



Results as at 30th September 2014

Bologna, 14th November 2014

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 afternoon. This is the Chorus Call operator. Welcome to the presentation of the Q3 2014 results for Hera Group. All participants are in a listen-only mode. After the initial presentation, there will be a Q&A session. I'd now like to hand the floor to Mr. Tomaso Tommasi di Vignano, Executive Chairman of Hera Group.

Mr. Tommasi di Vignano – Executive Chairman

Good afternoon, and thank you for being with us. As you can tell from my voice, my tone is a little low and therefore that will just define my smaller contribution to the conference call. We'll try to keep it short, since we understand that you have another conference call right after ours. Therefore we want to stick to the facts, the facts are important, they're very good and already from the press release, I'm sure you have gathered the positive situation, and therefore I'd like to hand the floor over, with pleasure, to Mr. Venier.

Mr. Venier – Chief Executive Officer

Good afternoon. I'll begin by commenting the results, which, as the Chairman was saying, are quite significant for us, especially if you look at the first nine months of the year and compare them to the same nine months last year. I believe that the elements which underpin these results are several, all of which are indirect. And as we'll be seeing in the analysis of the performance in each strategic area. In the third quarter, we have had the confirmation of a number of trends that we already commented for the first half of the year. The quarter obviously benefits from the initial benefits from the Amga integration which happened as of July 1st this year. We also have the contribution that we'll be seeing in commenting to various business areas, which are somewhat extraordinary, but I think what deserves to be underpinned is that in the comparison with last year, if you look at the third quarter of the year, we are witnessing a significant growth also given the fact that Q3 last year had been fairly stable as far as the results posted were concerned due to a number of reasons. And obviously in the comparison with this year, this is especially significant.

On page one in the presentation, we have the story of the results in previous years. And as you can see, we had an important growth in terms of EBITDA. All the more important, if we look at it in terms of net profit. Overall, the result, as you can see, is equal to EUR52 million above last year's results also given the reasons

I mentioned, and having proved that we were able to fully reabsorb the climate effects from the first three or four months in the year. I was mentioning the performance in Q3, which is especially significant given the reasons I already mentioned. In the comment on page two of our results, in terms of EBITDA margin, you can see that there has been an improvement also in terms of the lower turnover from the energy businesses, which as you know, has a lower margin. And this obviously brings about an improvement in terms of EBITDA margin on turnover. And in general terms, what I would like to underline is the result below the EBIT line that we were able to obtain on the financial level in terms of the cost of debt. We're starting to see the effects of the optimization operations we performed over the past 12 months on the financial front, especially with the operation last July, the Green plant in early July, which had a pricing equal to 2.47% fixed over a 10-year period, which obviously brought about the more consistent part of this contribution in terms of reducing the cost.

Also in terms of taxes, we had benefits from the reduction of the Robin Hood tax which happened at the beginning of the year, but also the review which happened on the IRAP tax as we wait for the further developments, which were already included in the budget law. On page three, according to the typical business levers, before commenting the various strategic areas, as you can see, the organic growth grew significantly. It had already grown at the beginning of the year for some EUR20 million. That grew for a further EUR33 billion, also given the fact, as I was saying, that we benefited from a comparison in the first nine months in 2013, which were a little less performing in terms of the overall results. The synergies from AcegasAps operation are at around 6.5 million whereas, the contribution from M&A grew by EUR13.3 million given the integration, which happened with the Amga Udine operations.

I believe that going back to commenting organic growth, there is a portion of the contribution from all of the areas of business. And as we'll be seeing each of the business areas posted a positive growth compared to the same period last year, and therefore, contributing to the organic growth.

As far as the businesses on page four concerned, focusing on waste, in commenting the waste business, which may appear to have offered a growth equal to only EUR3.2 million compared to last year, I think that this figure needs to be looked at very carefully since, if we go into the contribution on Hera Group and specifically Herambiente, concerning the AcegasAps operations, as you can see on the slide and page four, you can see that there was a certain element of contrast. We had a growth in the Hera activities linked to the volume development, which as you can see on the same page confirmed that the significant growth rates and an increase in volume equal to approximately 20%, equal to 268,000 million tonnes, which brought about a growth equal to 8.7 million. This was significantly offset by the AcegasAps results in the same sector, since last year, we had registered the one-off contribution, the one-off integration on the incentives offered by green certificates on the one hand, and on the other, we also had a couple of unexpected stops on two waste-to-energies, which reduced further 1 million to EUR1.5 million of last year's profitability. These two events combined had a significant erosion on the growth we registered in the business.

Moving forward, or looking forward, what is the conclusion we can draw? Well, certainly the growth posted in the initial period on special waste will continue to happen to the end of the year. Take into account that already in the last quarter last year, we had posted a significant growth level, and probably this development won't broaden, it will simply consolidate and we will again drag it to the end of the year.

Another element which I would like to underscore in commenting these figures, is the effect that the energy market trend had on the results, because as you all know, especially halfway through the year, we had a major contraction in electricity. It was EUR10 per megawatt hour and on the production of approximately 700 gigawatts per hour. This has an impact, which is only partially offset by the green certificates and therefore this has left us 2 or EUR3 million less, which we were able to offset with our other activities.

A final element of news, as far as this area of business is concerned, which took place at the end of the quarter and early October was the completion of the Ecoenergy acquisition in the Lombardy region in the Province of Mantua. This is a company specialized in the so-called CSS, a secondary solid fuel to be used in plants such as cement factories or other similar types of factories. This is a market niche that we weren't present in, and therefore through this acquisition, we believe we have further completed our asset portfolio on the market. This adds another piece to the puzzle in the 360-degree covering of the market for waste.

We're only referring to an operation worth EUR10 million approximately, the contribution of which we expect to be EUR2 million per year, but as I was saying, it is important given the strategic meaning that this operation may have in the future, where the use of secondary solid fuel to further increase both in Italy and in the neighboring European countries.

Moving to page five, the regulated business results. Here, we have posted a growth equal to EUR36 million, broken down almost equally between water and gas distribution with the dip we had already seen in the first half of the year as far as district heating is concerned due to the mild winter.

What brought about these results? Well, as far as water is concerned, we certainly had the new tariffs. The recovery that we have been performing in recent times concerning tariffs, rather the credit we still -- the outstanding credit we have for 2012, and this is a growth which is very much consistent with the growth we've seen in the first half of the year. But differently, as far as gas is concerned, we have some benefits, which as we already commented, for the first half of the year, which are linked to the revaluation of the white certificates, which, as you know, is one of the sectors in which we are the most active players. Obviously gas is also the business in which we have the further contribution of the two operations that we completed in 2014, namely the integration of the operations in Gorizia, first of all, and then Amga Udine later.

Moving on quickly to energy, as far as this area of business is concerned, the more relevant figures refer to gas supply. In the previous conference call, we had commented the fact that this business had suffered with some EUR20 million from the mild winter. During the summer, we were able to almost completely offset these effects, thanks to two or three operations. One was more strictly business related linked to trading during the summer. We had some fairly important dynamics on the various gas wholesale markets that we were able to benefit from. Secondly, we had a contribution equal to some EUR5 million stemming from the closing of the accounting cycles concerning 2013, thanks to which, we were able to recover some volumes which hadn't been factored in in the previous year, which then brought about an extraordinary contribution, which were recorded. And the third is a component linked to the fair value of the -- change in fair values, which we used to set margins. And given the volatility, which happened during the summer months, in this case, we had some positive effects differently from last year, and therefore all in all between the electricity and gas, we had a contribution equal to some EUR8 million to EUR10 million. This is a contribution, which for the most part will be reabsorbed to year-end.

And finally, power generation, includes the dip which is equal to some EUR3 million. Overall, the EUR141 million that we posted in 2014 so far as a result, approximately 80 stems from gas supply and 16 from electricity, the other from power generation and energy services. A quick overview of the working capital. As you can see, the net financial position for the company was reduced to 2.7 billion. I believe that this result is quite significant from two points of view. First of all, because it confirms the trend that we had already illustrated when commenting the first half results from now to year-end, and this is obviously a positive signal because it confirms our forecasts. On the other hand, it is also important because the EUR30 million improvement that we are recording currently compared to June 30 last year also takes into account the fact that in the meantime, since we consolidated the Amga perimeter, we obviously increased our x exposition equal to some further 30 million to EUR40 million. Therefore, we improved by EUR30 million and reabsorbed the shifting perimeter equal to 30 million to EUR40 million. This was made possible obviously due to the effect of a positive cash flow, which happened especially in Q3, which contributed significantly.

Furthermore, one of the elements as far as future evolution is concerned, to year-end will be the thermal elements of the last quarter of the year, but also the timeframe within which we'll be able to reabsorb the excises, which, as you know, had a negative impact in the first part of the year equal to some EUR50 million. All the elements, as illustrated by Mr. Venier, are solid confirmation of a year which, except for the weather, for which we hope there will be an improvement in the last month and a half of the year, since it was a very special year as far as the mild winter is concerned, I believe that as far as governance and management is concerned, in terms of cost, in terms of our commercial commitment and in terms of giving value to our regular activities, I believe that the company was able to give some very positive answers to the market. We also completed our M&A operation with the addition of the small operation that Mr. Venier referred to in the waste business. And also in terms of EPS, we had no dilution whatsoever, even after the share capital increase which was needed for the Amga operation. And therefore I believe that the profile that we illustrated to you constantly over time is very good indeed.

And therefore, this leads me to believe that as far as your year-end forecast are concerned, we are certain that we'll be able to confirm a good year this year. So much so that we have started looking to the future as well. I am sure that you are all familiar with the tender we are involved in to take over the EON customer base. And therefore we won't be resting in the final part of the year and will continue as we had planned to. We're now available for any questions you may have.

Q&A

Chorus Call operator

This is the Chorus Call operator. We will now be beginning our Q&A session. (Operator Instructions) The first question is by Javier Suarez, Mediobanca.

Mr. Suarez, Mediobanca

Good evening. My name is Javier Suarez, Mediobanca. I have three questions for you. The first is on the working capital. We have seen that other players referred to a deterioration -- and working capital as far as you are concerned is positive. Can you tell us the reason why according to you, you didn't have a dip in working capital? And what should we expect as far as working capital evolution is concerned? Can the macro situation have an impact on you? Second question is on the energy business, especially for gas. I saw that the results were very good. And I was wondering if you can give us a little more details, what are the figures, links to one-off events or factors which will be reabsorbed during Q4? I seem to understand that the change in fair values for derivatives will change. I mean, therefore is this growth due to one-off events or not? And the last question I have is on the stability law, which includes a significant review of the IRAP tax. Maybe it's a little too soon, but what impact this may have on a company like Hera?

Mr. Venier – Chief Executive Officer

Can you repeat the third question? I am not sure I understood.

Mr. Suarez, Mediobanca

The third question was on the stability law. There are some measures to further reduce taxation, IRAP tax specifically. I was wondering what impact this may have on a company such as yours in terms of increasing EPS.

Mr. Venier – Chief Executive Officer

As far as the energy sector is concerned, as I was saying, for electricity and gas, we had two extraordinary contributions in these results. One is equal to EUR5 million on volumes for 2013, which weren't factored in for gas. And then the fair values which in the comparison compared to the last year's fair value delta is equal to some EUR10 million. We'll be seeing, but the positions will be on the electricity market and the gas market and the oil market in the year. I believe that most of this cover deliveries from now to December 31. Therefore they will be reabsorbed. These are the two main components. There isn't anything else, any other relevant element. As far as the IRAP tax variation, our estimate as far as the impact is concerned should be worth some 8 million to EUR9 million for us. And then obviously, in 2016, the IRAP review will have to be released on the regulated businesses, but as far as 2015 is concerned, this is the value we're looking at. As far as the working capital is concerned, I hand it over to Mr. Moroni.

Mr. Moroni – Chief Financial Officer

Good afternoon. As far as the working capital is concerned and the way we manage it, as I illustrated, on some previous occasions, we have developed an internal monitoring process. As we were recovering credit, we're very -- we paid very close attention to this. And it is beginning to bring about some positive results for the entire year 2014 as a matter of fact. Then in September, we had some very good results in terms of the cash in from our customers, especially from all of the municipalities and bodies. We also had a good cash in from the Municipality of Padua, which had some debt and therefore, again, there is a constant attention on

this topic and we're starting to see the results. And I believe that we will continue along this line in the year, this last quarter.

Chorus Call operator

The next question is by Antonella Bianchessi of Citi.

Ms. Bianchessi, Citi

Good afternoon. I'd like some further details on waste. How is the pricing evolving? We know that there is a great need for waste disposal assets, volumes are growing, but EBITDA seems to be under pressure. And I have another question on the regulatory review concerning 2016. What is your view, what is your sensitivity or what kind of impacts are you looking at? What are the logics and the rationale given the gas tenders? And then a final question on white certificates and on the one-off in the regulated business. Can you explain the mechanisms? Because we heard a number of different explanations from different companies and we want to hear your version as well. Thank you.

Mr. Venier – Chief Executive Officer

As far as the waste business is concerned, we do have demand and the volumes are growing, but we're also seeing some positive signal as far as pricing is concerned, in between 1 to EUR5 for special waste both for the dry part and for the humid and industrial parts of the waste. EBITDA is a little bit under pressure, but as I explained, in the comparison with last year, we had to take into account some contributions and the green certificates area equaled to some EUR6 million from AcegasAps. Therefore, if we look for the correlation between the volumes dynamics and the contribution on EBITDA, we can see how, on page four, as far as the Hera perimeter is concerned, we had an EUR8 million growth, also taking into account that there is a negative effect on pricing equal to a couple million euros meaning that the overall effect of other contributions including sales were equal to some EUR10 million. Therefore, there is a signal. It's not simply a matter of volume delta, but also price delta. We are confident that this situation will further consolidate in 2015, and from this point of view, we're working on the budget also because we're not looking -- we don't expect any magic solutions in the recent future. As far as white certificates are concerned, the explanation is fairly straightforward. We have a stock of white certificates that we accumulated over time, thanks to the energy efficiency programs both as far as we're concerned and as far as third-parties are concerned. Last spring, the authority defined the new mechanism to define to give value to white certificates, and since, we priced the stock given the current fair value.

The formula adopted by the authority, which are linked to the stock price, to the market price for white certificate brought about a revaluation of the stock we have and which we update every quarter, given the further white certificates we acquire and given the market dynamics. Therefore, compared to the first one-off, we have some minor readjustments every quarter, and this is brought about by the revaluation between the historic value of these assets and the value, which is consistent with the new formula. And again, the new formula is linked to the market price, which, as you may have noticed, it grew significantly over the past eight to 10 months. As far as the view for 2016 is concerned, I don't want to pretend I am a magician. I don't have any understanding of what the authority needs to do. What I can say is that, given the two businesses we are most involved in, and the two businesses in which we have most of the route which are water and gas distribution. Well, as far as water is concerned, we are in a phase in which and you can see it from our investments, also given the improvement in tariffs, as you can see from our results, there has been some recovery. There is some room to increase our investments. I believe this is a slight signal coming from a number of major players including ourselves. It's something which need to be worked on, because one of the targets that are behind the tariff review is that of creating new conditions to bring about new investments. And I'm sure that this will be taken into account. Plus, I am sure that another element which will be taken into account is in -- as far as remuneration on capital is concerned, some of the elements have been a little conservative. The third point as far as the water business is concerned, the regulation is still waiting for a couple of important integrations that hopefully will be worked on soon. One of the first is the quality of service. And therefore, we will have some bonus-malus mechanisms on the quality of the service offered. And from this point of view, I believe we have something to add. And then

we also have the identification of the parametric operational costs, also given the economies of scale. We do expect to be able to be in line or benefit from all of the efficiency initiatives we've been working on. As far as cash distribution is concerned, a lot has been said already. You mentioned the gas tenders as a matter of fact, and I believe that the most recent decision on stocking as far as gas division is concerned, there will be a rational identification of the parameters, which will have to be used that there can't be consistently so that we don't have asymmetry that we had the risk of running between the real free risk rate foreground inflation based on previous regulation. These are two other aspects that the authority defined as exogenous parameters. They too would review I believe, and therefore, this is a consistency signal in terms of applying this rule, especially on gas, which will be going through a period of very intense competition on the market for the upcoming three years.

Chorus Call operator

The next question is by Stefano Gamberini, Equita Sim, please.

Mr. Gamberini, Equita Sim

Good afternoon. I have a couple of questions. The first is on water. Can you remind us what the increases are for 2014 and 2015, which have already been approved? And what is the part which refers to the 2012 and 2013 portions? The second question going back to waste, you were mentioning that there is a negative comparison in Q3. Will this situation continue in the upcoming quarters? And as far as waste is concerned, can you explain the double-digit growth in volume for special waste, which are properly linked to the contract with the Municipality of Rome? And when will this positive trend end or do you expect it to continue in 2015? Do you expect a double-digit growth in 2015?

Mr. Venier – Chief Executive Officer

I'll begin with waste. The negative element for Acegas will also continue in Q4, but it won't continue to grow. If it will grow, it will grow very modestly because, as I said, it was connected to an event which happened last year. It was further recognition of green certificates and therefore it won't repeat itself every quarter or every month or even daily. As far as volumes are concerned, obviously, volumes are the result of a number of contracts, not a single contract. Secondly, we are also very satisfied by a number of activities on the industrial waste with a number of large European players and the contracts you mentioned, that will expire after this year and therefore they also cover most of next year. As far as water is concerned, as others did, in 2014, we took advantage of the growth allowed by the regulation equal to 6.5%. That's something that we took full advantage of. And next year, between the ordinary and extraordinary components, we will be doing the same thing for the most part. And the contribution we expect to have vis-a-vis the previous years is equal to EUR2 million on the results that you can see. And as far as 2015 is concerned, we are obviously doing the math to come up with the budget.

Chorus Call operator

The next question is by Dario Carradori, Goldman Sachs.

Mr. Carradori – Goldman Sachs

A quick question for you. Are there any negative one-off components in the first nine month EBITDA concerning the bond you issued during the summer?

Mr. Moroni – Chief Financial Officer

No, there are none. We rigged in above the same price and we reissued the EUR500 million (inaudible). Therefore we have no extraordinary burden. Obviously, the price paid above breakeven is spread out over the next bond, which is 10-years.

Chorus Call operator

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

Mr. Tommasi di Vignano – Executive Chairman

Thank you. I believe that the information we shared with you is quite transparent. We are very satisfied and we'll be speaking to you very soon. Thank you.