



Q4 2016 Earnings Call

Company Participants

- Tomaso Tommasi di Vignano
- Stefano Venier
- Luca Moroni

Other Participants

- Javier Suarez
- Enrico Bartoli
- Stefano Gamberini

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. This is the Chorus Call operator. Welcome to the Presentation of the Results for Hera Group to December 31, 2016. All participants are in listen-only mode. Following the initial presentation, there will be the chance for some Q&A. [Operator Instructions]

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

Tomaso Tommasi di Vignano

Good afternoon, everybody. Here, we are with the usual team and following the board of directors meeting, as we are illustrating the results, the press release of which you have already received. I will be commenting the main results, which further prolong our positive track record. This year is our 15th anniversary, which means you are probably bored by the continuity in our results. And from this point of view, our presentation highlights a number of things. You certainly remember that the year had began with a negative perspective, because as of January 1, we were facing a negative €48 million perspective, which was a challenge in terms of safeguarding the positive results of our [ph] track (01:59) record.

We worked fairly intensely on all possible items. As far as increasing efficiency is concerned, we were able to post major results. We worked on cutting costs, and we also focused on growth with a number of different approaches. We had the contribution coming in from external transactions, but we also had opportunities we were able to obtain through tenders in a number of different sectors. This is something I want to underline which shows how competitive our company is becoming. In a broader way compared to the typical approach we use to have to the [indiscernible] (02:58), we're able to obtain a number of tenders, and this was very satisfactory both in the regulated and non-regulated businesses both in the organic growth of the business, and we were able to grow also externally, which means that once again after the end of the year our model was able to offset the losses which were due to regulatory effects, thanks to all of the other events I mentioned, which means that if we look at the gross result of our EBITDA, if we look at it before the application of the WACC cut, and before the expired incentive in the waste sector, again if we look at our results from this point of view, we come up with an initial import element.

The plus €80 million in EBITDA besides the years in which we have broadened our perimeter, this year would have been a record year, which means that the €80 million in EBITDA growth have a very important results for the company, also, if you look at the company's future. This company, in other words, is capable of achieving this type of growth. And as far as the EBITDA is concerned, if we remove the negative effects I mentioned earlier, in fact, if we look at the past five years, our EBITDA has grown on average by 7.3%, which is quite sizeable. And in the past, when we used to be a little bit weaker in the bottom line, this year, we were also able to grow as far as the net profit is concerned with a plus €27 million redoubled this figure over the past five years, and we had a 14.7% average growth rate.

We also achieved a number of positive results in M&A with four acquisitions, two on the market, and two in the waste business. And these transactions also contributed to the good performance in 2016. These transactions are a part of a

growth process which has never stopped and we always look at the possibilities as far as M&A is concerned, and we are continuing to look for the best possible opportunities in this regard. We also have some important results as far as our financial soundness is concerned via debt-to-EBITDA ratio is now below 2.8 times with a value, a figure which was our target for the end of the Business Plan years, which means that we are ahead of schedule as far as the debt-to-EBITDA ratio is concerned. These are all elements I'm sharing with you which, as far as I'm concerned, confirm how sound the company is. This is above the expectations we had in our Business Plan, and they also give excellent visibility as far as our future is concerned.

Moving on to page three in the presentation, we can go over how our EBITDA was built in 2016. I was mentioning the fact that organic growth played the lion's share with a contribution worth €66 million, with contribution coming from a growth in networks with a plus €27 million stemming from our increased efficiencies projects. The waste business contributed with a further €5 million which is even more impressive if you take into account that in 2016 we had a very lengthy process for the authorization and the works in our main landfills. All of this has been concluded for the most part. We have a limited number of remaining things to complete in 2017, but the most difficult year was 2016, in fact, because this was a phenomenon which was pretty much concentrated in 2016.

As far as energy is concerned, we had a very sizeable contribution with a plus €35 million growth. It was better than the other sectors. It may have been favored by a few specificities in 2016 in terms of electricity market. But this is also an element which is very consistent with our expectations also for 2017 and 2018 because, as we mentioned when we illustrated the Business Plan, we mentioned some important tenders that we have been awarded, the effects of which are beginning to become effective in 2017. So these are the sectors that benefited from our actions, plus we also had two other transactions which you're familiar with, which happened in early 2017, which means that we focus on everything as far as we're concerned. We focus on organic growth, we focus on acquisitions. What we're waiting for is for the finalization of the Madia Decree, which we feel will be a major way of pushing mergers forward, especially between multi-utility companies.

I'll now leave the floor to Stefano, who will be giving us an in-depth view of the waste business and the other sectors before we give the floor to Mr. Moroni for an overview of our financial performance.

Stefano Venier

Thank you, and good afternoon. This is Stefano Venier speaking. This part of the presentation is titled MORE with less, and it's a summary of what we were able to achieve this year by using less resources because, as you'll be seeing, the company capital invested was stable in 2016. It is at the same level we had in 2015. Also thanks to the optimization on working capital, which we will be illustrating better later on. Beginning with the waste business on page four, we obtained the same result in 2015, which was quite important from a number of different points of view. First of all, because we have a combined effect of the expired [indiscernible] (10:55) halfway through the year, the review of the Green Certificates. And the first nine months of the year where supplies of electricity was lower compared to the previous year, all of this had an impact on the business worth €16.7 million.

We had to offset all this in a number of ways, through increased efficiency, of course, which was worth roughly €8 million to €9 million. We also had a contribution from the market. A number of times, with you, we mentioned how prices were on the rise, in recovery, which was consolidated throughout the year. We had an increase in prices worth 2% to 3% with a few exceptions such as the dry and humid part of waste due to stabilizations stemming from those areas in a crisis which had an increase in price worth up to 10% and even 15%. This obviously gave a positive push during the various quarters. Plus we also had the difficult process for the authorization of landfills. The first contribution came in beginning in August 2016 with the Ravenna landfill, and this partly marked the positive result we posted in the second half of the year, also compared to the previous year and also compared to the first half of 2016. Overall, volumes were positive for some 350,000 tons. These are referred to the special waste volumes exclusively because of volumes collected, and as far as urban waste, were exactly the same in the previous year. It was a minus 7,000 tons. So it's the same volumes. So the 350,000 tons in special waste also benefited from our broadened perimeter, especially waste recycling and the acquisition we've mentioned a number of times. The urban waste business was further developed in terms of assorted collection, and the use of landfills is now well below the EU targets set for 2030, whereas the part of the business linked to recycling was above 56%, or rather sorted collection was above 56%. 94% is the percentage of the recovered waste, both in terms of recycled raw material and in recovered energy.

An element, as far as 2017 is concerned, which is very closely connected with the business dynamics is an element which will affect the coming months with the final execution of the acquisition of the Aliplast Company which will be happening early April following the Antitrust Authority authorization which happened over the past two weeks. And I'm referring to the consolidation of the Aliplast Company and the acquisition of the Teseco Company in Tuscany as a way of strengthening the position we started having with the acquisition of the waste recycling company. This is the context we're looking at, and our growth was marked positively at the end of the year by reaching the same results we had in 2015, by recovering the €2 million to €3 million that we had been dragging on for most part of the year.

On page five we have an overview of the regulated businesses. In this area, we were able to almost fully offset the WACCs cut. We closed the year at €424 million with a minus €3 million, minus €4 million. In this case, we focused our efforts on increasing efficiency. And overall, as a group, we also posted in 2016 an increase in efficiency worth roughly €20 million as we had achieved in 2015. More than 50% of this stems from the regulated side of the business,

which means that the €10 million or €11 million contributed to recovery by approximately €20 million. The other parts refer to the first ticket on our sales ability, which is only worth €2 million, although the performance was well above standards.

Obviously, the deal we struck with the authority was in recognition every six months, which is 50% of what it would have been on a yearly basis, and for this year we're expecting a value worth €5 million. And we had other components as far as energy distribution is concerned, and district heating in which we grew by €1.5 million compared to the previous year, thanks to efficiency and the network optimization. As far as the impact of the WACC cut is concerned, now this is a topic you're familiar with, I don't have very much to add except for the fact that, as far as 2017 is concerned we're continuing with our initiatives to promote innovation as a way of further improving our efficiency and improving effectiveness, which we hope to be able to achieve, also vis-à-vis the new regulations on technical qualities, which were anticipated in the first consultation document by a few authority over the past few weeks.

On page 6, we have the details concerning the Energy sector. In this sector, the year was much more exciting compared to the other businesses. A positive tone was one that we had already perceived in the first three quarters of the year, and the fourth quarter merely confirmed the same trend and with a result which was much higher compared to the previous year. This is due to a number of elements that you are already familiar with, elements we discussed in a number of other different context. Generally speaking, we had a benefit stemming from the conditions on the French market in November and December. Not so much because we had some production capacity that we could use, but more because we had some opportunities for interconnection with France, opportunities which turned out to be very interesting.

As far as growth is concerned, the M&A contribution was fairly modest, also because of the second of the two acquisitions made became executive only at the end of the years, meaning that their contribution was only partial whereas within the €34 million growth, roughly 50% stems from trading activities and power gen, whereas the remaining 50% stems from the liberalized market, and it refers to increased customers, increased market because the gas default market was effective as of October 2016, the consequence of which is that we were able to post a larger volume. We already know what will happen in 2017. We've already discussed this a number of times. The new service period on the Salvaguardia market is now effective.

We have already started to invoice our new customers as of March. As far as the underlying figures of the business is concerned, our customer base grew by a further 50,000 customers. We are now at 2.26 million customers two weeks ago in the first week of March. For the very first time, we reached 900,000 customers in the electricity market, and 17.5% of our customer base is now managed through our digital channels, and 16% of our customer base already receives a digital invoice. Of course, our target is to further expand in these sectors so as to obtain 25% of our customer base in 2020. These are all elements which further enrich the context we operate in, making the perspectives for the further – for the upcoming two years even more interesting.

Page 7 gives you an overview of the elements which allowed us to transfer most of our EBITDA growth down to the net profit. The cost of debt has been reduced to 3.7%. We still haven't fully expressed the benefits stemming from the last liability management transaction which we concluded in October, which means that for this year, the cost will be further reduced down to 3.6%, whereas the tax rate has consolidated an almost 2-point reduction compared to 2015, and it will be down to 33.5% in 2017. As you can see on the right-hand side of the page, we were able to achieve an increase in profit and even in EPS to almost 15%, moving on to almost €0.14 per share. And the important result in terms of net profit also transfers a return on equity, which has reached 8.6% by improving results by almost 1% compared to the previous year.

And that 1% improvement can also be recorded if we take into account the return on market cap, which moved from 4.8% to 5.6% this year. I'm referring to capitalization, [ph] net worth (22:02) €3.7 billion. As I was mentioning, the invested capital, the resources used are the same pretty much, €5.1 billion. This allows us to have a return on invested capital worth 8.9% in 2016. I'll conclude my part with an item which isn't so much focused on quantities or economics. The board of directors has been approving the sustainability budget, and taking into account the fact that many investors are incorporating this approach in their assessments more and more. We thought it was important to give you an innovative overview. We also wanted to underline the more important elements of how our company operates, vis-à-vis, the various dimensions linked to sustainability.

And page 8, as a matter of fact, underscores the fact that the company has committed to at least 10 of the 17 UN global targets. As far as the first three are concerned, focusing on resources and our commitment concerning the circular economy, you have a clear representation with two figures. On the one hand, we have the amount of ways to recover it both in terms of raw materials and in terms of energy, which is above 94% and 64% of our packaging, which is recycled. You may remember that the target set by the EU is 65% in 2025, which means that we are almost 10 years ahead of schedule. As far as the use of resources is concerned, we take into account the water, which isn't [ph] invoice (24:11) vis-à-vis the networks parameter in which we are leaders on the Italian context.

As far as the environmental issues linked to energy and resources are concerned, for the past 10 years, we comply with the carbon disclosure. We are one of four companies this year, we have improved the company's carbon footprint by 10% in terms of energy generated. We have reduced the overall amount of greenhouse gas emissions by 10%. 70% is the amount of renewable energy produced and minus 2.6% or 2.6% is the energy consumption rates which we enjoyed the past three years, which is the same amount of 4,300 families.

Other dimensions linked to the social aspect to workers and to our company's suppliers are explained in deep last line with some examples of certain characteristics our company has. We have also determined that we're the first in Italy to

apply this methodology, which was introduced by [ph] Michael Porter (25:41) a few years ago. The portion of our profitability, which is the object of [ph] credit insured (25:50) value, which corresponds to a clearly defined social response, social need, excuse me. This is worth €200 million, which we have assessed given all of the points illustrated on the left-hand side of the page. This is yet another important element to which has increased our awareness further on a number of aspects which are becoming increasingly important on a general context.

I'll now give the floor to Luca, who will be giving you an overview of how we were able to achieve certain financial results, which is yet another element which characterizes 2016.

Luca Moroni

Thank you, and good afternoon, everyone. Page 9 gives you a very clear view of the fact that 2016 had no element out of place. Our company was an orchestra of sort, which was able to play in a very coordinated way. Because the results in terms of cash flows are quite obvious in the figures on the slide. We were able to produce €260 million in terms of free cash flow prior to the dividend payment and prior to the minor acquisitions we made in 2016. This was made possible, thanks to an operational lever, which was above €600 million. And also thanks to an excellent management of net working capital. We already illustrated the good performance of the net working capital.

The excellent efficiency we were able to achieve especially in managing credit. Allow me to remind you of the fact that as far as the management of credit is concerned, especially all of the processes achieved maximum efficiencies especially invoicing processes, the management of the entire process, the active management of credits from origination to recovery with an unpaid ratio worth 1%. And only two or three years ago we were at more than double that amount. We also achieved the safeguarded credits by recording all of those customers which cannot be disconnected for whom our recovery activity was sent to the Cassa Conguaglio.

And at the end of the year, we were anticipated an amount worth €64 million to €65 million, which means that we were able to self fund all of our investments, which were worth over €360 million, plus the funds which for the most part cover post-modern funds for roughly €35 million, which leaves us with €267 million, €144 million of which were used to pay dividends during the year. And besides roughly €20 million for smaller acquisitions, we were also able to reduce our debt by roughly €100 million. Our track record in terms of cash flow over the past years is exemplified by the graph with an average [indiscernible] (29:52) growth which is top level. We have gone above the 20% target in terms of cash flow-to-debt ratio, which was one of the targets we had set with our rating agencies. We are now at 22%.

We are a few bps above 22% and this leaves us with an excellent perspective as far as credit merit is concerned. Well, I don't have much to add, as a matter of fact. My colleagues gave you an overview of all the main elements as far as year-end is concerned. And since we're also at the end of the two-year term of our board, I want to leave you with an overview on page 10, an overview which has represented by an image chosen by Mr. Hansen, a flower and its petals, which represent the past three years of results. We're on the eve of our General Assembly, which will be appointing the new board.

And without going over any of the things we already mentioned, I believe that the key elements in these 2016 year-end results can be summarized in three different elements. First of all, we have the resilience of our model also in terms of continuity. This is also something which makes us confident for the upcoming years. The second element refers to our ability to compete. We will be having tenders in all sectors. We are competitive even in the sectors which are regulated, traditionally speaking, which will also be subject to tenders. And therefore, the tenders we were able to obtain, which I mentioned earlier, are a good element, which allows us to be competitive in all of our company's businesses.

And finally, our growth and profit is also something which is useful as far as allowing our dividend to grow, which is something which, as you know, will be growing beginning next year, which opens up a new season. We're able to operate in a positive way without being stressed by the need to allow our dividend to increase, besides the fact that we paid over €400 million in dividend over the past years. This is something that our shareholders certainly appreciate.

And we want to confirm our working plan, within which, as you know, we have more than enough room to continue to grow externally, as you know. These are – this is an element that we will continue to focus on as you know.

And you have the floor for any questions you may have. The Q&A session can begin now.

Q&A

Operator

[Operator Instructions] And please ask your questions using your telephone and speaking slowly for simultaneous interpretation. [Operator Instructions] The first question is from the Italian conference channel by Javier Suarez, Mediobanca.

<Q - Javier Suarez>: Good afternoon. I have three questions for you. The first goes back to a comment made by the Chairman when he said that the debt target for 2020, which you announced in January has already been reached. How should we interpret that comment? How should we interpret the fact that the company has been able to reach a net-debt-to-EBITDA ratio worth 2.8 times? Can you comment what the company intends to do and if the 2020 targets

are now a little bit too conservative?

The second question, given the growth posted by the company in 2016, you have a component [indiscernible] (35:07) and networks and growth in energy and waste. Can you help us understand whether or not this growth in energy is sustainable or will there be a setback in 2017? And as far as waste is concerned, have all of the authorizations been completed and will this translate into a significant growth in 2017? And finally, my last question is on working capital. There has been a major improvement, which was already obvious at the end of the third quarter. What changes will there be in the net working capital in 2017?

<A>: Well, as far as what we expect, what management expects as far as debt-to-EBITDA ratio is concerned, we reached 2.8 times. As the Chairman was saying, we have some resources available. Over €100 million have already been used for the Aliplast transaction. This theoretically – leaves us at a 2.9 time in debt-to-EBITDA ratio. So, we're using the resources to support our external growth in a very practical way. We use the money we generate, first of all. And then we'll also be looking at the opportunities we'll be having. Taking into account that the 2.8 times we expected to have at the end of the period also took into account the Gas tenders.

We have no reason to review that figure. It is consistent of what we have projected. And then, of course, the acquisitions will be happening depending on the acquisitions or on the opportunities rater. We outperformed our expectations, and we have the resources we expected to have, the ones we illustrated in the Business Plan. It is true that we have some savings. There will be other savings still. As we had mentioned during the Business Plan presentation, we will be rationalizing our cost by some €80 million. We have already achieved an initial 25%, [indiscernible] (37:39) have a further €60 million, which we will be achieving through the innovation projects I mentioned earlier. And you're asking how sustainable of the energy results are.

We had some extraordinary results, but we will also be having the contribution from the Salvaguardia tender, which means that we can obtain that in 2017, and even more as a matter of fact according to our expectations. As far as waste is concerned, the business will be benefiting from the Aliplast transaction. And as far as landfills are concerned, we began to use the Ravenna landfill last August, and we will be benefiting from that for the rest of the year. Plus, we also have the initial part of the Tremonti landfill, which will be used for the entire year. So, from that point of view, we will be having some positive contributions. And where the energy sector queue hold, as far as price is concerned, we will be posting growth in that business. And as far as the net working capital is concerned, I'll leave the comment to Luca.

<A - Luca Moroni>: As far as net working capital trends are concerned, we have two dynamics to look at. First of all, if we look at credits, and if we are to take into account the fact that the debt will remain stable, although we have to take into account that with the beginning of 2017, certain payment dynamics or commodities linked to certain platforms may have [indiscernible] (39:30). But we will continue to work as far as credit is concerned. In the Business Plan, we would like to go beyond or below 1% in terms of unpaid ratio, which we feel we'll be able to achieve within the Business Plan years.

Therefore, we still have a few steps to take in that respect. Plus, we'll also have the volume effect linked to the tender we were awarded in the Salvaguardia market. As far as volumes are concerned, that will give us some €50 million of further [ph] credit for the (40:12) working capital, which means that the dynamics should be fairly stable with a certain degree of growth in Salvaguardia credits and also paying attention to the debt dynamics I was referring to. Although our hypothesis is that we will be having a fairly stable trend as far as net working capital is concerned.

<Q - Javier Suarez>: Thank you.

Operator

The following question is by Enrico Bartoli, MainFirst.

<Q - Enrico Bartoli>: Good afternoon. I have a few questions for you. My first question concerns the Gas business, which in Q4 had an EBITDA growth above 20%. Can you give us some further details in terms of the contributions to the growth stemming from both volumes and margins. And had – were there – or had there been an increase in margins, will this be sustainable in 2017 as well?

I also have a question concerning your debt. The trend you expect to see this year, from the qualitative point of view, I am – there will be an improvement in operational terms. There will be an increase as far as CapEx is concerned. And based on what Mr. Moroni was saying, net working capital will be stable. It makes sense, therefore to – that the debt at the end of 2017 will be at the same level we saw at the year-end 2016. And I have a third question. Can you give us the total amount of provisions included in your P&L of 2016? And what do you expect in terms of how that will evolve in 2017?

<A>: As far as the gas margins are concerned, we had – in the last quarter, we had almost 60 million further cubic meters in sales, which stems both from the thermal effects but also from our management at the Salvaguardia service. This allowed us to record part of the improvement we mentioned earlier. Plus, we also had a certain degree of

improvement in margins on some of our business customers. And customers. And last but not least, we also had some good transaction in the trading. These were the main elements as far as Q4 is concerned. And as far as 2017 is concerned, at least three of these four elements will be present.

And as far as volumes are concerned, obviously, that depends on the thermal season. For the time being, we had an excellent month of January. February, we're slightly warmer, March was slightly warmer, but we aren't suffering in terms of volumes, generally speaking. Your second question referred to the cash flows, the debt-to-EBITDA ratio. We mentioned that the Aliplast transaction will lead us to a ratio worth 2.9 times. Our expectation is [indiscernible] (44:15) at that value, 2.9 times, unless we have further extraordinary transactions during the year. Given the opportunity, we will have with these transactions and that would change the outlook from that point of view. And I leave the floor to Luca to comment on provisions.

<A - Luca Moroni>: As far as provisions are concerned in our P&L, we recorded some €30 million linked to the typical accrued provisions for landfills, post-mortem funds and a third-party benefit. And the €70 million linked to the credit devaluation fund, which is very much continuous of what we did last year.

<Q - Enrico Bartoli>: And as far as 2017 is concerned, can we expect something similar or will there be a reduction?

<A - Luca Moroni>: We will be working in continuity. We will have to go over the dynamics concerning the Salvaguardia credit. For the time being, our head offices have some further provisions. This is a very specific topic, of course. We'll have to be looking at the portfolio dynamics that we are taking over for the new territories we are working in. We'll have to be looking at the customers present within that specific portfolio because the customers have different risk levels, therefore, depending on how the portfolio will be made up compared to our initial hypothesis and the budget, we will have you round-up or round-down these dynamics. We'll have clear ideas later on during the year.

Operator

The next question is by Stefano Gamberini, Equita SIM.

<Q - Stefano Gamberini>: Good evening, everybody. My first question is some further insight on the Cassa Conguaglio reimbursement, the €360 million. What do they refer to? Are these Salvaguardia credits which were closed in 2016? Or is there a portion linked to the new year. Another what I wanted to understand is whether or not, in the Energy business, we can already have the contribution in the Gas sector from EBITDA [indiscernible] (46:52) electricity and EBITDA. And in the networks part, electricity, has there been a one-off linked to the change in time lag and how much was it in 2016, of course? I also have a couple of questions on future developments, M&A and acquisitions. First of all, is there any news as far as the competences of the National Authorities as far as the waste decision is concerned? Can there be a speeding up in the process? And secondly, do you have a comment to make on [indiscernible] (47:37) sector on whether or not certain customers will be auctioned off? Do you have any updates on that? Thank you.

<A>: I'll begin with your last question to give you an answer on Madia Decree. In terms of a tangible effect, I can't say very much just because I don't want to bring bad luck. But from what I know, a solution has been reached by the Ministry of the Environment and the Ministry of Industry, and the Parliament should be approving the decree by late May. But as we've already mentioned, this doesn't – this isn't limited to the creation of the authority, which are very important, of course. We really look at the situation prior to the authority and the water sector, of course, we would have a completely different picture.

And waste is even more important compared to the waste sector. So, I think that given the competence for the waste sector to the authority is key, of course, but there's another article, in the same decree, which has to be approved, which is key for the tenders. Currently, the waste concessions have expired for quite some time and they have been extended by the regional government because we still don't have the rule to the tenders. And in order to address the rules of tenders, one of the first thing which has to be done is to set the catchment areas, the territories for the tenders. If the tenders aren't amended as is envisioned by the Madia Decree, we will continue to have a very fragmented sector, whereas where the geographical scope of the catchment areas for the waste business to be based on provinces, of course, that would bring about a number of mergers which would organize the sector, solving many of its difficulties, and it would reduce the in-house solutions which were to block any possible mergers.

So the second comma included in the Madia Decree following the one pertaining to the national authority is just as support if we look at it from this point of view. Let me answer your other questions. You asked what the impact on networks is due to the timeline. That's worth roughly €10 million. And this is what we also share with the audit teams, with the auditors, and it refers to the current figures. It doesn't refer to any recoveries from previous years. So it only refers to 2016, €10 million. The proportions refer to the RAB, roughly 50% in water, and the remaining 50% in gas and energy.

<Q - Stefano Gamberini>: How is the energy result split?

<A>: Out of the €240 million, €150 million refer to gas and a part of heat management. The remaining part, €90 million refers to energy. You were asking about the Cassa Conguaglio mechanism. Basically, all of the Salvaguardia credits, which are classified as referring to a non-disconnectable clients such as hospitals for instance, or prisons, or fire brigade facilities, these are all guaranteed by the former Cassa Conguaglio. Every two years, we do the figures and we are reimbursed of the non-cash in credits. The ones we cash in at the end of December refer to 2015, we have nothing, as far as 2017 is concerned, we're still missing the final figures for 2016. That's something we cover every two years. And then the Madia Decree market, this isn't a debate I'm particularly interested in. I don't think that auctions are an appropriate tool. I do not appreciate this kind of solution. It doesn't interest me because the overall [indiscernible] (53:19) for my customer as far as Madia Decree are concerned are 180,000, out of a total number of 900,000 customers we have on our portfolio. And if we have the facilities, the structures and the abilities to invoice and manage this market, I don't think the auctions are the right tool, again, also given the goal. But of course if the auctions will happen, we will take part in the auctions. We are well equipped. I think it can only be positive given the conditions we currently have.

<Q - Stefano Gamberini>: Just a quick follow up on Cassa Conguaglio. You have cashed in €65 million in 2015. What about the provisions made? Don't you think – are they not excessive vis-à-vis the increase of bad credits you had over the past two years?

<A>: The [indiscernible] (54:26) market is made up of a non-disconnectable client and disconnectable clients. The former belong to Republic administration, the latter refer to the business market. And provisions are basically linked to the disconnectable business customers.

<Q - Stefano Gamberini>: Thank you very much.

Operator

The next question is by [indiscernible] (54:56).

<Q>: Good afternoon. Can you give us a breakdown of the networks business unit, gas and electricity and water? And as far as water is concerned, you were mentioning the recognition of premiums. Can you give us an indication of the premiums for 2017, also including the technical side of things, with reference to the recent documents? And my other question refers to power gen. Can you give us an idea of a one-off element which may have an impact on MSD, for instance? Do you have any ancillary services which may emerge over the next year? And the last question is, can you give us a breakdown of national charges? You also mentioned the companies and equity. Can you give us details as far as this point is concerned?

<A>: The networks picked up, first of all. Networks have a €424 million result. €230 million refer to water, €138 million refer to gas distribution, and €57 million refer to electricity and district heating. This is the breakdown of our margins. As far as the quality of technical service is concerned, we won't have effects on 2017, since the process of the consultation document up to the final deliberation, we'll cover the entire year, which means that in the best possible scenario, we will have an application beginning on January 1, 2018. I cannot make any forecasts to-date concerning the parameters mentioned in the consultation document, although none of these is of concern to us. The third question refers to the components, vis-à-vis the previous year. The contribution of MSD was €10 million more in the first semester of the year. So it's [indiscernible] (58:01) and especially sizable amount. And as far as our contribution stemming from the companies we have taken, I'll leave it to Luca.

<A - Luca Moroni>: Our financial management is at €117 million, vis-à-vis €134 million last year. €10 million or €12 million refer to profits stemming from our joint ventures. €16 million, €17 million stemmed from the AS accounting principles. The remaining part refers to pure financial management, which also includes the cost of debt and all the other costs referring to other types of financial burdens.

<Q>: Final question. What do you expect in terms of the contributions to make from landfills, especially the second landfill, which was opened following the one in Ravenna, the one in Imola?

<A>: If your question is how much we expect to recover this year, I'd have to go look for the figures. What I can say is that the three landfills envisaged by the regional waste plan of two landfills to be maintained over time, 1.5 are the ones which are currently operational, the ones Mr. Venier referring to. The other two are being worked on to broaden them. So that we can go back to a level of a complete security we would have to complete the authorization and the working of one of these two. But if your question refers to the need for landfills, we currently have – the 1.5 landfills we currently use are enough. We don't have to turn any waste away. And take into account that as far as urban waste is concerned, the amount of urban waste disposal landfills is on the decline. We use landfills more for special waste. I don't have the current figures. If you do want the figures we can let

you know tomorrow. Plus, you also have to take into account that two years ago, we acquired two further landfills for the Veneto region. In that part of the country, we only had two waste energy plants no landfills. That was what [indiscernible] (01:01:18) had, which means that currently we have two further landfills in the Veneto area as well.

<Q>: Thank you.

Operator

The following question is a follow up by Enrico Bartoli, MainFirst.

<Q - Enrico Bartoli>: A couple of follow-up questions. Can the chairman update us on your discussions with other [indiscernible] (01:01:46) utilities as far as M&A is concerned? Is the situation similar to the one in January, or has it been an evolution of sorts? And the second question is on the gas tenders. Do you have any news on the timing for the tenders in the areas you are involved in?

<A - Tomaso Tommasi di Vignano>: As far as the tenders are concerned, the timing update is the following. What we expect is that over the next two months a couple of these calls for tenders will be published. There is a target which is being discussed. They were technical discussion. I don't want to bore you with on the rights to remuneration for the assets companies which has an impact in one of these two tenders, which means that we are waiting for further clarification upon the ministry of economic development and without which the tender will be published anyway. So over the two months, a couple of tenders will be started and the rest will follow. I think a couple or two will be happening – a further couple will be happening within the end of the year.

As far as M&A is concerned, compared to what we discussed last time we met, two things happened, in January 2017, we concluded two transactions in Tuscany, both of which referred to the waste business. The authorization has been completed and everything. We also concluded the Aliplast transaction which received the authorization from the Antitrust body. And one of our representative is also in the Aliplast board of directors and will be completing the transaction by April. This is what happened. These are two opportunities in the waste business which is proof of what I was mentioning, concerning the regulatory contents referring to the Madia Decree.

In this sector, we have a huge number of companies and also huge number of opportunities on the market side of things, from private companies. These were opportunities we were able to seize both in 2016 and in 2017 as a way of choosing the things we like the most and also by discussing things quickly with counterparts interested in selling. As far as public owners are concerned, without the Madia Decree, there would be no pressure on these public owners to merge or to sell to larger companies. That's why we feel that it would be very useful indeed to complete the approval of the Decree and the implementation of the Decree. Everything else is linked to whatever I was mentioning.

Multi-utilities can also be involved in the waste sector, and if they don't see any possible evolution in the regulatory context, they will simply wait and see what will happen. We've seen this happened very close to us, even within us. But despite all this, we will continue to work. Whenever we draft a business plan, we draft a business plan so that we can achieve our targets to improve in this time and time again. In the business plan, we expect to complete some M&A. We have the resources to do this and to deal with these opportunities. It's important for M&A to happen, and we will be focused either on acquisitions and other transactions. And we're sure we'll be able to achieve the targets in the business plan.

Operator

[Operator Instructions] Mr. Tomaso Vignano, gentlemen, for the time being there are no further questions.

Tomaso Tommasi di Vignano

Thank you. Goodbye. And we will be seeing you soon in the Q1 presentation will be happening in mid-May. Thank you very much.

Operator

This is the Chorus Call operator. The conference call is now over. You can disconnect your phones. Thank you.