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HALF YEAR 2024 HERA SPA EARNINGS CALL

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## CORPORATE PARTICIPANTS

- **Cristian Fabbri** Hera SpA - Executive Chairman of the Hera Group
- **Orazio Iacono** Hera SpA - Chief Executive Officer, Executive Director
- **Massimo Vai** Hera SpA - Central Director of Administration, Finance and Control of the Hera Group

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Javier Suárez** Mediobanca S.p.A. - Analyst
- **Emanuele Oggioni** Kepler Cheuvreux SA - Analyst
- **Francesco Sala** Banca Akros S.p.A. - Analyst
- **Davide Candela** Banca Intesa Sanpaolo - Analyst
- **Editor**

## PRESENTATION

### **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

Good afternoon, everybody. We're here with the usual team, our CEO, our CFO, and our Investor Relations Director for the H1 financial results, which our Board recently approved. These results confirm the good results posted in Q1, and they are in line with our business plan, the one we approved early this year. We're seeing in terms of the revenues as a production turnover, which is down by some 33% linked to the energy scenario, with lower prices on the supply side, a lower turnover. As you know, that is a positive element for us.

And we also had some lower intermediation activities. And therefore, this is the outcome. In terms of EBITDA, after the extraordinary growth we posted last year, we're continuing to grow that in Q2, which is in line with what we had seen in Q1 this year. We are now up to EUR733 million. This is a growth which is much like in Q1, increases in terms of percentages as we move down the lines in terms of EBITDA, plus 2%, EBIT is plus 2.8% that we'll be seeing further details on the following slides all the way down to a major growth in terms of our net profit increase, which is some 16%, roughly EUR38 million more compared to Q1 last year.

Growth in net profit, as you will be hearing from Mr. Vai, is a growth that allows us to transfer the value we had generated. In terms of EBITDA both last year and this year, all the way down to the net profit, thanks to a decrease in the financial burdens, which are further most part linked to a more relaxed energy scenario, leading to a larger stability in flows and a possible rationalization in terms of the debts we have.

Now moving on to EBITDA, you may remember that last year we had posted major results linked to the super eco bonus. We were capable of extracting the highest possible value from those results.

And we're seeing that the structural growth towards EUR66 million more than offset the dip as far as the tax eco bonuses is concerned. With a EUR15 million a net growth, which has a higher value compared to what we see in the EUR14 million because we're replacing the opportunities that we took advantage of in previous years with elements linked to structural growth, which are very balanced between our activities on the market and the activities that we are working on in regulated sectors, EUR37 million on the market and EUR29 million on the regulated side of things now.

How is it that we can transfer the growth we posted on EBITDA, all the way down to EBIT? Well, because links to the growth in amortization that we're seeing, given the fact that we have increased investments, you may remember that we are investing some EUR2 billion in development investments, which leads to greater EBITDA and greater amortization.

And we are offsetting the growth in amortization with the reduction in the accruals for provisions. This is the effect of the decrease in turnover, and this allows us to recover and increase efficiencies were EUR16 million compared to last year.

Now moving on to the creation of value. Now what does this growth mean and in terms of the stability, in terms of our financial situation? We wanted to create value and we can see this through three different indicators, which point in the same direction, ROI is up by 1% or roughly 10%. The same applies to ROE, up by over 1%, and a growth above 10%. And therefore, the profitability and the capital of equity sees that we are posting a 10% growth. And even as far as the total shareholder return, as far as H1 is concerned, what we're seeing is that we distributed a dividend which gave us a 4% dividend yield. And if we look at the EPS for H1 this EPS is up by almost 17%.

Now after this quick overview, we can go into the details of the various businesses and their specificities. As for the previous quarter, we will be giving you a brief summary of the figures to leave some time for Q&A so that we can conclude by 4:00 PM, since you have other commitments today. As far as the energy supply business is concerned, in this case, we have a reduction in EBITDA compared to last year and due to the fact that we no longer have the super eco bonus contribution linked to the various tax opportunities that the government would give final customers up to last year.

We created value with that and we are now replacing that. And even in this case with the organic growth, we've had a plus \$28 million, which offsets more than half of that negative items stemming from the expiry of the eco bonus.

Now the organic growth as we see, we also saw in Q1, is supported by three elements. On the one hand, we've had a growth in our customer base with over 125,000 further customers. We also had a growth in margins linked to renewals of contracts and a reduction in shipping costs. And at the moment in time in which the volatility of energy is reduced and prices are more stable, those costs are now back to the pre-crisis levels, which allows us to increase margins.

Now I think that as far as our customers are concerned, we've had on organic growth through which at the end of June, we added to and we're now 3.1 million customers with an overall growth of 1,25,000 customers. But as you know, on July 1, we had an extra 1 million customers from the major Tutela market which we started to manage and this is very much in line with the activities that we had expected for this first month.

Now let me give the floor to the CEO for some further insight on our other businesses.

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## **Orazio Iacono Hera SpA - Chief Executive Officer, Executive Director**

Thank you, Cristian. Good afternoon. With regard to the waste business, now while we were commenting Q1, we mentioned that this business continues to grow, we've seen a further acceleration as you can see in the lower right-hand graph, you've seen -- you'll see that in Q2, there has been a speeding up compared to Q1. We now have plus EUR9 million compared to H1 2023.

Now this growth was brought about by a contribution from all of the waste activities, but the regulated side of things with the waste collection which posted an overall growth equal to plus 3% compared to H1 2023. And this is a growth which has supported by an increase in the regulated return, but also by further efficiencies, via the integration of value-added services and so due to the fact that the one-off initial cost of concessions that are no longer there. We have 15-year concessions. Therefore, we have a good visibility as far as the waste collection business is concerned.

And that business is linked to the other business, which gives us even more satisfaction, which is the waste treatment business. This is an area of business in which we have plus 9%. If you look, I mean, if we don't consider the energy market that we'll be commenting better run. And this is a business which is growing both in terms of volumes and prices, so that in the first few months, we've been able to expand our market share.

As you can see on the graph on the right hand side, the volumes of special waste have gone up by 170,000 tons, especially the industrial waste, which we are leaders in Italy. And therefore, despite a slowdown as far as the industry is concerned, again, we have been able to grow given the fact that we're also present in the oil and gas sector, which, as you know is anti-cyclical compared to other businesses.

And therefore, this allows us to grow similar to both in terms of the solid waste, but also more recently as far as liquid waste is concerned. We also had a growth in special waste coming from the urban waste, which are imported from other regions.

The other regions, which are having a hard time in terms of waste treatment. Also as far as industry is concerned, let me say a few words regarding the land remediation business. You may remember that in early 2023, we had made the acquisition of the ACR company. That segment is continuing to grow. We're very pleased with it and with an increase in the business brought about by the more traditional customers, but also from new customers.

And therefore this business we sell, which is a way of selling circular economy for cleaning up sites through a company which allowed us to become market leaders even in the land remediation sector, but that too is a very positive thing for the growth of the business.

As I mentioned, earlier, prices also contribute to growth. They are stable and in some segments they have, in fact, gone up specifically in liquid waste. When it comes to margins stemming from the energy sold from waste energy plants, we are expecting this component to become neutral when it comes to the growth of results at year end. Last year, this segment has given us a very good result, thanks to our fixing policies, but then also thanks to the lower pauses, lower amount of downtime we'll be seeing in the second half of the year. That figure will tend towards zero.

Now I would like to move on to the networks. As you know, thanks to the update of the WACC, of the regulatory WACC. We're seeing that this is the largest contributor to the group's growth. In absolute terms, we're looking at plus EUR269 million for networks, which are equal to 37% for the overall group numbers. This is a growth even compared to Q1.

So as you know, we're already seeing the effects of the increase in regulated return, plus 110 basis points, which have supported the growth of EBITDA, as you can see in the graph on the right hand side is a double digit growth, almost up to 11%. And the growth drivers also improves the inflation of WACC. The inflation was approved by the regulator with the revenues which are significant.

And then inflation was also recognized on costs and OpEx. And as you can also see in the graph on the right hand side, all of the networks contributed to growth especially in the water business because it is the largest business with its WACC, which is worth EUR1.8 billion. The water networks posted a growth worth EUR18 million. And then we have electricity distribution, which grew significantly. The main reason for that, is it is linked to the application of the ROS method, a regulation setting targets for cost and services.

And it sets an average for specific players and no longer an average based on the NL figures. And this is an opportunity that we are capable of taking advantage of. We'll be doing that both this year and the following years.

Also, our gas distribution business has grown. But all of these different various positive results have more than offset the negative linked to the district heating. And therefore, compared to H1 2023, which benefited from major non-recurring growth elements. And in a few weeks time, we'll also be -- we're also going to be discovering the new tariffs, which will be set by Hera for 2025.

Hence the current ones are transitional ones. The network's EBITDA, therefore, has significantly increased the traditional results from networks. And in fact, on the left-hand graph, you'll see that despite a significant update in the WACC and despite the major inflation rates, we were able to offset those impacts with constant efficiencies and development investments. And therefore, the impact of regulated businesses on the remaining part of the portfolio will be re-balanced progressively, thus further improving the group's risk profile.

And I'll give the floor to Massimo Vai now for a comment on the following slide. Thank you.

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## **Massimo Vai Hera SpA - Central Director of Administration, Finance and Control of the Hera Group**

Good afternoon, everybody. And as said on page 7, you have an update of our cash flow. On the right hand side, you have the development of the net debt to EBITDA ratio. The operating cash flow for which H1 is up to EUR536 million with a further EUR230 million that can be added to the results posted in Q1, which you may recall was equal to EUR236 million.

And as you know, in Q2 we no longer have the components stemming from the thermal season, especially as gas is concerned. Therefore, this continues to be a major figure. And if we compare this figure with the one we posted last June, we have a growth equal to EUR76 million, which is equal to 17%. Moving towards the right, you'll see that the working capital absorption has reduced compared to what we had seen in Q1.

Therefore, the effects of the commercial development at the end of the thermal season diminished the absorption of the working capital, which is in line with our expectations. You may remember that at the end of Q1 we had to pay the debts we had to suppliers that we still had at the end of the year. Referring to all of the 110% super bonus that we completed last year.

Moving onto CapEx, the investments we made in H1 this year, EUR328 million. They are up by EUR22 million compared to last year, and they are very much in line with our development plans as envisaged by the business plan, which we approved in late January this year. We then also have a column which we didn't have in March, the one linked to the distribution of dividends, the dividends which we paid in June worth EUR252 million, which is up, as you know, compared to last year because with the results we obtained last year, the Company decided to increase the dividend per share, which was then distributed.

All in all, therefore, all of these elements combined, led to an increase in our debt to EUR236 million. But if you compare to the growth in EBITDA allows us to have a stable net debt to EBITDA ratio, which is well below the threshold, which we feel is essential for our financial soundness, which, as you know, is three times. Therefore, the results are very positive in terms of cash generation.

And moving on to the next slide and beginning with the graph on the left hand side, we also have a very relevant element, which is the reduction of the average cost of debt down to 2.7%. And if we compare H1 this year with H1 last year, you may recall that last year in H1, we had begun a review of our debt towards banks than we had activated in H2 2022.

You may recall, linked to the last instance market and the gas storage, those costs were re-absorbed last year, and that was replaced by the working capital that we needed to take advantage of the super bonus. Therefore, we paid back bank debt that we had over the 12-month period that led to a reduction in the cost of debt. And now we are back to a value, which is very much similar to what we had in H1 2022.

As far as our interest rate is concerned, as you can see, 97% of our debt is at fixed rate and therefore, we are very marginally exposed to the varying cost of debt. We also paid back a green bond which expired. We pay that in July and the next week, we will be repaying another bond, which was launched 15 years ago and we'll be paying back that bond without having to ask for further financing. This was all done, thanks to the cash that the company generated in the recent months.

As far as ratings are concerned, on the right hand side of the slide, this is just the way of confirming what we already know there is nothing new. Our adjusted parameters are well aligned with the thresholds and therefore, there will be no variation of rating. So things are looking very good, which confirms what we had expected to do. We are in line with expectations, if not somewhat better. And that gives us a good outlook even for the second half of 2024.

And I'd like to give the floor back to the Chairman for the conclusions.

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## **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

Wonderful. So far, we went over the economic and financial results. Now I'd like to focus on sustainability. As you may remember, our business plan, was focused on value creation, sustainability, and resilience as the main drivers. Let's focus on being sustainable for a moment.

Well, that's because in Q2 and especially over the past month and a half, we have been working very hard to reach out to three very important stakeholders as far as growth and development are concerned, but also as a way of achieving our business plan results and targets, which go beyond the length of the business plan. We decide to reach out to our workers, our suppliers, and the environment, more in general at the external environments as a way of achieving carbon neutrality.

What we did was we concluded our activities to define the strategic development plan for our employees. Our employees, of course, are essential in terms of achieving the results that our company has always strived to achieve. And therefore, we decided a strategy allowing us to deal with the challenges and the field of labor, including security, including training, professional growth, increasing productivity, and the remuneration of our employees, of course.

We also decided to focus on a number of topics which are very sensitive, especially for the younger generations, namely welfare and the integration between our jobs that are personal sphere. Therefore, we decided to launch a 70 page document, which we signed with our main trade unions, which includes plenty of innovation as highlighted by many entities in Italian government bodies.

So we wanted to allow our employees to grow, but we also want to focus on our suppliers. We have constantly worked to support our suppliers. So we become more competitive. They themselves are professional to support the growth of our group. And therefore, we have this virtuous cycle, which they help us and we help them to grow. We have set up a specific plan for suppliers for the focus on safety which is increasingly important. But we also want to focus on growing sustainably.

And if we want to focus on professional training and services for suppliers, we have set up the Hera\_PRO platform, the goal of which is that of supporting the development of our business plan with a specific focus on suppliers. So again, we focus on both our employees and our suppliers. You may also recall that in 2021 and 2022, we set a target for the reduction of CO2 emissions,

especially for Scopes 1, 2, and 3 within our company.

What is target set was that our goal to 2030 was to reduce CO2 emissions by 37%. Currently, we are halfway to that goal, which means that at the end of the business plan, we'll get to 29%. Now over the past six months, we focused on understanding what our ambition can be and what our possibilities can be, always supported by tangible steps when it comes to reaching carbon neutrality.

And today, the Board of Directors approved our strategic plan, allowing us to become carbon neutral by 2050. And if you consider that less than 10% of our emissions are linked to direct activities, whereas more than 90% of our emissions are linked to the emissions of our clients, those who buy energy from us. And therefore, we want to act both directly and indirectly through a number of very concrete initiatives that we will be carrying out over the next 25 years so that we can achieve that target of being net zero by 2050.

And we intend to achieve that by 90%, over 90% reduction in emissions and with a 10% emission capture system by 2050, all of which is consistent with keeping the increase in global temperature below 2 degrees. So again in H1 of this year, we did very well in terms of our figures, in terms of our economic and financial performance, but we also work from the operational standpoint so that we can involve the company's stakeholders in this virtuous cycle in which the growth of all stakeholders together can help us amplify our good results.

Moving on to our conclusions, which are a way of underscoring the things that we have already seen over the past 30 minutes, EBITDA continues to grow and after the EUR200 million growth last year, we continue to grow in absolute terms.

But the really relevant thing to note is that EBITDA grew by EUR15 million but the growth we're seeing in terms of structural growth, if we don't consider the super eco bonus, that growth is equal to EUR66 million. And therefore, the potential for growth we have continues to be very strong even in the first half of this year.

From the financial standpoint, our leverage stands at 2.7 times roughly, which means that we'll continue to have a good cash generation, allowing us to support our investment plan along with the dividend policy we have. You may remember that in our business plan, we said that our debt level would remain stable and that all of the cash we generated would be used to drive growth, both in terms of investments, in terms of M&A, and in terms of the dividends, we expect to distribute to our shareholders.

So we're well on track. And this result today may be a bit of an outlier. And I'm referring to the net profit, which grew by EUR30 million in H1 with a growth equal to 16.4%, fall on the growth we posted last year, which was equal to 16% on profits.

So continuing to grow at double digit rates even as far as the bottom line is concerned. That's something that we're very pleased with in terms of value creation. I'll leave it at that. And I'll open the floor for any questions you may have. So we can have some 30 minutes for any comments or questions you may have.

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## QUESTIONS AND ANSWERS

### Operator

Good afternoon. Javier Suárez, Mediobanca.

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### Javier Suárez Mediobanca S.p.A. - Analyst

Good afternoon, everybody, and thank you for your presentation. I have three questions for you. The first is on the supply business. We saw a EUR30 million growth -- organic growth in the business besides a moderation in the commodity price, which helps. What are your commercial policies that can justify the growth and supply business?

My second question is on the waste business. I noticed the growth in volume, but EBITDA is up more than volumes. Therefore, there is an underlying dynamics linked to special waste, which is very positive as far as prices are concerned. Can you explain the dynamics you're seeing as far as prices and how you expect the volumes of the process to evolve them in the second half of the year?

And the third question is on the company's financial structure. The net working capital absorption was equal to EUR170 million. Where is it that you expect this net working capital have sufficient net working capital absorption to happen by year end? And is the



EBITDA of EUR4.1 billion debt that you have? Can that be a good guidance for the end of the year? And just one final question. As far as the bottom line is concerned, can you give us a guidance for net income for 2024? Thank you.

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### **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

Thank you for your questions. As far as your first question is concerned, the supply business, currently we are supporting high growth because we are increasing our customer base. Now we've had an extra 25,000 customers who can contribute very well to the EUR28 million growth we've seen. That contribution for the most part is linked to the reduction in shipping costs. So that has an impact on final customers and we've also increased our overall margins by a few euros also as a way of taking into account certain elements of risk that we saw in recent years. But that isn't a major growth in terms of margins, just a few dozen euros per customer.

So minor figures, but what we can appreciate is a good performance in our commercial activities. And despite the end of the Tutela market, in the gas market first and then in the electricity market in June, typically that leads to a certain degree of movements on the market. But we're still seeing a positive growth level. And so we're continuing to leverage on good acquisitions and little churn rates.

Something I didn't mention earlier is the extra EUR1 million -- 1 million customers that we have obtained from the Tutela market. We've been managing them as of July 1. And in a few days' time, we had uploaded all of their information in our systems, and we have already gotten in touch with our customers. And we have already concluded our initial contacts with our customers in July and the customer base level, is currently very good.

And it's line, if not slightly above our expectations and we're doing what we had envisaged in the business plan. So we are off to a good start and we have prepared ourselves for six months for this situation and we are in line with that. Orazio, do you want to answer the question on waste?

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### **Orazio Iacono Hera SpA - Chief Executive Officer, Executive Director**

Yes. Thank you, Javier. Good afternoon, everybody. As I was saying earlier, prices are stable. As I was mentioning earlier, that in some cases, they have gone up a number of fronts to liquid waste, specifically and the ways we treat in the oil and gas sector.

We have now become a major player, a benchmark for that sector. Both in terms of liquid waste that we treat in our various treatment facilities, liquid and solid waste has hazardous and non-hazardous waste.

And we've seen a slight increase in some of those materials, especially for liquid waste. And in some cases, even in terms of the special waste stemming from urban waste. The second point I wanted to raise is linked to the synergies that we were able to extract even through the acquisitions we made in 2023. The most obvious example, of course, is the ACR company, and in H1 2024, that acquisition led to some major results and with their site remediation activities, we are doing very well. Not always do we generate waste in the business, although we certainly do generate EBITDA and value that we generate value.

Let me give an example. We are accompanying larger players more and more. For instance, when it comes to NL, we were the ones chosen for the purification of the Suviana patients. And I'm sure you have read about a future partnership with Fincantieri so that their shipyards can become more sustainable, allowing them to reduce their industrial waste and to extract values from them. That is a very interesting opportunity.

And just yesterday, we signed the closing deal with TRS, a company, which focuses on the pre-treatment of waste in the Vicenza area. And that allows us to expand our geographical presence commercially moving towards the northwest of the country as a way of tackling the Lombardy region, which, as you know, is a very wealthy and a very important region as far as the entire industrial waste sector is concerned.

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### **Massimo Vai Hera SpA - Central Director of Administration, Finance and Control of the Hera Group**

And as far as your questions from the financial structure are concerned, let me begin with debt. Currently, our vision for year end stands roughly in line with the value we saw for this half for EUR0.5 billion, give or take, a few million. Then, of course, we have elements linked to the seasonality of things. As you know, that we are developing a commercially. And of course to that, we have to add the extra 100 million new customers. And I don't expect to see any major impacts compared to the visibility we now have.

And of course, we also have to manage the working capital, which is no longer linked to 3.8 million customers, but it will be 4.8 million, if not 5 million new customers. So that should have an extra impact. Of course, given the price scenario that may affect or either grow or decrease a little bit.

But the level is around EUR 4.1 billion or EUR4.15 billion based on the information we have. That's about it. I think there's a very clear answer to your question. Thank you.

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### **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

Moving on to the more complex question, the question regarding the net results, as you can see over the past six months, we grew by some EUR30 million. The Company is performing well. So we don't see any negative elements from here to year end compared to how we are currently. So as I said three months ago, well, answering the same question, the consensus study with the business plan, we're working on the business plan, which means that those are the references we have and that we expect to continue focusing on.

So for the time being, everything is going well or may be ahead of schedule compared to what we expected. That doesn't mean that there will be results for 2027 this year because as we did last year, but we're doing slightly better than compared to what we had expected to do for the first six months of the year.

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### **Javier Suárez Mediobanca S.p.A. - Analyst**

That's about it. Thank you very much.

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### **Operator**

Emanuele Oggioni, Kepler Cheuvreux.

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### **Emanuele Oggioni Kepler Cheuvreux SA - Analyst**

Thank you, and good afternoon, everybody. Thank you for your presentation. I have a few questions. The first is on the extra 1 million customers that you made the acquisition after the tenders of which is down over 11% compared to the figures at the beginning of the year, meaning that there was a natural migration, so to speak, from this segment towards the liberalized market, not necessarily within the Hera perimeter.

That's a very important focus as far as investors are concerned. So can you give us some extra details with the steps taken to monitor this partial shift of customers? So what can you expect over the next few months? What can we expect from here to year end in terms of customer migration? What does the timeline you envisaged and what are the commercial effectiveness that offers, that can push customers towards the free market? I know that is a recurring question, but it's always a major focus as far as investors are concerned.

I have a second question regarding your financial situation. I'm sure you have space to re-leverage to make further acquisitions. Can you give us the sectorial focuses the assets that you're especially interested in?

In recent times, despite the announcement you made yesterday, we talked about, the gas distribution and the potential merger between Italgas and 2i Rete Gas. Are you interested in buying assets in gas distribution? Were they to be sold due to antitrust interventions or are there any other areas you may be interested in?

And then I have a third question on financial charges. They were very low in H1 in Q2. I don't know that you don't want to give any specific answer as far as net profit is concerned, but can you give us an idea, regarding the full year for financial charges?

And finally, a final question on the use of fiscal credits. Understand, you should benefit from some EUR200 million per year in 2024, as far as fiscal credits are concerned, how much of that have you already used in H1? And is the use of this EUR200 million already included in the EUR4.1 billion, which is your debt for the full year period? Thank you.



## **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

1 million customers now in January and August when we finalized the plan but we were expecting 1.1 million customers and we began with our lots, which had a 1.4 million potential customers. So we had made an estimate of a possible exit of customers and our estimate was 1.1 million. And now they stand at 1 million. Roughly 40% of the difference between 1 million and 1.1 million customers that we have already taken onboard in our territories.

We began ahead of schedule with our activities because we already started with those activities before we obtain those customers. And therefore, we have already concluded part of that work before July. So we're ahead of schedule. What do we expect from now on? Well, for the time being, we had a very conservative and very cautious plan. We're doing now maybe beyond a little bit better.

But for the time being, we want to confirm the plan and make sure that everything we've seen is better than expected. It's only been one month since we acquired these customers. So we still don't have a full picture. But the signs we're seeing are very positive. And very comforting. We're not seeing any criticalities. We had a conservative plan and I think that we can at least work in that direction, if not to outperform those figures.

As far as the availability of cash is concerned, as you know, we're always very careful, we're always very focused on M&A. We're always on the lookout for them in. But as you mentioned, the closing of the TRS deal, waste is certainly an interesting sector. The energy sector is the other interesting one. Of course, we always want to look to the market, with the idea of creating value and extracting synergies from deals. So I'm not going to go into the specifics of the possible targets.

We only see what they are when we conclude the deals, but we understand that we're always on the lookout on the market for deals that can be consistent with our business portfolio and with the opportunity of creating value and synergies with prices that are consistent with the asset that we buy and they have to be in line with our views.

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## **Massimo Vai Hera SpA - Central Director of Administration, Finance and Control of the Hera Group**

Regarding your questions on the financial side of things, the estimate I gave you earlier on the debt level for year end. And that also includes the completion of all activities linked to the fiscal credits we have in our portfolio that can adequately compensate and allow us to use our tax capacity that is already included. And as far as the use of that during the year, is concerned, we are following a very careful and a specific plan. And over the year, we allocated roughly 50% of those compensation activities because they are distributed throughout the year.

As far as the financial charges are concerned and their impact on our figures, obviously, the impact of the addition of H1 compared to H1 last year is an important figure. And as far as H2 is concerned, it will be similar to the figures in H1. Of course, a difference compared to last year will be slightly lower because already in the second part of last year, we had optimized everything and therefore, the difference tends to decrease.

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## **Operator**

Great. Moving on to the next questions. Francesco Sala, Banca Akros.

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## **Francesco Sala Banca Akros S.p.A. - Analyst**

(technical difficulty). Thank you and good afternoon. I have two questions. The first one is on energy efficiency. There was a decrease in the first few months of the year. So what is the outlook for the second part of the year and for the medium period? Can we expect the levels in the first two quarters to be the business levels in the short term going to be a slowdown in the short term and then a recovery beginning in 2025?

Maybe the second question is on the equipment and supply, especially electricity contracts that you signed last year are starting to expire. They are being renewed. Are you seeing any compression in margins, maybe it looks like now that they've offset by the number of customers or do you not see any major differences?

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## **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

Thank you, Francesco. As far as the topic of energy efficiency is concerned, after three years of work and you take advantage of the tax bonuses, what we're left with after the tax bonuses is higher compared to what we saw earlier. So there are some things we're seeing given this year, the contribution from that side of things exist. Think of condominiums that gives us some EUR10 million over the first two quarters.

The acuity is still ongoing. Of course, the 110% super bonus and the passing on of the tax credit allow us to restructure or refurbish buildings without having to pay a single year. And that was a very appealing commercial offer. And of course, we're working to continue to grow in that sector because that's an era in all segments.

The residential, the industrial, the condominiums or public administration sectors both on the thermal side of things on isolation and also in public lighting. So all in all, it's a sector that we are continuing to focus on and we continue to focus on supporting companies for energy efficiency. So that we will continue to develop things from here to the end of the year. We will continue with the advantage that we're currently seeing. And then beginning in 2025, we'll be seeing a normalization and then further growth.

As far as energy, our electricity, and gas supply is concerned, for the time being, we're not seeing a decrease in margins for our customers. In the retail and SME sector, we are in line with the margins we were seeing at the end of last year and early this year. We have a small presence in the industrial sector and we are seeing some mature competition there leading to a reduction in margins. But it doesn't see anything significant.

In terms of the visibility of our results, we have very low volumes in the industrial segment. We have some very loyal customers there. So we're not concerned with that. And then the smaller size segments, we're not seeing any criticalities. Quite the opposite impact.

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## Operator

Thank you. Davide Candela, Banca Intesa Sanpaolo.

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## Davide Candela Banca Intesa Sanpaolo - Analyst

Good afternoon and thank you for your presentation. I have two very quick questions for you. The first is on the waste sector. Can you give us an update on the authorization processes you're involved in? And as far as the environmental services are concerned and the agreement with Fincantieri for instance, how much further can you expand your services? And can that have an impact on your legacy businesses and what can the positive effects from that activity be?

Then we have a second question linked to your possible further commitment for your extra 1 million customers linking net working capital. We need to do better. How would that impact your capital allocation, your capital structure with any possible M&A opportunities also in view of the gases, what can the possible evolution of the scenario be?

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## Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group

Let me give you a very quick answer to the second question. Yes, we have an extra 1 million of retail customers. We have an efficiency process on working capital, which is very strict. Earlier, Massimo was mentioning some slightly increased impact initially because, of course, when you have new customers, it takes some time to fine-tune things, but we'll be back to normal either by year end or early next year. So that won't have a major impact. In fact it will be negligible as far as the potential development we have. We stand at 2.7% and that difference was below 0.1% of the leverage, so that won't have a major impact. Over to you Orazio for the other answer.

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## Orazio Iacono Hera SpA - Chief Executive Officer, Executive Director

Yes, very briefly, as far as your first question is concerned, keep in mind that our investments have already been authorized. As mentioned in the business plan, we're on track with our business plan targets. The most important is the high-density plastic site in Moderna, and we have started that as per program.

Then we have the Auto Align Line 4 in the auto waste energy plant, which is worth EUR126 million of investments, the largest investment in the business plan. We are on track compared to our expectations. So we don't see any criticalities as far as authorizations are concerned. So everything is running on track.

Your second question on Fincantieri, after that partnership, we signed an MOU with them. We have a preliminary agreement and we'll have a business plan and a possible company vehicle by year end. And if everything goes according to plan, we will have a volume equal to 100,000 tons per year linked to the by-products or the residues from the Fincantieri businesses.

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### **Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group**

Thank you very much. As far as the timeline is concerned, we are in line with our targets. I wish you all the very best and have a wonderful summer. And we'll see you in a few months time for our Q3 report. Thank you.

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### **Editor**

Statements in English on this transcript were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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