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Q1 2025 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 Suarez** *Mediobanca - Analyst*
- **Emanuele Oggioni** *Kepler Cheuvreux - Analyst*
- **Davide Candela** *Intesa SanPaolo Equity Research - Analyst*
- **Francesco Sala** *Banca Akros - Analyst*

PRESENTATION

Operator

(interpreted) Good afternoon, everybody, and welcome to our presentation on Q1 2025, which has just been approved by our board of directors. And I'd like to give the floor to our Christian -- to our Executive Chairman, Mr. Christian Fabbri.

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

Good afternoon. As this morning, we approved the Q1 results and here we are to give you a quick overview of our results before we leave the floor to you for any questions you may have.

Now as far as the overall result of the quarter is concerned, this is the very first piece of our business plan, and it is in line with what we had illustrated during the business plan presentation. We are continuing to grow on the bottom line, and we are defining and achieving the targets we have included in the business plan.

I began by stating what our commitments were for at the bottom line. But going back to the beginning, which is EBITDA, in this case, we Have a result which is in line with the Q1 2024. Although things are quite different compared to then. As you know, we grew 300 million over the past two years in terms of EBITDA by taking advantage of market opportunities which are reducing. And what we have started to do already last year and what we're continuing this year is to replace those opportunities with more structural targets that can allow us to have a value creation all the way down to the bottom line. So it's a higher quality EBITDA as we'll be seeing.

And also, in terms of EBIT, this structural growth, which also happens by an increase in investments, which leads to an increase in the RAB and in the regulated services and market services, that leads to greater amortization, which is compensated. It's offset by the reduction in accruals and provisions. Also, in terms of our net profit, things are looking quite good also compared to previous years. We began from 128 in 2023, and we now stand at 154, which is this first quarter's result.

Moving on to the line-by-line delta analysis, we can go back to what I said in the first slide, and we can see this even in the comparison to last year. Our amortization, the 5 million and the provisions are down by 6. And therefore, we are maintaining the EBIT level, which is slightly above what we had last year with the same quality.

Now this reduction in accruals is also linked to the lower temporary opportunities, because net debt, THE effect here is visible given the reduction in the last instant market share, which is reduced in terms of EBITDA.

And it also leads to a reduction. And our accruals, the bigger chunk refers to the improvement in terms of our financial burdens, which is made up of a number of different components, and then Massimo will be going to the details.

We have a tax contribution, which is linked to the increase of the profit before taxes. And we also have a slight increase as we'd already seen at year end as far as our tax rate is concerned, there were lower tax opportunities in previous years. And even here, we have the pre-tax profit which is up now. If we look at the quality of EBITDA, you'll see that temporary opportunities are deflating.

Last year, we had had a major reduction, which was linked to the expiry of the super eco bonus this year. We have a reduction linked to the last instance markets which are reducing their contribution. But on the other hand, we also see a structural organic growth, which is growing positively in all businesses and that it accounts for roughly 7% of our EBITDA with a EUR9 million contribution energy, 2 million waste, and 16 million in networks.

All of this leads us to underline the various profitability indicators, more generally speaking. ROI, as you can see, continues to grow quarter on quarter. It's now stably at 10.3%, which is an obvious proof of how sound our investment plans are and how well our company is managed with the higher profitability and invested capital.

And this is something that we can see even more with the growth of ROE, which leads us to components of the total shareholder return, which confirm that what we were illustrating during the business plan presentation. With the growth of earning per share in Q1, which is equal to 7%. And the dividend yield, which is linked to the dividend that we recently approved during our shareholders' assembly, which confirms the EUR0.15 that we had mentioned in January, which will be paid in June, which gives us a value at around 4%, which means that we are continuing in this direction to create value which is highlighted by the economic indicators.

Now moving on very quickly to the various businesses beginning with energy, which features a 4.6 million customer base following the major growth we had halfway last year and which is still quite obvious in the comparison. With Q1 last year, with a plus 800,000 customers, with a slight decrease in gas and consistent growth in electricity.

And if we look to the EBITDA in this business, we see that the temporary opportunities, as you may remember, were all included in the energy business. And they have a a negative effect of 26 million. In this case, we were awarded the tenders for the Salvaguardia market. We increased the various lots, although, the prices, which were defined to. Years ago, during the energy crisis are now reduced, which means margins are reduced, and therefore, part of that reduction is linked to the reduction of the Salvaguardia market. Plus, on the gas last instance market, we have a progressive decrease in volumes.

So that too is going towards normality, and it reduces margins. On the other hand, though, we are continuing to extract value from our customer base. And we're continuing to have a EUR9 billion structural growth, a structural growth which is, for the most part, linked to two effects.

On the one hand, we have a greater attention to higher margin customers and therefore we increased the margin due to the overall portfolio mix. And on the other hand, we're completing the normalization of shaping costs, which already last year had been significantly reduced. But you may remember that the actions we took were more in the long term and therefore this year compared to last year, we're seeing some further positive effects from that point of view. And all in all, we have reached an overall structural growth equal to 9 million, more than offsetting the investment we made on the SDG market, including all of that in this structural growth.

Let me now give the floor to our CEO who will be focusing on waste and networks.

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

Thank you, Christian. Moving on to the waste business. We have our ID card here regarding the waste business. We continue to be the market leaders in waste. We are especially resilient, and we fully confirm our volume levels. We weren't affected by the crisis in any way.

This slide shows that this business never stops in terms of its growth process. And this growth is especially valuable because it happened in a very complex macro scenario in which industrial production in Italy is slowing down. And our growth proves how our broad and diversified customer portfolio. As we already said in previous conference calls, guarantees resilience to our company, that is one of our main traits.

And as I was saying earlier, our market leadership allows us to mirror all of the inflation dynamics in our prices. And our margins, in fact, have increased also given the larger contribution stemming from services, especially remediation services or global waste management services which we offer to our customers. And the growth was especially driven by the special waste market, the waste links to industries or the waste linked from the urban context. These are all structural forms of growth. They are recurrent.

We see them every quarter. We have a delta linked to the perimeter. Linked to the RTS platform, we also have new performances stemming from the remediation services. And we also have plans which are now up and running and which will continue to perform in the future.

This structural growth was able to more than offset the reduction of margins linked to the contracts of energy produced from waste energy plants which we had set for the years 2022 and 2023. During the years in which we really saw an energy price boom, which means that in Q1, all growth drivers and the reduction in energy contracts were exactly in line with our expectations, which means that we are continuing with our plans.

In fact, we're doing slightly better compared to our expectations. Our investments are moving up compared to Q1 last year, and I will leave it at that as far as the waste business is concerned. Let's now move on to the networks business. We are continuing to grow significantly with a double-digit EBITDA growth plus 11%. As you can see, in a nutshell, our networks were able to benefit from the increase in the RAB given the investments made in water in terms of Energy.

We did a number of things and when it comes to gas, we were able to recover certain costs as per the deliberation 87 published by AA. Water is up by 6 million, as in the water bridges, we had no whack reduction.

In this case, the investments made led to an increase in the WAC, plus we also have the recognition of inflation on an amount of money as referring to the previous year. In gas, we posted a plus 5 million growth. In this case, we have deliberation number 87, which recognizes the opEs made.

In the 570 deliberation period, which is the previous period, it will have an impact on further quarters, plus we have an increase in RAB, and the two things combined more than offset the cut in the whack. And as far as electricity is concerned, the more relevant part of the growth stems from the diverse contribution was important in previous quarters.

Plus, we also have the recognition of inflation on the rab stemming from deliberation 130 published by Ara, which replaces the defector with the IPCA. And we also have a small RAB compensation, which more than offsets the reduction rack. All in all, the results are in line with our expectations are no surprises. Our investment plan is continued as planned with a major increase. Therefore, in a year in which we saw a reduction in back in two businesses, all the other networks are continuing to grow, also thanks to our focus on extracting synergies in operations and by also improving the quality of our service.

Let me now give the floor to Massimo.

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

Good afternoon, everybody. As usual, let's comment the Q1 cash generation together. The cash generated in the first quarter was equal to 352 million, and the way it was used is the one shown in the graph in the blue columns.

The working capital absorbed roughly EUR80 million which is much lower compared to the figure we saw last year. As you may remember, last year in Q1, we had completed the payment. Of the debts to our suppliers regarding all of the electricity requalification expenses for the condominium market, that was a major impact in terms of cash absorption.

This year, it's a lot lower and it is in fact the tail of the thermal season. Provisions are similar to the ones we had last year and let me focus on investments. As the CEO was mentioning, our investments were up in Q1 compared to the value we saw last year.

In Q1 this year, between maintenance CapEx and development CapEx, we have a total of 188 million, all of which are operational investments, compared to a figure we had last year in the same period, which is worth 150. So we've had a growth which was slightly lower than 40 million.

Now this absorption leaves some EUR70 million available in the period which we used to reduce our net financial position. And as you can see on the right-hand side of the chart, this has led to a slight. Improvement of the already excellent result we had at the end of 2024 and the net debt to EBITDA ratio, we now stand at 2.45 times.

So this is a very interesting result, both in terms of potential flexibility, but also in terms of solidity and an excellent financial balance we've achieved. In the following slide, as usual, we have a quick update regarding the trend we're seeing as far as our cost of debt in the medium to long term.

The cost of debt which is updated due to the effect of the reimbursements we pay every year of our bonds about to expire and which are replaced by a new bond emissions. And compared to Q1 2024, as you can see over the past 12 months, on the one hand, we paid some debts and bonds last summer. We had an EBITDA investment in the fall and then we had a bond admission on the 8th of January this year.

All in all, this led to a slight increase in the cost of our debt worth 5 basis points from 2.72% to 2.77%. It's quite marginal as far as the debt mix between fixed and variable rate. We want to confirm our policy, which wants to avert any potential risk and our valuable rate interest is only 3% compared to the total amount of our structural debt. And as far as our ratings are concerned, Standard and Poor's and Moody's confirmed. The readings that we had, illustrated, previously.

And let me give the floor back to our, Chairman for some conclusions.

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

Thank you. We're closing this quarter by confirming our ability to continue growing structurally and organically with the growth, which is a 7% on average higher than last year, a growth which allows us to generate.

Cash on one hand, it allows us to reduce our debt by optimizing the financial lever which gives us the opportunity to further invest in our business plan, both in terms of organic growth and for any possible M&A opportunities. And on the other hand, we are also continuing to bring down to the bottom line the significant growth in our profits which are up 7% compared to last year.

So where do we stand basically, as I was saying earlier, this is the completion of the first. Piece of the story we shared with you a few months ago as we illustrated our business plan. We are active in all of our businesses so that we can continue to achieve our growth.

Through more structural elements, through more recurring elements that we'll be holding onto for the years ahead, which means that we are on track with our business plan we are achieving our targets. As we had explained. We wanted to with our industrial activities, with the projects we had envisaged, which means that we are.

Moving ahead as planned, even for the next few quarters, we try to keep our presentation short so that we could give you the possibility to ask questions so that we could focus on the things you feel are most important over to you.

QUESTIONS AND ANSWERS

Operator

Javier Suarez, Mediobanca.

Javier Suarez *Mediobanca - Analyst*

Good afternoon, everybody. I have a few questions for you. I'd like you to talk about the efforts you're making to bring the growth from me to the bottom line, which is something that the Chairman said at the very beginning of your presentation.

I noticed a significant reduction in financial expenses. Can you help us understand the details of that? What are the reasons why this reduction happened and what are the underlying dynamics? You obviously talked about a lower amount of P&L provisions. What can be the guidance as far as P&L provisions are concerned for 2025 and for the next few years? Why not?

The second question is on the dynamics and the energy supply activities for the next few quarters in a more competitive context. So the question is, how do you see the market and what measures are you taking to have a higher profitability level? And what are the customers you were awarded recently?

My third and last question is on the waste market dynamics. What do you expect in the next few quarters, both in terms of volumes and in terms of prices? Thank you.

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

Thank you, Javier. Thank you for those questions. In fact, the financial management of Q1 this year was an especially positive result when compared to the same quarter last year. This result is the outcome of a number of structural elements along with a few one-off things.

Let me begin with the one-off elements. In the Q1, we had the positive impact of an extraordinary distribution of dividends from a company we have a share in. Another contribution stemming from our joint ventures, which had a positive impact we didn't have last year.

Besides that, we also had the continuation of those optimization activities for our financial management, which we began over a year ago, the results of which the positive effects of which are increasing progressively and especially in Q1 this year. They are compared to the same period last year in which we still had very negligible results compared to what we're seeing, to what we saw in the second part of 2024 and which we are continuing to see in Q1 2025, which we expect will continue over the year.

To that, we also have to add the fact that as usual, we conducted some pre-funding activities. We emitted a bond linked to our needs. This was part of our risk management policy that we have always implemented. And given the market conditions, we also had a very good temporary profitability of those excessive amounts of money which were even more than we expected, given the excellent cash performance which we concluded 2024 with and which we began 2025 with.

So these are the elements which led to this significant difference. And as far as our year-end projections are concerned, we expect a further improvement in the difference compared to last year, but not 4 times as much as we had posted in Q1 last year or Q1 even this year, given the two things I said earlier, to answer your question.

The second question, if I remember correctly, was our visibility regarding provisions. Of course, we don't give any guidance but based on what we're seeing today. We expect a growth in amortization, given the increase in investments that we have posted over the years, and those are in line with our business plan projections, as we illustrated in January.

As far as provisions are concerned, we think that we can see further improvement over the next few months. But that will depend on things which we still don't know about, such as the outcome of the last instance market at the end of the year, and that could lead to A fine tuning of our provisions needs.

Unidentified Company Representative

Now first of all, hello Javier and let me just give you a follow up to Massimo's answer. Currently, we replaced the margins on temporary opportunities, especially the last instance markets made a contribution to EBITDA. And on the other hand, we had a provisions level, which was slightly higher compared to the ordinary market levels.

Now this change in mix through which we compensate, the ordinary markets for the last instance markets and vice versa leads to a lower need to accrue provisions. And what we saw in Q1, as Massimo was saying, will continue to be developed throughout 2025 and over the next few quarters.

As far as energy is concerned, what do we expect over the next few months? Well, let's begin by discussing margins. Well, currently, on the retail market and on the small customer market, we don't see any special tensions on margins linked to price competition. Of course, competition is increasing as it does every year.

This is a competition for the customer, not so much on the margin, but more on the commercial structures. Currently, we are able to stand our ground quite well. And at the same time, we are doing what we expected to do, which is to move customers from the SDG market to the liberalized market also take advantage of price volatility.

I think last time I had already explained that our offers allow customers to choose. The component of the fixed price. They wish to define for the future, and given this turbulence on the prices. This gives customers the possibility of shifting from variable prices to how much energy they want to have a fixed price for allowing them to manage volatility.

So in a context in which customers have always been used to having variable prices, this can be a very important element. Plus, we also have energy efficiency services and other services. That we have launched over the period. So competition does exist. We have seen it in recent years, and we are continuing to work as we were expecting to do.

We don't expect to have a reduction in margins in those segments where we have big margins where we have a bigger contributions, of course, on the large industrial customer market the margins that we had seen in previous years. Also given the scarcity on the market or the concerns for the energy commodity, that scenario is becoming more normalized. But that's an almost irrelevant amount as far as we're concerned since basically our contribution from that segment is very limited. And we've already taken those dynamics into account.

Orazio, over to you for waste.

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

Good afternoon, Javier. As far as your question on waste is concerned, it is a monthly topic. It will exist. We expect to see a growth in volumes even for this year in Q1. We had to shut down a waste energy plant ahead of schedule.

We had more services as far as handling or global waste services or remediation services, but we also started new businesses, new activities which already in Q2 will drive our growth, such as the TRS ecology platform. And very recently, we received all of the authorizations needed to begin working with Circle IR to manage fincanteri waste and over the year. That will give us a very good contribution.

Then we also have the Pedonia landfill. We also have the F3 plant which will be fully up and running compared to the beginning of Q1. So we're expecting an increase in volumes. And we also have to take into account the acquisition that we had announced in March with the closing in June, which is ambiennergia which is a water treatment plant which will give us some major volumes on liquid waste.

And that's a sector in which demand is high, and we're able to take advantage of that thanks to an increase in our assets and in our offers. So we're certainly seeing an increase in volumes as far as prices are concerned. We're seeing prices which are stable and high as an outlook. Our forecasts for 2025 are in line with the ones we had in 2024.

So we're not seeing a decline because the market is short and the very first to suffer are the plants which are outside of Italy because as international logistics costs have increased. And therefore, we're not the ones to suffer. Those who suffer are the ones who receive the waste abroad. Thank you very much.

Operator

Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni *Kepler Cheuvreux - Analyst*

Good afternoon and thank you for your presentation. First of all, I wanted to ask you a more general question regarding 2025. I know that as usual, you don't give any specific guidance on numbers but let me just ask you a qualitative recap for business units for the moving parts as far as EBITDA is concerned. As a way of understanding what you expect, what is your outlook after Q1 for 2025?

Any positive or negative elements year-on-year compared to 2024, as far as II is concerned? We also talked about the visibility for the net profit. Thanks to the lower provisions and the lower financial charges. I'd focus more on e-bit though, second question refers to the topic of releveraging. You have a low financial lever, which gives you plenty of room for releveraging, and I don't have a specific question regarding in which assets you will you want to focus on.

It would make no sense for me to ask you that. But what is your rationale? Do you want to continue diversifying your presence? Out of your traditional core regions, out of your core areas, you want to expand in other Italian regions, or to see the right opportunities and the various businesses you're present in? Are you thinking of becoming more of a national player, more so than you already are depending on each business, of course? Thank you.

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

I was just taking note of your questions. Let me begin with your last question. Our goal is to continue, growing with a multi-business model. Our goal is to continue working on the businesses we are active in.

With the approach you're familiar with, which is that of creating value, is linked to development and growth. In M&A revenues and cost energies, of course, depending on the various businesses and depending on the various M&A targets, the contribution from these two levers changes. But all in all, that's what we're looking for.

That's as far as geography is concerned. Now just to give you some figures, just to look beyond Italy. Nowadays 13% of Italian customers receive at least one service from Hera. Then of course, in the regulated business were more concentrated geographically speaking. But when it comes to waste or when it comes to Energy, whenever we have a liberalized market, we have customers which are visible throughout the country.

So we are making a choice to be local or to be national. Our choice is driven by opportunities, by synergies, and by the price of of of the target. And the price doesn't have to be diluted as far as we're concerned. As far as the moving parts on EBITDA are concerned.

Well, talking about EBITDA without looking at profit is very complicated because some of the EBITDA moving parts also have effects, which drag down to the bottom line. Currently, we're focused on optimizing the bottom line because as I was mentioning in the energy business, as far as moving parts are concerned, what we expect is that on the last instance markets, we will be reducing contribution over time.

We're normalizing that contribution. As in the business plan, we have nothing at the end of it, and therefore, compared to the value we had in late 2024. We will be reducing the contribution from those opportunities. There be other opportunities, of course, we'll be ready. So that is an element which certainly has an impact on EBITDA and which also reduces provisions so much.

So in fact that this year we expect to see a major reduction in provisions which will fully offset amortizations and so on. And we're seeing the same effect on financial charges. As Massimo was explaining earlier, we have some structural Elements that will allow us to increase this benefit over the next few quarters.

Obviously, not in the same way as we saw on Q1 because we will be going into quarters in which optimization has already been completed. But just to give you a flavor of the various businesses, in the waste business, Orazio already answered Javier's question. And he explained the price and volume dynamics and what we expect from 2025.

And similarly, the contribution we saw from networks also stems from a growth in rap that we're continuing to work on. And with the investments we're making, we expect to see a contribution there. We expect to see further growth with all components.

Because there can be some specific elements here and there, but there are no major one-off opportunities compared to the linear. Growth we're achieving and that we expect to see for the rest of the year. So these are the main elements, the main traits, as far as the moving parts are concerned.

But I think that if we only focus on EBITDA without looking at all of the lines, and given the changes we're seeing as far as temporary opportunities are concerned. That can lead to certain misleading elements.

So that's the reasoning, that's the rationale we have. Yes, I was in fact referring to a question on the net profit. But I think it's more appropriate to look at all of the P&L and all of the elements.

It's somewhat complex. But basically, we significantly increased the ceiling for this company, but we also increased the floor for the company. If you think about the profit increase we saw over the past two years and all of the invested capital that has been growing with the debt level, which over the past two years has stabilized so much. So in fact, it led to a net debt level, which has been decreasing consistently.

That gives you an idea of the work we've done. And now basically, we are transforming that that ceiling, that roof that we built so swiftly. We're making it more solid, more structured. And at the same time, we are strengthening and building up our foundations. So this is the outcome of all of our hard work, of all the initiatives we included in the business plan. And we are continuing to achieve those targets with no surprises and with plenty of satisfaction.

Operator

Davide Candela, Intesa SanPaolo

Davide Candela *Intesa SanPaolo Equity Research - Analyst*

Good afternoon and thank you for your presentation and for giving us this opportunity to ask questions. I have three questions for you. The first refers to what you were referring, what you were talking about and provisions. Do you think a change in energy prices in the second part of the year may lead to certain distortions compared to your expectations, an increase in revenues and therefore provisions which will have to be made.

And then a couple of questions on figures, the allowed OPEC, CEO was mentioning. Will the positive impact of the resolution divided by quarter, or was it taken into account for entirely for Q1?

And then the second question in your presentation annexes. With reference to electricity supply and the margins on EBITDA, which are reduced, is that the effect of a comparison links to SDG customers? Or are you in fact seeing a contraction in margins of electricity compared to gas for instance?

Unidentified Company Representative

Thank you. As far as provisions are concerned. We have a situation in which were prices to grow significantly. There may be some effects, although we have an unpaid ratio which is so low.

We expect this effect to be negligible, even at the peak of the energy crisis. We did have an increase in the input ratio, but that was driven by the major increase in volumes on the last instance market, more so than the growth of provisions links to turnover.

And of course, the unpaid ratio is applied to the turnover. And therefore, this is an effect which exists to a certain degree, but since our unpaid ratio is very low. Sultema its impact has very limited indeed.

I'm not sure I understood your question on electricity. Right now, it's okay. No. Now, I see I think I understand what you're trying to say on electricity. We're seeing the higher impact of SalvaGuardia. So net debt, what we're seeing there is the effect of the SalvaGuardia market.

Then when it comes to margins, we grew overall. And we were able to offset the margins, the investments we made in the SGT. So we're not seeing a decrease in margins on the market. We want to confirm the good margins we had on the elements we were mentioning earlier.

Basically, we're working to focus on the segments with higher margins. As far as volumes are concerned, we had a slight contraction. Basically, the Salva Guarte market because we're focusing on the customers. They give us a higher margin and lower volumes. So we're not especially concerned when it comes to margins, of course, the effect of the Salva Guardia market, which belongs to the average omega.

And in the previous period, that omega was quite large. And therefore, we're seeing a reduction in margin and in EBITDA as a consequence. As far as the question regard the monthly, quarterly, or yearly inclusion of those figures is concerned, we included it quarterly. We don't want to have spikes. We want to make sure that all extraordinary elements are fully visible when it comes to amounts that we obtained from the past. Thank you very much.

Operator

Francesco Sala, Banca Akros.

Francesco Sala *Banca Akros - Analyst*

Good afternoon and thank you for giving us this opportunity. I have two questions for you. The first is a follow-up question on networks. The fact that you consider these figures on a quarterly basis, does that refer also to the deflector for 2023 and 2024? And what change will there be beginning in 2025 to the change in IPA?

If you had an impact on Q1, do you previous figures, how will you factor that in for the remaining quarters of the year? Second question is on the networking capital. What should we expect from here to the end of the year? Can we imagine a trend in line with Q1, or will there be a normalization? Thank you.

Unidentified Company Representative

Now we included everything in the quarter as far as the recognition of inflation on RAB, which replaced the deflector with ICA. In Q1, we have a slight amount linked to 2024 and a slight amount linked to 2025 which we decided to split by quarter, which accounts for 25% to 30% of the amount which affects Q1 and as far as gas is concerned, that amounts to some 3 million.

That's the value in Q1. So basically, we split things by a quarter. Keep in mind that the problem linked to the indicator. We used to calculate the deflector was that indicator with significant changes in inflation did not detect those changes accurately.

In fact, it linked to a number of figures linked to the fact that the deflector was calculated, exposed, leading to some problems in the math. So basically, area after having listened to a number of companies that they decided to use a simpler indicator to use, which is ICAP and as far as the change of the indicator vis a vis certain updates.

We now have this this connection, so to speak, which is then also reflected in the inflation indicators for the upcoming years. So we'll be using the IBPCA. And this deliberation basically includes some elements linked to the previous indicator and it required a slight update, a slight adjustment.

To take into account the different calculation method compared to the past. So that's the Dynamic we're saying. So beginning in 2026, we'll be seeing a return to the normal inflation dynamic. And this is something that the authority will be doing in the future based on that specific indicator. Francesco, I hope that answers your question.

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

Moving on to your question on the network and capital. In this case, we are referring to a variation which is basically Equal to zero. It's plus 50 million here, minus 50 million there. We don't have any extraordinary things in mind that can change the size of the networking capital.

And at the end of last year, we also already had some volumes linked to SDG customers. As far as the last instance, markets are concerned. We'll be seeing how we'll close the end of the year. But for the time being, we have no elements, leading us to believe that we'll be seeing significant changes compared to the current trend.

And keep in mind that, we're looking at revenues and turnovers which are well above 13 billion to 14 billion each year with a total cost amount. Except for EBITDA has a similar amount. So you have a different dynamic of payments that can be plus or minus a few dozens of millions and you can maybe round up the figures and that may lead to a few minor mistakes system. Thank you, Francesco.

Operator

Mr. Fabbri, there are no further questions at this point.

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

Wonderful. We optimized our time management. We were able to optimize the time available. We kept it at around 1 hour. Thank you for your time. We wish you all the very best, and we'll get to work for the next quarter, so that in three months' time we can give.
