



Results as at 30th June 2014

Bologna, 27th August 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 Hera Group 1H Results 2014 of Hera Group. I'd like to remind you of the fact that all listeners are in listen-only mode. After the initial presentation, there will be a Q&A session.

Now, I'd 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 with our 1H results after a few months following our summer vacations and with a number of things which we achieved during the first half of the year, and we are quite satisfied since, as you may recall, the first quarter was good in terms of standing our ground, although it was a little bit unusual compared to growth. If we look to the figures, at the end of the first half of the year we are back with our usual habits. In other words, we have been going back to a growth track which is the one we expected and the one that we have grown accustomed to.

The contribution of the second quarter of the year was important since those results not only allowed us to strike a balance compared to the criticalities we had encountered in some sectors due to the mild weather in the first quarter, but we're also able to go back to our growth advancement as we had expected to achieve here.

€20-something million that we grew in our EBITDA, as you can see on page 1 of the presentation, that mainly stemmed from the results posted in the second quarter. So, that's why we decided to focus on the specificities this time. Therefore, this is one of the elements which is most striking. The second remark we'd like to make, and we'll be seeing this in the figures, is the outcome of the growth on all the lines of our P&L. This is something that which hadn't been possible in all of our past years. But we were also able to post the good results in terms of EBIT and net profit. This didn't bring about due to the general context or due to a recovery or due to the improvement in weather. We're still not seeing a full recovery in the country. And on the other hand, the climate, the weather, continued having negative impacts also on the month of April, as far as the weather is concerned, because we continue to have a very mild winter. So, these are some general remarks I wanted to share with you.

Looking at the figures, beyond the results we posted in terms of EBITDA, which is the outcome of the positive results posted in most of the company's businesses, hence in the first half of the year, we broadened our market activities. And I'm referring both to the commercial activities, in other words, the energy and power, the sale of power and electricity specifically. But I'm also referring to the events which happened in the special waste sector, which is a confirmation of the past 18 months' activities.

We continue to increase our efficiency with organizational activities, which were also brought about by the fact that, as you may remember, in this first half of the year we also had to replace many of our board members. We elected our new CEO. And this also coincided with a number of organizational reshuffling elements, which should help us to increase innovation and efficiency since these are two of the core targets for our future strategy. As I was saying, the contribution on EBITDA was brought about by our market activities, plus the extraction of new efficient synergies, but also from the major contribution coming in from our regulated activities. And I'm referring specifically both to our gas distribution business and to the water business. Having said that – and this allowed us to go beyond the 20% EBITDA margin, which is no minor fact. As far as depreciation and accrued provisions is concerned, you have to take into account that all the figures at the end of H1 goes back to depreciation based on the investments made in the first half of the year, and that we have an EBIT level equal to €242 million with a growth equal to 3.1%.

Below EBIT, there are a few things which need to be taken into account. So, the first is the positive trend as far as financial burden is concerned. It wasn't a sizeable figure because we expect that the reduction of debt in the coming months will be consolidated further given the number of actions that we will be going into in a few minutes which head in that direction. I would also like to highlight the fact that the contribution of the two companies that were affected most by the application of the IFRS criteria, which began in the month of January, [audio gap] (07:20-07:32) on the market which manages our commercial customers in the Trieste and Padua area.

These two companies were affected by a two-fold treatment, so to speak. On the one hand, we have the fact that their businesses were impacted by the mild winter in the first half. Plus, we had the application of a new criteria, therefore, we only benefit from their contribution in terms of profit.

One final remark on these initial figures is that we had a positive result also as far as taxes are concerned. They went down from over 42% to 39.9% as far as the tax rate applied to the company is concerned, and we specifically benefited from a lower impact stemming from the Robin Hood tax besides a review of the IRAP tax.

Having said all this, on page 3 of the presentation, we focus very briefly on the drivers behind our performance. In a nutshell, as you can see also in terms of the components in growth, you can appreciate the almost exact offsetting of the gas sales. And this repeating sales, which were €21 million in the first half, then coincides with the results we were able to obtain in terms of efficiency and in terms of improving tariffs in the regulated businesses that I referred to previously. Therefore, this €21 million have been offset. But besides the €21 million organic growth we had, we also had the further synergies extracted from the AcegasAps company, plus the M&A effect stemming from the increased value we gave at the beginning of the first half of the year with the gas and electricity networks that we acquired in the Gorizia province which were progressively and fully brought into the AcegasAps perimeter.

But that was just the way of breaking down into various items the overall results of the first half of the year. I would say, if we look at the arrows on the graph there, you'll notice that we have had an effect in a sense that it was a more normal season. The results of this excellent first half of the year would have been a record season for the company without the mild winter. Therefore, hopefully with this size and with this entity, we were able to offset the mild winter.

I think that's it as far as I'm concerned. And now, I'd like to hand the floor over to Mr. Venier, and I will be coming back to you for our final conclusions.

Mr. Venier – Chief Executive Officer

Good afternoon. Going back to the various business areas, as usual, we'll start from the waste business. I think that the key element in the waste performance – and waste grew by some €3 million compared to the first half of last year at €122.4 million, the main driver behind that growth stems from the activities we have in special waste management – non-urban waste, in other words. As you can see in the graph on the slide, special waste grew sharply at over 200,000 tonnes compared to the same period in the previous year. In percentage, that is equal to 25%.

The comparison with the first half last year was a comparison in which we have some volumes which were at low values, the minimum amounts we've seen in recent years. But it's also true that the dynamics that we had in the past six months is very much consistent and in line with the performance we have seen in the second half last year. As you can also see, we are back to a situation which we can define as being more normal for the company. In other words, the amount of special waste is higher compared to the amount of urban waste. For two or three years, the situation was the opposite, whereas nowadays we are at a more stable situation.

In the 200,000 tonnes, as far as the results obtained were concerned, unfortunately we can't appreciate the complete performance because, at the same time, we also had to record, as some of you may have already noted in other situations, we also have to note a reduction in the price of power, of electricity, in the first half of this year compared to the first half of last year, which is quite significant.

And on the production of renewable electricity that we have in our waste-to-energy plants, which is some 0.5 terawatt hours, that had an impact on the first half of the year at around €2 million.

There's yet another component which I want to underline which would have made growth even larger, and that is the fact that last year we have benefited on the two waste-to-energy plants belonging to AcegasAps. They had benefited from a €2.5 million brought about by Green certificates. That was one-off event last year and, therefore, that also decreased the benefits that I was mentioning. But in any case, besides these two effects which accomplished some €5 million total, we were still able to count on a growth equal to some €3 million.

And as far as the development of activities on urban waste are concerned, which, as you can see, have been pretty much stable compared to the previous year, there have been further developments on sorted collection, which is now up to 54% on the entire group perimeter, with peaks above 60%. Therefore, we're seeing some good signals from the commercial front, which we fully will continue in the second half of the year as well. As far as the networks businesses are concerned, that's the area of businesses which includes some of our regulated activities. And in this area of the business, the figures are quite significant.

Overall, the growth was equal to some €37 million, and the €37 million were brought about by the benefits on the water business – the accounts for – and that growth includes two components; the one pertaining to tariff increases for 2014, plus the recovery of certain businesses in 2012. The combined effect of these two items, beside certain increases in efficiency which has been transversal which cover all of the group's business areas – again, these elements allowed us to post an improvement compared to the previous year equal to some €90 million, bringing about the profitability of the water business in the first half to €105 million overall. That includes both the Hera perimeter and the AcegasAps, Marche Multiservizi perimeters.

€10 million is a contribution brought about by M&A, and that refers to the electricity and gas distribution businesses exclusively. And for the gas component, that accounts for some €2.5 million; electricity is equal to €7.5 million, also in light of the contribution brought about by the €6.5 million specific; plus, the improvement of profitability on electricity and gas distribution accounts for some €8 million in general, thanks to the new tariffs which were applied and which, in this case, too, brought about some benefits from previous years which are above this year.

Overall, the electricity and gas distribution had a similar result to the water business, which is equal to €105 million, again which is the same as water business. The remaining €30 million refer to our district heating activities which, compared to the previous year, suffered due to the weather conditions which we mentioned earlier, and that we will be mentioning in a few minutes as far as the cash yields are concerned and that accounts for some €4 million or €5 million. So as far as the sales are concerned, there isn't much to add compared to Q1. But in this case, the fundamental elements in this sort of picture are three. The first refers to the gas sales, which posted a contraction equals to €24 million compared to the previous year.

€24 million are different from the €21 million estimates that we gave you stemming from the weather conditions, for two reasons. In the €21 million, we have the effects linked to district heating. And secondly, because along with the weather conditions during the winter, we also have the full application of the CCI tariff performance applied by the authority which had an effect both on the sales tariffs and, in our case, it also had an impact on some trading activities since it reduced some of the optimization areas that we would base our results on. Therefore, by combining the three phenomena, the impact on Q1 was equal to some €24 million. There are some positive dynamics on electricity sales. This case, we had a significant amount of the increase which stems from the contribution of the broad perimeter of the safeguarded markets that we've managing as of January 1. But this is also due to the economic contribution stemming from the increase in our customer base that is equal to some €2 million. We've added 68 more customers compared to the previous year, plus an increased profitability stemming from our rationalization activities on our client portfolio of activity we worked on for the past 18 months.

I was referring to our increased customer base in electricity. We now have 760,000 clients. This is a sizable figure. If you compare to the 1.6 million customers we have in gas, as you can see, we are over the 50% in the ratio. And as you may remember, a few years ago, that ratio was 1:10. These are the most relevant elements. The third component is the one linked to power generation. In this case, we have a €4 million negative result compared to the previous year as a consequence of the well-known situation affecting this sector – a sector in which the market conditions have been deteriorating in the first half of this year compared to the first half last year. But as you can see, the figures we're referring to are reasonably limited. In general, the results for the first half of the year in these so-called commercial activities for energy was equal to €103 million, of which 70% or €68 million are linked to the gas business; the remaining part refers to electricity and powergen. Those were the most relevant elements on the three main business areas. I'd now like to give the floor to Luca for some financial insights. As the chairman was saying in his introduction, in the past six months to seven months since one of the operations happened in July, we have had some major changes, the effect of which will be appreciated even more in the second half of the year.

Mr. Moroni - Administration, Finance And Control Director

So, good afternoon. As you heard the Chairman and the CEO, the issuing of the bond, the eight-year bond, and the financing lines which were also obtained by the European Investment Bank, the issuing of the bond, the goal of which was to basically refinance via short-term debt that the AcegasAps Group had and the financing obtained from the European Investment Bank to finance the investments of all our networks businesses with very interesting rates, indeed.

As you were able to see and read, it was followed by the issuing at the end of June and early July of the first Green bond issued in Italy, again, taking advantage of the interesting market conditions which in this case, too, allowed us to take advantage of this market opportunity but to manage the upcoming deadlines in the coming 18 months to 24 months. And with the first issuing, we had also started to look into the first expiries for the debt in early 2015. And with the most recent issuing of the Green bond, we also had a reliability managed operation to basically refinance a large portion of the expiring bonds in February 2016. These two operations combined allowed us to optimize the cost of our debt and the cost of our financial burdens. And the first two, the issuing in last September and the financing of the European Investment Bank, have already brought us some positive results which can be appreciated in the P&L of H1 2014. And the issuing of the Green bond will contribute as of the second half of the year, and all of these operations within the years of the business plan will have some positive results in terms of the cost of debt and the financial burden. Going into the cash flow trends on page 8, you'll notice that our free cash flow fully guarantee covering of our investments and the working capital.

And in this case, we also have some extraordinary effects or temporary effects which, in other words, are the effects linked to the payment of Accise on gas sales. This is a mechanism according to which we are in a condition of having to pay excises Accise because according to the mechanism, these excises are calculated based on last year's sales and, therefore, given the climate effect in first half of the year we have had to pay taxes of excises that we're only recovering the spring for next year. This effect is equal to some €50 million, which is linked to those effects – in other words, the weather conditions. We also have the effect of perequazione on the gas distribution activities. And therefore, from the economic standpoint, we don't

have any effect since we have the constraints of our profits. But from a financial point of view, the equalization of perequazione happens a few months later. And again, this will take place in spring 2015. Therefore, the two effects, which account for roughly 50% of the total absorption of our working capital, are temporary effects which are destined to be reabsorbed in the month of February and March next year. Despite these effects, the production of our cash flow continues to be positive – slightly positive prior to the dividend which was paid in the month of June equal to €137 million and prior to the extraordinary M&A operations which have already been mentioned and, specifically, the consolidation of the Gorizia companies.

The close of the initial six months are equal to a minus €164 million, bringing our net financial position to €2.73 billion. These are all phenomena that we had expected, we had foreseen. Therefore, they come as no surprise, and they are fully in line with our expectations also for the second half of the year as far as our financial sustainability is concerned, but also including the covenants we had, the management that we had in previous years. I'd like to hand it over to the Chairman for some conclusions.

Mr. Tommasi di Vignano – Executive Chairman

The elements illustrated by my colleagues fully confirm the soundness of our portfolio and the soundness of the drivers that we have been focusing on to bring about growth. We could interpret the remaining part of the year with a great deal of optimism. Also, given the results of second quarter, they also underline the positive elements that Mr. Moroni also talking about concerning the benefits stemming from our financial operations.

The dividends were paid in the month of June. And therefore, even from the point of view, we can imagine a projection of our debt level through year-end which will certainly be at around – at the 3.1 times that we had illustrated in our business plan something less than that.

Moving forward, therefore, these are the ideas that we are working on already at the second half of the year. I'd also like to remind you of the fact that the Amga operation was fully completed and has been effective, and you'll be seeing the full figures when we will be illustrating Q3 results at the end of – or the H1 results rather, excuse me, at the end of September.

We're also speaking of the things we've achieved. I'm sure many of you wonder where we're at in terms of planning our future activities without looking into the reform plans for the country. In these first two-and-a-half years of business plan, we already achieved 75% of what we had expected to achieve in the business plan, and I think that is the best possible proof of soundness of our activities. We are working on completing the new business plan update due 2018, which we will be illustrating to the market as of October 2. Therefore, we'll be talking to many of you on that date. And we are very pleased with the things which happened till now.

And now, time for some Q&A.

Q&A

Chorus Call operator

This is the Chorus Call operator, we will now be beginning the Q&A session. Anybody wishing to ask a question can press star followed by 1 on their telephone. To exit the question list, please press star followed by 2. And now ask your questions, pressing star followed by 1 on your telephones now.

First question is by Javier Suarez, Mediobanca.

Mr. Suarez, Mediobanca

Good afternoon. My name is Javier Suarez from Mediobanca. I have two or three questions. The first refers to the political context in Italy. On August 7, we saw the rationalization program for local companies the state has – publicly owned companies. What are the Hera management view? Why do you think the government is making this effort to further promote consolidation in the utility sector in Italy? What do you feel may be the most virtuous factor for companies like Hera?

I also have some questions on the waste business. We've seen confirmation of the strong growth that you posted in 2013. How much of this growth is company-specific and how much of it is macro-driven? Given in a scenario in which growth hasn't actually happened, the company is still growing very much in the waste business, and should we expect an acceleration in this virtuous process?

And the last question I have is on the cost of debt. We have seen a moderate reduction for the time being and the effect of the Green bond will happen in the second half of the year. And I'm wondering, what is the potential that the company sees in reducing the cost of debt and how can this be achieved over the next two or three years?

Mr. Tommasi di Vignano - Executive Chairman

I'll try to answer it. To your first question, as a matter of fact, we were obviously expecting this question of yours, and it's something that we thought about to the very last minute. Since we're struggling with the type of position that we want to express.

You've always known what our company's point of view is in the sense that among the other reforms the company needs, we feel there need to be a strong consolidation in the sector. That's something that we've worked on, as a matter of fact. We've been involved in differently from others. We are, therefore, very aware of this issue. But we also have to see how consolidation and what tools and what goals this can be achieved and also the effects for the role of the sizable company is going to have in the future.

Obviously, some of the points in that document are points that we're still thinking about. Not because they're wrong or right, but because they're focusing on limiting the number of companies that would solve the problem into the huge dissemination of small companies. I can understand that, but I don't think you can face such a complex and delicate problem only from that point of view.

We know that things still haven't been fully completed. There are still some fine-tuning which is currently being worked on. These issues which have been rightfully tackled, we also need to take into account the overlapping with other related topics – topics that you're familiar with that refer to the shareholding structure of companies and the possibility that the financial market will have to face things through which there can be a measurability of the business.

There needs to be actual interest.

To give an example, thinking of solving the problem by only focusing on street cleaning and waste collection, I think that won't be feasible from our points of view. I cannot say that fully answers your question. Therefore, we're still waiting for the final decisions to be taken. And on the one hand, we are willing to sit down and look at consolidation further. But on the other, this consolidation will only happen from the legal standpoint or if we'll only be focused on cleaning up the market from the bad companies, well, in that case, we still don't want to give you an answer for the upcoming six months.

We hope for the document to be improved so that it can be as best as possible for the major players, including ourselves, if the conditions will exist.

Mr. Stefano Venier – Chief Executive Officer

As far as your question on the waste business and how much of the growth is company-specific and how much is given by the market improvement, well, just on a hunch, I'll say that 90% is company-specific, maybe even 100%. And that's due to the fact that objectively, if I look at industrial indicators, I'm not seeing any significant recovery signals.

If I look at the consumption of electricity, they still have graphs of the red numbers. If I look at gas consumption, besides the mild weather, and if I look at the industrial elements, again, all figures are in red. If I look at the waste business on traditional industrial clients, again, there hasn't been growth in those specific companies. As far as urban waste is concerned, the trend is equal to zero. Therefore, the growth we posted is all company-specific, as you defined them.

And then, obviously, within that growth, you do have some structural contribution which is linked to commercial activities on individual clients. We also have the contribution of benefits stemming from certain difficult conditions or emergencies in regions or cities in the country, being that the only company with certain infrastructure and with a certain credibility on the market such as is ourselves, can take advantage of those opportunities.

Therefore, from this point of view, within the company-specific dynamics, you also have a portion of the growth which can be considered to be more structural and a portion which is more brought about by opportunities, therefore subject to a repetition linked to tenders or other similar types of conditions.

And your third question on debt, if you take a step back, though we can appreciate the effects that we are referring to, the group's average debt and gross debt, we had a rate equal to roughly 4.7% and we've repeated this a number of times. The action at the end of last year allowed us to optimize that cost by 40 or 50 basis points and the contribution of the green bond will allow us to further improve that, reaching some figures at around 4%. And from now on, what is further feasible? Well, the margins are more restricted obviously because the average duration of our debt after the refinancing operation is now up to 8.5 years. Now, therefore, frankly in the short term, we don't see any room for further significant opportunities. Although there are some opportunities to optimize things, but again, we're talking about further fine tuning of things in a range equal 5 to 10 basis points of the 44%.

And in absolute terms, obviously, we're looking at the current situation in this context. As you know, in our debt structure, roughly 50% has a variable rate, and therefore the dynamics in the upcoming years is also linked to the dynamics of the rate curve for which we will be expecting in the coming years. But to have an apples-with-apples comparison, those are the figures that I was mentioning. Thank you.

Chorus Call operator

For any further questions, please press star followed by 1 on your phones.

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

Mr. Gamberini, Equita Sim

Good afternoon. I also have three questions. The first is related to consolidation. The Chairman underlined that there are some things which still need to be fixed or improved. Can you share with us what are the three things that you feel should emerge in the new regulation to make sure that a major player which ourselves can be an active player in consolidation?

Second question is on AIMAG, the AIMAG company. You had to meet them during the summer on the second half of the year. Can you tell us what the situation is with AIMAG and if they have any steps forward? The third question is on the recovery compared to the previous years on water and gas distribution for the first half of the year and also the results. Q2, as far as waste is concerned, had a lower EBITDA, what can we expect for the remaining part of the year?

Are there any biogas plants which will be launched or is there something that can bring about a growth with EBITDA? Also thanks to the growth of special waste.

And one final thing I wanted to ask you is on gas. Gas in Q2 dropped both in volumes and margins. In 2015, I believe that the gas procurement contracts have already been completed. Therefore, can you help us understand if you feel that the margin in 2015 will grow compared to 2014, both considering your supply and also taking into account the graduality effect that will have an impact on next year? Thank you.

Mr. Venier – Chief Executive Officer

That's a long list of questions, Stefano. Beginning with waste, which is the easiest. It is true in our Q2, we did have a result which was €2 million lower compared to Q2 last year. But these €2 million and it can be taken into account also by considering the €2.5 million of extraordinary contribution that I mentioned just earlier by AcegasAps and also the €1 million which is the unexpected stop in the Padua waste energy plant which had an impact on the result. Therefore, besides these two extraordinary effects which account for €2.5 million, the like-for-like results in 2Q would have been slightly positive by roughly €1 million on top of the €3 million at the previous quarter. Therefore, from this point of view, these are the comparison terms to interpret second half of the year, compared to which let's take into account that if you refigure out the numbers of last year and you may that remember in H1 or second half of the year, figures were significantly above 1H result last year, therefore, we feel we'll be able to reach those same results.

As far as gas procurement is concerned, yes, we have completed the procurement portfolio for next year. I'm saying this with satisfaction. Every time I mention that we have completed our procurement contracts

with satisfaction, it means that we are satisfied with the margins we expect for next year. If we have a cold winter, obviously, otherwise, we'll be factoring in less convertible we expect.

Also, take into account that in Q2, the contraction that we had recorded for gas sales compared to the previous year was equal to 120 million cubic meters, not negligible compared to Q1. And that also had an impact equal to a couple of million euros, and it was therefore depressed by this effect on the volumes.

As far as the extraordinary component on distribution is concerned, among the components I mentioned we actually take into account the €6 million of the specific tariff proximity equalization which is one-off for the Gorizia activities. The remaining part refers to the recoveries made from previous year that account to some €5 million or €6 million of the total figures on top of the €6 million that we had of the specific tariff proximity so that's roughly €12 million. That's the overall sum of the components we have.

As far as the water business is concerned, again, we're referring to a component equal to a few million euros take into account that next year, we expect to also recover some items of years before 2012. And specifically, the years from 2009 to 2011, years in which we had suffered some on returns on income so we had a 1% contraction on volumes on those years. Therefore, the recognized revenues that were – in theory, weren't – did naturally happen. Therefore next year, we have to compensate the items for 2012 or the ones until 2012.

That's about it. Following that, we'll be going to back to growth rates that are close to the inflation rate. We'll have reached stability besides any changes in tariff structure which, as you know, the new tariffs will be implemented as of 2016.

Mr. Tommasi di Vignano - Executive Chairman

As far as the AIMAG issue is concerned, you remember quite well, not perfectly well. That was an operation that will be concluded, if it will be concluded, in 2015. Obviously, in order to complete it in 2015, we have to go back to the table with them in the fall of 2014. We already had an initial meeting with some of their shareholders in July. Then we also took some time off. We went on vacation. I think it's important that both Stefano and myself got back from our vacations just yesterday, therefore, we didn't change anything in our agenda. And I will be seeing if in September, we can go back to the table with them. Otherwise, we will draw our conclusions. But again, nothing has changed compared to the last time we spoke.

As far as consolidation is concerned, summarizing the things that we worked which for is a little complicated. There are some fundamental principles such as one of reducing the number of players which, again, as you may remember, can also be the outcome of the tenders. Therefore, you don't necessarily need the same model for all sectors. There are sectors in which if you maintain some cash in areas which are large enough, this is something that we feel very strongly about, because if the tenders will be consolidated. There needs to be some valid regulatory elements. But that, too, is something that can help in reducing the number of players which is something that everybody is interested in.

We're interested in this, as is the government and others. We also have the issue of having access to the market, to the stock exchange, which is something – it is an invitation for the single utility shareholders to companies because since there is no money whatsoever anywhere, that is the only incentive maybe, the only solution.

We take into account that we also have the possibility that since some listed company already do exist, this can be a way to promote consolidation due to stock exchange. And that [ph] kind of allowed them (52:06) to reduce the number of shareholders they currently have. So, these are just two examples to say that there is a single principle that we don't agree on.

And we were also involved in the process, since we're experts on the issue, quite frankly. But we also feel that some situations can do underestimate certain things and overestimate others. So, again, things still haven't been completed. And on Friday, we'll be seeing how much of Mr. Cottarelli's work will be included in the government decisions. That's another question mark.

Number of times the Cabinet and the ministers – we heard of the Cabinet and the ministers will be making the decision, the final decision. It's something what we refer to everyday. Therefore, I'm sure they have some ideas.

So when we illustrate the new business plan to you, four represented to the market, perhaps it would be useful to have an exchange of ideas on this topic, and that we had announced in our board meeting. And

we said that we would reconsider things in one month's time, because again, I think it's premature nowadays.

Chorus Call operator

The next question is by Dario Carradori, Goldman Sachs, please.

Mr. Carradori, Goldman Sachs

Good evening. I have a couple of questions. First of all, on the tax rate. Your tax rate is around 40% in the first half of the year. Should we expect to have those same rates for the remaining part of the year?

And the second question is on the water business. Is the growth rate posted in H1 sustainable for the entire year? And the final question is that I know you'll be illustrating the new business plan in a few weeks, can you give us some indication, some qualitative indication on what things are going better, what things are going worse compared to your previous target? Thank you.

Mr. Venier – Chief Executive Officer

As far as the tax rate is concerned, as you mentioned, our tax rate is better in the first half of the year then higher for the remaining part of the year. That's just brought about by the IRAP tax. The 1% to 1.5% we've seen in H1 is something we expect to have for the remaining part of the year. Therefore, compared to the 44%, 45%, we expect to have a 43% or 43.5%. That's the estimate we have.

As far as the water business performance is concerned, the improvement that we had in the first half of the year is when we expect to see also the second half. The improvement that you've seen wasn't the outcome of a one-off item, the initial portion of the year. That's actually the outcome of the tariffs that we have been factoring in the faster month and then we've been doing to customers; therefore, that's an improvement that we expect to see for the remaining part of the year.

And what is going better and worse compared to the previous version of business plan. Well, certainly as, since we're talking about water the business. The water business is in line. It's not better compared to our expectations. As far as the waste business is concerned, things have been going even better.

Obviously, our commercial – as far as gas sales are concerned, the mild weather has – what about the lower results compared to term line? Extraordinary event which happened last winter and which hopefully won't be replicated in the upcoming winters. We should be able to go back to the term line.

The answer to Mr. Gamberini concerning the gas procurement for next year, in the short term compared to the business plan allows us to be reasonably optimistic for this part of the business for 2015 and then we'll see what will happen in 2016. I don't know if my colleagues want to add something on M&A.

Mr. Tommasi di Vignano - Executive Chairman

If we look at our new updated business plan beside the sector as Stefano was mentioning, obviously we have two scenarios, two possible scenarios. The one is a scenario based on a normal policy.

Policy based on which wisely we will continue to post future growth like broadening our perimeter that's something undoubtable. This is something that we work on based on our addition, based on opportunities.

We've always said that we can't overdo it that we can do things in a far too limited timeline but we will certainly continue to work on M&A on normal in our normal conditions. Therefore, consolidation is something that we'll look into. But you are also asking what will happen as far as the general consolidation topic is concerned. Well, that can have some important implications. Because they can increase the number of opportunities and the types of opportunities therefore they may very much make it convenient for us within the years of the business plan that look into further opportunities compared to our typical patterns. But until I see the advantages and the opportunities which we arise from the change in regulations from legislation. I would have a hard time giving you a direct answer. And from this point of view, we also have opportunities which can be brought about in other conditions.

In recent days on the Italian market, there have been opportunities that can be interesting, also in view of the tenders, and there may also be some interesting opportunities for those who are starting to reconsider their presence on the market by showing positive assets or positive customer base. These are companies or

these are opportunities that we will look into certainly even though it's difficult to say exactly what they are before the business plan update. Therefore, and that showed our business plan will certainly have a description of our targets limited to M&A.

We will be including the minimum threshold we expect to have in the occurring five years, again, as far as M&A is concerned, then these current changes in legislation brought about the government's action or by opportunities which can be assessed. To date, we are flexible and solid enough to do even more given the right situations.

The business plan won't reduce our ambitions and the portion pertaining to M&A will be included. And whenever we include M&A in the business plan, as you know, as you've seen, we always fulfill what we say. We always guarantee that and we've been continuing to prove it recently. Therefore, that is the state of the art. And there are some further opportunities that we'll be looking into.

Chorus Call operator

Gentlemen, there are no further questions.

Mr. Tommasi di Vignano – Executive Chairman

Thank you very much. I want to thank all of the colleagues who've been working with us. And we will be meeting you again at the end of September for the business plan to 2018 presentation. Thank you. Good-bye.