



Results as at 30<sup>th</sup> September 2012  
Bologna, 13<sup>th</sup> November 2012

**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 the presentation for the Q3 2012 Results for Hera Group. All participants 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, Chairman of Hera Group.

***Tomaso Tommasi di Vignano, Chairman***

Good evening. Here we are, ready to illustrate our results for Q3 in which we don't have any major news.

As you know, during the quarter, we devoted our attention to a number of operations that will then be impacting the remaining part of the year and even more in 2013, and we managed our usual corporate activities with results that are in line with our expectations and which are characterized by a number of diversified situations in the different business areas which offset each other.

Therefore, the overall results both in terms of EBITDA and EBIT and in terms of the net profit for our shareholders are all in the positive sign. And as I was saying, there are different levels of contribution stemming from the different levels of complexity or from specific phenomena in the gas business. We have some significant results from the gas business and in the water business, and we had the effects of the expiry of CIP6 incentives that we always have to take into account because we will continue making comparisons with the previous year although there has been this major change.

And as far as the electricity business is concerned, with the continuation of our growth of the customer base which up to now has had an increase equal to 72,000 customers in 2012. In light of all this, the results in the electricity sector were significantly hindered due to the effects of fair values which had an opposing effect vis-à-vis last year and was therefore reduced the growth in this specific sector. But in general terms, as I was saying, we are fully in line with the expectations we had and therefore, this allows us to have some consistent expectations for year-end as well.

These are the general remarks I wanted to make as a way of introducing our results. And having said that, I'd like to turn to page three of the presentation, so that I can give you some further introductory elements.

First of all, as far as the EBITDA growth drivers are concerned, I'd like to highlight how we have had a negative change equal to €12 million as of September 30, and that refers to the CIP6 impact in the waste business. As far as organic growth is concerned, we have a plus €7.9 million in the quarter. And then we have the sum of a number of smaller M&A operations which accounts for a total of plus €11 million.

These are all the transactions you are aware of, they refer to the acquisition of 4 megawatts in the photovoltaic business. There was also a significant sale in real estate. And then we had the acquisition made in the market and the gas sales sector.

As far as these different business areas are concerned, as I was saying in the introduction, we've had a €132 million for waste. And if you compare this figure with the performance last year, and if you consider the €12 million difference that I already mentioned, which refer to the expiry of the CIP6 incentive, you'll see that the difference is only equal to €5 million. This is something that Stefano will be going into later on. But we have to consider that this €5 million simply refer to the difficult start the sector had in the first quarter due to the snowstorms we had in the area.

Therefore, the fact that we are in line with last year's figures confirms the fact that in the initial three quarters of the year, the waste business began very badly in the first quarter with a reduction in volumes which was significant indeed. We were able to recover already in the second quarter, and with Q3, we have basically stopped this decline which as far as I'm concerned, is a positive indicator given the fact that after a few quarters in which the crisis had a major impact, we've now had two quarters behind us which show that there has been a recovery indeed.

Moving on to the networks area, as I was mentioning, we had some very good results in the water business and also in the gas business, we had a positive contribution which partly stems from tariff increases especially in the water business and also probably due to the increase in efficiency which is something that we constantly strive towards.

Finally, in the energy sector, we've had a sizeable growth equal to 11.2% in terms of EBITDA. I believe the growth could've been even more significant had we not had the impact of fair values which had an opposing effect as I was mentioning. Therefore, we are very pleased with the results obtained which basically refers to the excellent performance in the gas sales area even though as far as I was saying in terms of the growth of our customer base, even electricity would have made a positive contribution.

At this point, I would like to give the floor to Mr. Moroni for a few remarks on the financials.

#### ***Luca Moroni, Administration, Finance And Control***

Thank you and good afternoon. I think that this Q3 report features major monitoring of our financial flows. Our net financial position is at €2.115 billion vis-à-vis a year-end situation equal to €1.987 million. And as we can see on the graph that we can see that the growth effect stems from the distribution of dividends for the exercise and operating cash flows prior to extraordinary operations are positive with €13.6 million. Therefore, the operating cash flow generated covers both investments and the delta on net working capital which mainly stems from the seasonal effects.

As far as the net financial position is concerned and the maturities, as you know from our profile, we are fairly cautious. The maturities for 2013 are equal to €258 million. Therefore this is an entirely sustainable amount also vis-à-vis the committed credit lines which haven't been used and that the company has available equal to €420 million and with a debt structure which is in the medium to long term with an average length – with an average maturity equal to nine years with a fixed rate which accounts for 62.5% of our debt.

#### ***Stefano Venier, General manager Markets & Development***

Good evening. As far as the waste business results are concerned, I think the Chairman has already mentioned that the trend in volumes has been improving in Q3. We've had a contraction only equal to 0.7% vis-à-vis the previous year. We also find comfort, as you can see on page five, in the performance of our waste-to-energy plants, which are at around 700,000 tons in the first nine months of 2012.

Also recovering on a number of the problems we had at the beginning of the year, the contraction in the sector is mainly focused on landfills as we've underlined a number of times. And therefore, volumes are at around 2.4 million tons in the first nine months of the year.

As a consequence of this, since our waste-to-energy plants work very well and since we increased our production for renewable which went up to 550 gigawatts per hour, sorted collection is confirmed at around

50% % as in the initial part of the year while we are continuing in the construction of our biodigestors, two biodigestors that we intend to put on stream within the end of the year so that we can fully take advantage of the current incentive schemes regulating such productions and which has given very good results with the construction of the initial plant of Romagna Compost which was put on stream two years ago.

Moving on to water on page six, even here we find some very comforting figures. The improvement we had posted in the first half of the year with a growth compared to the previous year equal to some €7 million has further improved to €8.5 million. It could have been even better had we not had some extraordinary events in the summer season, mainly the drought which affected some of the areas in the region as in other parts of Italy, has brought about further cost accountable from some €2 million, and we continue to increase the cost of electricity due to the well known, if it's pertaining to incentives on renewables.

In the first nine months, we have had, the Company, only €8 million in cost differential compared to the previous year, which have been fully recovered both in terms of tariffs and in terms of efficiency increases. As far as volumes are concerned, the year confirms a stability compared to the previous year. Q3 on Q3, we've had a slight contraction on volumes equal to some 1 million cubic meters which I feel is fairly limited, which is very much in line with the dynamics we'd recorded in the first half of the year. And as you know, we are currently waiting for any news as far as the regulatory framework is concerned. I think that the countdown to the new regulations has begun.

Moving on to the gas business on page seven. In this sector, as we mentioned early on in the introduction, we've seen a €23.5 million increase vis-à-vis the previous year. To a certain extent, it's fairly less brilliant compared to the first half of the year in which we had gone above €30 million and this is also a consequence of the fact that the comparison with Q3 last year is slightly less brilliant since last year. We had some further good results on the trading activities, which we did not post this year even though the results have changed so far are sizable indeed because as you all know, in Q3, very little gas was sold to domestic customers which represent the major mess at our customer base.

As far as the distribution activities are concerned, the marginality continues to correctly reflect the dynamics defined in the regulatory period. As you know, we are in the last year of the four-year regulatory period with the last step in the mechanism concerning the full RAB recognition. And even this year, as expected, we are seeing a yearly improvement equal €4 million, which represents €3 million on the first three quarters.

As far as the other activities are concerned, district heating and gas sales to the residential market during the summer time we can post the cost without any substantial profit – revenues, excuse me. Looking forward in this area of business, besides confirming our distribution results, something we have a certain visibility on for Q4, we expect to increase marginalities taking into account the gas contract we've signed a few months ago. And this obviously, will have to be compared with Q4 last year, a year in which we also had a slight improvement.

As far as electricity is concerned, on page eight, as for other players in the sector, these months have suffered due to the volatility of fair values which have already been mentioned. The underlying commodities on and the prices have been moving as you know, we've had a good commercial performance in contracts with fixed prices, which also brings along with it carbon contracts.

And therefore, this implies having positive or negative impacts depending on whether or not the carbon contracts have a positive impact vis-à-vis the dynamics compared to the starting point. In this case, we are referring to a minus €5 million or €6 million which nothing dramatic which justify a major portion of the contraction scene compared to last year. This case our result is equal to €46.6 million, which is distributed with €19 million on distribution, €22 million on sales and the remaining portion refers to energy service and other minor productions we have.

Having said this and also having said that in terms of volumes, we can only underscore a trend which shows a contraction as in the rest of the country in the volumes distributed in our territory. In other words, in the Modena province and in the Bologna territory and in Imola which are areas with a high industrial intensity, we've seen a contraction of distributed bonds at around 3%, which is similar to the numbers we're seeing in the rest of the country.

As far as electricity sold is concerned that the effects have been slightly less negative due to the customer base which offsets this percentage, reducing this to 2.4%. And our customers as we were mentioning a few minutes ago, in the electricity business, are now up to 534,000 out of which over 50% have been conquered on third party networks.

Meaning that these are customers we've conquered on the free market over the past five or six years.

And now, I'd like to give the floor back to the Chairman.

***Tomaso Tommasi di Vignano, Chairman***

I don't have much more to add because the aspects concerning the performance in the various businesses have been underlined already. As far as the things that we've been focusing on lately, I think it's worth to remember that as we've said in the business plan presentation, we have concluded the negotiation and the acquisition of the Energonut Company from Veolia, therefore, that part of our major summer transaction is now completed. We are continuing towards the merger with Acegas APS so that we can be on-schedule with our January 1 target since everything is moving along smoothly. And if I remember correctly, Acegas is also posting some good results for Q3.

I have two other remarks to make. First of all, the fact that so far we never mentioned the fact that we are also involved in a major restructuring process in the corporate operations. We are going to be creating a division, a specific division, which will also be effective as of January 1. And since this is a very relevant organizational activity, which refers to most of our company's resources, I think that this, too, will be able to contribute to further development in the years ahead.

And we already made a comment summary as far as the first nine months of the year are concerned, is that we are not surprised. We're fully in line with the budget we had envisaged, which leads us to believe that, taking into account the €18 million on your rent concerning to CIP6, given that our expectation for Q3 are in line with the ones we had. We believe that by year-end, we'll be able to post results that were very much in line with the performances had in the past years.

Thank you very much, and we look forward to your questions.

**Chorus call operator**

This is the Chorus Call operator. We will now begin the Q&A session. The first question is by Antonella Bianchessi of Citi.

***Antonella Bianchessi, Citi***

Good afternoon. I have a question on the guidance. You said that 2012 will be in line with your previous years' performances, therefore, do you expect to post a growth in EBITDA concerning 2012?

My second question is on CapEx. I noticed that CapEx have been fairly limited in the first nine months compared to last year. Do you think you will be realigning these figures to the trends in past years in the last quarter?

And another question, can you give us some remarks on the regulatory review in the water business? Have you already been able to calculate Hera's RAB in the water sector and what impact do you think the regulation will have on EBITDA in the coming years? And finally, as far as Aimag is concerned, has there been any progress in your discussions with that company? Thank you.

***Tomaso Tommasi di Vignano, Chairman***

As far as your questions on year-end are concerned, as far as your two initial questions are concerned, surely, we believe we'll be able to reach year-end with a good result, with a good performance, with a positive EBITDA, as it is today. But we have to take into account that the seasonal characteristics of a company such as ours has an impact on some quarters more than others, and the summer isn't among the best performing quarter. Therefore, we expect to confirm what I already said. We expect to have a positive result, taking into account that we began with a minus €18 million at the beginning of the year.

Second thing, your second question on investments, the things you have seen show the great deal of attention that we have on investments but it also shows the coherence we've had in terms of realigning our investment levels, which was something that we had foreseen at around €230 million. We'll probably reach year-end below that figure, potentially in line with an indication we had given already in last year's business plan.

Therefore, those are the figures we are looking at, and I think we'll be closing the year, the figures that are slightly below those expected.

I'll hand it over to Stefano for the water business.

***Stefano Venier, General manager Markets & Development***

For the most part, we are waiting for news because as you yourselves were able to gather in the meetings held with operators allow us to have an idea on some aspects more than others. But we try to look at the general scenario, we came up with a worst case scenario, but from which we can expect a neutral effect. Then we have a best case scenario in which we will see a slight improvement compared to the performance we had so far. Therefore, the slight improvement may derive from inflation, RAB and a better remuneration. Take into account that our floor in 2012 is a floor which, as you've seen in the results, this positioned with a significant growth vis-à-vis at 2011. Therefore, if we will – if we say that with the worst case scenario, we confirm last year's level, we feel we can have and confirm the good trend that we've been able to bring home in the first nine months of the year.

And looking forward, today, if we're going to look at 2012 and 2013 but were we to have a confirmation for the hypothesis we're seeing beyond 2013, I think that the things that we have mentioned in our business plan would also be confirmed. But, obviously, looking at things beginning in 2014 onwards depends on the price cap level that will be adopted by the authority beyond that date, because obviously in the first two years, the 2.5% is in fact being felt. And were this to continue in 2014 onwards, obviously, this would have a significant impact in terms of our projections through 2015, 2016. But we are not negative, in other words. Thank you.

As far as Aimag is concerned, currently, that operation isn't one of the things we are looking at currently. We scheduled that negotiation in 2014. We expect to go back to the negotiations in 2014 since they could not have happened before that date. We have no recent news. We know that they are still struggling with the effects of the earthquake. Therefore, we decided to avoid speeding or rushing things as far as the negotiation is concerned.

**Chorus call operator**

The next question is from the Italian conference call by Edoardo Montalbano of Centrobanca.

***Edoardo Montalbano, Centrobanca***

Good afternoon, I have two questions for you. The first question is if you can mention the impact of the change in fair values in the gas and electricity in sectors.

The second question is what was the average cost for debt in the quarter? And if the refinancing, I calculated that at 5.8% to 6%. And I was wondering if with the refinancing you will have in the years ahead, if you will reduce the average cost of debt down to a similar level of other local utilities which is around 3.5%? Thank you.

***Stefano Venier, General manager Markets & Development***

As far as fair values are concerned, I mentioned that we're looking at €5 million to €6 million for electricity, and for gas we're looking at some €2 million. So it's a relatively modest amount. As far as the debt is concerned, I'll give the floor to Luca.

***Luca Moroni, Administration, Finance And Control***

The average cost of debt is in line with the cost we had in the other quarters. Therefore, we're at 5.3%, 5.4%. As far as your second question is concerned, currently, I don't see any market opportunities allowing us to say that we'll be able to reach the level you mentioned. The levels that other corporate entities currently have, also

vis-à-vis the maturities that we want to keep in line with the coherence in terms of the investments we're making. Those levels are at around 4.5% or 5% depending on the maturity and therefore even were we to look at funding or at probably refinancing part of the debt, I think that more or less the level we will have will be in line with the cost of our debt.

***Edoardo Montalbano, Centrobanca***

Meaning we can reach 4.5% or will you continue hovering around 5%?

***Luca Moroni, Administration, Finance And Control***

Well, we may be able to reduce a few basis points but reaching 4.5% in the average costs in the average total costs also having to phase operations which may not impact the average significantly, maybe even to base these operations, the lower current cost therefore perhaps, take advantage of the best opportunities on the curve and trying to position ourselves at 4.5% or 4.75% on new emissions, but this will not have a major impact on the total costs allowing us to go down to 3% that's for sure.

But the new emissions may very well be slightly below the total overall cost. Thank you.

***Chorus call operator***

The next question is by Fabio Picardi, Banca IMI.

***Fabio Picardi, Banca IMI***

Good evening. First of all, I have a question on the Q3 results on EBITDA. If we can go into the details and to the business by business breakdown, since the waste area – the waste area's decline is due to the CIP6 expiry, I was wondering, what accounts for the decline in gas? I do understand that Q3 is a quarter on which you sell less volumes, but perhaps, it would be a good idea to have some further details so as to understand this area's performance in Q3.

Then I also was wondering if you can give us figures on the rain certificates and the production of incentivized energy in the first nine months. And then I wanted to ask if your results at year-end will also include the recent Energonut acquisition and how much EBITDA would that refer to? Will that refer to a single month, to a single quarter or for the entire year?

And also concerning the full-year results, as to your perception, will the full-year results include the merger with Acegas-APS? Since you will be giving the results in March.

And final question, maybe this is something that I can go into greater details with Jens. Your perception on operating cash flow at the slide on page four, I was just wondering how you come up with these figures because I was expecting the operating cash flow to be certainly above the €265 million. Considering that you have €230 million in depreciation and further amount in pre-minorities profit, can you give us some further details on this?

***Stefano Venier, General manager Markets & Development***

Beginning with the easiest answers, Energonut will be consolidated certainly, with the closing of the deal on November 5, we will be looking at consolidating the company in the months of November and December. I think that these will be the preference months, November, December. That's the date. But then obviously, we signed the SpA a few weeks prior to that and we'll be looking at with the auditors.

***Fabio Picardi, Banca IMI***

And how much is this worth?

***Stefano Venier, General manager Markets & Development***

Well, it's worth some €3.5 million. This is the figures involved. As far as Acegas Aps is concerned, since the merger will become effective as of January 1, there is no rush now behind consolidating it now. Perhaps we will

– when we will be presenting the full-year results, perhaps we can make a sum of the two companies' performances but it won't be anything special. Everything else will happen after January 1 and will be easier for you as well since both companies have to publish the results possibly we'll be able to obtain the information easily.

As far as electricity with incentives by green certificates, you would have seen 140 gigawatts per hour I was referring to earlier on. The remaining part of energy from renewables either benefits from specific and specifically for photovoltaic production. And overall, the EBITDA from this production is equal to €3 million in the first nine months. And as far as biodigesters and biogas plants are concerned, those are the CIP6 residuals or the guaranteed blows at €280 per megawatt-hour. But the Romagna Gas Compost accounts for €2.5 million in terms of EBITDA on a yearly basis.

As far as the gas business is concerned, we can begin with the results in the first nine months, €161 million. €57 million come from commercial activities as an equal figure for distribution, and the remaining amounts which includes district heating is €9 million. This is the breakdown which accounts for the €151 million.

As for the results of the first half is concerned, the performance in Q3 is always the weakest. Typically in this area, over the years, we post between the €10 million this year and €17 million and €18 million last year. So these are the figures we hover around. And where would it take the variation vis-à-vis the previous year and the €9 million, the differential is €23.5 million. In June, there were €31.5 million, so there has been a decline equal to €7 million or €8 million which is mainly due to fair values, which accounts for €2 million, and also for the €2 million to €3 million in less marginalities and trading. And that partly result to the commercial results would have some €2 million which have been accounted for.

And if we add all these components up, that performance total would be at some €8 million. This is just a number of minor phenomena at €150 million of volatility equalled to €5 million or €6 million is pretty natural especially in the summer of which lacks some of the businesses' components such as the commercial sales which then has major impacts in other parts of the year. I think I answered all of your questions except for the cash flow that I discuss with Jens later on.

***Fabio Picardi, Banca IMI***

Thank you very much. Can I just add last question? Just to understand how the merger will continue, is it likely that the dividend will be distributed next year post merger and it was also to the Acegas shareholders?

***Stefano Venier, General manager Markets & Development***

That's for sure. It's not likely, it's sure. Also, because the shares which stemmed from the merger will be given to the former Acegas APS shareholders as of January 1 as they would no longer hold the Acegas shares, that we will make a public bid for the acquisition and swap of the Acegas shares and that should be completed within the end of March.

Therefore, by the end of March, we will have a million shares both for the public shareholders, post-merger and also for the private shareholders.

Therefore, once we have picked it, all of the former Acegas shareholders will receive a dividend from Hera, and Hera will receive the full dividend from Acegas APS.

***Fabio Picardi, Banca IMI***

Thank you very much.

***Chorus call operator***

Our next question is by Dario Michi, Banca Akros.

***Dario Michi, Banca Akros***

Good evening. I have two questions for you. First of all, on the waste sector, in Q2 and Q3 there has been a recovery in volumes compared to the results posted in Q1 due to the effect of the snow storms. I was

wondering if in Q4, we can expect a further recovery in this trend and also how is the economic crisis impacting volumes also compared to the climate?

The second question is on the gas market, can you give us what your expectations are in the market – your expectations on the net agreements, which are key months.

***Stefano Venier, General manager Markets & Development***

As far as the gas market is concerned, unfortunately, October wasn't a good performing month compared to our project, compared to last year, we lost €1 million in margins. €1 million, obviously, much will depend on the climate in the month of November and December. But certainly, compared to last year, we can count on a marginality per cubic meter sold which is slightly better compared to the previous year, therefore, we certainly expect to continue with this €23 million differential we have at the end of Q3 and to hopefully round that figure up even more. And on waste, I'll leave the floor to the Chairman for some further comments.

***Tomaso Tommasi di Vignano, Chairman***

I do think I have to make a specification so that we don't run the risk of being unclear. I think that what we find comforting is that the decline in percentages we had in the last quarter were pretty much completely reduced compared to the previous two quarters. Therefore, currently, the situation isn't a source of concern for us but compared to the trends we had at the beginning of the year which were worrisome. But the same time, I don't think that we can see a recovery. What we can say for the time being, the reasonable amount of likeliness is that in the six months' time, we have reduced the decline and reduced it down to zero. This is the exact snapshot of how things went.

***Dario Michi, Banca Akros***

What is all this due to?

***Tomaso Tommasi di Vignano, Chairman***

I don't think it's due to the effects of the crisis or a difference in the effects of the crisis because as you know, the crisis isn't being – we're not even at the crisis yet. But what Stefano was saying concerning some of the choices we made in using our assets and in terms of rationalizing the use of our plants, because some of the more obsolete plants, some of the less important plants have been shut down, we have also used landfills a lot less since they are less profitable.

Therefore, all of these things combined with a more aggressive commercial approach have allowed us to help our performance, especially in the last quarter. Therefore, I think that this is the outcome of our technical approach in terms of how we use our plants and in terms of the commercial approach we've had. And therefore, we saw that some specific types of waste reached levels which were higher compared to the results obtained in the previous quarters.

And specifically, as far as dry special waste are concerned and the moist product waste also posted good results. We've had more difficulties in the strictly industrial waste, which had a harder time recovering in the industrial and hazardous waste that's obviously linked to the performance of the industry.

Therefore, these are the elements that allow to say that we have – we're now facing a far less worrisome phase compared to the past. But before we speak of an actual recovery, I'd rather wait a few more months. Thank you.

***Chorus call operator***

Gentlemen, there are no further questions for the time being.

***Tomaso Tommasi di Vignano, Chairman***

Thank you very much. We will talk to you soon. Thank you and Merry Christmas if we don't talk to you before it.