



Results as at 30th June 2016

Santa Croce sull'Arno, 28th July 2016

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 2016 Financial Results for Hera Group. All participants are in listen-only mode, and following the initial presentation, there will be a Q&A session. (Operator Instructions).

I'd now like to give the floor to Mr. Tomaso Tommasi di Vignano, Hera Group's Executive Chairman. Mr. Tommasi di Vignano, you have the floor.

Mr. Tommasi di Vignano – Executive Chairman

Good afternoon. We are here with our usual team and we recently concluded the Hera Group Board of Directors Meeting for the approval of our H1 financial results. So, we are speaking to you from Tuscany, since our Board Meeting was held in Tuscany in fact today, so that our Board members could get to know the new company was showing our perimeter as of January 1st, namely Waste Recycling, a waste company operating for the most part in the industrial waste sector and therefore we all travelled to get to know this new company of ours.

I think that we are quite satisfied with the first half of the year. And as you'll be able to see, we were able to overcome the concerns, which some changes in the regulatory framework, which we were aware of, had brought about and therefore we had to deal with these issues with a certain enthusiasm as a way of overcoming all of the negative regulatory changes vis-a-vis growth.

And, once again, our soundness shown through, because, as you can see, we have been able to post positive results, and the same can be said for the evolution of our balance sheet, meaning that the growth in EBITDA is a further growth that you are perfectly aware of and we were able to overcome some of the elements in the context which emerged through the first half of the year, and which will probably last throughout 2016.

The growth was mainly due to our operations growth, especially growth in terms of efficiency, and this was a growth which we were able to post all the way down to the bottom line.

Our H1 results also posted a growth vis-a-vis Q1 and also year-on-year, despite the cuts in the tariffs in the regulated businesses. These results are, in fact, the outcome of the Group's organic governance, and they also stem, as we'll be seeing, from the contribution brought about by the M&A transactions, which happened at the very beginning of 2016 or rather between the end of 2015 and early 2016 and their contribution to the results started happening as of January this year.

We were able to further improve our financial soundness and also vis-a-vis our debt, with a reduction in debt as a matter of fact equal to EUR27 million with a total which is now equal to EUR2,624 million.

Revenues had dipped slightly due to the drop in energy prices due to the expiry of certain incentives such as CIP6 and certificates. Furthermore, we also have the effect stemming from the cut in WACC, which I also mentioned, which happened as of January 1st on the three regulated sectors in our networks businesses.

Our EBITDA grew by 2.4%, with an EBITDA margin which was up above 20%, and that too is a comforting and positive element. Our provisions increased with the increase of our perimeter, which is something that we will be going back to later, which were able to also offset the lower accruals in the same amount of time.

Our financial governance highlights a decrease in costs, which is in line with the previous quarters, and it brings about further stability to the figures stemming from our joint ventures, which contributes to our financial soundness.

As far as taxes are concerned, our tax rate is at 35.7%, given the effects of a number of further optimizations vis-à-vis 37.2% in the previous period and the growth in net profit post minorities is close to 13%, 12.8% to be precise.

These are the fundamental components of our results both in terms of the negative elements namely the WACC cut and the correction made to certificates, as I mentioned, of EUR14 million, as you can see on page 3 of our report.

14.6 million is the effect of organic growth, and a further 9 million stemming from the M&A operations, two of which are the more well-known ones, which happened at the beginning of the year in the waste sector, and a further transaction which happened in the month of March.

Thanks to the acquisition of a company in the energy customers field, also in the Adriatic region, which brought about a further 15,000 customers, thanks to this new acquisition.

These were the fundamental elements in our P&L account. And now I'd like to give the floor to Stefano to give you a business-by-business breakdown in terms of how they contributed to the results.

Mr. Venier – Chief Executive Officer

Thank you and good afternoon. As usual, we can begin with the waste business in which we posted EUR116.5 million of results vis-a-vis the 119.8 results posted last year with a reduction equal to some EUR3.3 million, which was pretty much in line with what we saw at the end of Q1 in which we have posted a EUR2.5 million contraction.

As I was saying, the already-mentioned impact of the cost of electricity and the expiry of certain incentives had an impact, plus the review of green certificate prices for a total in the quarter of EUR9.3 million. This was almost fully offset by the effect of the contribution of the acquisitions we made at the end of last year, which you may remember, one of which is actually hosting us today Waste Recycling, which was the most important acquisition we made from the strategic point of view as well.

To these results, we also have the contribution of a progressive bounce back and the market values which is equal to EUR4.2 million vis-a-vis the same quarter last year, which goes to show that not only have we had a recovery in the volumes managed, but also in terms of the overall prices.

And, I would also like to add that, this is a pretty general trend, in the first six or seven categories of treated waste, we have seen an increase in all these sectors ranging from EUR1 to EUR4 per ton.

And as we had already mentioned, during Q1, we continued to have the shortcomings and the availability of landfills, which we feel we will be able to overcome beginning in the month of August, namely through the Ravenna landfill, which had an impact equal to EUR6.8 million in terms of lower volumes managed.

But again, we feel that, this has also -- this also led to missed market opportunities, and this is all the more true if we look at the waste destination from which we can gather that compared to two or three years ago, the contribution of landfills which used to be equal to 18%, equal to 560,000 tons, dropped down to 371,000 tons in 2016, minus 11%.

This is the figure, which actually reflects the situation I described, which isn't what we expect for the second half of the year nor for the years ahead.

I was mentioning the excellent contribution made by the companies we acquired, specifically Waste Recycling and Geonova offered the opportunity to manage over 280,000 tons, which allowed us to post an increase of the total amount of volumes managed.

And as far as the waste collection services are concerned, we continued in our efficiency activities, which in 2015 had allowed us to improve our results by 2.5 million, with a similar figure even in H1 2016, with a positive contribution, therefore, to the overall results in the area.

Moving on to page 5 and to networks and regulated services, in this case, we have been able to post an increase in our result equal to EUR3.8 million, up to 216.4 million, which is partly due to the initiatives that we launched in terms of increasing efficiency, but also which is something that other operators started doing already in 2015, we decided to realign the time lag and returns for electricity distribution, to realign them to when the actual costs were made. So, therefore, we were able to realign the time lag. This is a very technical element in terms of realigning the specific criterion, which allowed us to make a recovery on the previous four years [ph], which accounts for roughly EUR13 million.

And, if you add a further EUR3 million to EUR4 million in terms of efficiency, this allows us to have an improvement equal to 16.3 million, which has completely offset the 12.5 million, which is due to the WACC cut.

Another obvious element, which you can see in the lower graph on page 5, and as of July 1st, we also began with the Inrete company, which manages our energy services, specifically gas distribution and energy distribution – and electricity distribution, excuse me, and take into account that we also transferred an equivalent RAB equal to 1.5 billion

and an amount of resources which is above 600 to 700 units. Everything proceeded well, and this is something that we are especially proud of.

And one last element is the fact that I can confirm that as far as water management is concerned, we sent in our report for the quality of service, which is accepted by the local authority, which is then forwarded to the Central Authority to the GSI for the final approval.

As usual, I also want to focus on the EBITDA breakdown. To the typical question of yours, for H1 2016 for the various businesses, gas distribution out of the total 216.4 million accounts for 72 million, electricity accounts for 29 million, water accounts 106.5 million, and the remaining part is equal to district heating namely 9 million to 9.5 million.

And finally, let me move on to energy, the liberalized part of the market. This quarter also shows how positive this area was, and it obviously gave a major contribution to fully offset the WACC cuts and the other effects we posted in the waste sector with an increase in the performances, which I mentioned earlier, equal to EUR11.2 million. That is the organic growth, which stems for the most part from the electricity activities both in terms of power gen and as far as our commercial activities to end-users, and 0.4 as a contribution from M&A, which stems from the Julia Servizi Piu acquisition, which we made beginning in April this year.

We are close to the EUR2.3 million threshold with an increase in our customer base. With the acquisition of Julia Piu, we now rank third in the players of the Adriatic Coast in the Marche and Abruzzo regions. And, over the years, we grew from having a few dozen thousand customers to the current figures.

Obviously, the price dynamics in electricity and gas had an impact on profit and also on certain activities such as gas trading, which weren't able to post the same performances we had in 2015. Nevertheless, power gen was able to make a significant contribution both with ancillary services, which is worth some EUR6 million to EUR7 million, but also in terms of production due to the effects of a number of positions in delivery in 2016, which we had taken at the end of last year.

Unfortunately, the results at the end of Q1 could have been even better had we not had a mild winter, which accounted for a decrease in 30 million cubic meters in sales, which is what we had last year. So the overall result is worth 128.6 million, which is the overall result for the supply side, which confirms a position within our portfolio, bringing it to slightly above the contribution made by the waste sector.

Luca, you have the floor.

Mr. Moroni - Administration, Finance And Control Director

Good afternoon. We had another very positive quarter in terms of generation of cash. We closed the first half of the year with cash flows worth over EUR180 million, almost EUR50 million more compared to last year, thanks to the contribution brought about by operational levers but also by the working capital. This allowed us to fully cover our investments worth EUR152 million, which compared to last year are equal to a further 9%, and to have enough cash to be able to fully cover the dividends worth EUR144 million, which was paid in the month of June, and to also allow us to reduce our financial indebtedness down to EUR2.624 billion compared to EUR2.652 billion at the end of last year. All of this was made possible, thanks to constant efficiency and the careful attention paid, not only to the free cash flow, but also to the cost of debt, which was further reduced by a few basis points, down to 3 points -- down a further 3.7%. And, as we already mentioned, we also had the optimization of our tax rate, which also contributed to our cash flow. Very good performance from the financial standpoint, therefore, with the debt-to-EBITDA ratio, which is down to 2.93 times as of June 30th compared to 3 times last year.

Mr. Tommasi di Vignano – Executive Chairman

Therefore, even in terms of financial metrics, this mirrors the action of work conducted in recent times, which brings us to our conclusions.

And I'm sure that you share our view that the first half of the year was good, we had a growth in EBITDA, which was fairly good despite the 21 million negative effects which we were able to re-absorb, thanks to our work.

And before I conclude, let me give you a further element, besides the results, which we posted and which we illustrated, we can also mention that the intense activities that we focused on, together with our CEO in recent months, working on a number of operations, as you also heard, and also continuing in our scouting activities to look for possible M&A opportunities, both through acquisitions and through possible mergers with multi-utilities in the surrounding areas, and I think it's now safe to say that the time and efforts invested so far, which we mention time and time again, allows me to say that, we have now set up a number of contracts [ph], which will turn into results, which will have an impact on our P&L through a number of operations, which should be happening between the last quarter of this year for the initial operations and the first half of next year.

And, this is the way we will also be distributing our time and efforts. And therefore, our goal is to complete the five opportunities that we are looking at, which we are currently negotiating on. And, some of these negotiations are actually exclusive negotiations. Therefore, as you can see, this is a goal that we have referred to a number of times in the past. This was something that we're working on, and again it's now safe to say that we now have a potential we can look into as far as the impact on our future EBITDA will be. And, as I said, we will be focusing on both acquisitions and mergers,

and the impact on EBITDA will be in line with the forecast we made in our business plan. Which means that, were we to be able to complete all of these negotiations, we will be able to slightly exceed what we had included in our business plan forecast.

And furthermore, we're not being overly-optimistic, just by focusing on the state-of-the-art, we would not only be in line with our current business plan, but we would also be slightly ahead in our schedule in terms of how we intended to tackle this aspect. Therefore, I'm sure that this is an answer to some of your questions, questions that you've had for some time. And over time, we will make the announcements in a typical way.

And, as I said, these transactions will happen probably in the coming 10 months, some will happen immediately, and other operations will be completed over time. Therefore, we are moving ahead both from the organic side and in terms of broadening our perimeter, and we are continuing as we should.

I now leave the floor to you to ask you if you have any questions.

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. I have a few questions for you. The first is related to the Executive Chairman's last statement. On the announcement he made, when he said that, you are working on five opportunities that he had very clear in mind and he was saying that, these opportunities maybe completed between the end of this year and early 2017, if I understood correctly. So, you're saying that you have five negotiations that can be completed in the near future. Can you give us some further details on how these transactions can be financed? And with the cost of debt, which is especially low, perhaps you can have a larger cash component for these deals, which may be an advantage. Do you agree with this view?

And then I have a second question on the cash flow statement. I saw that you have a positive contribution from working capital equal to 41 million. Can you help us understand why that is and what do you expect for the end of the year? And then as far as the networks are concerned, on slide 5, you were mentioning various initiatives as a way of offsetting the cut in the WACC. Can you tell us what these initiatives are? And then a final question on the fact that you were mentioning the positive trends in the waste business, both in terms of demand and in terms of prices. Can you be a little bit more specific in these underlying trends that you are seeing?

Mr. Venier – Chief Executive Officer

Beginning with your last question on the underlying trends in prices, let me give you some very practical examples. As you know, in the management of special waste, we have three or four major categories, dry waste, which can be sent to both the landfills and to waste-to-energy plants, and you have the humid waste, which are sent into adjusting [ph] processes and which bring about composing that we have hazardous waste. These are three macro categories.

What we're seeing now is that, as far as dry waste is concerned, there has been an increase in price somewhere between 4% and 5% vis-a-vis the average price in the -- in H1 2015. As far as humid waste is concerned, the increase have been in the range of 1% to 1.5%. Hazardous waste is up 1% to 1.5%.

All of these changes in percentages bring about a change in prices which range from EUR2 to EUR3 and EUR4 to EUR5 per ton, and this is the picture we are seeing today, which is nothing extraordinary, because if you look back in time, we're simply going back to a price range similar to the ones we had in 2010 and 2012.

We had a major dip, which peaked in 2014, and now we are having a bounce back over time. As far as the tangible initiatives to increase efficiency or to cut costs are concerned, the things we're doing on the regulated side of things, these are the things we mentioned in the business plan for the most part. We are continuing along those lines.

Just to give you a few examples. As far as the water cycle is concerned, we are focusing on issues such as increasing energy efficiency to optimize maintenance and to plan and standardize maintenance activities in terms of materials used and actions.

As far as waste collection is concerned, we are working to optimize the collection cycles as a way of optimizing waste flows and as a way of optimizing our vehicles.

Also thanks to the fact that, last year, after 2.5 years' efforts, we have started a platform called HergoAmbiente through which we were able to digitalize our waste collection services, we are now able to map and geolocalize every waste collection box in the territory, every single vehicle in the territory, and every use of the system, which means that together with the quantitative side of things, we're able to optimize workloads, routes and the use of vehicles with an obvious effect on saving on fuel and on the use of vehicles. These are just two tangible examples of initiatives, which

make a contribution. This isn't a contribution worth dozens of million euros per year. But each of these examples allow us to save 0.5 million, 0.8 million and each piece allows us to reach an objective, which is what we achieved last year, for instance, with a savings worth EUR24 million, which is the target we also have for this year, which is the fourth year in a row for our cost rationalization process, which we started four years ago. As far as cash flows are concerned, I'll give the floor to Luca for some specific answers.

Mr. Moroni - Administration, Finance And Control Director

Beginning with the second part of your question on our forecasts. Our view is that we will be closing the year with PFN, which is in line with the figures we had in 2015. As we were also able to see in Q1, we're also seeing a very good trend as far as the free cash flow is concerned, thanks to all of the actions that we worked on, especially in managing credits, all of which are bringing about good results.

This is something that we are seeing in all of the business segments, segments in which we have been constantly monitoring all of the phases of the process from origination to managing customers in our portfolio and recovery, which is now fully automated and with increased efficiency both in terms of cost and time.

This is obviously bringing about some positive effects, both in terms of cash, which means that we were able to decrease the time needed to cash and therefore we have positive cash flows, and also in terms of risk, because we were able to decrease the portfolio risk and this is the positive effect that we are -- that we have been appreciating for quite some time and which is also obviously mirrored in the first half of the year's free cash flow. Therefore, this is an industrial improvement in working capital, it isn't a one-off that you expect to reabsorb. This is an improvement that you expect to be permanent. It is a stable effect which we feel should be structural.

Mr. Tommasi di Vignano - Executive Chairman

Going back to your remarks on M&A, I believe the summary you made coincides with the remarks I made. Just to be a little bit more specific; as far as the timeframe I was referring to, I was referring to the time which elapses between tomorrow and the end of the year and the beginning of 2017. These are all negotiations, which have been started in a positive way. So this was the first remark I wanted to make.

Your second point, concerning cash, there will certainly be instances in which the transactions will be concluded through cash entirely because that among the projects, I mentioned, we have some projects which refer to the production chain, one of which is very important and the waste sector, which will require the use of cash, these are free market negotiations with the private counterparts wishing to cash in on the transaction and therefore we'll have to use our cash.

There are other instances, which are more typically related to the multi-utility sector, those transactions are more focused on share swaps. There may be, of course, a cash portion, but that would typically be a minor part of the transaction. And this is just a description of two sectors, which are nothing new as a matter of fact. If you look at the business plan presentation that was the same paradigm that we announced and it's the same paradigm that we are focusing on.

You mentioned at the very end that perhaps it would be a good idea for us to add some further transactions. But I think that there are two positive things to be said. The first refers to the issue of credibility. We aren't used to announcing random figures. We've mentioned our estimate concerning the number of transactions that the market could offer for the business pioneers. And after a year we completed two or three transactions and we are currently able to say that we feel confident we'll be able to meet our business plan goals before 2019, as we had forecasted in the business plan. So this is the second major novelty.

But just like every other time, you typically ask questions on the effects of M&A and the business plan to be factored in, allow me to mention the fact that whenever we make these announcements we then also complete them. So I think that you should take our business plan forecast seriously, there is credibility in terms of meeting those goals.

And, therefore, given the fact that we have a very intense program, I don't even want to go into the last two years of the business plan, in January, hopefully illustrating our new business plan and we'll be seeing how we'll be able to spread both the completed transactions and our further forecasts.

Mr. Bartoli, MainFirst

Good afternoon. I also have some questions for you. The first refers to the water sector, you mentioned that the tariff proposals are currently in the approval phase. Can you give us some further details in terms of timing and a specific indication on the contribution of tariff increases in the second half of the year? Should we expect the new tariffs to be able to offset the WACC cut in the second half of the year?

Second question on waste. You are mentioning the fact that the Ravenna landfill should be operational in the coming months. Can you give us some further details on how you expect to reopen the currently closed landfills? And also as far as waste is concerned, can this recovery bring about a further recovery in H2 in terms of the EBITDA gap which

exists? And finally, can you give us an update on your views, on your feelings in terms of the regulatory frameworks, the implementation decrease and the Madia Decree, can they have an impact on the M&A sector in general?

Mr. Venier – Chief Executive Officer

As far as the water tariffs are concerned, as per schedule, at the end of April and early May, we sent in our tariff proposals. Yesterday, our regional -- Emilia-Romagna, our Regional Council, met to assess the tariffs and they will now be uploaded on the authorities' site. And the authorities should be approving them definitely in the month of August. These tariff proposals are pretty much defined, they already were with the decision made at the end of last year by the authority and therefore the first half of the year reflects the tariff impact that we expected from these new tariff proposals.

Unless, there were to be a review, which would be equal to a EUR1 million, there weren't very many other aspects to define, therefore the first half of the year already applied these new tariffs beginning in January 1st, 2016; both on the negative side, which refers to the WACC and the positive side as well. As I was mentioning, the news is the quality of service, which is a report that we drafted and sent in. We adhere to a performance incentive [ph] that without the extra QC costs, we are already capable of offering service levels, which are very much above the ones defined by the authority and we had a debate with the local authority.

The local authority's procession was, well, if you already outdo our standards, we shouldn't have to reward you. I think that sometimes it's a matter of a bizarre or naive interpretations. But having said that, we will have the first partial application in 2016, which in terms of euros is worth of a few million euros and then we will have a progressively broader application beginning in 2017.

2016 is somewhat an experiment, but I think if there aren't very many distances in the quality of the services or very many instances as far as quality of the services are concerned, sent in to the authority, as far as the impact of the cut -- WACC is concerned, it's a little difficult to say specifically as far as the water cycle is concerned.

Also because you have to take into account that the impact of WACC of water is worth over EUR50 million as far as we're concerned, plus last year we had some items, referring to the recovery of the certain recoveries, which date back to other tariff schemes. And, therefore, in general terms of the networks sectors we are breaking even, thanks to the EUR13 million contribution, which we won't have any issue, therefore, our contraction shouldn't be above EUR8 million to EUR10 million, which is less than half compared to the EUR25 million WACC impact; just to give you a clear picture.

As far as the question of the Ravenna landfill is concerned, we performed the tests, we're waiting for the final visit from the authorities, so that we can have the authorization to be able to use the landfill. Hopefully, this will be happening in the next few days before the summer holidays.

And as far as the Madia Decree is concerned, the part of the decree which was approved and published today on joint ventures or just something that we are less interested in, the one that we are more interested in is that one concerning the redefinition of a local public services within which there are the important provisions concerning waste services equal to network services with any number of other provisions included therein, which we hope we'll be able to recruit as soon as possible, because we do hope that the authority will have to work in the waste sector. We know how important it would be.

Chorus Call operator

The next question is by Stefano Gamberini, Equita.

Mr. Gamberini, Equita Sim

Yes, good afternoon. Concerning M&A, the five acquisitions you mentioned. You're mentioning that your target is worth EUR112 million in terms of EBITDA, a further EUR112 million in terms of EBITDA. This is the size of the acquisitions you're looking at, or should we subtract the EUR10 million to EUR20 million of the already completed acquisitions?

My second question concerns that EBITDA on electricity sales and I have a breakdown also for gas sales. Can you help us understand the contraction you had in trading, and since you already signed the contracts for 2017, what should we expect in terms of margins in 2017 both for gas and for power gen?

Another question that refers to the EUR9.3 million negative effects of energy prices and CIP6. Should we expect the same negative impact in the second half of the year, or do you think there are some seasonal elements, the loss of incentives, which happened in 2015, for instance, and therefore the impact on 2016 should be lower?

And a final question on the entire year. Your debt level at 2.6 billion, will it actually be reduced, thanks to working capital, and therefore, will we have an improvement worth EUR40 million to EUR50 million in working capital will have an impact on the overall year? And as far as your EBITDA target was concerned, do you expect to post a flat EBITDA compared to 2015, and do you have any further elements after H1 which quickly change your mind?

Mr. Tommasi di Vignano - Executive Chairman

Mr. Gamberini's memory is excellent. In fact, our business plan mentioned a contribution at the end of the business plan worth EUR112 million in terms of EBITDA. Obviously, as of today, we've mentioned, both in quantity and quality what the operations we're looking at are. My reference as to what they may be worth in terms of impacts adding the ones in the specific businesses through the multi-utilities is in line with the figure we're mentioning, it's now slightly above the one you mentioned, plus, you also have to take into account that with the caution that we look at these figures with since we still didn't have an idea of how these targets would be distributed over time, we had made no forecast on the synergies, which we can extract from all of these projects.

Meaning that for the time-being, our forecast is EUR112 million, plus a few more million. But we also have to then understand the important synergies which we can extract from these transactions, plus, the dilution over time is obviously linked to some negotiations, which maybe more complex, another is which may be easier, because especially when it comes to the single business acquisitions, our counterparts are typically private owners and therefore negotiations can be simpler.

Obviously, we can't say we'll be able to complete everything overnight. Some of the negotiations are more advanced, others less, but the negotiations are all ongoing. So these are the general figures, which I don't think we will be moving very much from.

And then, as far as the years following 2017, our concern we'll see. We already made three transactions – three acquisitions last year which aren't factored in to these figures, because we're currently looking at the current State of Affairs.

Mr. Stefano Venier – Chief Executive Officer

You were mentioning the contraction in gas trading. In recent months we had to price some of the PSV worth EUR0.15 to EUR0.16 per cubic meter and a spread on TFF [ph] which is below EUR0.03. There is no possibility to trade between the Northern European prices and Southern European prices, which was a condition we had last year. And the same goes for stout [ph] gas, if we don't bring down physical gas from North Europe due to the absence of a spread, the capacity we have on the tag cannot be fulfilled, but of course we still have to pay for the capacity, because the 0.5 billion capacity we have is worth what it's worth.

Therefore, on the one hand, we cannot post the margin we expected by trading between the positions of the two basins and we can't even use the physical capacity to bring down gas through the capacity that we have, which means that on the one hand, we had a few opportunities less, and on the other that also gave the entire burden to the trading unit, which have brought about a contraction worth at EUR3 million to EUR3.5 million vis-a-vis the previous year.

As far as 2017 is concerned, we completed our positions for a significant part of the supply, vis-a-vis the current contracts, which will be expiring in September, the negotiation was satisfactory. It wasn't exactly on the same levels. There was a slight contraction in benefits, but these were -- the contraction was minor worth EUR3 million to EUR4 million and therefore it doesn't have a major impact on margins, probably it's only worth of couple of million euros. Then you had a question on the EUR9.3 million impact. Within that figure, 2.5 million dependent from the PUN price, which obviously refer to the PUN performance in the second half of the year, which could be reduced, if the price were to go up in the coming months since these are in delivery at a variable price. Everything else of the other EUR7 million are connected to the CV price dynamics, to the expired CIP6 incentives and the expired green certificates of the Ferrara which is a energy plant from 60% to 100%, which means that in H2 we will be seeing this again, plus we'll also have the final expiry of the CIP6 incentives of the Molise which is an energy plant., which will bring about a couple of million euro burden on the overall results in H2, which is something that we already took into account in our budget forecasts. It was something that has been forecasted as far as its impact is concerned.

Your final question was on debt. EUR2.65 billion, which was the level posted last year, a level which pretty much reflects the dynamic we expect obviously without taking into account the M&A transaction where we need to complete one of these transactions by the end of the year, with an important economic effect this would have an impact on debt, going below 2.65 billion to-date given our current profile is unimaginable.

Also because compared to last year, at this year we expect to have a further EUR30 million to invest, which is an investment which goes into the RAB, which absorbs EUR30 million to EUR35 million more compared to last year. Moving on to the guideline concerning EBITDA. Last time we said that we want to post at least the same EBITDA level we had last year, which is where we stand, plus, give or take EUR1 million or EUR2 million, that's the figure. But we had also said, as you can see from the H1 results that as far as the bottom line is concerned things were going considerably better compared to last year.

Mr. Gamberini, Equita Sim

Just a very short follow-up, if I may. Can you give us the EBITDA breakdown for gas sales and electricity and power generation?

Mr. Stefano Venier – Chief Executive Officer

As far as gas supply is concerned, it's EUR75 million to EUR80 million, whereas the power-gen is worth some 10 million.

Chorus Call operator

Our next question is by Dario Carradori, Goldman Sachs.

Mr. Carradori, Goldman Sachs

I also have a few questions for you, beginning with M&A. As far as the timeframe is concerned, you mentioned that nothing much happened over the past 12 months to 18 months, you only had some minor transactions. Now I was wondering why it is that you can now announce five transactions in the coming 12 months. Are there any regulatory, political or economic reasons behind these transactions happening at the same time? Can you give us some further details on the business profile of these companies?

Generally speaking, is the business profile of these companies similar to yours in terms of your business mix? As a way of understanding whether or not the synergy potential is in-line with Hera's track record in obtaining synergies through acquisitions or mergers?

And then just two final quick questions on your figures. Do you think your tax rate is sustainable for the full-year? And I was looking at the cost of debt 3.7% [ph], the incremental cost of debt in the market is now lower currently, do you think there is a potential for any refinancing operation in the coming quarters?

Mr. Tommasi di Vignano - Executive Chairman

As far as M&A is concerned, let me see if I can explain just once again. We don't want to post or give you major figures all of a sudden. This is in-line with our track record, also in terms of the types of transaction, it's in-line with the business plan that you're familiar with both in terms of where these transactions are located and whenever there are acquisitions, they are located in liberalized market, namely energy, customers and the waste plants, waste assets. This is one side.

The other side refers to our attempts to broaden our perimeter through integrations by mergers, something that we have completed time and time again in the past. And you're right, we did slowdown in recent months as we've waited to understand how things would evolve. And all major players, in fact, had expectations in terms of how the regulatory framework would be reorganized, because we felt that with greater regulatory clarity we could have more availability for these types of transactions.

And also, as Mr. Venier was mentioning, we still don't have a perfectly clear view on the new regulation, but perhaps the fact that the context is a little bit more transparent or the fact that we can interpret the context a little bit more, perhaps this new context has brought about more opportunities compared to two years ago. But this isn't anything unexpected, it isn't anything mad, had you believed the figures we've mentioned in the business plan, you would have had a clear idea of the targets that we expect to be able to obtain in the upcoming months, things we've been working on over the past 18 months.

And in the past, we mentioned that we were working to look for interesting targets, the more interesting ones, the ones I mentioned. And we were assuring that the interesting opportunities would have emerged were just where we currently stand.

And as far as your requests for further clarifications on the industrial standpoint, with the five opportunities I mentioned, there is one which is especially innovated in the waste sector.

And again, within these five opportunities, it is also the one with a greater element of novelty and which requires a larger financial investment. These are the elements which make up a mix in our portfolio, and in addition to our portfolio, which is in-line with our multi-utility portfolio. We have no intention of going beyond our traditional sectors. We have no intention of going beyond our reference territories, which is what we also said to our Board of Directors, because today we had a number of elements to be more specific in terms of our business plan forecast. So this is a state-of-the-art. And what I would ask of you is to trust us. These are things that we will be able to complete in due time and it was the utmost transparency as you can appreciate by the way in which we explain our policies.

Mr. Stefano Venier – Chief Executive Officer

As far as the tax rate is concerned, we had given you a guidance between 36.5% and 37%, which is what we confirm vis-a-vis June, the end of the year, there was a certain progressive element as far as the IRAP tax is concerned, that's the range we're looking at. As far as any refinancing opportunities are concerned, we constantly look to the market for any possible opportunities. We are studying two possibilities. One, concerning liability management operations for our

bonds, and for the time-being, we don't feel the time is right, but towards the end of the year or early next year and by reducing maturity perhaps conditions may be more feasible for this type of a transaction. But unless we have objective conditions, we will continue to study the market to look into performing these transactions in the best possible way.

Mr. Carradori, Goldman Sachs

Just a follow-up question on M&A. To-date, is there any reason to believe that the synergy potential in these transactions, in principle, is it reasonable to presume that the synergy potential is in line with Hera's traditional ability to obtain synergies from M&A?

Mr. Tommasi di Vignano - Executive Chairman

It will certainly be safe to say, what you mentioned if history has a value in terms of determining what will happen in the future. Especially as far as mergers are concerned, our benchmark is to obtain synergies worth 20% to 25% of the target company's EBITDA over a period of time, equal to at least four years. Therefore, there is no reason why we shouldn't think that these opportunities should pose the same, but I don't think it would be safe for me to say much more than that.

Chorus Call operator

Next question is by Meris Tonin, Banca IMI.

Mrs. Meris Tonin, Banca IMI

A very quick question for you, on M&A transactions and on the financial flexibility you have, for any debt transactions, do you have a maximum target like considering the fact that at year-end at EUR2.65 billion debt you would have to compel out [ph] certain figures?

Mr. Stefano Venier – Chief Executive Officer

I think that we can manage a flexibility between EUR100 million and EUR150 million.

Chorus Call operator

Next question is a follow-up by Stefano Gamberini, Mediobanca.

Mr. Gamberini, Equita Sim

Just a very quick follow-up question on my previous one. EUR150 million and further EBITDA worth EUR100 million, means that most of these transactions in the upcoming nine months will happen through share swaps, because otherwise you would go well beyond the EUR100 million to EUR150 million financial flexibility you mentioned?

Mr. Stefano Venier – Chief Executive Officer

Let me clarify. The question was, what cash flexibility we have vis-a-vis in EBITDA like the one we had last year. And if you want to stay at a 3.1 times ratio, we can go out to EUR150 million. As I said earlier, three of these transactions will obviously have to happen through a share swap, and I have to look at normalized figures over a 12-month period, if we obviously have a transaction in the middle of the year, and if we only posed six months EBITDA with part of the debt, the industry [ph] can move a little bit, but it depends on the circumstances.

I interpreted the question in terms of the cash financial flexibility you have equal to this year's EBITDA and I said EUR100 million to EUR150 million, which is what we feel we can use currently as cash proceeds in terms of possible cash acquisitions.

Chorus Call operator

There are no further questions, gentlemen.

Mr. Tommasi di Vignano – Executive Chairman

Thank you very much. Enjoy your holidays and we will be enjoying them as well. There will be no negotiations in the coming weeks. Thank you.