continuous decrease in the number of new connections which even in 2017 posted a 3 million reduction compared to the previous year, which means that the economic recovery is present to a certain extent as we can see from volumes in waste and in electricity consumption.

But in the amount of infrastructure in the residential area, which covers most of the request for new connections, we still haven't seen the effects on new construction, which means that our growth is purely posted on already existing real estate. Whereas we also have the comparison with the previous year in which we had had profit stemming from the sale of assets in the gas sector to rationalize the assets in that sector, especially in the Forlì-Cesena area in view of the tenders, and in that area, of those assets that belong to (inaudible) which means that we had had a EUR4 million surplus which we didn't have this year.

And so that we also have to add a couple of lower margin average in district heating, where we made some sales to third-party companies which gives us the minus EUR6 million you can see in the graph as far as one-offs are concerned, making the businesses profile stable over the three-year period. The correct number should be EUR1 million generally speaking, which isn't noted. There isn't very much else to add other than the fact that we have continued to invest in infrastructure. And as you can see we have a increased RAB, we had slightly increased RAB, in fact, in our businesses, both in energy and in water, which means that we are reinvesting more than depreciation and we'll be seeing the effects of this on tariffs in 2018.

Moving on to Energy in conclusion, on the supply of electricity and gas, the more obvious element is, of course, the contribution stemming from the Salvaguardia market, which throughout the year, is equal to 38 million, given the fact that we also devaluated certain credits which were no longer cashable by us, which led us to an average of EUR38 million compared to the slightly higher figures we had. From the free market we had EUR2 million growth. And as far as Q4 in 2017 we did have some lower gas volumes because of thermal season was warmer than 2016, but this is equal to 4% or 5% of contraction in volumes. In Q4 2017 we also had a slight erosion on the retail gas margins since the CRRgrad [ph] period application expired, which compared to the previous year, removed something from margins. And within this figure we also have to keep in mind the negative EUR4 million on the fair values to cover commodities, which as you know, are assessed at the end of each individual year, vis-a-vis the position in the previous year and therefore we have a minus 4 million, which eroded part of the free market margins, whereas the trading and assets management sector contributed with a plus 13 million here too, this figure could have been even slightly higher. But in 2016 we had had an extraordinary profit stemming from the use of interconnection with France, due to the very first crisis of the nuclear asset market in France, which have given us an extraordinary EUR6 million in 2016, which of course, were a one-off opportunity, which did not happen in 2017, and therefore compared to 2016, this slightly reduced the real benefits posted during the year by the trading and asset management activities. But all-in-all the growth is worth EUR53 million which within the broader framework currently is the highest contribution to our overall growth.

As you know, we are continuing to increase our customer base. As of today, we are now above 2.4 million customers. We have also gone up above 1 million customers in electricity. Thanks to our continuous development, which we were able to achieve even in 2017, through which we were able to add over 100,000 customers to our customer base.

As you know, this was a year filled with news as far as non-financial results. But in fact, over the past 10 years, we have also been improving the sustainability results together with the economic results. As of this year, thanks to the Bernier Directive this has become mandatory for listed companies, and therefore, we too, as per tradition, are now presenting to our Board, besides our economic results, also the results linked to environmental and social results posted by the Group.

And in fact, on page seven, you have a summary of the main elements in this field. As you know, we have been reporting these things since last year, based on CSV, and creating shared value. Last year this was worth EUR300

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million and this year this is worth EUR329 million, so with plus 10% compared to 2016, and the Group's -- 40% of the Group's investments are in line with this approach. All of the parameters we measure performs very well, beginning with the contribution to circular economy, in which we are well above the targets for recycled packaging set by the European Union for 2025. We're now at 68%. We have excellent recovery as far as the recycle material is concerned, we're now up to 94.6%, as far as the recovered waste. We have also reduced the carbon footprint of our activities, which last year had contracted by 10% compared to 2015, this year it further contracted by 16%.

We had excellent performance as far as energy efficiency is concerned. The Group's overall energy consumption further reduced and you'll remember that we only use renewable energy as of last year, however, to further reduce energy consumption by 3.6%, which in line with the 5% limit we have given ourselves by 2020. And we also have a further information on the graph, which give a flavor to the results obtained in this field, which as of this year, as I was mentioning, has allowed us to further evolve our reporting.

Going back to numbers; on page eight you have growth below EBITDA, all the way down to bottomline. We had an excellent performance as far as the tax rate is concerned, which is now down to 29.6% without considering any extraordinary events. So this is just your organic ordinary tax rate, 29.6%, which is 1.5% less compared to what we were expecting in terms of the simple reduction of the IRES tax or the tax optimizations, which we already concluded in 2016, which was further improved by 1.5%, thanks to the use of all of the options available in terms of tax incentives as envisaged by the Industry 4.0 program.

The cost of debt, thanks to all of the projects we have implemented over the past two years, is down to 3.6%, which together with the debt profile, which has been constantly below at the levels posted the previous year allowed us to benefit significantly in terms of managing the company financially, as you can see from the graph we have added as an annex to the press release. We also had some excellent result as far as ROE is concerned, which is now close to 10%. We may have targeted 10%, thus as we're very accurate, we decided to sit in 9.9% and this is especially obvious when we look at earnings per share, which are now up to EUR0.171 per share with an increase equal to EUR0.03 per share compared to 2016, which grow hand in hand with the net profit, which is worth 251 million, which is almost 45 million more compared to the previous year. Besides the economic figures, we also performed very well financially, which Mr. Moroni will be describing and in this area we also performed in line with the figures, I illustrated on the non-financial side of things.

Luca Moroni, Group Manager - Administration, Finance and Control

Good afternoon, this is the Luca Moroni speaking. Page nine in the presentation, I think, represents perfectly well of the value created by the company over the years, especially in 2017. The cash flow highlights the fact that, there has been a significant increase in the cash flow stemming first and foremost by the contribution of all of the businesses as explained over the past few minutes. We also invested more compared to the previous year, we are close to EUR400 million in terms of investments.

We have also further optimized the management of net working capital with an unpaid ratio on credit, which is now at below 1%. We have also focused on the cost of debt and on financial management. And as mentioned a few minutes ago, we focused on a fiscal or tax optimization, which allowed us to obtain very important results in terms of the cash flow, which over the five-year period has increased with an average growth equal to 31%.

Thanks to these results, we were able to obtain a very significant recognition by Standard & Poor's, which in fact, 10 days ago changed our outlook from stable to positive, and this too is a further confirmation of the work we have conducted over the past years with credit metrics, which have grown constantly which are very sound and promising, as far as the company's financial soundness is concerned.

Well in conclusion, I don't think I have to add very much to the things we've mentioned so far, and in fact, even the Board members had no questions or issues to raise following that presentation, which means that we were able to post this very good result, which is also an excellent way to further focus on reaching the business plans and goals. And as you may remember, within our business plan we intend to further increase our investments, but we also mentioned the

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fact that we will continue to have financial flexibility needed for a number of topics we'll have to face in the years, including the business plans such as the tenders. And therefore, we felt it would be useful to have a certain degree of financial flexibility allowing us to maintain our focus on any possible opportunities and not already included in the business plan. As you may remember, we have some guidelines embedded in the business plan, but we are also capable of taking any new opportunity without jeopardizing our financial soundness.

I think this is an excellent starting point for the five years included in the business plan. We have already concluded the very first year in a very good way, and in fact 2017, also driven by the market conditions, we have seen that the general economic situation has improved with a specific focus on the liberalized markets, therefore, in the energy business and in the waste business which we focused on. And we do hope that there may be some further positive elements and therefore, that is the hope that we have, while we continue to work in the upcoming years.

And of course, we also wish to remind you of the fact that we also approved within the board that we will have a EUR0.095 dividend per share that we will be presenting to our shareholding assembly to be paid in June and this is the further element I wanted to mention, besides the fact that we have also reminded you of the fact that also as far as dividends are concerned we continue to intend to increase the dividend in the remaining years of the business plan.

If there are any further questions you have or further clarification we are available, otherwise we will talk to you next time.

Questions And Answers

Operator

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

Javier Suarez, Analyst

Good afternoon, everyone. I have three questions for you. The first is on the slide four, on the Waste management business. And as you discuss the evolution of prices and the special waste volumes you are seeing, and perhaps some indications as to next year, the price you are forecasting is good and with an underlying increase on special waste prices, if you can confirm that?

The second question is -- refers to page six. As far as the customer base is concerned, in fact, you have expanded your customer base very much, especially in the electricity sector. I'm interested in understanding what your profitability is and what you're seeing in terms of margins per customer? The third question refers to the cash flow statement on page nine, and net working capital has a positive contribution worth EUR45 billion. Can you explain once again, if this is a one-off effect and what we should expect from the networking capital in 2018?

Stefano Venier, Chief Executive Officer

As far as your first question is concerned on prices in Waste, in fact, in 2017 we consolidated a positive prices trend which grew and stabilized. This is, in fact, the same trend that we are seeing in 2018. It won't be a further major growth, but in fact, there is a consolidation as far as prices is concerned, this is, of course, the general assessment. Then of course, there are certain categories of raw materials which have grown further due to the lack of assets available for their treatment, whereas other types of materials which are simpler and were stable. But on average, the 7% increase that we have shown in the graph, is also present in the very first few months in 2018, and they will probably continue for the rest of the year. Taking into account that many of the contracts in which these prices emerged last -- for at least one year, which means that we will be seeing the same trends for at least a year, whereas the volumes are slightly more complicated. As you know, in this case that there is the need to review or renovate some of the assets, especially for

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waste disposal, because everything else is moving along in terms of new assets and in terms of the ability to process the waste. But we have two significant plans which will start working this year, one is the bio-methane plant worth 120,000 tons, plus we have a cleaning line for plastic, for Aliplast, which will be going on stream halfway through the year.

As far as our expansion on the electricity market is concerned, your second question, as you can see on the graph on page six, we are continuing to expand our customer base in electricity. In the first two months of the year we haven't had any major changes compared to the pace we set in the 2017. We'd also have to mention the fact that in the month of January and February this year, as you know, we also formalized the acquisition of a company in the Abruzzo region, but there aren't very many left since we already acquired five or six such companies, and this is more recent acquisition, which will give us a further 17,000 customers, some of which are gas customers, some of which are electricity customers. They are gas customers for the most part, but a few thousand are electricity. And last week, in fact, we made the acquisition of an initial 49% of another company called Sangrosvizi, which is worth another 7,000 customers. And by the end of the year we expect to complete 100% of the acquisition.

Are these customers profitable? Well, for the most part, these are liberalized market customers, they are retail customers. Of course, they have an impact on the general numbers, and therefore, my answer is yes. I don't see very many -- very much room for differences in margins compared to 2017 and 2016, which means that we are continuing in our strategy to consolidate the electricity customer market. We're now above the 1 million customer mark. And this is an approach which makes sense given the fact that the platform we are creating will also become a platform to compete and the liberalization of the Maggior Tutela market and despite some of the debate, which started in the first few days following the elections, since this is a law which was approved by the state, we expect it to be executed within the business plan years. This is a hope, not a certainty, but it is a very sound hope. It is mandatory by law, a legislation has to be complied with, but it is also an important opportunity to allow the market inherently [ph] to grow and evolve, otherwise it will only work at a 50% rate, not taking into account the Maggior Tutela market.

As far as the evolution of the net working capital is concerned, we pay close attention to all of the components of the working capital, in a very accurate way we try to forecast the trends. And in 2017, I'm sure that the main, more relevant area was the good trend as far as cashing in our credits, which is also expressed by the unpaid ratio last year. Our unpaid ratio was equal to 1.1% whereas at 2017 it was equal to 0.9%. If you multiply that by the turnover in our commercial customers, which is about 2 billion, you can easily understand the effect on working capital.

As far as forecast are concerned, we will continue in our action to monitor all aspects of the working capital and we do expect a certain stabilization of the delta for 2018.

Javier Suarez, Analyst

Thank you.

Operator

The following question is by Roberto Letizia, Equita.

Roberto Letizia, Analyst

Good afternoon. I'd like to some -- further elements on provisions -- depreciation and provision, and within this the provisions for bad debt, because by comparing your figures with the consensus figures there seems to be significantly higher level in this item, which is compensated at the bottomline with a very low tax rate. Did you link these two components in anyway? Your forecast on a very good net income and also given the very low tax rate, did you move the provisioning for bad debt to this year? And if these two dynamics are different, is this the same forecast we have to take into assumption for next year as well?

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And then a more general question; do you see any potential impacts, both positive and negative impacts from the political scenario based on the possibility of the centre-right coalition and the Five Star Movement can create a government and can you go into the upsides and downsides possibly?

And the final aspect you mentioned was the liberalization of the Maggior Tutela market clients and you are almost sure that 2019 will be feasible or this is what the consensus says, do you share this view?

Stefano Venier, Chief Executive Officer

Let me begin with your last question. It sounds like a self-fulfilling prophecy, of course, and then I'll say that 2019 is not the year in which will this be happening. The more we say it, the more others go along. Maybe they have information which is better than us. Now they were mentioning the fact that without a new government it will take longer. Yes, I also read the statements they made in the newspapers. I don't know, we can't do the math over the next six months, and I do hope we will have a new government over the next six months. Therefore, it's not so much saying and what will happen by July 1st 2019, and we can also say, October 31st and November 1st or January 1st 2020. The important thing is that we can already count on a certain evolution of the market by that date. It sounds like a reasonable expectation in fact.

And as I said, since in a normal company, the incumbent shouldn't have more than 15%, this is what the Anti-Corruption Authority says. I do hope we can't look at the remaining 8 million customers. According to the recent figures published by the authority, there are some 15 million customers who are still part of the Maggior Tutela market.

Your first question on provisions. We had depreciation provisions there, as increase in the depreciation is also linked to the variation and the perimeter brought about by the (inaudible) transaction which had some EUR7 million in depreciation, to that we have to add some EUR10 million in depreciation linked [ph] to the investments made last year especially in the network sector, and that explains a good chunk of the increase in depreciation. Also take into account that the waste volumes last year went very well and therefore we had to use assets such as landfills and that will ask [ph] for higher figures compared to the previous year.

As far as the depreciation with bad debt is concerned, as you know, this is for the most part linked to the Maggior Tutela market -- for the Salvaguardia market rather, excuse me, in which we have 38 -- EUR39 million and further margins and therefore we had to allow for some accruals there. But in looking at the figures take into account that since most of these, or since part of the Maggior Tutela customers are guaranteed in covering the risk. And we are also allowed to have passive interest on delayed payments. The financial results have some -- these good results also due to the fact that we have the proceeds stemming from passive interest on late payments, which are worth some EUR10 million, which means that with the combined interpretation of the provisions, also include these EUR10 million. What are we expecting from this year? What we expect is something slightly below this figure, this is our expectation. Also given the profile and the improvements that Mr. Moroni highlighted earlier, also keeping in mind that as of this year, 2018, we also have to apply the new IFRS 15 accounting principle, which calls for a review of the depreciation policies based on the cash and expectation. Since that we have -- and we've improved our unpaid ratio moving down to below 1%, we expect that the new definition for provisions can bring about further benefits to compensate the organic reduction we'll be having initially.

Roberto Letizia, Analyst

What about tax rate?

Stefano Venier, Chief Executive Officer

Well, as far as tax rate is concerned, I think 29.6% was an extraordinary figure, and I think that we will be at around 30%. I think that will be the figure, 30% to 30.5% that is the percentage we are targeting, also because we wish to

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continue to use and exploit the opportunities brought about by the Industry 4.0 program, were the new government to confirm it as it was applied in 2017 and from that point of view, we have done an excellent work. And taken into account the last year, in innovation alone we invested EUR78 million, and this, of course, benefited from a more speedy cash flow reduction.

Operator

The next question is by Enrico Bartoli, MainFirst.

Enrico Bartoli, Analyst

Good afternoon. I have some questions for you. First of all, I would like to go back to the electricity business. In Q4, in fact, it grew in double digits. Despite the fact that in Q4 2016, you had the positive impact stemming from the interconnection with France. Well, can you go into the evolution of margins, or unit margins in electricity? As far as supply is concerned and as far as the increase in your customer base is concerned, and what trends sort of we expect in 2018. Do you think that the situation will be stable or is there further room to improve the margins?

Second question on gas; I seem to have understood that the dip in Q4 was due to a number of factors, such as the lack of one-off events in distribution, plus the graduality, which is emerging partially and its impact on volumes. Can you tell us how gas volumes and sales have been doing in early 2018? And can you also give us a flavor of the evolution of margins in gas over the full year this year?

And I also had a question on the Waste sector. Can you give us an idea of the contribution you expect from the new assets, which you will be starting to operate this year? And then the final question on M&A, and generally speaking, are you working on any further transactions and can we expect something in 2018. Can you give us some ideas as to which businesses you're focusing on?

Stefano Venier, Chief Executive Officer

I'll begin with your first question on electricity. Well, what we posted in Q4, it doesn't include the fair value delta I was referring to, which is worth 4 million, plus some cleaning up we did as far as our overall credit is concerned, and it is in line with what we had seen in the first three quarters. We haven't seen any significant changes. As also it is said on margins per unit, there is some pressure on the large customers, but not so much on the retail sector.

What do we expect this year compared to last year? Well, for many components we expect to see things in line with last year, the Salvaguardia market will be in line with the last year. We won't have or we will have limited effects on the fair value delta, they don't depend on us. They are just a function of prices. We have less ability to replicate the result in the asset management. One of the two plants that we own is under maintenance and it will be under maintenance until late May and it will start operating as of early June in Teverola. So we will have something less from that and we will also have something less vis-a-vis the effects of the reform, which is recently introduced. But we do expect to offset these components through a slightly higher contribution stemming from the Salvaguardia market, and in fact, in the first two months this year we are seeing some higher volumes compared to the same period last year. And this will stabilize the result for the electricity sector, which last year went above EUR100 billion.

As far as the gas is concerned, as you know, the month of January was very warm. There was a contraction in volume that's equal to 23% to 25%. We recovered something in February. As at February 28, we still had minus 15 million cubic meters compared to the previous year, but we expect to recover that in March. Since the first seven months -- the first eight days in March went better compared to the previous year, and even last week in fact, the week's temperatures were below the seasons average and below the same period last year, which means that the 50 million cubic meters will be reabsorbed, and therefore, at the end of the quarter, we will have the same volumes of last year, substantially.

Company Name: Hera
 Company Ticker: HER IM
 Date: 2018-03-27
 Event Description: Y 2017 Earnings Call

Market Cap: 4,373.29
 Current PX: 2.936
 YTD Change(\$): +.026
 YTD Change(%): +.893

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 0.170
 Bloomberg Estimates - Sales
 Current Quarter: N.A.
 Current Year: 5397.625

As far as margins are concerned, the CCRgrad is now gone, and therefore, what we saw in Q3 2017, is what we will be seeing in terms of margins for Q1 2018, which will also extend to September. Beyond September, I don't know how margins will perform, because of course, it will depend significantly from the renegotiation of the procurement contracts, which we will be looking at in June as usual. Generally speaking, the margins in the gas business based on the higher number of customers, following the acquisitions we made, Blu Ranton and the other ones I mentioned earlier. Therefore, we expect a slight growth compared to the result we posted this year. And if we also include the distribution business, this year in distribution, we won't be seeing the effects we had in 2016 and comparing it to this year.

As far as Waste is concerned, the contribution of the waste assets, the bio-methane plant, which is a more sizable investment, will be going on stream as of Q4 this year. So the contribution of the 2018 will be fairly modest, but we do expect to have the full contribution for 2019 and that will be worth a few million euros.

As far as the cleaning or the washing line in waste recycling, that will be worth EUR1 [ph] million, it won't be extremely visible on this year's result. Although the first two years of -- the first two months of the year on the waste business, given the effect of the consolidation of prices, we were referring to earlier, is in line, if not slightly above the same period last year.

Just to add to our transparency on the Waste business. We also want to say that in the meantime, we have also activated two landfills we were bringing the authorization for. One of which is in the Veneto region, one is in Tuscany, and we are also looking to a plant for our industrial customers, which is something we have been working on for quite some time. As you've been seeing in our recent acquisitions and therefore we're looking to further strengthen our position is that specific sector.

Operator

(Operator Instructions) Next question is a follow-up by Javier Suarez, Mediobanca.

Javier Suarez, Analyst

My first part is concerned, can you give me the breakdown of the RAB for 2017. The EUR2.92 billion, can you give us a breakdown of that figure between the different activities. And I also wanted to mention your assumption on taxation as included in your business plan and as far as the guidance you have, is the taxation improvement compared to your previous expectations? Thank you.

Stefano Venier, Chief Executive Officer

As far as the RAB breakdown is concerned the total is 2.92 billion, 1.09 refers to gas, 0.38 refers to electricity and 1.45 refers to water. As far as your question on tax rate is concerned, in the business plan we had included a tax rate equal to 31% to 32%, whereas I think will be closer to 30% to 31%, which means that we will be recovering a full percentage point. That includes the entire business plan years. Well, as long as we have a tax incentive plans, which were defined by the Renzi government first and then by the Gentiloni government. I'm referring to specifically to the patent box and to the de-fiscalization of investment made in research and brand that as far as Industry 4.0.

All of these actions are worth at least 1.5% in tax rate, which means that if the situation remains as it is, we'll be looking at 1.5%. A part of this was already included in the business plan since you are already familiar with it. The remaining portion was included in closing the year's results, which brings about the 1% improvement. If the new government, of course, raises these plans, this reduction will also disappear.

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

Tomaso Tommasi di Vignano, Executive Chairman

I wish you a very happy Easter and we will get back to work. Thank you very much.

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