



Results as at 31<sup>st</sup> December 2013

Bologna, 20<sup>nd</sup> March 2014

***Speakers:***

- ***Tomaso Tommasi di Vignano, Chairman***
- ***Stefano Venier, General manager Markets & Development***
- ***Luca Moroni, Administration, Finance And Control***
- ***Jens Klint Hansen, Investor Relations Manager***

**Chorus Call operator**

Welcome to Hera Group's 2013 financial results. All participants are in listen-only mode. After the initial presentation, there will be a Q&A session. For assistance from an operator during the conference call, please press star followed by 1.

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

**Mr. Tommasi di Vignano – Chairman**

Good afternoon. On behalf of our usual team, we closed our Board of Directors meeting half an hour ago, and we approved the year-end results for Hera, growth once again, even though the size of the growth changed, and I'm sure that this will be appreciated by all of you. Currently we have a point of view that I wanted to underline. In other words, things went very well and we'll go into details later, but there is another element which I feel is important.

Things went so well in 2013 that the current business plan becomes all of the more reliable and credible, because the things we added through M&A and the events which happened in 2013 in terms of organic growth and in terms of extracting synergies in the Trieste area led us to outdo our expectations, plus we wrapped up an initial year which accounts for more than 50% of the growth we had envisaged throughout the business plan.

And I think that this is a point of view that gives further resilience to the elements you're familiar with, and it allows us to say that we were able to reach and outdo all of the expectations we had for 2013, and therefore it is very credible indeed. We are confident that even for the remainder of the business plan we will be able to reach the targets we had outlined.

Let's go into the things which happened. We had a shift in perimeter with AcegasAps, but we also had a number of other important signals as far as the business areas are concerned. Certainly, we felt the initial positive impacts of the water regulatory system reform. Despite some of our concerns, we were able to do

well in the energy sector, which as you know is currently affected by a number of issues in the generation field, some of which are very serious indeed.

Within it, it also has the effects of the initial cut set by the authority, and which then also affected the gas distribution area.

Despite all this, even in that sector we are able to say that the results posted were positive. We don't want to hide the fact that the past three summers' the temperature [ph] something to (3:53) refer to as far as gas is concerned, but that's something we'll be going into.

As far as waste is concerned, we have other good news. As you know, we had had a second half of the year in 2013. On a number of occasions I had already said that the initial figures in 2013 were in line with the growth in 2013, and I'm referring to the major recovery we've had in waste activities.

This is a recovery which is also linked with the broadening of our territorial presence for waste disposal, but there's also been a recovery as far as our commercial activities are concerned, something we are focusing on a great deal to continue to grow. But the figures we can boast in terms of volumes for the year 2013 are sizable figures, which leave the difficulties that Hera had had in the previous two years behind us.

This was also a year in which we continued with our financial policies. You may have already appreciated that we had a major reduction in terms of debt, and just to summarize that, in the figure we have already reached, with one year's advance, our target in terms of the debt-to-EBITDA ratio is concerned, and we are now at 3.12 times that ratio after we digested the debt brought about by the AcegasAps merger. Therefore, we have had confirmations and improvements compared to our forecast, and I'm sure my colleagues will be able to go into those figures later.

In terms of dividend, I wish to confirm that the Board of Directors today confirmed the figures envisaged by the business plan. In other words, the dividend we will be proposing to the assembly will be €0.09, equal to that we had last year, and at the end of 2012 that was worth 5.5% as far as the dividend yield is concerned. But just to turn to the question you'll certainly be asking, the overall situation which emerges from our performance is one in which we wish to confirm that dividend threshold for the remaining years of the business plan.

Therefore, these are the points that I wanted to focus on. There are a number of others points we'll be discussing. For instance, all of the indicators as far as the debt is concerned all are improving, and therefore, in general, I think that the company as a whole was affected positively by last year's events.

Moving on to page two now, we can give you a breakdown of the growth which we posted; 77% of the growth was driven by M&A, and rightfully so, given the efforts we put forth in working on these operations so that we could have that specific operation entirely in 2013 figures. But we also have to consider the organic growth portion. Hera did what it had to do with peaks in certain operational sectors we will be looking at later.

But we as Acegas also contributed by cutting costs. In Acegas, cost-cutting was also driven strongly by Hera's intervention in terms of extracting synergies, and we ourselves made a significant contribution, given our size, and beyond the cost reduction stemming from the trading activities.

As far as the cash flow is concerned, as I mentioned, the trend was positive. The debt reduction is close to €100 million. And as you can see on page two, EPS grew compared to 2012, which was Hera standalone since we still hadn't gone into the Acegas operation, and compared to 2012, we had a plus 9%, which also confirms and adds onto our EPS commitment for the entire business plan years.

On page three, you have some further elements. First of all, we have the three components which contribute to EBITDA growth. €130 million from the Acegas perimeter have been confirmed, and you may

remember they had been indicated in the business plan as the first building block. Our synergies outdid our expectations. We had actually updated our business plan forecast up to €30 million, which had been divided into the five years of the business plan. We had imagined some €7 million from 2013, whereas we reached €8.3 million. That was a step further, also thanks to the excellent cooperation we have between the two working groups in the two different companies, as I had already mentioned previously. Obviously, we have to continue along this road. We have a number of items we have to look into. We have 100 items we have to look into. Therefore, as you can see in the top right-hand graph, we have already started to extract some of the values as far as synergies are concerned over the next few years. My colleagues will be going through the various sectors in a more detailed fashion.

Waste is certainly very relevant indeed, with a plus 13% growth, with a good recovery. We had a good performance in networks, thanks to the fact that they are a fully regulated area of business. The only two uncertainties as far as the future is concerned is the actual calendar with which we will be dealing with the gas tenders, and we'll be talking about that later. But, having already covered the water sector and as we wait for the upcoming tenders, I don't think there are very many doubts vis-à-vis our global forecast.

Energy also posted a growth equal to €1.7 million globally, which, compared to the difficult conditions I referred to previously, is indeed a very positive element. I'd also like to underpin the final graph on the page, in which you can appreciate the speed with which we broadened our perimeter, and already at the end of 2013, this allowed us to bring back the EBITDA per employee value to the overall perimeter, to the new broadened perimeter after we absorbed all of Acegas employees at the production level of which was lower, also due to their company structure, meaning that now we are again above the €100,000 threshold per employee which was the Hera value before we made the acquisition, and this happened in one year's time only.

Moving on to the fundamentals of our P&L statement, I'm sure you already read our press statement. In terms of EBITDA, we are at least €10 million above our forecasts, with a sizable leap forward, which is also consistent with the EBIT growth. Then, as far as net profit is concerned, post-minorities, you'll notice that even here we had a sizable growth which was maintained even after the adjustments that are also mentioned on page four, which refer to the application of IFRS 3, referring to the two acquisitions we made previously, specifically to the Acegas ones.

We also refer to the write-off we had as far as Tirreno Power is concerned, which was worth €11 million alone, and the difference in taxes between 2012 due to specific reasons compared to the tax rate which was applied in 2013 which was equal to 46%. Therefore, there were no adjustments or variations as far as taxes are concerned in 2013, simply a comparison with 2012. Having said that, the reduction in debt is something I already went into. Mr. Moroni will later go into a sizeable reduction in the cost of debt, which also helped us in the fine-tuning and improving our financial activities.

That's all as far as I'm concerned, and I'd now like to give the floor to Stefano Venier who will be introducing the industrial side of things.

#### **Mr. Venier - General manager Markets & Development**

Good afternoon. Continuing on page five with an illustration of the results post the major business, this is the typical presentation we've been offering for quite some time now concerning the business plan presentation. We have the traditional business areas. The figures of the business areas are also available in the annexes.

As you can see, from one year to the other, we had a growth of EBITDA from €662 million to €831 million, and this basically due to €414 million for networks, €470 million for energy and waste for €238 million. The mix between regulated and liberalised activities is fairly constant. It's €56 million regulated to €44 million liberalised, and therefore this is a constant element which is present, and the AcegasAps integration hasn't

changed that, since that company's portfolio, as we've underlined a number of times, is very similar to the portfolio that Hera already had.

Obviously, due to the shift in perimeter, all of the business areas in these three groups have grown, and we'll be going into the details for each of them, going into each component which then contributed to the growth. The other relevant element in looking at the general 2013 overview is the size of our customer base which, as we had already mentioned recently when we were illustrating the third quarter results, our customer base is at approximately 2 million, with 700,000 customers in electricity and over 1.2 million in the gas business, equal to 1.94 million customers.

The shift in perimeter contributed to that stemming from the AcegasAps operation, due to the activities with another industrial partner, and that contributed to some 110,000 new customers for each business. The remaining 60,000 customers is a contribution of our commercial development, as we'll be seeing later on.

Moving on to page six, the networks area, this page has the breakdowns for the different businesses. In general terms, the results in this area have improved by €104 million, of which, as you can see, €88 million refer to the shift in perimeter from the AcegasAps operation and €60 million stem from the organic growth. In analyzing organic growth, nevertheless, within these variations, we have some very positive results, such as the ones we recorded in water, which account to some €19 million, most of which refers to Hera Group's organic growth, and a smaller portion of that came about from the AcegasAps contribution.

As far as electricity distribution, the growth was more modest, €2 million. The remaining €15 million out of the total €17 million refer to the shift in perimeter, whereas in gas distribution, we had a slight contraction equal to a few million euros. Again, as far as the results of these activities are concerned, there was a negative impact stemming from the overall context since, once again, the contribution stemming from new meters set in new households declined by some 3 million units compared to the previous year.

One of the more relevant elements in this area and the shift between 2013 and 2014 is a better visibility as far as tariffs are concerned. In 2013 and in early 2014, we had an adjustment on electricity distribution tariffs that will also be covering 2015. You're all familiar with the new definition of the gas distribution tariffs as of the beginning of this year. And also, as far as the water business is concerned, just last week a decision was made which confirms most of the tariff hikes for 2012 and 2013, plus a definition of the framework for the 2014 and 2015 tariff increases.

This obviously gives us a good visibility, even though there are still a number of assessments being made concerning the recovery of previous costs. And within that perimeter, within those activities, we also have a part of synergies which stemmed from the AcegasAps integration.

In all honesty, in this area, the €8.3 million that the Chairman was referring to is slightly lower. It's almost €2 million, most of which, as we'll be seeing, refers to waste commercial activities, but by its very nature, these are areas in which optimization requires a bit more time, since it involves standardization and the IT integration processes, which are more complex compared to other types of activities.

Besides visibility on tariffs, we also consolidated the structure of the RAB in these businesses, both for the Hera component and the AcegasAps component in the lower left-hand graph, based on which I can state that the group has a €2.8 billion RAB. In a nutshell, these are the most relevant elements. I can give you further details during the Q&A session.

Moving on to waste, page seven, the dynamics in this area of business were a lot more lively, but also because the impact of the crisis in previous years was more sizable, and therefore this liveliness, as the Chairman was saying, is something that we are continuing to post in these first few months in 2014.

Going into an analysis of the business, 2012 we had an EBITDA equal to €184 million for Hera standalone, €50 million of which referred to waste collection and the remaining portion referred to waste disposal. Contribution brought about by AcegasAps is equal to €36 million, and from a certain point of view, organic growth is striking, and that accounts for €60 million.

On top of those €60 million, we also have almost €5 million in the synergies we're able to record in this area with the broadening of the perimeter to AcegasAps. At that point, the CIP6 review is almost marginal, with an impact of some €3 million, and therefore the overall result is €238 million, with a €54 million growth vis-à-vis the previous year.

There are also some elements which characterize these figures. First of all, the volumes, as you can see in the lower right-hand corner, there has been a slight contraction in terms of the comparable perimeter in urban waste, with a very modest amount at around 1%, while, as I was saying, the special waste business was a little livelier. And in the special waste business we are now almost practically at the levels of urban waste.

And prior to the crisis, you may recall that in the Hera perimeter, our breakdown between urban and special waste was very similar, and actually special waste perhaps was even slightly above urban waste volumes, were at 1.8 million for each of these two sectors. With the crisis, we had been to 1.5 million – excuse me, 1.5 million tonnes, whereas now we are back to some 2 million tonnes, with the growth equal to 160,000 tonnes we had in 2013.

Also, in terms of the contribution of electricity production, we had some major variations, and we were now able to achieve 1 terawatt per hour of electricity which was generated by plants in the waste area. Therefore, these are plants which offer renewable energy. This 300 gigawatts per hour refer to 200 gigawatts per hour by AcegasAps, and 100 gigawatts per hour refer to the production in the [indiscernible] Hera (25:05) perimeter, and in this case we have the start-up and full functioning of the two new biodigesters that were up and running for almost the entire year 2013, plus the optimization of the use with the energy plants, which brought about further production.

And I'd like to underline the fact that we are now above 1 million tonnes treated, which, together with the AcegasAps volumes, allows the group to have managed 1.4 million tonnes of waste in these types of plants, meaning that the growth was almost equal to 50% vis-à-vis what was posted in 2012.

Moving on to energy, as you know and as we've repeated a number of times, this refers to the commercial activities within the energy businesses. Within those figures, due to the nature of our portfolio, we have gas activities for the most part; €110 million in our EBITDA refer to gas activities. And we have a sizable growth in our commercial activities in our sales in electricity, beginning the results in 2012 equal to €26 million; at the end of 2013, it posted €40 million.

Going into the different dynamics, supply and trading activities posted positive contributions in gas and electricity, and these two figures which are similar in absolute terms are very different in terms of their specific components. In the gas sales, the contribution of AcegasAps was equal to some €14 million, with a net growth of €11.6 million.

This means that the Hera perimeter, given the effect of the shifts in the regulation and given the contraction of the opportunity on the trading market, posted a negative effect equal to a €2 million, whereas in the electricity sales and trading, the €13 million have a €3 million contribution from Acegas, whereas the rest is optimization of marginalities on the portfolio. A minus sign for production, obviously, this is the minus sign characterizes all of these types of activities in Italy. As far as we're concerned, we are doing better than our peers. The other services, as you may recall, are heat and industrial cogeneration activities which are a complement to the group's commercial activities.

As far as the customer base is concerned, I already introduced the overall picture. As far as volumes are concerned, certainly the gas sector had some major shifts because, as we already mentioned, the weather wasn't simply warm at the beginning of this year, but it was also warm at the end of last year. Therefore, in general terms, comparing the figures to the previous years, the climate effect reduced the volumes in terms of sales by some 60 million cubic meters, most of which refer to the year's last quarter.

There's also another important element which deserves to be underlined in the commenting, the lower right-hand graph on page eight. Besides our contraction in trading activities equal to €440 million, we have to focus on the mix which account for the 2.2 billion cubic meters of gas sold. Within the 2.2 billion (sic) [billion] (29:11) cubic meters, we have a portion which refers to purely residential market which accounts for 1 billion cubic meters, and to date, over 50% of the volumes are linked to three market contracts vis-à-vis the more regulated contracts.

This is an important element which stems not just from our commercial policies, but it is also due to the evolution of our customer base, which we were able to achieve over the past two to three years. Another important element also as far as the mix is concerned which is worthy of mentioning is that out of the 700,000 customers in electricity, which as you know are the result of a very long growth and expansion trend, basically almost 60% of the 700,000 customers are outside of our networks, meaning that they were fully conquered on the liberalised market.

Now I'd like to hand it over to Luca.

**Mr. Moroni - Administration, Finance And Control Director**

Good afternoon. Our operations and the scale effects contributed very well to the generation of cash flows, besides managing free cash flow, which sees our activities with the plus sign in front of them. Given the context which surrounds us, this is something that we are very proud of.

On top of that, we have to add that the management of our investments which, as you can see as far as the Hera perimeter is concerned and as far as the overall group is concerned, was equal to some €300 million, and this allowed us to have operating cash flows equal to €110 million, which is very close to the amount spent for dividends which, as you may recall, is the target have within the business plan for the year 2014.

This is a positive contribution which obviously also stems from certain extraordinary effects such as the share capital increase we had at the end of 2013, plus cash generation, which accounts for a couple million euros, which is also positive and refers to the AcegasAps perimeter, for a total amount equal to €91 million, which also allowed us to reach a net financial position to the €2,595 million in 2013.

2013 was a very interesting year also in terms of our activities in the financial sector. As far as Hera is concerned, you may recall that in the month of January 2013, we had the 15-year bond equal to €700 million, but the goal of which was to refinance all of the put bonds in our portfolio, followed by a €500 million bond at the end of September with some very interesting rates, which allowed us to obtain the improvement in the cost of debt that was mentioned at the beginning of the presentation equal to some 50 basis points as far as our gross debt is concerned.

As far as the financial indicators are concerned concerning our debt, the financial indicators that we turn to on a regular basis and that we share with the market and rating agencies, we've had a sizable improvement in the FFO-to-debt ratio, which moved from 17.5% to 19.7% of the reported figures without taking into account the adjustments performed by rating agencies by applying those criteria.

As I already mentioned, we also had a major deleveraging by the company, moving from 3.35 times debt-to-EBITDA to 3.12 times debt-to-EBITDA, with a positive effect also on the debt-to-equity ratio, which moves from 1.17 times down to 1.12 times. The position of our debt has an average expiry date above eight years, and its mix between a variable and fixed interest rate is 47% and 53%, respectively.

At that point, I'd like to give the floor to the Chairman for our conclusions.

**Mr. Tommasi di Vignano – Chairman**

Based on the things you've heard, I'm sure you're able to appreciate a number of the positive elements included in these results. I don't think I have to repeat them. I think they're fairly obvious. Our efforts were sizeable. And I think that this is an excellent way to introduce the efforts we'll be looking into both in 2014 and in drafting the new business plan. This is a solid position and our growth forecasts are also important.

And also as far as M&A is concerned, rest assured that we are always willing to look at interesting opportunities such as the Reti operation for AcegasAps which was an operation we were able to conclude thanks to a very swift agreement with Eni allowing us to take control of the providence's gas and electricity networks, plus the other operation we're working on, which is the expansion into the Udine territory, the last activity we have of which refers to approval by the shareholders assembly, which I don't think will leave us with any kind of surprise. We already received authorization by the antitrust authority both in Italy and in Bulgaria, meaning that we are close to completing the final agreement.

Besides being a further piece of our plan which already in the first three months of 2013 you can consider as a cash-in, I think it's also an important sign, because, as far as AMGA is concerned, we'll then be looking into the same kinds of activities that we're focusing on in Trieste. In other words, we'll be looking to extract synergies from that further operation, AMGA, which had been managed by a company that posted excellent results in 2013, and as a consequence of that, they are more than worthy of being included in our group.

And now we are very much available for any questions you may have.

**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 evening, Javier Suarez from Mediobanca. I have three or four questions for you. First of all, on the waste business, I was very surprised by the figures referring to organic growth in special waste, and I wanted to ask you to elaborate on how you were able to achieve this recovery in the special waste volumes and what your expectations are for 2014. What are the elements you've seen in the initial part of the year and what we can expect through 2017 as far as the business plan is concerned? And that was my first question.

Secondly, a question on synergies, I noticed that synergies are worth €30 million in the presentation due to the Acegas integration. I know it's a little too early to talk about synergies for the AMGA Udine operation, but can you give us a few indications as to these reasonable synergies you expect to extract from the AMGA Udine integration? And speaking of consolidation, I'd like to know what the timing is for the conclusion of the AIMAG deal.

Third question, as far as P&L is concerned, provisioning is quite high, if I'm not mistaken, up to €100 million. Can you give us an indication as to how, looking forward, this provisioning level which was equal to some €80 million in the past few years and now is up to €110 million, will you continue to need these aggressive

provisioning policies, or those can decrease in the future? Final question, as far as the company's cost of debt is concerned, you talked about a 50-basis-point reduction in the cost of debt. Can you tell us what the cost of debt is in absolute terms currently. and can the company do something to reduce it significantly further in the next few years? Thank you.

**Mr. Tommasi di Vignano – Chairman**

We were all surprised. Because, in 2011 and in early 2012, we had been somewhat concerned due to the major contraction in special waste volumes and a few problems in urban waste volumes. Therefore, I understand your surprise partially. But, in 2013, the second-half of year was very good. When I looked to the figures of the first two months of 2013, and I noticed that they were in line with the growth rates we had in the previous year, as you'll be seeing in the first quarter presentation, I saw that everything was very consistent. It was no longer a surprise. Now, how did that come about?

On one hand, we had a good management of our plants already in 2010. In our territory, we no longer had to build new waste energy plants. We have the needed amount to be able to meet our business demands. But, last year, we did add a new plant outside of a territory. I'm obviously referring to Acegas waste energy plants and the waste energy plant we acquired from Veolia. Therefore, our number of assets increased without broadening our territory. We were able to fine-tune our activities at the Hera territory because we wanted to be able to have the most updated set of assets also in terms of waste recovery. Therefore, we built three biodigesters, and in one week's time we will be opening the final sorted waste selection plant in Bologna equal to 100,000 tonnes. Therefore, as far as our asset base is concerned, we're doing well.

Besides that, we also were able to use our experience in the energy sector, for instance, that was something important. That was an excellent reference in terms of having a true commercial guidance that could be focused on expansion-based policies. Also, due to the fact that as far as special waste is concerned, what is changing in the market is that besides the other players in the sector, who are traditionally those who feed our assets, we also turned to individual private customers, the typical business customers who own a commercial activity. And these customers need to be offered a global service.

It's not simply a matter of taking the waste, bringing it to the plant, and disposing of it that. We have to offer consulting services, cleaning up, a number of services, in other words, through some major industrial customers. And this is yet another element which contributed to the results in 2013. And start of this initiative business is in the upcoming weeks. This is a new activity for the sector, and we feel that it is something which is worthwhile working on, meaning that these are some of the elements which allowed us to recover so significantly. Again, it's also due to the very careful attention paid to that business.

Last year we were able to reduce costs in the waste business and we were also able to have our waste energy plants working at full capacity, and therefore we solved our problems from the commercial side of things without having any kind of setback as far as the use of our plant was concerned. We are also significantly reducing the use of landfills, and that is European trend, as you know, and European policies. And therefore we shifted everything, all of the feedstock we were receiving, so that we could constantly have our plants running full-time.

You'll also notice the peak we had in electricity. That is yet another reason brought about by this intense use of our plants. Therefore, the success isn't due to a single factor. It's due to more general policy which is looked at constantly. Anything extra can obviously stem from our commercial activities.

One final note, obviously we live in a country in which still don't have an authority. There are significant shortcomings as far as regulation is concerned. That isn't obviously the only obstacle we have to face in the country since the market is still highly fragmented, and we think it would be very useful for the market to consolidate progressively around the more skilled players, and this is yet another step which needs to be looked at in the upcoming years.



Therefore, again we still have a great deal of things to do, still have the NIMBY attitude which is very present in a number of areas in Italy. But it is true that we still have some very high potential in this sector. As I'm sure you can read in the newspapers every day, you have cities or regions which have to face emergencies as far as waste is concerned, and if you want to avoid sending that waste to Holland, we have to deal with it on the internal market.

Just to answer your other questions, beginning with synergies, as you were mentioning, we are expecting to extract €30 million synergies from the AcegasAps operation. Our forecast, our initial forecast – and again, it's only an initial forecast since we weren't able to go into the details yet together with the AMGA management, but our forecast is €4 million as far as synergies are concerned. The AMGA company, as you may recall, will post an EBIT which is some €30 million at the end of the year, and since they sold off the water business at the end of 2014, it will be equal to €25 million. Therefore, €4 million were divided in a pretty balanced way, a 50/50 breakdown between commercial activities and regulated activities, gas distribution specifically.

We still haven't gone into details, into the specific details, as far as Bulgaria is concerned, which has a more complex context, and that requires some further analyses. As far – but there's another aspect, rather, that I wanted to underline which is important. In identifying synergy opportunities as far as AcegasAps is concerned, you may recall we also observed the EBITDA per employee parameter. The EBITDA per employee parameter was €100,000 per employee for Hera, and AcegasAps, when we started to consolidate it, was at €70,000 as far as EBITDA per employee is concerned. In the Udine company, that ratio is between €85,000 to €86,000, meaning that the figures they have are a lot more similar to Hera, also given the portfolio they have, and therefore efficiency opportunities are more limited.

As far as the timing of the AIMAG operation is concerned, as we've said, one of the key moments will be the local elections, most of the AMGA partners will have elections at the end of May. We have constant contacts with them. As you know we're in the AIMAG board of directors, and we have a number of opportunities to interact with them. But basically, right after the summer is when we will be meeting with the company again to go back to the discussions we were having which had been interrupted after the earthquake in that region last year.

As far as depreciation and provisions are concerned, the increase between 2012 and 2013 is worth €88 million. Out of the €88 million, some €67 million refer to the delta perimeter of AcegasAps. For the real shift, the homogeneous perimeter is equal to some €20 million. As far as the Hera perimeter is concerned, the €50 million refer to amortization. The remaining part refers to provisions, actually for the devaluation of credits.

A number of other things have to be said when interpreting these figures between 2012 and 2013, which refer to the homogenization activities as far as AcegasAps and ourselves are concerned for provisions. Obviously, it's going to be perfectly in line on the one hand, and on the other, due to the fact that the external context, the outside context dynamics haven't improved a great deal over the past 12 months.

Therefore, were we to understand the nature of the spread devaluation fund, there have been increases equal to €30 million, half of which refers to AcegasAps and the other half refers to Hera. And these are reasonable figures, I feel, compared to the way in which our balances are referred to. There hasn't been a massive devaluation operation as some of our peers did.

What can we expect looking forward? As you know, depreciation is linked to investment, whereas as far as provisions are concerned for the credit devaluation fund, and hopefully the economic general situation will improve, these should decrease slightly. You certainly remember a recent event which happened, the positive element through which we were able to have the Salvaguardia activities, besides an increase in profitability that will also bring about a further amount of provisions.

Your final question was on the cost of debt. As we have said, the cost decreased by 50 basis points on gross debt, but the average cost of gross debt last year was at around 4.7% – or 4.68%, rather, and this year it's at 4.1%. The overall cost on debt, that 4.8%, that also includes the negative carry stemming from cash. The positive impact of the lower cost on 2013 only refers to the final part of the year, since we benefited from this effect after the late September, early October emission. Therefore, the overall positive effect will depreciate it this year.

#### **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. First question, as far as consolidation in general, besides AIMAG, can you give us an idea of any other possible targets in the Veneto region perhaps or the Marche region, plus the gas tenders, the upcoming gas tenders, and perhaps through the consolidation in that area, you can also post growth in 2014 and 2015? Second question, as far as 2014 is concerned, can you help us understand the impact on EBITDA of the lower consumption of gas in Q1, what we can expect for the entire year, and if you expect to post a growth in EBITDA on a like-to-like basis year-on-year?

You also gave us a breakdown of EBITDA for networks and energy for 2013, and in the backup slides, I noticed that other activities are around €25 million EBITDA, whereas in the business plan presentation, there was no contribution at all, whereas the water contribution dropped. Can you help us understand these things? Thank you.

#### **Mr. Tommasi di Vignano – Chairman**

As far as AIMAG is concerned, I think Mr. Venier was very specific also as far as the timing of renewing negotiations with them is concerned. I don't want to make any forecasts. We'll see if we'll have the right conditions, which weren't possible in the past. As far as any other M&A opportunities are concerned, one thing to look at the things included in the business plan in terms of investment and operational choices made, we tend to focus on the things which are sure. In other words, were the AIMAG operation to fail, we would continue to take into account the fact that in our business plan, besides Acegas and AMGA, we had envisaged another operation. Now, that operation can be called AIMAG or it can have another name. It can refer to another company. That's something that I can assure you of. We'll be looking to use the M&A lever in the future as we expected to have in the business plan, regardless of whether or not it's AIMAG.

#### **Mr. Venier - General manager Markets & Development**

As far as the geographical references you were making, you are absolutely right. Were we to look at other M&A operations outside of the immediate region, we would obviously have to look the Veneto region or the Marche region. Those are the priorities. Therefore, you were absolutely correct. And I've already mentioned all the rest of the information, want all the operations we're working on to conclude positively with the right potential, then some smaller operations such as the one in Gorizia. There may be other smaller and appealing operations, we would know how to proceed.

But, currently, we need to focus on the fact that besides AMGA, which is an operation we still have to conclude fully, we still have an item in the business plan which needs to be fulfilled. And again, at the end of the first year of the business plan, we've already covered 50% of the results we had intended to post throughout the years.

As far as the gas tenders are concerned, obviously each of these M&A operations will bring about the potential presence in the gas distribution business, which is one of the core elements in our P&L statement. As a consequence of that, both for Gorizia and the Udine area, those will be other contexts – those will be

two other areas in which we intend to take part and make our bid in the tenders. Therefore, the size of the areas we've traditionally been in, we have to identify those areas in which we have a major presence already.

Therefore, certainly those are two additions we'll have to make in our business plan also in terms of the investment required. Udine has three different areas and that would envisage a further investment that accounts for some €60 million that we'll be including in the new business plan and that will have an impact on EBITDA.

As far as the impact of the thermal season is concerned on gas, I can give you the figures for the first two months of the year. I still don't have full figures for March. As far as our overall perimeter is concerned, we're pretty much in line with the Italian average, at 25% contraction in volumes to some 200 million cubic meters. Luckily, that was partially offset by the fact that we have some slightly higher unit margins compared to ones we expected, but that doesn't fully offset the effects of the warm weather in the first two months. But we have other effects which through the nature of our portfolio which help us.

As I was mentioning, compared to 2013, we had a shift in perimeter, part of the Salvaguardia contract, which according to our forecast will allow us to double profitability compared to 2013, and that will allow us to cover or to offset the effect of the warm weather on the gas business, besides the dynamics in the waste business. And as the Chairman was saying, in the initial two months of the year, a recovery, the good results that we've seen in the last quarter of last year have been confirmed.

As far as the year-end projections are concerned, there's an aspect in our presentation, something we wanted to illustrate to you, which is the full application of IFRS 11 as of January 1. This principle no longer allows us to consolidate our joint ventures, even though we may have a 51% as in the case of Estenergy. If there are any agreements which give minorities any power of influencing the governance of a company, as a consequence, we would have to deconsolidate to do joint ventures from our portfolio, which are Estenergy and a 51% stake we have in a biomass plant called Enomondo. The overall effect would be equal to €50 million. We would have these contributions in terms of profit, but no longer in terms of EBITDA. But from what we expect, the year-end results in 2014, we'll be able to fully offset that figure.

As far as the EBITDA breakdown is concerned, as far as networks are concerned, maybe I was a little too fast when I said it. If we look at 2013, I had given you the figures for 2012, but I can give you the deltas on 2013. €169.5 million is divided in €122 million for gas distribution, €40 million for electricity distribution, minus €2 million for production, and €10 million for industrial cogeneration and heating. This brings about €169.5 million. As far as the table you're referring to, which is on page 13, concerning the other businesses, that is the second set of elements we wanted to share with you.

As you know, last year we went through a profound reorganization of all of our regulated activities with the creation of the water, networks, energy divisions and the waste division. This type of overall reorganization, which allowed us to overcome the territorial organizations by bringing together many activities in the holding staff, this required a very deep review within the company in terms of allocating indirect costs, which was consistent with the unbundling criteria adopted by the Energy Authority. Beginning in 2014, we will be including figures on the various divisions, the various areas, based on the criteria of these new allocation figures, the new indirect allocation figures.

Therefore, page 13 simply gives you a breakdown of the 2012 and 2013 results, where we do app. There may be a €4 million to €5 million shift in other businesses. There may be differences in networks and energies due to the effect of these shifts from one side to the other which is, again, the consequence of the reorganization, the homogenization of these indirect costs. I hope that is a way to clarify your question.

**Mr. Gamberini, Equita Sim**

Just very quickly, can you help us understand the €25 million referring to other?

**Mr. Venier - General manager Markets & Development**

It's the same businesses. As you know, we have activities in telecommunications which generate some €15 million EBITDA. We also have public lighting which in turn brings about a further €5 million to €6 million, plus we have €5 million to €6 million for Hera, and then I think there's a further €3 million or €4 million for AcegasAps. So, basically, these are the two areas of business which make up other.

**Chorus Call operator**

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

**Mr. Carradori, Goldman Sachs**

Good afternoon. First of all, can you confirm the impact on gas supply tariffs? You referred to some €10 million per year on EBITDA for the upcoming three years. Will you be confirming these figures also in light of the events in the past few months? Another question on the waste market. Obviously, your volume has gone up thanks to new contracts and commercial activities. Do you expect to see stabilization or a recovery in the general waste business, or do you think this situation will continue to be negative? Can you also comment on prices? I think prices are still under pressure. Another question on tax rate, think the tax rate will be stable at 46% in 2014? And finally, at Salvaguardia, you mentioned that you doubled EBITDA. Can you tell us what is the contribution on EBITDA, part of the Salvaguardia market?

**Mr. Venier - General manager Markets & Development**

As far as the impact of the gas supply reform is concerned, it's some €10 million. That doesn't include the effects of the thermal season I was referring to. But also in light of the latest indications which the Authority released concerning next October's reform, that's the net figures you'll be looking at. As far as the Salvaguardia EBITDA is concerned, which is your last question, for this year our EBITDA forecast is €40 million. And I'll give the floor to Luca for the tax rate.

**Mr. Moroni - Administration, Finance And Control Director**

As far as the tax rate is concerned, during 2014 we may be seeing a slight improvement due to the fact that the four-point increase on the Robin Hood Tax will be eliminated. Therefore, from that point of view, for those companies which suffered due to the Robin Hood Tax, 2014 will improve. And we feel that this can also improve the group's tax rate by a couple of percentage points. And obviously we'll be looking at the dynamics in 2014 in terms of new regulations, so we may be able to take advantage of any possible opportunities.

As far as the waste business is concerned, if I understood correctly, were wondering if the things we've been seeing in our territory can also be replicated elsewhere. I have no elements from that point of view. I don't think the general context will improve, because our growth is due to the fact that we are the largest operators with the largest and most significant asset base in the country. We are working at European standards as far as the sector is concerned, but that situation isn't similar to the one present in other parts of the country. Therefore I don't think the situation will improve for the rest of the country. I've seen some European figures recently which aren't in line with our results.

But I do want to underline the things we are doing. We also won the tender for the waste in the City of Rome. In terms of continuity, for special waste, you know how important that is. You know the emergency Rome is going through. That is a tender we were able to win. That was a major achievement. Our activities towards industrial customers is something absolutely new on the market. We also have an advertisement campaign to allow companies to be aware of our service, and that has never been done before in Italy by other players. Therefore, once again, we have been pioneers in this business and continue to be pioneers, and therefore, improvement needs to be focused on those who actually, like ourselves, bring about these types of innovation.

As far as prices are concerned, you have two different types of situations. For special waste, we are still in a situation in which volumes have recovered although prices have not. Whereas, in the urban waste business, we are currently negotiating to have a review in tariffs as foreseen by the regional authority, and I'm sure that we'll be able to have something which is slightly above our business plan forecasts.

**Chorus Call operator**

Gentlemen, there are no further questions.

**Mr. Tommasi di Vignano - Chairman**

Thank you very much, and we will be probably meeting some of you during our road shows. Thank you very much.