



Results as of 30th September 2015

Bologna, 11th November 2015

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. And welcome to the Financial Results as of September 30, 2015 for Hera Group. All participants are in listen-only mode, and following the initial presentation, there will be some Q&A. (Operator Instructions).

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

Mr. Tommasi di Vignano – Executive Chairman

Good afternoon, everyone. We are here to present the results of the first nine months of 2015, which were recently approved by our Board. And once again in a nutshell, I feel we can confirm a positive track record also in light of the past nine months and with reference to our entire activities in recent years, especially during the crisis.

And this year, we were able to post a positive growth as far as EBITDA is concerned. Even this time, we have been able to confirm these trends with a number of specificities, with no change, whatsoever, because in each of the three quarters, that we have taken into account each line of our P&L from our revenues to EBITDA to our net profit has posted growth in each quarter.

And this confirms the fact that our company is continuing to work with its specific characteristics as we'll be seeing also in terms of how these results were obtained. And I think it's important to continue along the same path. In this recent quarter, we obviously had some more favorable conditions as far as the climate is concerned compared to 2014, and our results benefited from these conditions, especially on the energy sector, both in electricity and in gas as we'll be seeing. And this will certainly be a very important element also when we will have to take the final quarter into account, since the final quarter is the one, which is the one which relies most on the weather. These past few days have been very nice in terms of going to the beach, although the impact on consumption hasn't been quite as nice.

Our growth during the third quarter were characterized by organic growth alone, take into account that the effect of the AMGA acquisition concluded as of June 30, since AMGA is fully integrated and the first year, that was concluded in June 30 with the second quarter. We also posted a good result in terms of net profit with 17.7 million in Q3 and the growth over the nine-month period equal to 12.3%. Therefore once again, we were able to recover very well from those years in which we had the hard time in improving our figures.

As far as other comments on the results in this period of time is concerned, our revenues grew based on two factors especially; the weather on the one hand that I've already mentioned; plus better activities in our gas trading. And this, as you can see brought about a plus 8% in terms of revenues. I already mentioned that we have concluded the full integration of AMGA within Hera Group, but we are now focused on that [ph] synergies and we'll be going into that later.

We also had a good performance in terms of limiting our financial expenses with a 2.4 reduction compared to the previous year. As far as taxes are concerned, our tax rate has gone down from 40.6% last year to 38.3% this year. And this too is a part of the contribution to our net profit. And we also have to underline the reduction in minorities, following a number of a reorganization activities in Herambiente, which has absorbed two companies within it. These are two companies, which we have now acquired 100% of buying from the minority shareholders and this is part of a reduction in minorities. These are the fundamental elements of our P&L.

And moving on to page three now, concerning how the results were posted from the organic growth, synergies and M&A points of view. Organic growth and synergies of the nine month period grew 14 million as you can see and synergies contributed with 3.5 million. And the M&A contribution has a similar figures of a plus 13 million figure.

Obviously, the completion of the Amga Udine operation contributed to this increase, plus the acquisition of a company in the Abruzzo Region through which under the acquisition of an energy company. So once again, things are quite balanced.

Another remark on this perspective concerning our results pertains to the fact that, if we take into account the fact that in the first nine months of 2014, we have had the sum of a number of one-off operations equal to 13 million and if we add this figure to the growth of EBITDA, which we have to see, you'll notice that we would reach a total of 27 million, if we were to sum these two items, bringing us to the typical or traditional results of our growth.

And finally, as far as the integration activities are concerned, in another words, extraction of synergies from AcegasApsAmga, the extraction of synergies is in line with our forecast and we are now up to 19.6 million, beginning when we began integrating these companies in our group and plus the results we've already achieved, we obtained this EUR23 million that we have achieved during the past nine months. And this is yet further a positive confirmation of our ability to manage and find the right opportunities to increase efficiency and extract synergies. And this of course urges us to continue to look at any possible interesting opportunity as far as an M&A is concerned.

And as you know, we were involved in a number of scouting activities. In recent times, we focused on the waste sector and we are close to fulfilling one such transaction. And as you will be hearing from Mr. Venier, we decided to focus on this specific opportunities since the landfill sector had a number of short comments in terms of capacity throughout the year, given the expiration of a number of authorizations, plus the pressure brought about by European legislation on the landfill sector.

And therefore, we decided to focus on our traditional territory. We closed these five smallest landfills and we're working on enhancing the three larger landfills that will be kept even following the regional plan for waste, plus with this extra M&A operation, we decided to focus on acquiring new capacity, with the agreement we'll be signing next week.

And I think that, this is a very important and useful operation, because had we had this capacity at the beginning of the year, I'm sure we would have suffered less due to the lack of capacity. It wasn't a lack of capacity on the market side, and this was an impact that we did feel in 2015.

And now, I'd like to give the floor to Mr. Venier, who will be going over the details of each individual business sector.

Mr. Venier – Chief Executive Officer

Thank you and good afternoon. Let's begin with the waste sector, which is especially interested in giving the things the Executive Chairman already mentioned. There isn't very much line connect to his remarks and we don't have any major news compared to the last time we spoke, three months ago. This sector has had a 4 million contraction compared to last year, which is an improvement compared to Q1, which as you can see on this graph was the consequence of the volume of special waste contraction of special waste contraction, which were fully concentrated in Q1, which were brought about, as we heard by one landfill, a major landfill on our territory, which we can use.

Obviously, our intention is to expand territorially and also to expand from the commercial standpoint to the Veneto region and the acquisition we mentioned allows us to have 1.5 ton capacity in landfills, which will be exclusively dedicated to the special waste category and it represents a good complement to what we intend to achieve.

Going back to the first nine months results, we'll give you a snapshot compared to Q3 in terms of industrial performance. The performance on waste-to-energy plants was in line with our expectations. In Q3, as you may remember, we have had some unexpected shutdowns in Q1. The treatment of waste in terms of volumes was in line with our expectations with a good performance coming from our Emilia, from our Marche activities. The prices in Q3 as well, seem to confirm the trend, the growth that we had already mentioned compared to last year. And again, we have a tariff increase equal to a few percentage points, which account for an improvement of approximately EUR2 million in the first nine months compared to the previous year.

And this was also way of compensating or offsetting the effect in the reduction of the prices of electricity, which happened over the first nine months, which had a EUR2 million impact. As far as our actions as a way of tackling the situation is concerned, these include efficiency initiatives, initiatives to reduce costs, which account for almost EUR3 million in the waste collection business and a similar figure also in the waste treatment business, which allowed us to offset the commercial performance in special waste as I mentioned. Moving onto the network sector on page five. We now have a number of positive items, including district heating for instance, which is linked to the better thermal conditions that we were already able to observe in the first nine months.

We had some good results in the integrated water cycle with a EUR9.5 million growth vis-a-vis the same period last year. And also distribution was able to achieve plus 12.5 million, a figure which is partly related to the Amga Udine integration for some EUR6 million. Further 2 million plus stemmed from the integration and the development that we are working on in Bulgaria, and the remaining part of this amount stems from the optimization and the efficiency in our traditional perimeter, whereas EUR2.1 million are the benefits stemming from district heating.

Being the EUR307 million posted in the networks side of the business, is basically broken down; 170 million in water; 27.5 million in electricity distribution; 98 million in gas distribution; and slightly below 7 million in the district heating business. These are the four components, the four items, which bring about the total result of 307 million with the shift you can see on page five.

And finally, moving on to our commercial activities. We have a number of items here, number of components stemming from the weather, which allowed us to increase our gas sales quite sizably. As you can see on the page, obviously, a part of this increase in sales is linked to gas sales in our end customers and the other part relates to trading.

We also had a good growth in volumes concerning electricity with a 6% increase, two-thirds of which are linked to our commercial developments, and one-third of which is related to specific consumption, which was also induced by the

warm summer season, with a peak in household consumption and also in enterprise consumption. As far as commercial development in electricity is concerned, we had a 50,000 customer increase as of September 30, bringing our total number of customers to 844,000, which is a figure we had on September 30 this year. The negative note is partly linked to the performance of the limited number of stakes we have in power generation and the lower profits we have in dispatchment services, which were equal to EUR7 million less year-on-year, to which we also have to add a couple of sales of our production units for a total figure equal to minus 12.7 million.

This is the trend with the growth that is equal to an overall EUR27 million, EUR17 million of which is in gas sales, which is consistent with a recent figures and since the final quarter, third quarter of the year was summer. Again, it's perfectly in line with the story we were sharing with you following the first six months of the year.

I'll give the floor to Luca for some financial elements.

Mr. Moroni – Chief Financial Officer

Good afternoon. Yes, as of September 30, (inaudible) was equal to 38 million and which was better compared to June, which was 2.64 [ph] which is -- and is in line with the one in December. It is considerably better compared to September last year, which was above 2.7 billion.

And this certainly stems from the positive impact on free cash flow. For the first six months, we had commented the positive effect on the free cash flow, both were given by the Cassa conguaglio [ph] amount we received from the Cassa Conguaglio. And also given the constant attention paid to the -- to our credits which is very highly satisfactory in terms of the controlling the cash flow.

With an operating cash flow equal to EUR377 million, we were able to invest EUR220 million and the plus EUR13.4 million referred to working capital and the other figures, it was EUR3 million figure which allowed us to have enough cash to finance both the dividends equal to 142 million and the minorities acquisitions of a couple of companies in the waste business, the ones we already mentioned and that is worth 29 million, which leaves us with a plus 1.8 million change in debt compared to last year, meaning that, we are continuing to control our cash flow with a stable financial position and a sustainable one at that.

Mr. Tommasi di Vignano – Executive Chairman

Having said all of this, I don't think there is very much to add in our closing remarks, because the elements which have characterized for the first nine months of the year are the typical ones we've always said. The soundness of our track record on the one hand and even with the complex scenario we had to deal with in recent years, even this year, our track record is still very much in line. Our performance is in line with our track record.

We also refer to the expansion on the market. You heard our remarks on the energy sector and we are also working on strengthening our position in a number of initiatives, especially in the market, in the waste market. We have done this through internal operations within the group and by making the acquisition of stakes in certain sectors to strengthen our position in certain cycles.

We are about to complete an M&A transaction which I justified and explained during my previous remarks and probably by year-end, we will also be having another similar transaction, which we will be illustrating further on, which we will probably be concluding before year-end, so that it can be fully operational as of January next year. This further transaction will also refer to the waste sector, it is a niche activity but it's a quite significant one.

And you'll probably be asking when we will be issuing our update on the business plan. And having seen the most recent actions taken by the Energy Authority, I'm sure we'll be able to publish our update between the end of the year and the very first stage of 2016.

So these are the elements we have and we are very much available for any questions you may have.

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 by Javier Suarez, Mediobanca.

Mr. Suarez, Mediobanca

Good afternoon, everyone. I apologize for asking questions, which you may have already gone into. I was late for the conference call. The first question is on the regulatory review and the second consultation document. I wanted to know how the company interpret its document, not simply in terms of a change in methodology, but with specific reference to the assumption of the cost of debt, which seems especially low. And I want to compare this to the cost of debt the company has currently. So this would be the first question.

My second question is on M&A. The Chairman referred to the company's desire to grow in the waste and landfill sector. Now just as a way of understanding the rationale -- does this mean that the company wouldn't have the possibility of treating more waste? But given the difficulties and authorizations you've had in -- during the year, is this move of yours, a way of offsetting these difficulties or these obstacles?

And my third question is, the request for an update on the Italian political context in terms of promoting consolidation.

And moving into the details, what is the situation within Aimag?

Mr. Venier – Chief Executive Officer

As far as our regulatory framework is concerned, well, I think you have all read the document quite well, I've read your notes, all of your notes and you were quite satisfied with the indications included in the document. Of course, we have

some insight and some further remarks on this document. You mentioned the element of the cost of debt and frankly, the assumption included in that document seems quite negative because it takes into account certain elements, such as the transmission companies, which I don't feel should be considered.

Therefore, given the cost of debt included in the document, which isn't one of the highest in the sector, quite the contrary as a matter of fact, we are somewhat penalized, that's one aspect and there are a couple of more, very technical aspects, which as far as we're concerned should be dealt with differently. And therefore from this point of view, we will certainly be giving our contribution to the authority.

Mr. Suarez, Mediobanca

Concerning the waste acquisitions, we are wondering what the rationale behind these acquisitions is?

Mr. Venier – Chief Executive Officer

Well, there is a two-fold approach; on the one hand, if we take into account, the acquisition we referred to during the conference call, in other words, the one which will give us further landfill capacity, a sizable further landfill capacity, and it's a capacity distributed in two different landfills not just one. This needs to be seen in light of the situation concerning a landfills in our territory, which as you mentioned, had some delays and authorizations.

Therefore, on the one hand, you're right. We decided to make this acquisition to have this further capacity available, but there are two other elements which are more strategic. The first is a geographic idea. The fact that we can all really have the capacity to dispose of waste, and not only in Emilia Romagna, but also in two other regions, for a total of three regions, especially in Friuli and in Veneto, where we only have waste-to-energy plants without any other forms of disposing of waste. This gives us some more solid geographical positioning, because as you know in this business, the cost of logistics is very important. And therefore, this allows us to cover the territory in a more effective way.

The second aspect which is also linked to the other acquisition that the Chairman briefly mentioned refers to another element, which is a part of both of these acquisitions, mainly certain amounts -- certain ability to treat and stock the waste, which allows us to further increase our presence on the market, with a pre-selection and a pre-treatment and the recovery of the waste before the waste is then sent to the treatment facilities. The two companies that we are looking into have these types of characteristics and therefore, they allow us to cover the territory from the commercial standpoint and also as far as the treatment of the waste is concerned, so this is yet another strategic component and the assessment we made.

As far as Aimag is concerned, I'll leave the floor to our Chairman.

Mr. Tommasi di Vignano – Executive Chairman

Well, the Aimag story has been a painfully long one due to a number of reasons. Since we are already shareholders of that company, we have taken part in the scouting phase that the public shareholders had decided to start, which ended last week with a document of ours. We feel that, given the company we are and given the idea we have, the possibilities that would emerge from our integration process, I feel that our offer can't be equaled by other peers.

And therefore we have made ourselves available for -- give a further step where to be necessary. As long as it would also imply taking control of the company, we are available for this two step solution. We documented the puzzle of the benefits of the operation, and without weakening our position, because we had no intention of being aggressive.

Obviously, we would be in favor of concluding the deal, but once we take it from the company, we would also be willing to complete the operation in the second phase. Therefore, we couldn't share figures with you because we don't know the amount made available by the majority of shareholders.

We didn't know what stake they intended to sell. And now, we hope that once the other shareholders consider all of the other offers, some of which are fairly ridiculous, the ones we've brought up. Hopefully, the shareholders will conclude their scouting process and they will let us know how and when we'll be able to go back to the discussions with them and hopefully let us know, when all of this will happen.

But I think this will be the moment in which we'll understand what will happen, be it positive or negative. On the one hand, there are no other valid alternatives, and also because the fact that we decided to focus on this transaction, brought about a delay in the M&A operations that we had envisaged and therefore, we want to solve this phase of uncertainty. And I think that the other Aimag shareholders understand our position and at this point, all we can do is, wait to see what their conclusions will be.

But obviously, we'll be at the end of the world where they actually decide otherwise.

Chorus Call operator

The next question is by Stefano Gamberini, Equita SIM.

Mr. Gamberini, Equita Sim

Good afternoon. I have three questions, if I may. The first refers to the incentives that the government should have included in the financial law, which haven't been included as far as aggregations are concerned. So can you give us an update on the situation? During a previous conference call, you mentioned article 17 and 18 of the Madia decree or article 18 or 19 if I remember correctly. When do you think the implementation decrease will be published, which may in fact introduce its incentives for aggregations? And since there is no insight in the financial loss or anything else being considered, I read an interview with the Chairman of the Energy Authority, who said he was available to take responsibility for the waste business, for the waste sector with the right resources, where you also -- second question concerns with the gas tenders. Will there be a further delay, since that will be linked to a further consolidation in 2016?

And a final question related to waste. You made a EUR1.5 billion acquisition, and you have another one planned for the year -- for the end of the year, which means that you will have further, a spare capacity available in your landfills. And what are the synergies we can expect from these acquisitions, also given the double-digit growth you expect in the business plan as far as special waste is concerned?

Mr. Tommasi di Vignano – Executive Chairman

As far as waste is concerned, we've a two-fold approach. On the one hand, we want to have a more available capacity. And in this case, we are referring to 1.5 million tons, which can be used differently over time. But allow me to mention that the growth that we had included in our business plan as far as volume is concerned, it was based on the use of our own capacity, and also in terms of intermediation or brokering activities of third parties. So it was a combination of these two elements.

Obviously this acquisition, which again is fully dedicated to special waste, is an acquisition, which strengthens our asset base in the sector and for the upcoming five to eight years. As far as synergies are concerned, it's commercial synergies for the most part, therefore, we will have a certain netback price as far as the contract is concerned, which will be higher since we'll be able to have better logistics and better flows vis-a-vis the contracts we have. And also we can also see things in terms of the treatment and storage facilities, which allow us to further optimize things. And in this case, the values can be equal to EUR1 million, EUR2 million, or EUR3 million in terms of synergy per year.

Moving on to the gas tenders. The last time we talked, if I remember correctly, during our last conference call, I said, well, I don't think there will be any further major delays as far as gas tenders are concerned. And then two events happened since then which are a confirmation of this. The first is that the various attempts by ANCI, the Association of Italian Municipalities to include new elements in the cleaner competition and the financial law, they tried to delay in the first two sets of tenders by six or eight months, these were all rejected.

The second element is that I've said that, I felt that before the year and the end of the year, we would have had the first calls for tenders. And this week in fact, on Monday and Tuesday, the calls for tenders were published.

Therefore, I think that things have already started moving, we'll be seeing further calls for tender by year-end, especially in December. And therefore, I expect that at this point in 2016, we will finally be having the first tenders.

They may not be all the tenders, we may not have the final schedule, but I think that it will be pretty much in line with the expectations.

And a final remark on the context. The timeframe chosen by the tender centers, for the sending in of bid, cover seven to eight months as far as I know. Therefore, from the moment in which the bid for tender is published, from when the final choice is made that is a time frame we're looking at. So again from the publication of the call for tender, this is the timeframe envisaged, which means that the calls for tenders which will be published within the end of the year, will then be finalized by the end of next year. Therefore from this point of view, and vis-a-vis the business plan, you have, there has been a one year campaign [ph] but with a time frame, which is a lot more feasible now.

As far as the Madia decree is concerned, and specifically on incentives for consolidation or aggregation. On a number of other occasions, we already said that if the government doesn't have sizable incentives, the only one they had identified, which could have been compatible with state aid regulations was the one giving a waiver to municipalities vis-a-vis the proceeds from the sale of stakes and municipally-owned company.

This provision still hasn't been included in the financial you mentioned, but I think there can be greater impact from the attribution of competences by the authority for energy and the environment, which hopefully will be published shortly.

Also, linked to the implementation of the Madia decree, and this can also stem from decrease in that context.

For example, given the fact that waste services or network services in fact other network services such as, water and gas, have a provincial catchment areas, leads me to believe that even for the waste sector, there would be a provincial catchment area.

Now, this idea still hasn't been formalized, although I feel that there is some evidence that this will be the choice made therefore between the gas standard decisions and the decrease on the waste sector, this will be able to bring about consolidation more so than the incentives that we have been discussing previously.

Chorus Call operator

The next question is by Enrico Bartoli, MainFirst.

Mr. Bartoli, MainFirst

Good afternoon. I have a couple of questions. Maybe a general question on gas prices, both in Italy and in Europe, prices have been especially low, but given your position, given your short position, can this improve margins in the next few months and in early 2016? Since the weather isn't helping currently. But I then also wanted to hear what your view is, whether or not these low prices are influenced by the weather or by an increase in supply in Europe brought about by LNG in the years to come? And then I have a second question on consolidation. Can you give us an update on the Aimag transaction? Are you looking into any other possible targets?

Mr. Venier – Chief Executive Officer

As far as gas is concerned, well, the price trends on European spot markets, obviously reflect the warm weather without demand obviously, the direct consequence is that of lowering prices. Even though there has been a certain decoupling vis-a-vis oil price, a part of this is also influenced by the weak oil market, which we're witnessing. As far as our advantage

is concerned, well, if we look at things from the end customer's point of view, not so much, because the amount of product we sold at a set price and which we've already covered, so from that point of view, my answer would be no.

Also because, as far as we're concerned, we kind of have a procurement policy on the spot market vis-a-vis the winter thermal season. The procurement contracts for end-customers for the 2015, 2016 winter have already been undersigned a few months ago, where they said, spread and that's what we calculated our budget on.

Obviously, there can be some further opportunities in the trading sector, since our trading division focuses more on spot market and on spreads. But in this case, the real impact doesn't come so much from the absolute value of gas, but it's more related to the spread between Baumgarten and PSV or PSV and TTF or another European market.

Therefore, rather than the absolute value, we have to look at the differences between these different markets, the spread between these different markets. I don't know whether or not we are currently involved in these types of operations.

And by looking at the figures of the recent months especially of the summer, there has been a certain spread between the TTF and Baumgarten, which has allowed us to have an increase in trading volume is the ones that you've seen in our increase in turnover, which did leave us with certain degree of availability, because as you may remember, we have 0.5 billion cubic meter capacity on the tag and therefore, we tend to use it with this perspective in mind.

I think you had a generic question on M&A if I understood correctly. As far as M&A is concerned, I think we need to specify a number of things. First of all, we have to make a distinction between the transactions concerning the typical single utility transactions limited to a single business and these typically tend to be in the free market businesses and there are number of opportunities there.

Mr. Tommasi di Vignano – Executive Chairman

As we've seen today, where we mentioned the two transactions, one of which will be signed on Monday, and the other which should be completed in the months to come. But also in terms of the opportunities we've seen in recent years, as far as energy customers are concerned. So these types of transactions are focused on a single business, often these companies are owned by a private entity. And therefore, negotiations are fairly streamlined.

And then on the other hand, when it comes to integrating or making the acquisition of a multi-utility, that is a different type of operation, because it is a far more complex one, which requires a merger and integration, including the shareholders of the target company, which enter the shareholding structure of the Group. And therefore even in terms of the timeframe required, these types of operations are a lot more complex, because you have to strike an agreement with many different people, and it's a lot more complicated.

And in this sector, we are still working both with and without incentives. We feel that this is a type of growth which is in line with the market structure. And over the years, we have concluded over 15 such operations and therefore, we feel that this is a solution, which continues to be interesting. When we have incentives, we would have incentives, well, of the better, otherwise we can continue to work anyway.

As far as the Aimag transaction is concerned, there were some peculiarities, which were quite sizable which came from outside of the company. But I don't think that it actually reflects the entire (technical difficulty) market. So again, we'll be seeing what the Aimag shareholders will decide, we would like to improve or increase our stake in that company, of course, we have always admitted it. But if this won't happen and within a reasonable time frame, we want to stand still and we are not standing still, we are looking at a number of other opportunities.

Obviously a phase such as the one we are going through, on one-end which we are operating and one-end which we are scouting for other opportunities, can't be governed with interviews or through the headlines. But our policy again is one which is very much committed to this kind of activity. Thank you.

Chorus Call operator

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

Mr. Tommasi di Vignano – Executive Chairman

Thank you very much and if we don't talk again before Christmas, Merry Christmas and we'll be talking to you again with the perspective. See you soon.