2012 First Half Results
Bologna, 28th August 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
Good afternoon. This is the Chorus Call operator. Welcome to the presentation of the Hera Group H1 Results. All participants are in listen-only mode. After the initial presentation, there will be a Q&A session. I'd now like to give the floor to Mr. Tomaso Tommasi di Vignano, Chairman of the Hera Group. Mr. Tomaso di Vignano, you have the floor.

Tomaso Tommasi di Vignano, Chairman

Thank you, and good afternoon. Here we are with the usual team, with Mr. Venier, Mr. Moroni and Mr. Hansen. We have just approved the results of the first half which I'm sure you've seen in our press release. And I have to say that we are satisfied with a result that we feel is a good one. The result of the first half is good from a number of points of view. It is good because it was compared to the first half of last year which, as you may remember, was characterized by a good performance, to say the least. And therefore, the comparison this time was even more difficult. Regardless of this, we have had a number of satisfying moments from a number of points of view. We also have to underline that this result is still, and we'll still have to remember this in the next quarter and even at the end of the year, is still suffering from a number of negative elements, which don't stem from our management even though they have had an impact on the results. And I'm referring to the ongoing lack of the same figures in 2011, which are linked to the end of CIP6 for FEA. And as for every other, we have had a negative impact in terms of taxes. I'm saying this from the onset so that I don't have to repeat it in the various items, but it is an element that needs to be taken into account since it is of significant value.
The results were good also in terms of the results in the financial statement. We have had an increase in revenues down to an increase in profit with a good growth, which in terms of net profit post minorities is characterized by plus 7.8%, which we feel is a very good performance at this level as well.
In our presentation today, we decided to begin by looking at the past five years in terms of earnings per share. We've seen a growth, even though it was more limited in some years, it was a constant growth nonetheless. And even on our last half compared to last year, we have posted a good result. This was one of our weak points that we want to continue working on, but I feel that we are actually succeeding.
Our growth was also characterized by another piece of news compared to last year, which is the fact that compared to the overall results of the first half, the contribution of the second quarter was specifically important. And this is also a new and significant element. In terms of the contribution to the growth, the results are very much linked to an excellent performance in the energy sector, which is, for the most part,

linked to the good results coming in from the gas sector that Mr. Venier will be going into in greater detail, both in terms of sales and trading and the margins that this business was able to produce. Obviously, the cold weather helped us in the first half for a short albeit intense period. And together with this, we had a performance in the electricity business which, even though there was a reduction in volumes in the market, which also had an impact on us compared in the previous year, nevertheless, this phenomenon has been reduced by increasing the customer base as we had already done in the previous quarters.

Another good result is coming in from the water business, which posted a good growth which was linked for the most part to the tariff increase which had been decided in the past. As you know, this is the last year in which more than half of our contracts have. Therefore, in this past few months we have an increase in tariffs which was able to recover the time it took to actually update the tariffs.

In terms of cash generation, the result is positive, in the sense that as we had committed to, in terms of this half, the situation pre-dividend is a positive situation, and therefore this is yet another of the commitments that we held to. In terms of our investments, we continued the careful selection that we have committed ourselves to over the past two years. We've gone down from the €130 million of last year to €121 million. And the free-floating element is further limited even though we're already seeing the first effects of the earthquake which had an impact on a number of municipalities, especially in the Modena and Ferrara provinces.

As far as the debt is concerned, it is in line with our forecasts – with the forecasts we had at the end of 2011. And it increased – the increase was equal to the exact entity of the dividend that we paid in early June. I think that these are the most important elements from a general perspective.

Moving on to other elements of the balance sheet, revenues have gone up by 15.4% vis-à-vis the previous year. Obviously there is an effect of the prices of commodities, especially in the energy sector. There was the increase of gas volumes that I've previously referred to. We also had a small part which is also due to a hike in tariffs. In terms of depreciation – amortization and depreciation, we have a €4 million and €3 million, respectively, which is in line with the growth of investments and in line with the accruals and policies we have, whereas we have a plus 17% in credits which is in line with the growth of our turnover. EBIT is up by 6.4%, whereas financials are up in line with the increase of debt and with the increase of the variable rate debt. These are the two elements which brought about this change.

As far as taxes are concerned, tax rate is up from 43% to 44.5%. That is wholly due to the effect of the Robin Hood tax on our energy activities, and on the second Robin Hood tax intervention we had this year. The decrease in minorities is basically due to the effect of Cip6 because this had an impact on the FEA company therefore this also has an impact on the dividend with reference to third parties.

We've already talked about the net profit in terms of the results obtained, and therefore, now I'd like to go to page three and to look into the breakdown of EBITDA growth. In fact here we have to highlight, yeah, the main importance coming from organic growth, which is significant in terms of its size, also vis-à-vis the £8 million which is the effect of the expiration of Cip6. We've also brought in €10 million from M&A with a small share, a relatively small share, of the integration process of Sadori Gas in the Marche region, which was consolidated as of July 1, 2011.

We have also have the effects of four acquisitions in the renewable sector, in the solar sector, which were then integrated into our company, into our renewable energies company. And in this item we also have a positive contribution from a real estate sale, which is the last step in terms of the rationalization process that we conducted over the past two years on the company's real estate. This allowed us to gain value from an asset we had here in Bologna which was – where we have the largest deficits both from the point of view of the holdings headquarters and the operational structures headquarters, who were also working on completing this activity as well.

As far as the breakdown by strategic areas is concerned, you'll notice that in terms of percentages and growth, the main part comes from the almost 25% growth in the energy businesses' sales. And as far as the networks are concerned, we have had a good increase to almost €160 million of EBITDA from the €148 million posted last year. I'd just like to focus on a point that we feel very strongly about as far as our commitment is concerned, which is how we are dealing with the market issues and the waste business.

As you can see from the figures obtained, our biggest commitment as far as our commercial efforts and as far as gaining customers outside of our territory is something that is becoming concrete in the sense that we are reducing the losses in the market. It's a reduction that we want to continue improving and consolidate till the end of the year. And it does show that we are improving vis-à-vis the performances that we had had in the previous quarters. Given the importance of this item in our global results, obviously our efforts as far as this activity is concerned, continues to be a significant one.
With that, I'd like to give the floor to Mr. Moroni to go into the financial issues. And then I'll give the floor to Mr. Venier for the presentation on the business-by-business results.

Luca Moroni, Administration, Finance And Control

Thank you and good afternoon. On page four, we can see the performance of the cash flows which are positive, therefore in line with the results obtained in the first half. Positive cash flows before the dividend payout equal to €130 million and before the extraordinary M&A operations. Therefore, the overall value of the cash flows was equal to €28 million positive after having self-financed the investments and the variation in working capital which, as we were saying a few minutes ago, vis-à-vis the negative €60 million, €15 million of these refer to the credit stemming from the moratorium for the territories which were struck by the earthquake.
Of these €15 million, some €5 million were presented to the Cassa Conguaglio in terms of the regulations drafted by the AEEG which will be refunded by the Cassa itself, which will advance the money. This whole procedure will continue throughout the month of November with a report that will be then illustrated by the companies affected by the earthquake so as to update this value on a monthly basis.
Net debt is at €2.099 billion after having paid dividends. Therefore, the increase of debt vis-à-vis the debt we had at the end of last year, mainly stems from this item. And the makeup of the debt is still a fairly cautious one with a profile which is equal to 63% at fixed rate with a 95% of mid to long-term exposition with an average of nine years. The expressions of the upcoming nine months were equal to some €300 million, which are all covered by the cash available in the company after the end of June, which is equal to some €500 million besides committed credit lines equal to €420 million. So, this is surely a very cautious stance in terms of cash availability.
Having said that, let me give the floor to Mr. Venier for the business-by-business breakdown.

Stefano Venier, General manager Markets & Development

Thank you, and good afternoon. Just some ideas on the businesses, even though many of the things have already been mentioned. I will go into these before giving the floor to the Chairman for the conclusions.
As far as waste is concerned, we have two main phenomena which were already illustrated. On one hand, as we've already said a number of times, we've had, at the end of CIP6 – expiry of CIP6 which at the end of the year will be equal to some €18 million approximately. We've already paid for the first half in the first half of the year. For the most part, the result stems from the overall picture, which in the second quarter saw a significant recovery vis-à-vis the trend we had seen in previous quarters; not only in the first quarter of this year, but also the trend we had seen in the second half of last year. Obviously, the overall economy has an impact on these results. We've all seen that industrial production has been contracting significantly. Therefore, especially the special waste segment, this has had an impact in terms of volumes. Regardless of this, opening up of new market areas and the big market segments, that has allowed us, especially in the second quarter, to reduce the decline in volumes vis-à-vis the second quarter of last year and bringing it down to a simple minus 3%, which brings about the downturn seen in the first half to approximately 8%. These are significant figures.
But regardless of this, as we can see, the result that the division has posted has had a limited contraction to minus €13-point-something million. If we take away the €8 million or €9 million linked to subsidies, you'll see that we have reduced this downturn significantly, and this is proof of the fact that we continue being very

active in this division. This area of business, which continues to contribute stably also in terms of disposing of urban waste, which guarantees a good flow besides the subsidies on renewables.
As far as the business performance is concerned, we are continuing in our activity aimed at building further complementary units to the ones which already exist, which can allow us to focus on sorted collection which, as we've already said a number of times, in our territory, is stably above 50%. If you consider that, we serve over 2.5 million inhabitants. On top of that, we have the tourists coming in during the summer. Obviously, 50% of sorted collection is a very important figure which, at the same time, offers some new opportunities to allow our business model to evolve so that we can increase profitability in the various flows, including that sorted collection.
Moving on to water. This area of business in this first half of the year has certainly posted a very good result. It was one that we expected. As the Chairman already said, we had forecasted – we had programmed increase in tariffs, so as to recover some of the investments made in the past two years, which had been gradual in terms of recovery over time. And I feel that this result is especially relevant.
Also, if we look at some of the cost components in terms of managing this business, especially the cost of electricity which, as you know, for all Italian companies, we suffer from the increase in costs stemming from the subsidies to renewable, especially photovoltaic technologies, the A3 components which have now reached extraordinary levels.
This cost is a cost which cannot be covered. It cannot be managed with optimization procurement policies. And it is a cost that we have to face, which needs to be dealt with. Regardless of this, we have had some important results, also vis-à-vis reasonably stable volumes.
Moving on to page seven with a brief comment on gas because I don't think we need to repeat what we said at the end of Q1. We've had some important and significant results, both in terms of distribution which has contributed to the performance in the first half with an improvement equal to or plus €2 million or above €2 million. We've had good performances in district heating and heat, also equal to a further €2 million or €3 million. The rest stems from commercial and trading activities.
And I'd like to underline the trading activities as we've had an important result in terms of the growth that we posted equal to over €30 million, mainly stems from that specific activity which have brought home some very satisfactory results and also in terms of providing gas to the power generation market, which was never a significant market for us. It still isn't, but with a couple of hundred million cubic meters, we were able to post some very satisfactory results indeed.
I'd also like to add that the results weren't only achieved by the margins, but as we've already seen in the first quarter, we've also had a good performance of the thermal season which characterized 2012, which not only compensated the natural dynamics of the overall context [indiscernible] (23:35) electricity business. But due to the effects of the so-called freezing February, we were able to post a net increase in the volumes sold.
Moving on to electricity. The most important element which needs to be underlined here is that we are continuing to increase our customer base. Remember that in March, we had celebrated our 500,000 customers. And at the end of June, we were at 517,000 customers. So, the plus 35,000 customers per half year is something we are fully working on.
We are continuing along this path and we hope to continue even in the second half of the year, which means that by yearend, we'll be above 550,000 customers.
As far as results are concerned, and these have been influenced by the dynamics in terms of volumes, you've seen a minus 1% of volumes sold which is lower compared to the national average, which is at 3% and therefore, we've had the growth of our customer base on one hand and the national average contraction of our existing customers on the other. Therefore, as you can see in terms of distributed volumes in the territories of Modena and Imola, which also have a significant industrial intensity, we have posted an average contraction equal to 4%.
As far as the results are concerned, we have to say that the reduction equal to approximately €6 million isn't due to the fundamentals of the activity. In fact, our distribution increased slightly to €13 million. This is simply due to the effects stemming from the fact that we posted the fair value on the commodities contracts which,

as you know, in the comparison for June 2011 to June 2012 there is a variation which explains the negative variation. Therefore, it's not so much an issue of margins and fundamentals. It's simply an issue of posting these fair values which, as you know, as all other similar companies, cannot be posted with a hedge accounting criterion. They need to be posted at the end of every month. Therefore, we have to post the evaluation to the end of the year – to the end of the contracts. But again, these are things which do not change the size of the results that we've illustrated so far.
Now, let's give the floor to the Chairman for a few final remarks.

Tomaso Tommasi di Vignano, Chairman

Thank you. I don't think I have to further comment the results because I think they speak for themselves. And we will hear from you then if all the things we have illustrated are clear. What I do want to say concerns two other aspects. The first is an update on the extraordinary merger operation with Acegas Aps. And I'm saying this because in this morning's board of directors meeting, we decided to call the ordinary and extraordinary general assembly, which will deal with the elements already compassed in the framework agreement.
Therefore, we are continuing to work in compliance with the deadlines included in the project. Our work together with them is going along well. And I think you can already find a first trace of the information and the contents of the business plan that we will be working on in the upcoming two months, which should already give a view – an integrated view on the period of 2016.
One last point which wasn't actually expected, but it is something that we have to state nonetheless before you ask us and it refers to the good news that was published in the press this morning concerning an initiative, a joint initiative with the Fondo Strategico Italiano, Italian Strategic Fund, of the Cassa Depositi e Prestiti with whom we have been having some talks – some intense talks – which continued throughout the month of August so as to bring about the fund joining the Hera shareholder structure with an increase in capital. We weren't going to talk about this issue because we are still in the negotiating phase, and we will be receiving the latest version of their offer in the upcoming hours by the Cassa Depositi e Prestiti, so that we can then allow our shareholders and our board of directors to actually review the final draft in the upcoming days, meaning that we would have released a press release once this text is received.
But since the news is out, we want to underline the importance that this operation has for us. It is an important contribution. There's a capital increase of €200 million, which will be achieved within the next 12 months, meaning after the integration process of Acegas Aps. The proposal was already illustrated in terms of its fundamental elements both to the board of directors and to the shareholders. It was received well. It still hasn't been approved due to the fact that we haven't received the final draft as I've already mentioned.
Now, since this is such a highly qualified and highly important institutional investor in the Italian scenario, this is something very satisfactory for us, also in light of being able to work together with them in the future, and very satisfactory for us to have such an important shareholder within our ranks. It's also, I believe, a way of recognizing the importance of the operation we've been working on. And given the economic situation that our country is going through, it recognizes the fact that we were brave. It is also a recognition of the work that we have been conducting over the past 10 years.
And therefore, the fact that these elements have been recognized, especially that the recognition that further development opportunities can stem from this type of an investment – or this type of an investor, again is something we are very proud of. And I feel that some very good work can be done in that sense. We'll have to look into a number of new issues, but before that, we'll have to bring home the results from the things we are already working on which we're actually the driving factors behind this decision.
This won't make us waiver from our programs because as you'll be seeing in our new business plan, we'll be confirming the elements we've been working on in the past few years, especially in terms of committing ourselves to consolidating the debt to EBITDA ratio, which is something we will be further strengthening even after the integration with Acegas. And we will continue to guarantee our financial flexibility. We will continue committing to the financial structure of the company which over the past years we have been able – we have

had to work on. Therefore, I don't think the time has come to talk about numbers. That is something that will only happen after the official statements will be made within three or four days as I said. But it is certainly something that again we're very proud of and very satisfied with, which is something that we've been working on. And it is something we've taken with this opportunity. That's all as far as I'm concerned. If you have any questions, we are very much available.

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

Antonella Bianchessi, Citi analyst

Good morning. Two very short questions. Can you give us some details on the article published on the Il Messaggero newspaper concerning the amount equal to €80 million to €100 million for 4% of the company capital, if this is something, an invention by the press or if there were any evaluations during negotiations?
Secondly, can you briefly comment on the documents concerning the reform in the water sector? Can you give us your opinion what the impact maybe for Hera and vis-à-vis elements included in that document?

Tomaso Tommasi di Vignano, Chairman

As far as the figures published in the Il Messaggero article, I think that the amount cited, €80 million to €100 million is correct whereas the percentage isn't as correct. I think that [ph] Mr. Pani (35:04) article on the La Repubblica is a little more correct. And as far as the consultation document for the water business is concerned, as you know, the deadline for the presentation of comments was postponed. We were ready as a matter of fact.
I think that overall our response is positive. There are many interesting elements. We also tried to perform some exercises to see whether or not interpretation we had was the correct one. There are still a number of elements that we are interpreting. And we're commenting on interpretations. But I'm not sure that things are stand actually as we have interpreted them as far as the authority is concerned. So honestly, to date, we still haven't come up with some specific numbers. What I can say is that the interpretations that we made did bring about some positive results, a view that allows us to appreciate efforts made by the authority also in terms of clarity; therefore, also in terms of improvement in terms of looking for a balance and also the improvement in terms of a return which was approximately 7% for us. And from their papers, we're looking at some higher percentages, higher values.

Chorus call operator
The next question is by Stefano Gamberini, Equita SIM.

Stefano Gamberini, Equita SIM analyst

Good afternoon. I'd just like to understand a couple of things on the results posted. The first is on the gas business. In Q2, do we have an effect stemming from fair value in hedging in the gas area? And can you also help us understand what we can expect on the entire year? Also on gas, can you tell us something about the supply contracts for 2013? Can we expect some margins in line with 2012? In other words, are you pleased with the contracts for 2013 or not?
Another question is on the cost of debt on the overall year, if 5.7% is still correct or if it can be reduced? And the same thing on tax rate, I believe the impact of the Robin Hood tax was going to be a few million euros on the year. I was wondering if this projection changed, if the impact will be higher?

And another question on the entire year in terms of your results, Chairman was saying that the results at the end of the year should be positive, so do you think EBITDA will increase year-on-year? And finally, the plus €6 million, where were those posted?

Tomaso Tommasi di Vignano, Chairman

As far as gas is concerned, even in the Q2 in terms of gas, we have a positive fair value as is the case for electricity. The figures are very similar. We're talking €5 million to €6 million, so it is not a huge amount. This case, these are contracts which will come into effect before September 30.
As far as the thermal contracts for 2013 are concerned, these were signed at very similar levels what we saw in the 2012-2013 thermal year. So, in terms of marginality, we have a reasonable projection which is reasonably in line with the results we're posting this year.
Going on to the capital gain on real estate, since this refers to the group's shared services activities, is spread out in a uniform way on the various business areas. Since it is capital gain on a service structure, it reduced the overall costs. As far as the cost of debt is concerned, I will confirm the things that I said during the first quarter. The cost of debt should be at 5.6% or 5.7%. This time we're at 5.5% currently.
As far as the impact of the Robin Hood tax is concerned, the comparison with the first half of the previous year and remember that the effect of the Robin Hood tax came into effect beginning at the month of August. Therefore, it did not have an impact on the first six months of 2011. Therefore, the difference on the tax rate is due to the tax difference which has been introduced in the second half of 2011.
As far as the forecast at yearend is concerned, we will have more or less the same impact we had last year, also depending on the mix of the results of the various business areas, but more or less the impact will be the same or should be the same, which should be partly offset by the effect of the first Monti government to manoeuvre on the possibility of being able to reduce taxes on labour which is equal to approximately €1 million to €1.2 million.

Stefano Gamberini, Equita SIM analyst

Just one final short question. As far as the Fondo Strategico Italiano is concerned, you said that the amount of money involved is correct, but that the percentage wasn't.

Tomaso Tommasi di Vignano, Chairman

The share is at 6% – or 5.5% or 6%. That's the share that we are referring to.

Stefano Gamberini, Equita SIM analyst

Thank you.

Chorus call operator
Next question is by Alessandro La Scalia, Banca Aletti.

Alessandro La Scalia, Banca Aletti analyst

Just some questions on the first half numbers. Can you give us a split both in the electricity and the gas divisions of the networks – what they posted in terms of EBITDA? Secondly, I saw there was a recovery in waste, and what are your forecasts to yearend? Do you believe that the second half will be in line with last year regardless of the minus €8 million from CIP6? Will there be an improvement in terms of EBITDA?

Stefano Venier, General manager Markets & Development

As far as gas distribution activities are concerned, as I was saying, this accounts for €62 million on the overall €150 million, whereas as far as electricity is concerned, it accounts for €13 million on an overall €36 million. As far as waste is concerned, I'll give the floor to the Chairman.

Tomaso Tommasi di Vignano, Chairman

I will make some forecasts. As far as waste is concerned, we're still – we still haven't reached what I'm about to say, but we're working on it. Our goal in waste is to keep the same levels we had last year, a year in which we benefited from the CIP6 for the entire year. We're currently a little bit below those levels, but we are recovering. Therefore, I believe that we can still reach very close to those levels.
In terms of EBITDA for 2012, compared to the EBITDA of 2011 – so on the entire year, yes, on the entire year. I feel I can say this, because Mr. Venier was saying, we have seen evidence which goes in this direction, meaning that we are bridging the gap that we saw in the first quarter this year, which then improved in Q2. Therefore, we are working in that direction.
As far as the request you made before confirm our forecast as far as yearend is concerned, well, as far as – beside the fact that I have to share the CEO's optimism in forecasting that we can approach the second half of the year with targets, which will be increasing globally vis-à-vis the end of 2011 (sic) [2012] (45:39). And I believe that the first half has brought in a significant share on which we can base our forecasts.

Chorus call operator
Mr. Tomaso di Vignano, gentlemen, there are no further questions.

Tomaso Tommasi di Vignano, Chairman

Thank you. We will go back to work now for the upcoming engagements we referred to, and we will be publishing – issuing a press release next Monday probably on the operation with the Fondo Strategico Italiano. Wish you all the best. And if you have any further questions, please get in touch with Mr. Hansen. Good-bye and thanks.