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# EDITED TRANSCRIPT

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An LSEG Business



## CORPORATE PARTICIPANTS

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- **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 Suarez Hernandez** *Mediobanca - Analyst*
- **Emanuele Oggioni** *Kepler Cheuvreux - Analyst*
- **Francesco Sala** *Banca Akros - Analyst*
- **Davide Candela** *Banca Intesa Sanpaolo - Analyst*
- **Editor**

## PRESENTATION

### **Jens Hansen Hera SpA - Director - Investor Relations**

Good afternoon, everybody. My name is Jens Hansen. I'm the Investor Relator for Hera Group. Welcome to our presentation for the financial year 2024. We apologize for the delay, but our board meeting only ended 10 minutes ago. I'd like to give the floor to our Executive Chairman, Cristian Fabbri who will begin the presentation.

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

Thank you and good afternoon, everybody. I also want to apologize for the 15-minute delay, but we had several items on our agenda, meaning that we were slightly delayed. We will -- our intention is to organize this presentation with you following the board meeting, just to help you understand, have a better flavor of the figures we published.

I'm supported by the usual team, Jens Hansen, our CEO, Orazio Iacono, Massimo Vai, our CFO. Let's begin with the year-result presentation, which we approved this morning during the board meeting, and these results fully confirm the strategy that we had already explained during our business plan that we've been working on for years now. We want to create growth that generates value. A growth which taps into the growth we also posted in 2023 when we met last year to comment those results, we mentioned that it was the biggest EBITDA growth ever.

And this year, we have had the biggest growth in profit in the company's history. And of course, all of this is due to structural activities, which also offset certain opportunities that are no longer such as the eco bonus that we saw in 2023. Now this growth leads us to a constant dimension in terms of EBITDA, EBIT, and net profit.

As far as EBITDA is concerned, we have grown by EUR93 million compared to the previous year. And this is a constant growth, which also happens on the EBIT level.

On the one hand, we've had an increase in the investments, something that we've been developing, over the past few years, with the increase in amortization which was offset by a reduction in accruals also due to the reduction and the normalization of the energy scenario, which again allowed us to offset things with a growth on EBIT worth EUR89 million, which brings us to the EUR893 million, which are the 2024 results.

As far as net profit is concerned, we stand at EUR447 million compared to the EUR348 million last year with a EUR98 million growth, which is almost 29% in terms of growth year on year. But the reported growth brings a further EUR48 million in terms of growth, which aren't mere accounting figures. These EUR48 million like the EUR27 million last year are due to Ascopiave's removal from the energy accounts and that allowed us to save some money, compared to what we were expecting to pay a total amount equal to EUR75 million and that's something that we had already booked. And therefore, that allows us to free up some cash in a coherent way.

Now if we look at the levers that allowed us to grow in terms of the EBITDA, this is due to structural growth, as I was mentioning earlier, and we can see some positive contributions from all business lines, energy supply, waste, and our networks. All three business areas, offered a positive contribution.

And this, of course, underscores the quality of our portfolio and our ability to use different levers allowing all of our businesses to grow within the portfolio. The main growth happened in networks, as we benefit. From a recovering tariffs, both in terms of WA and inflation, which began in early 2024 following the growth that we had seen both in terms of the cost of debt and in terms of the inflation that was linked to cost and therefore, we've seen a very good opportunity.

Moving on to the following page. You can see the way in which this growth is linked to value creation. We have an overall TSR worth 36% in the reported elements, which becomes 33% if we consider the recurring items. And therefore, overall, our EPS moves up from 24% to 31%, whereas the reported one goes up to 34%, which allows us to confirm the dividend policy that we had already announced during the business plan presentation and following the forecast regarding 2024 figures. So we have a 36% TSR, which I think is a figure which perfectly describes our desire to create value, which is in line with what we had said during the business plan presentation.

Now moving on to the various businesses. As you can see, the presentation is fairly streamlined. That's also a way of leaving you enough space for Q&A. A very important topic. We wanted to continue talking about sustainability with a sustainability budget.

The two types of figures have not been blended, due to CSRD commitments. And therefore, you have a flavor here of what we intend to do in terms of creating value. We want to create shared value, the value which leads to benefits in terms of sustainability. Now the shared value has grown by 14% CAGR ever since we began monitoring shared value in 2016. We now stand at 24% of the group's total EBITDA.

And as you can see, it grows much faster than the EBITDA growth because roughly 90% of the growth that we have developed over the past nine years during which we're measuring these elements is, in fact, sustainable growth. And that gives us the -- an idea of the dimension we have reached with the end of the financial year. Now moving on to the various businesses. We want to confirm the things we had said during the business plan presentation. We are reaching year-end with 4.6 million customers, which gave a good contribution to value creation.

And as far as EBITDA is concerned, as you can see, with a EUR23 million growth, we were able to offset the EUR80 million that expired with the end of the Ecobonus and the value-added services with a EUR104 million growth in terms of organic growth. So we have an 18% structural growth, which in this area of business brings us to EUR672 million. As far as customers are concerned, as I mentioned, we stand at 4.6 million customers. And we've seen an inverted trend. We now have more electricity customers, whereas gas customers have gone down by slightly less than 100,000 customers, whereas we've had an increase of 900,000 electricity customers, which includes STG customers.

But we've also had part of those customers who have gone to the free market plus our commercial activities that we're able to offset the churn. Let me give the floor to Orazio, who will be talking to us about the waste business and the networks.

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

Thank you, Cristian. Good afternoon, everybody.

As far as the waste business is concerned, let me begin by giving you an overview of our business here and numbers in this business prove the fact that this is indeed a very interesting business. We are more and more focused on transforming waste and a

fully circular approach.

This is something very tangible, very pragmatic. We are growing in terms of circular economy, and we want to continue growing. We want to continue creating value. Thanks to our very large and modern asset base.

As you know, we have over 100 different waste treatment plants. In 2024, we were able to strengthen our leadership very much with a further organic development of our presence in the special waste market.

This is especially important given the context in which we're seeing a slowdown in industrial production, whereas we continue to grow in a very positive way. This is due to a number of plants that we have began running already in 2024. Others still will begin functioning in 2025 and in the future. In 2024, we have the F3 plant in Ravenna, which focuses on hazardous waste. We also have the TRS plant that we acquired in 2024.

And then, of course, we have the ACR company, which we always mention very fondly. The ACR company is a company we've made the acquisition of in 2023. They focus on soil remediation. And we've been working on their traditional customers, but we've also been reaching out to large corporations. The TSR company focuses on solid and liquid waste for large corporations.

This was a challenging year, but we were able to continue in our organic growth. And also in 2024, we had an M&A transaction, the TRS Ecology company, which I mentioned earlier, which is a smaller acquisition, although it's a strategic one because that company operates in an industrial district where most of the Italian market is concentrated. And for us, this is a routine transaction, as you've seen in recent years, and we will continue to focus on M&A in a highly fragmented market.

Recently, in fact, we signed the acquisition of Ambiente Energia from the Marzotto Group, a company which focuses on liquid waste. This constant evolution of ours towards an increasingly circular business to reach year-end 2024 with the completion and the launching of the new plant to regenerate carbon fiber, which is a one-of-a-kind industrial plant in Europe.

And it continues to allow us to innovate and to promote short and circular value chains, which is something that Italy and Europe need very much given the scarcity of raw materials. On page 6, we have a summary of what we were able to achieve in terms of numbers and results. We've seen a 4% EBITDA growth. We now stand at EUR367 million. All of our managed activities contributed to this number.

We have the collection of waste, which achieved a EUR2 million growth, which may appear to be a small figure, although there's plenty of work behind that number. We've had inflation recognized plus we've also worked on efficiency in terms of operational costs, which is something that we will always continue to focus on. And we also want to continue expanding in value-added services, which is something that we offer in our local territories and which is starting to give us some very visible results.

And now that we have gone beyond the beginning of the concessions, the initial phase in concessions, we're starting to see long-term period results, which are based on long concessions, 15-year concessions that we were able to obtain following the tender process. The lion's share, of course, refers to the free market activities, the treatment and recycling activities with a plus EUR11 million figure.

We've had an increase worth 8% in special waste, which was achieved for the most part by expanding our market share with the acquisition of over 250,000 tons of new special waste with a stability in prices, which have proven to be resilient even on these levels.

And on the right-hand side of the slide, you can see that on urban waste and special waste, despite a slight decline in urban waste, which can be referred to the floods we had in 2023, which we were able to overcome brilliantly. But then we also have better results both from industrial waste and urban special waste, which means that we were able to grow in all segments referring to special waste.

So the growth we're seeing in 2024 is even more precious because it is entirely organic. You know that we operate in a highly fragmented market, which will continue to offer a number of interesting opportunities to grow externally. And together with our financial flexibility will allow us to have a very promising future.

Moving on to the networks business on page 7. For a very long time, we hadn't seen such a good year. Let's take a look at the figures we were able to obtain. We grew double digit by 11%. As you can see, our networks currently stand at EUR519 million in EBITDA.

The networks business is the biggest contributor to the group's growth. And this overall growth, as Cristian was saying earlier, the outcome of the WACC review. It is due to the development investments we've made, which have led to a growth in RAB and something which is always present in our figures is efficiency through the use of technology, innovation, digitization and therefore,

we were able to extract efficiencies to counter an increase in inflation costs and due to the regulators' decisions. As you can see from the graph here, all of the networks contributed to our growth, the only exception being district heating. But in this case, there is an in-progress -- work in progress by the authority on tariffs here.

As we had already mentioned earlier, we have had an increase in water being the main business. Thanks to a RAP which is now worth EUR1,940 million. As you can see on the right-hand side, we've had a growth in water worth EUR26 million, which was also due to the increase in WACC, and by the growth in RAB and by the recognition of inflation in revenues, which more than offsets the increase in operational costs and the request for more efficiency by the regulator.

As far as the gas networks are concerned, we've had a growth worth EUR12 million, which is driven by the increase in the WACC and by the growth of our RAB, mainly due to the investments we made through the digital meter rollout. As you know, we invest on our smart meters to be able to measure consumption in real time. And therefore, we're focusing on an increasingly digital and flexible network.

Finally, electricity distribution. We've had a growth worth EUR18 million, which is also driven by the increase in WACC that we have had in 2024, leading to a growth in RAB. And besides the small inflation recognition. In this case, we have the new ROSS system, which contributed to the results posted by the electricity networks in 2024. This network is one we continue to invest in.

We invest in our hosting capacity to increase our available power and also to strengthen our main networks to interconnect them and to have bidimensional networks, allowing us to accept generated distribution. In a nutshell, therefore, when it comes to networks, we have invested very much allowing us to develop the RAB, especially in the water network, which, as you can see, is the largest chunk on the screen. But in fact, we have invested in all of our businesses, in all of the group's businesses. So thank you, and I'd like to give the floor to Massimo Vai now.

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

Good afternoon, everybody. As usual, let's look at the evolution of our cash generation. 2024 was a particularly positive year. Let's look at the various items. We had the operating cash flow, which generated a cash generation worth EUR1.148 billion.

Last year, we had generated EUR940 million, which means that the company generated a further EUR210 million in 2024 compared to 2023. Compared to the figure that we had shared with you in September, we have added a further EUR150 million to EUR160 million -- I apologize, over EUR300 million, which brings us to EUR1.148 billion. Now the net working capital absorbs cash worth EUR183 million. We used to stand at EUR261 million in September, which means we had an improvement in the cash absorption and in managing the net working capital.

To that, we also have to add the updated provisions, which brings us to maintenance CapEx, which has a value worth EUR563 million, which brings us to a free cash flow worth EUR357 million. Following that, we have the development CapEx worth EUR248 million. All in all, therefore, the group has invested EUR811 million minus contributions compared to EUR780 million last year. So even in this case, we have increased our commitment to investments. Moving to the right. We have to take into account the dividend distribution, which is something that you were already aware of in September.

Then we have the expenditures for M&A and then that extraordinary item which is worth EUR55million, which means that all in all, we had an increase in debt worth only EUR136 million compared to the figures for the previous year with an improvement worth over EUR200 million compared to the view we had in September. So things are very positive indeed. Our expectations are very positive. During the Q3 presentation, you had asked me what was our outlook for the net financial position. And I said that we stood at around EUR410 million, more or less, also taking into account the market conditions and the seasonality of things.

As you can see, we improved those expectations slightly, which is, of course, in line with the visibility of our financial projections. Moving on to the graph on the right-hand side, you can see that the net debt-to-EBITDA ratio is even better than the great results we had in 2023. We stand at 2.5 times. Of course, this result was influenced both by the good performance on debt that I mentioned a minute ago, but it's also due to the good economic growth performance, which we saw throughout 2024. My colleagues who are familiar with our track record when it comes to the net debt-to-EBITDA ratio have pointed out how this is the best result we've had in our 20-year history.

So this is a very positive element indeed. Moving on to the following slide. Let me just comment the cost of debt here. In 2024, the cost of debt, the medium- to long-term debt stands at 2.8%. It should be 2.76%. We've round the figure up, which is reduced compared to the figure we had in 2023 despite the fact that the interest rates in 2024 was higher compared to the average interest rate in 2023.

What impacted this element? Well, certainly, all of the debt rationalization activities that we began in the second half of 2023. You may remember that on April 13, 2023, we had as a sustainability-linked bond. And from then on, we started to reconsider our exposition to bank debt that we had used to deal with the events in summer 2022 and winter 2022, 2023. At that point, we repaid the debt.

And in September 2024, we recovered the EIB line that we had used the previous year. We also try to use the remaining cash available whenever there were opportunities to offset the financial burdens without ever compromising, in fact, strengthening our group's financial resilience vis-a-vis the companies need to continue having a constant and competitive amount of financial resources for our industrial development but also to support our business plan.

And we always wanted to keep under control our ability to act in a swift and flexible way with consolidated banks, were there to be any short-term cash absorption needs, which didn't happen in 2024, nowhere near what we saw in 2022, but things can always happen, and therefore, we're always equipped to deal with those instances. So from this point of view, I think we can be very pleased with the results we've obtained.

As you know, in January this year, we launched a new green bond on January 8 with plenty of interest on the market. Our overall yield was slightly below 3.4%. But since we have a temporal expiry of our bonds worth some EUR500million per year.

This cost only has an impact lower than 10% on the overall average cost. And even when it comes to the year 2025 and the future, with a view to the interest rate trends that we'll be seeing over the next few months, our intention is to continue to hover around this reference.

As far as the makeup of the debt, the mix between variable and fixed interest rates, we are very resilient because as you can see, 97% of our medium- to long-term debt has a fixed rate, which means that it isn't influenced by variation in interest rates, only 3% is variable. And then on the right-hand side, we have a summary of what our qualitative and quantitative numbers are.

As you can see, our Standard & Poor's and Moody's ratings brings us on the same levels of fully regulated businesses, where as you know, we have a mix between regulated and liberalized, which again confirms our soundness and the low risk profile for a company, which at the same time, can continue to offer some very good level of performances. Back to Cristian for some conclusions.

Thank you.

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

I'm sure you'll agree with us that the figures are good. And the numbers, I think, give you a flavor of the effort we've made to create value. This is the first step in our business plan. We're off to a good start. And as Massimo was saying earlier, we have a financial flexibility, which is certainly among the lowest over our 20-year history.

Therefore, again, we're off to a good start. The cash generation during the year was a positive one. And therefore, we were able to maintain a good debt level and a good level of financial flexibility, which, as you know, is something we want to use for the development of the business plan. Part of that flexibility has been allocated already. And we can continue to look to using that flexibility for any possible opportunities as we explained during the business plan presentation.

So we're on track as far as our goals are concerned. We have taken the first step. And I think that we can have a positive view for what still needs to be done. Last year, you asked us what we expected for 2024. I'm sure you'll ask us what we expect for 2025.

As you know, we don't give any kind of guidance on that. But we did present a business plan, as you may remember, with an upwards curve in terms of EPS with a constant growth. So that's the reference, the benchmark we have in mind, and we want to continue to grow and to create value. As we had promised we try to keep our presentation short to give you some time for Q&A.

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## **QUESTIONS AND ANSWERS**

### **Operator**

Good afternoon, Mr. Fabbri. Javier Suarez, Mediobanca.



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### **Javier Suarez Hernandez Mediobanca - Analyst**

Good afternoon, everybody. During the presentation, I noticed that you focused very much on your financial solidity and flexibility. Can you elaborate on that? Because 2.5x net-debt-to-EBITDA is very low compared to your company's track record. Now when the Chairman says he wants to use flexibility, can you help us understand what options the company has? What options do you see to use that leverage, which certainly is an asset?

And in this context, although I do know the company doesn't give any guidance, I wanted to know what you expect from the supply business, especially in the electricity and gas supply businesses in a year 2025, which should be especially tough for the electricity business given the full impact on the clients which moved from the Maggior Tutela market. How do you expect to offset that effect in 2025?

As far as the working capital evolution, the EUR200 million you mentioned, can you help us understand what that figure refers to and how you expect to see the net capital absorption in 2025?

And my final question refers to the context. In your 2025 budget, do you expect ARERA to extend the electricity distribution concessions? What conditions do you see there? What is your view for a company like Hera when it comes to the extension of the electricity distribution concessions?

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

Thank you, Javier. Thank you for the questions. Let's take them one by one. Financial solidity and flexibility. Now for the business plan, we've already allocated part of that flexibility, both for the organic investments and for M&A. As you know, we included EUR700 million for M&A, that's something that we are already partly working on. As for the AIMAG transaction, as you know, we signed the deal in January.

We're looking at a number of other files. But that's the, call it, ordinary amount we look at. We have already increased our investment plan. And including M&A, we stand at EUR4.6 million. So part of the plan already includes using part of the leverage all the way to 2.8 times, which gives us some further flexibility we can use, both on the organic side of things.

And this brings me to your fourth question on the electricity networks. Were there to be the opportunity to spend in that business, it's a remunerated business, and therefore, we could do that. We haven't included that in the business plan. And it could be done for organic growth and for M&A as they are approved. As you know, M&A is part of our tradition.

It's part of our strategic vision. We usually look at M&A linked to our business areas. And the goal there is to create synergies that can allow us to extract value from the M&A transactions with multiples that are acceptable compared to the multiples Hera has traded at with no dilution. That's what we've done in the past, and it's what we intend to continue doing in the future so that we can use the flexibility we have because, as you know, flexibility allows us to take advantage of opportunities on the market.

And in fact, if you look back to the deal we signed with Ascopiave to acquire their customers, when we signed that deal, we were able to then extract synergies. We were able to achieve overall growth, we were also able to save compared to the initial estimate we had made, the EUR75 million that we were able to save between 2024 and 2023. That is a reduction in our financial commitment that we can use elsewhere.

When it comes to the supply business and specifically the electricity supply business, the more relevant things we'll be seeing in 2025 will be the reduction of the Salvaguardia market, which we we're able to win for the 2-year period, but we saw some lower numbers compared to 2024. And that is linked to the forecast we already included in the business plan, which is the normalization of the opportunities, which gave us a major boost in the past and which we are normalizing over time.

This year, we offset the expiry of the Super Ecobonus and the last instance markets, and we'll continue this direction next year. As far as the STG market is concerned, we will be seeing some higher impacts for sure because we have had a reduction in customers, but we'll have a further six months. So we feel we'll be able to offset those numbers with the evolution of the market, which is part of our development forecast, in fact. As far as the evolution of the electricity networks are concerned, we'll have to wait and see what will happen.

Over the next few hours, we expect to see the consultation document published by ARERA, which will define the ways in which the extraordinary plans will have to be submitted so that the concessions can be extended for a further 20 years.

So we'll just have to wait and see what the document will include to see what assessments we will have to make on the topic. I don't think ARERA will say anything about the CapEx contribution that we will have to consider for those concessions to be extended. Late last year, there were rumors regarding EUR6 billion to EUR7 billion. And of course, if that estimate is done in a linear way, in a linear way, that would mean EUR50 million to EUR60 million in an overall effect for us. But of course, the government will have to decide, and we'll see what their decision will be.

Obviously, due to the way in which it was defined in the budget law, this element will then consider a full remuneration as if it were an investment in material assets. And therefore, these are extra investments that we will be making, which will increase the RAB. This year, the electricity RAB grew EUR50 million due to organic activities. And if this were the case, we won't be growing by EUR50 million. We will probably grow by something more than that as the amount of the contribution.

So this isn't a criticality since we will continue having that remuneration-based approach. Massimo, do you have anything to add regarding the net working capital?

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

Obviously, the projection regarding the net working capital is a more complex one given the company's size. This year, our turnover was worth EUR13 billion. And therefore, the changes in net working capital can be influenced by a number of different parameters. And given these -- the amounts we're mentioning, it can change very much. Having said that, if we look at 2025, what we're seeing is we don't have any specific volatility elements.

We closed the year 2024 at a better level than we were expecting. So that's an element that we certainly take into account when it comes to our forecast for 2025. In 2025, we also hope to include the acquisition, the integration and the consolidation of AIMAG. So we'll have to see how that will have an impact on our net working capital. In the meantime, what we're continuing to do, and that certainly is an element which contributed to the improvement of our performance in the last quarter in 2024 compared to September is the activity we began a few years ago, which we're continuing to optimize, which is the acceleration of the time lag between invoicing and cashing in.

And that has benefited us at the end of the month, of course, and that translates into a better availability of cash and lower amounts of pending credit at the end of the period. In a nutshell, therefore, the outlook is pretty stable, following a year in which we had a marginal absorption, EUR580 million, which given our size isn't anything significant. And there was a year last year in which the CCN gave EUR520 million, whereas the previous year, you may remember that we had two variables, which we had to consider in 2022, which were the energy price and the gas storage activity, which we did back then which then released net working capital in 2023. And we don't expect to add a further 1 million customers next year and therefore, an increase in CCN.

And -- as far as M&A is concerned and our development activities, I'm sure you do see a trend. As we were saying earlier, the AIMAG transaction is on track when it comes to its execution. And as you know, the waste business is the business area with the most opportunities. And as you have seen, every two to three months, a new opportunity appears in that business, and we tend to choose companies that are a good match for our platform.

As Orazio was saying, we have a very large asset base, and we always look for the right opportunities to add to our asset base and to add to our businesses and we always look to cross-sell to increase our customer base and to reach out to new opportunities in the waste business.

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### **Operator**

Emanuele Oggioni, Kepler Cheuvreux.

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

I also have a few questions for you. Going back to what our colleague was asking regarding your outlook for 2025, as usual you don't give us any guidance. But can you just outline the moving parts. You mentioned a negative. You were mentioning for the entire 12 months you'd be losing customers for the gradual -- for the safeguarded market, that will be offset by other elements in the supply business.



Can you give us maybe the moving parts in the various business divisions? And also referring to the energy supplies business, I seem to remember that in late September or early October 2025, the last resort customers that you are managing will be expiring. That's for the gas last resort market. So can you remind us what assumptions you have regarding the -- what success rate you expect to have? And then moving on to the waste business.

In 2024, there was a good increase in volumes, especially when it comes to special waste, you increased those volumes by 4% and the -- even the EBITDA in that business grew by 4% which means that the margins were protected very well, even despite the small acquisitions you announced. But focusing on organic growth, what do you expect for 2025 in terms of volumes and therefore, also in terms of EBITDA? Do you expect the growth to be in line, higher or lower? And then as far as your fiscal credits are concerned, could you please remind us what you're still left with? If I remember correctly, it's EUR200 million per year for a 2- to three-year period. Thank you.

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

Thank you, Manuel. Well, as far as 2025 is concerned, as I was saying earlier, I think the theme for 2025 is a reduction in the last instance market. We'll have something slightly less in the Salvaguardia market. As far as the tenders are concerned, as you know, we just look at the opportunities out there. So we didn't embed those opportunities in the business plan. And we'll just have to wait and see what conditions the tenders will offer.

And how interested we'll be in that specific business. So we'll just have to see how the market evolves and what the market conditions will be in that given moment in time. And as that can only be an on-top opportunity, we don't include that in the business plan forecast, as you know. As far as the electricity business is concerned, as I was saying earlier, we'll be offsetting the increased investments in STG through market developments. And therefore, we're fairly confident in that case.

And we will continue to work to increase our presence on the market as a way of offsetting apart of that margin that we will be losing on the last instance market. On the other businesses, the moving parts are positive on all businesses.

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

What about the waste business, Orazio?

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

Well, as far as the waste business is concerned, let me begin by saying that Italy's under capacity is a competitive advantage to us, given the things I said earlier, given our ability to treat any kind of waste, be it solid or liquid, hazardous and non-hazardous. Plus there is another thing which is something we're very pleased with, which is the good reputation we have vis-a-vis our larger customers, our large industrial groups.

They look for an outstanding partner such as Hera. Earlier this year, we launched the Circular Yard with Fincantieri, allowing us to manage the waste coming from their eight shipyards worth 100,000 tons of waste. So as far as the industry is concerned, as we've already said in other conference calls, we are very much present in the oil and gas business, in oil and gas waste, of course, which is something very positive for us.

It's anticyclical compared to other industrial sectors. Then we also look at the food industry, the healthier industry, both of which are very positive for us. And we can guarantee our presence there, thanks to the asset base we have, thanks to the plants we have. Think of the F3 plant and a number of landfills we own, such as the one in Feronia, which allow us to close the loop. Then we have TRS, which we'll be seeing for the entire year.

Then we have Ambiente Energia, a contract for which we recently signed with the Marzotto Group. And then as far as organic waste is concerned, compared to 2024, we will have more -- we will have less downtime in our waste energy plants because as you know, in 2024, we had some -- we had two longer stops, which we don't expect to have this year. And that is an organic growth that we expect to be able to achieve in 2025. So basically, we expect 2025 to be in line with the growth trends we embedded in our business plan.

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

In a nutshell, the amount of fiscal credits as at December 31 was slightly below EUR700 million. Our target was roughly EUR600 million. We have postponed EUR100 million towards banks at the beginning of this year, which is something we'll be completing over the next two months. So adjusted, the target value was EUR600 million. We had a slight delay at December 31, we stood at slightly above EUR700 million.

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

As far as the moving parts are concerned, I didn't go back to the topic of the AIMAG deal. Of course, we expect to close that deal early in the summer so that the consolidation of AIMAG is a moving part you're aware of, which will give a major contribution to our year results.

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### **Operator**

Francesco Sala, Banca Akros.

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### **Francesco Sala Banca Akros - Analyst**

Good afternoon and thank you for your presentation and for giving us this opportunity. My first question refers to the gas supply business. I'd like to have a better understanding of what happened in Q4 with a very positive result even compared to last year. Is there any non-recurring element, which had an impact on the figures, which were much better compared to Q4 the previous year? Second question also on the gas supply business between Q3 and Q4, there was a reduction in the number of customers. What were the drivers behind that reduction?

And finally, regarding the electricity supply business, what are your most recent figures concerning the churn rate? And are you seeing a large number of customers going back to the Maggior Tutela market given the fact that deadline was reconsidered?

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

Thank you. I was taking note of your questions. As far as supply in Q4 is concerned, well, usually, the fourth quarter tends to have a larger growth compared to the other quarters of the year. So we usually expect to see growth in that specific quarter. And at the end of the year, things went slightly better compared to the previous year due to some opportunities we saw at the end of the year and that will drag on into 2025 as well. And then it was a slightly colder year compared to 2023.

So those are the elements we saw. And then the other element, which I think is something we saw in the gas market in 2024 compared to 2023 is a full recovery of shaping costs, which had a higher impact in 2023, which continued all the way to the end of 2023. But now we are seeing the normalization of our contracts, which we've explained a number of times already.

As you know, our contracts now include a pass-through linked to shaping costs. And then we've also seen a normalization of the energy market. We did see an increase at the end of the year, but something which used to be a source of concern in terms of shaping costs was the volatility, which led to EUR50 or EUR60 per megawatt hour on a daily basis. And that, in turn, led to higher shaping costs. That no longer happens. And it was something that we were able to fully sterilize in our contracts.

And then we also had a few customers which left us at the end of the year or during the summer, and we saw that impact in Q4 2024. Now as far as the customer base is concerned, as far as the number of customers is concerned, that number declined slightly because some of those STG customers are outbound. It's the normal churn rate that we were expecting. At the end of the business plan period, we were expecting to have 4.5 million customers generally. It was something that we very much expected.

Now we are offsetting that by conquering new customers through our typical commercial channels. And we're also working to giving value to them through our good services, of course, but also through cross-selling activities and through a change in offers, which is something we usually do. Now what we've seen in the first few months as far as these new customers are concerned is that they are very positive. They exceed our expectations compared to when we made the offer to them. So we're quite confident.

This may be due to the [indiscernible] decree or due to the bills decree. We may be seeing a higher number of customers on the STG market. That certainly is a value for us because in late March and early April 2027, they will be switched to the free market. And therefore, they will automatically begin to generate positive margins. And the number of customers we're seeing there is fairly limited.

So we're not concerned in terms of extra investments to be made in 2025 and 2026. The churn rate continues to be lower compared to the market average. Of course, I won't give you the exact figures because that is a commercial -- it's a trade secret.

And as for the Maggior Tutela market, we've already answered that question.

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## Operator

Davide Candela, Intesa Sanpaolo.

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## Davide Candela *Banca Intesa Sanpaolo* - Analyst

Good afternoon. Thank you for your presentation. I have two questions also linked to the supply business. The first is more related to the context. There seems to be an increase in competition. So there may be higher pressure from competitors and lower margins, although we haven't seen that in Q4.

Has there been a delay in this normalization phase? And if so, are you noticing that or do you think this higher competitive pressure will reduce participation by smaller players giving you market opportunities for M&A deals? And also linked to that, I have a second question more linked to gas. You said that Q4, which is the coldest period of the year, [giving] good results in terms of volumes. Do you think that will be confirmed in 2025 based on what you're seeing?

And are you in line with your business plan forecast in terms of volumes? Or is that growth something on top of what you're expecting?

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

Well, in fact, we've been seeing increased competition for the past 20 years. When we began our commercial activities, we had 700,000 customers with a churn rate, which at the time seemed huge, and it was very limited. And despite the increased competition over the years, we have continued to grow. Obviously, the more players you have in the market and the more investments and pressure you have on the market, the more competition increases. Obviously, when it comes to the small and medium-sized players, what you were saying is true.

What I mean by that is that the more the competition, the more structures you need to manage your commercial channels and to manage more complex offers and of course, the quality of CRM. 20 years ago, the levels were very different. All this requires investments, meaning that the smaller players on the market, as you know, there are some 600 players on the energy and gas sector. Their business model is that they want to continue being a small boutique offering services to a limited number of customers. But for the medium-sized companies, it becomes complex to hold on to their market share because they have to equip themselves with systems that can compete with the larger companies.

And our growth over the years has allowed us to make major investments in all of our structures and all of our IT platforms. So that is the effect of competition.

And then the impact of the weather on Q4, that gives us visibility on a single quarter. In early March, we thought that the warm weather had already arrived. In the more recent days, it has been colder. So we're switching back and forth. Figures regarding heating systems are intermittent.

It's complex to manage. But what we've done over time is we have been able to reduce the variable margins from customers and therefore, we've been able to mitigate things. Five to ten years ago, the margins from our gas customers was variable for the most part, whereas nowadays, also as a way of taking into account the consumption cycles, which are changing, we have a lower impact and a lower reaction compared to the consumer or the consumption trends.

And when we develop the plans, we take into account specific customer consumption developments, which are in line with the efficiency, heating and electricity -- electrification of consumption trends. And in fact, we've shifted towards electricity consumption.

So what we're seeing is we have fairly mild winters, but with very hot summers. So the switch towards electricity customers allows us to more than offset the volatility that we've seen in gas due to the weather.

So all in all, over time, we've seen a fairly stable situation and one business offsets the other. But again, we're moving towards the electrification of consumptions and therefore, we have seen a change in the approach we have towards our electricity customers and the growth in the electricity customer base.

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## Operator

Thank you. Emanuele Oggioni, Kepler Cheuvreux.

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## Emanuele Oggioni Kepler Cheuvreux - Analyst

Thank you. I had forgotten a question regarding gas distribution. You are surely interested in the tenders, the bids for the assets that Italgas, 2i Rete Gas will have to sell. We know that you are interested, of course, but are you interested in your -- in the assets in the core regions that you already operate in or in the neighboring regions. But would you also be interested in buying a larger chunk of assets in other regions, in other parts of the country since you have plenty of financial flexibility. Would you be interested in the entire set of assets, would you be interested in other regions as well?

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

We're planning because we usually make our announcements when we complete the deal, whereas what you're referring to is a mere teaser. We'll see. We'll have to wait and see what will actually be offered, and we will talk about this in the future. But going back to your question on the moving parts, I think that we've seen an increase in the RAB this year. So this increase in investments, the increase in the RAB worth EUR250 million, which we will continue to strive towards in terms of growth even in 2025.

If I remember correctly, we were expecting to have a EUR1 billion in terms of investments for 2025. So we'll be seeing an investment peak, which will further increase the RAB. So that's an effect we'll be seeing both in terms of EBITDA and in terms of the bottom line. So I didn't answer your question, but I integrated my answer to your previous question. I think that's fair.

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## Operator

Mr. Fabbri, there are no further questions.

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

All right. Thank you very much for joining us today. We were expecting to have a one-hour presentation. Thank you very much. All the very best. And we will continue to work to allow the company to continue growing in 2025. Thank you very much indeed. Goodbye.

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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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