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PRESENTATION

Operator

Good morning. This is the Chorus Call operator. Welcome to the financial results for the first 9 months for 2023 of Hera Group. (Operator Instructions)

And now I'd like to give the floor to Mr. Cristian Fabbri, Executive Chairman of Hera Group. Over to you, sir.

Cristian Fabbri ***Hera S.p.A. - Executive Chairman & Ad Interim Group Market Manager***

Good morning, everybody, and welcome. We are here to illustrate the results that our Board of Directors approved a few hours ago, the results pertaining to the first 9 months of the year, the results to September 30. We can appreciate the fact that our income statement just shows good results on all lines despite the turnover dropped by EUR 3.4 billion, which is good news for us since that is mainly linked to a reduction in prices for energy. This has led to a lower turnover with the same activities or with an increased level of activities, in fact.

We did reduce our trading activities, especially the turnover pertaining to gas, also given the lower volumes sold since the beginning of the year, given the mild season. Whereas we increased the amount of volumes linked to electricity given the major commercial development in all last instance markets. Our decarbonization services is doing well, and we're doing also very well on waste with an increase in volumes, which shows an increase in turnover in that business.

Moving to EBITDA for the first time in our history, we are now above EUR 1 billion in EBITDA in the month of September. This is a record result both in terms of its absolute figures, but also as far as its growth is concerned, with EUR 132 million increase in the first 9 months with the 15% growth. We also have a 50% growth in EBIT, which is up by EUR 68 million compared to the same period last year. And the EBIT value translates into our net profit post minorities which is up by EUR 21 million compared to September last year with an overall growth worth 10%.

So these results confirm our resilience in this complex moment in time, the situation now is smoother, although at the beginning of the year, the energy markets were complex. And of course, we're seeing more tension on the cost of money, which we offset with our growth, with an overall benefit as far as net results are concerned.

Moving on to the following page. We are now moving on to our assets. We increased investments by 19%, working on operational investments, OpEx up from EUR 146 million last year. We are now above EUR 500 million. We also increased by EUR 24 million, our investments in M&A, which we have already illustrated to you in the past and which continues to give good results as we'll be seeing later. Despite our increase in investment and after having paid a dividend, which grew by 4% in June this year, our net financial position has improved by roughly EUR 100 million compared to the result we had in December 2022.

The operating cash flow, a reduction in the working capital have more than funded the increase in investments and the dividend distribution, which is also seen in the net debt-to-EBITDA ratio, which is down to 2.91x which is down compared to previous quarterly reports, and it's also significantly lower compared to the value we had obtained in September last year.

You may remember that, that value was very high. It was linked to the cost of energy, but it was also due to the major gas storage commitment to guarantee gas supply to our customers and with all of the margins, which, of course, had an effect on the fourth quarter in 2022. These are all things that we had illustrated to you last year. And as promised, that figure has now been fully reabsorbed. We are now back to our more traditional net-debt-to-EBITDA levels.

Now moving on to the details as to how we were able to increase EBITDA by EUR 132 million. I think it's safe to say that roughly EUR 74 million stem from organic growth, EUR 44 million were determined by our decarbonization services and EUR 14 million are the outcome of the M&A transactions.

So on Page 3 here, you have this graph which underscores the fact that organic growth was supported significantly over the period. And as we'll be seeing in the upcoming pages. We will be seeing the details in organic growth, especially in energy, with an increase in our energy customers due to all of our commercial operations. And we also increased margins on our customers for the liberalized markets, but we also improved margins on the last instance market.

We also did very well in waste as far as organic growth is concerned, whereas when it comes to decarbonization services, the increase here was plus EUR 44 million compared to last year with a good growth in our services offer to condominiums, but also to individual retail customers in their respective businesses. Now this growth, we were able to post is linked for more than 50% to sustainability, which includes decarbonization, circular economy. And that, of course, leads us to further increasing as we saw in the first half of the year results, we were able to increase the assured value EBITDA for Hera group, which was up to over 50% at year-end, which now stands at roughly 54% in the very first 9 months of 2023. This growth, therefore, underlines the fact that despite the significant levels of inflation, our figures continue to be resilient vis-a-vis inflation.

Our group continues to be capable of growing even despite the very first effects of the recession we're seeing in the industrial sector. We're seeing this in energy, we're also seeing this in waste where our managed and treated waste volumes are increasing. And we'll be seeing later that the impact on interest rates continue to be -- continues to be very limited because our debt level is very much covered by fixed interest rates, a lot lower than the current spot market prices. I won't give you the figures. Mr. Vai will be sharing those figures later on. Of course, many of -- much of that information is already present in the press release.

And as we had already mentioned last year with the growing energy prices, when we said that our hedging policies for commodities were very effective, and we're seeing this even more this year both with increasing prices and with decreasing prices, our margins in the sector continue to grow. The impact of climate change is also offset and managed with a focus on the resilience of our assets, but also with a careful management of the trade-off between the electricity and gas margins, which are quite obvious in these first 9 months of the year.

Now moving on to Page 4. With the first of the 3 macro businesses, which account for 95% of our activities, beginning with energy. In energy, we've seen a growth of EUR 112 million, which is roughly 80% of the overall growth we posted in the first 9 months of the year. The growth, which is underpinned by the decarbonization services I mentioned in the previous page, but it's also underpinned by all of our supply and trading activities.

And comparing the current figures with the figures pertaining to September last year, we've increased our customer base by roughly 300,000 customers, especially in electricity. Also with the idea of reducing the switch from gas to electricity as far as consumption is concerned. And therefore, this allows us to further hedge our position preventing a shift in consumption with a focus on energy efficiency.

So we're doing very well in terms of our commercial offers. We're also doing very well. When it comes to the last instance markets, the last resort markets, which as far as electricity and gas have seen good margins this year, and which we also confirm for the upcoming 2 years. In fact, in September, we were awarded the tender for the last resort market in both FUI markets and default markets for gas, we were awarded 17 out of the 18 available lots, which means that we completely cover the default market, and we are almost the only player on the FUI market, which means that we are very much a systemic operator in these markets as well.

So we've had a very balanced growth between the commercial growth. You may remember that last year, we had some larger impacts stemming from shaping costs and for finding the right balance between procurement and sales, we had some slightly higher costs, which are now declining. And at the same time, we were able to review almost 90% of our contracts with our end customers, which means that we were able to cover those costs were there even -- were there would be an overall increase in margins.

Now let me give the floor to Orazio Iacono, our CEO, who will continue with our presentation.

Orazio Iacono ***Hera S.p.A. - CEO & Renewable Energies ad interim***

Good afternoon also from my side. Let's continue in our presentation by focusing on the waste business. EBITDA is up by 5% with a progress worth EUR 12 million, which also offsets the inflation on cost. As far as risk collection is concerned, as you can see, in Q3, we posted the very first positive sign. We were able to revert the contraction we saw in the first half of the year pertaining to the costs for the new concessions for [biomethane], which were renewed for an upcoming 15-year period, which are constantly evolving.

Now what we're doing here is we are simply broadening our offer of services, which is due to a constantly evolving demand, which leads us to an evolution in our services and margins. Just to give you an example. For instance, we increased the frequency of collection. This is a further service, which is a very first example of things we're doing also when it comes to waste collection, which will certainly be able to give us a positive contribution, along with the waste treatment side of the business.

And in fact, speaking of the waste treatment business, we have grown accustomed to posting constant improvement, all of the market lines in our very well-balanced model, despite the very complex macroeconomic scenario. Despite that, as I was saying, we wrote post a EUR 50 million growth, which is underpinned by volumes, which are up despite a slowdown in the economy, thanks to our major commercial network and thanks to our national leadership. You may remember that we are the Italian leaders in waste treatment and recovery.

Therefore, thanks to our network and thanks to our assets, we were able to use all of our treatment plants at full capacity. When it comes to prices, given our strong leadership position, we were able to have an excellent resilience as far as prices are concerned. And in fact, we have a very positive growth dynamic in the various businesses. When it comes to our assets, thanks to the investments over the years, we're pleased to say that all of our assets are performing very well. We've posted a very good results. We are continuing to invest with the full execution of the 5-year development plan, covering all of our assets, which are 100 in total, including the more strategic ones, which energy plants, landfills. We are now completing the F3, we had announced the last time we met, which will be up and running by the end of the year.

And then the last piece of the puzzle as far as our growth strategy is concerned, is the most recent M&A transaction, which allows us to complete our offer for our commercial or industrial customers, rather, with a specific focus on site remediation and site regeneration. We are performing very well in the sector. We are very pleased with the results obtained so far. The backlog continues to increase. We've been awarded tenders in the private sector. Among the top national players. We are bidding in public tenders as well.

As we had mentioned during previous conference calls. We have a number of public websites that we consult. Therefore, we make bids in a number of tenders. We have a number of national funds for the national resilience and recovery plan that we can take advantage of. And therefore, despite the fact that this is a nonregulated business, we are continuing to grow despite the difficult context, inflation despite the increase in competition from all over Europe.

Moving on to the Networks business. Even here, the regulated Networks business has a growth profile compared to the 9 months of last year, which wasn't something we were taking for granted despite the fact that the sector's WAC still hasn't been reviewed and updated. That's something we expect for 2024. To that, we also have to add the fact that the inflation for the regulated part pertaining to water will be recognized next year with the regulatory period expired and is renewed.

When it comes to the more significant factors, the water cycle, especially is one of the main drivers which has contributed most in terms of the development investment we made on the water networks and on the gas networks both of which underpinned our EBITDA growth. The investment was also made to guarantee the progressive digitization and automation of our networks as a way of adjusting to climate change, which, as we all know, is key in managing these assets. And therefore, thanks to our investments we will be able to confirm our excellent operational performance which has allowed us to obtain high premiums for our technical quality, and we are the leaders in the country when it comes to the quality of our infrastructure, as recognized by the authority.

Even as far as energy is concerned, our results in distribution, especially in electricity would have been even more obvious had we not had the burden on demand, which led to peaks, which had an impact on the results of the electricity grid. Although it did not have an impact on the Networks business in general, which continues to be a positive sector. In a nutshell, therefore, what we posted here is a result that we're quite pleased with. And next year, we'll certainly be the year for our networks. This year, we were more on the defensive. Next year, we will be posting an excellent result, indeed, which is already very visible as we speak.

Moving on to the following slide, Page 7. We briefly wanted to focus on the fact that we continue to pay a great deal of attention to our development, developing the contents of our business plan. In the first 9 months, we have already finalize a number of projects, which are important in terms of the result, but also in terms of the impact on our results and on the strategic nature of our future development.

We have the photovoltaic plant in Galliera, the first image on the left. It's an example of the value we create for the territory and for the environment. This is a project we're very proud of because it is a very first project, which was entirely completed within Hera Group. It was focused on by our renewable energy team in cooperation with our engineering unit.

The second one is in the middle of the page refers to our second biomethane plant which we inaugurated. We partnered with the Cremonini Group for this project, we set up a Biorg NewCo, and biomethane in recent years has become crucial for Hera for the transition towards a green economy with the previous plant in Sant'Agata Bolognese, which we started in 2018. And therefore, with this second plant in Spilamberto, the Biorg plant, which will produce almost 4 million cubic meters. In total, we will be up to almost 12 million cubic meters.

And finally, the image on the right-hand side of the page refers to an agreement we signed only just yesterday with Leonardo Group, with whom we are working to recover carbon fiber included in our composite polymeric material which is then used to build airplane pieces and parts. Thanks to the plant that we are developing here in Emilia. And thanks to the know-how developed in the Leonardo Labs, carbon fiber, which is a very precious material will now be recycled with excellent -- with an excellent impact as far as sustainability and circularity are concerned.

Allow me to say that this is strategic, even when it comes to promoting the circular and shorter value chains in Italy, Therefore, this is a cutting-edge project, which requires alliances, such as the one we struck with Leonardo, a real champion when it comes to innovation in Italy. It will help us generate both economic and environmental and social benefits.

I'll leave it at that for the time being, and I'll give the floor over to Mr. Vai.

Massimo Vai *Hera S.p.A. - Group Manager of Administration, Finance & Control*

Thank you, and good afternoon, everybody. We will be focusing on a couple of charts to analyze the financial and debt and cash generation figures, beginning with Slide 8 -- Page 8, which goes back to the figures we saw for the H1 results.

Beginning on the left-hand side, the cost of debt in the medium to long term despite the high volatility for the 10-year BTPs. As you can see, we've had a very stable trend which goes to show that our medium- to long-term debt strategy is a positive one, and it dilutes the sudden volatility on the general average cost. Of course, this dynamic also includes the general reduction of the absolute cost of debt compared to the values we had last year. Given the use of variable interest to banking -- or bank financing, which we were able to completely reabsorb over 1 year, as Mr. Fabbri was saying earlier.

Moving on to the other chart on the right-hand side, you can see how our debt is divided in terms of types of interest rates. Our debt is slightly below EUR 4.2 billion and 97% of it is made up by fixed rate debt, which isn't impacted by the fluctuation on variable interest rates. Variable interest rates are only equal to 3%, which means that in the final months last year and the initial months this year, we received funding from banks to be able to face the gas storage emergency. But now currently, we have credit lines which we are using, which are reserve resorts, which allow us to deal with possible future volatility and allowing us to hedge the risks for our financial situations that we can continue guaranteeing the investment our group needs.

And as far as our net debt-to-EBITDA ratio is concerned, you'll be seeing that when we met for the very first time last year, I was illustrating a figure which was quite sizable for us. It was equal to 3.6x net debt-to-EBITDA. I said that, that was a peak that we would have gone down from. We had -- didn't have a clear idea as to the speed with which we would have reduced that ratio, but we knew that we would have reduced that. And then, facts show that the drop was much faster than what we were expecting. And already in June, we stood at 3x, and now we stand at a very good 2.91x, which is below the 3x threshold we have given ourselves, which means that we now have the flexibility we need to deal with any possible extraordinary transactions, which, as you know, are very much of a Hera's 22-year history and which certainly will also continue to be present in the future.

Now along with our good operational performances, let's see the profitability for invested capital or our own capital, you'll see that ROI now stands at 9%, whereas it was at 8.6% in June. And ROE is well above 10% compared to the 10.1% level that we had in June 2023. Of course, especially when it comes to debt, all of this is the outcome of our liability management activities, which led us to move more from being reactive towards the volatility last year towards a more proactive approach this year, which we started implementing in the very first month this year, which means that we now have a much more consistent debt structure. It's more coherent with our company's needs so we can continue to safeguard our future investments and our future growth.

Moving on to Page 9. This is a very quick overview of our cash flow and how we were able to reduce the debt by EUR 100 million, as I described earlier. Compared to the situation we had in June, the operating cash flow is up by EUR 204 million, up to EUR 664 million. We have a stable CCN level compared to what we had illustrated in June. And now we have increased investments by almost EUR 200 million. They're up to EUR 490 million now, which means that given the same figures that we had shown in June. Most of the cash that we generated was now invested in CapEx, which, as you may remember, is an important lever to develop the margins for the upcoming years both on the Networks business, but also in the liberalized market.

So all in all, this is a very comforting picture. It's very different from what we were seeing last year, and we will be able to deal with the months ahead with a very clear visibility on a year, which has been very interesting indeed.

I'll leave it at that, and I'll hand the floor over to Executive Chairman for some conclusions.

Cristian Fabbri ***Hera S.p.A. - Executive Chairman & Ad Interim Group Market Manager***

Thank you, Massimo. Moving on to Page 10. Just to give you a very brief recap of the things we've seen so far.

As you can see, our multi-business portfolio allows us to have the possibility to grow in all circumstances. This year, our networks had to deal with hedging inflation and we were able to grow, although less brilliantly compared to previous years. And we have the energy and the waste markets which allowed us to grow significantly in terms of margins. The earnings per share is up from [EUR 0.147] last year to [EUR 0.163] this year, which gives you a clear idea of the impact this has had all the way down to the bottom line of our income statement. At the same time, the cash flow generated allows us to fully cover our investments and our dividends, and therefore, we are reducing our net debt-to-EBITDA ratio, which with the current rates we're seeing is very positive.

The combined effect of these things allows us to increase our ROI, which now stands at 9%, which is a good result also compared to the current reference rates. Even more interesting is the growth of ROE, which is up to 10.6%. And that ROE is comparable or as compared to the cost of money, which is below 3%. And with a fixed interest rate that covers most of our debt. And therefore, this gives you an idea of how we are capable of creating value even when it comes to the cost of money.

Our tax rate continues to improve and this value is translated down all the way to the bottom line. So ultimately, by reducing debt and by increasing our results we're able to see a constant increase in growth. The other thing I wanted to share with you regarding these figures is that we are currently working on the update on our business plan that we'll be seeing early next year as usual. So in just a few months, we'll be able to discuss the rationale and the targets we'll be including in our new business plan. That's it as far as I'm concerned, over to you for any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is by Javier Suarez, Mediobanca.

Javier Suarez Hernandez ***Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research***

I have a few questions for you after the first 9 months results, which are very good and very strong. What do you think the consensus is for year-end 2023. I'm saying this because if we were to assume that the EBITDA won't grow in Q4 compared to last year, the EBITDA figures should be well above EUR 4 billion, closer to EUR 4.25 billion or EUR 4.3 billion. Do you think Q4 in 2023 will be weaker compared to Q4? Or do you think the general consensus is far too low? So that was my first question.

The second question is more business related. It's more on the Energy business, Slide #4. We saw a major growth in decarbonization services in 2023. I'd like to know what your expectations are for 2024 and 2025? Do you expect a slowdown or a speeding up of decarbonization services '24 and '25? And the supply activity recovered very much compared to the difficulties last year. Can you give us some information as to what your expectations of 2024, specifically in the supply business.

And my last question on the slide. But first, the fact that you've grown significantly, you've become a systemic player in the last resort market for gas. Can you help us understand, besides the growth in EBITDA, what are the implications for you out of P&L because, of course, that will have an impact on your companies for provisions or when -- or for a company that would make managing the cash flow a little bit more complicated or the implications operationally speaking, when it comes to the systemic growth in the last resort market.

And my last question refers to the first water consultation document. And it seems to me that on Slide 8, you're saying that in the water business, there should be an increase in 80 basis points, similar to what you expect in gas and electricity. Can you confirm this view of yours? Should we expect a similar growth in water?

Unidentified Company Representative

I'll leave your first question for last since it is a more sensitive topic. Our outlook as far as decarbonization services is as follows. Within this activity -- within this business, we have various type of services, and we have intercepting trends here. We have major -- we've been able to see major opportunities for condominiums. The 110% bonus is something that will reduce, of course, not then to 0 necessarily but that sector will be reduced since we will no longer have access to fiscal credit. We will no longer have such a high premium. Those activities will inevitably decrease, and therefore, as far as next year is concerned, we'll be seeing very different things compared to this year.

But at the same time, we also have other types of services, which are on the rise. I think of everything we're doing on the retail market. All of that is growing. We also have a good growth in terms of photovoltaic panel installment. That activity is growing significantly compared to previous years with a good and linear growth trend. So these are just two examples I can share with you. Some of it will be slightly lower compared to what we've seen in the past.

So why am I saying that it will be slightly lower? Well because, again, we saw very positive contribution from condominiums. But remember, we had a specific page dedicated to that sector in the last presentation we gave you. We reached a peak there. Whereas decarbonization services are one of our real needs for our customers, it's linked to values, but also it's linked to the prices of energy and gas, which are much lower compared to last year, but they are still twice what they used to be traditionally. So these 2 effects continue to underpin this growth and this demand.

As far as the last resort market is concerned, well, we are on that market to take advantage of opportunities. We have now developed an expertise. Beginning with the safeguard market, we are now -- we now have an 11-year history behind us. And we've been able to develop all of our internal lines and all of the processes, specifically devoted to these markets. And of course, we want to be on these markets to create value.

Of course, compared to the traditional liberalized energy market, we have higher cost here, which are linked to accrued provisions and more difficult payers. We've made those accruals of course, to avoid any possible risks. Although those investments, and investments we're making to increase the overall level we've been able to achieve, both in the safeguarded market and in the gas segment. So that is the spirit we have in approaching these markets, which are strategic since they do generate value.

Therefore, when we were awarded these tenders, we are quite satisfied indeed. And we now have a 2-year concession for the gas market. We won -- We were awarded a couple of lots in the safeguard market with good margins, and those will continue to be ours for 2024. So 2024, in fact, as far as the various cash generations are concerned, we have a very clear picture. Of course, there may be a shift in volumes, but obviously, that level of uncertainty is far lower compared to the tenders themselves.

As far as the water consultation document is concerned, there is no specific indication yet, but you may have seen that in the slide, we have plus 80 basis points. That indication, I think, is consistent with what we've seen for the regulated part of the Energy business. It's almost automatic. You just have to insert some figures so that you can obtain an output with those figures. So we simply -- our assumption is that we can have those same basis points for water as well. Although, again, we still don't have any definite figures.

And going back to your first question, which I have saved for last. And you were asking what our outlook is for Q4. Let me begin by saying that we have achieved EUR 132 million in 9 months, one of the best growth levels even if for -- were year-end figure. I think that already with that number, we would have had -- we would have beaten our record for the year, not just for the 9 months. We'll be working to increase that number.

Last year, we had an especially complicated Q4, will be difficult to compare it to Q4 this year. We also had opportunities, especially for storage. We had some good premiums for the availability of gas that we had stored. And therefore, we had a number of variables and elements, which allow us to state that we are concerned but I wouldn't want to give you any figures. And there will be talking in January for the updated version of the business plan. And in January, we can give you some pre-closing figure forecast. So you just have to wait a few more weeks. And then after Christmas and in the new year, we'll be sharing some figures with you. It won't take long.

And of course, keep in mind that the Gas business is quite stable EUR 0.40 per cubic meter, but the winter still has to begin basically. So I would rather wait and see how the beginning of the winter goes. For the time being, we are quite confident, although we tend to be cautious when it comes to sharing figures.

Operator

Our next question is by Roberto Letizia, Equita.

Roberto Letizia ***Equita SIM S.p.A., Research Division - Analyst***

I'd like to go back to Javier's questions. I'd like to ask for some visibility. Beginning with this year's results, but let's assume that you will be above EUR 1.4 billion, so it's EUR 1.41 billion or EUR 1.42 billion. But how much of the result in 2023 is exceptional? 2022 was a very challenging year, whereas 2023 is a year which recovered or more than recovered. It exceeded expectations. So are you seeing any nonrecurrent elements of 2023 that we shouldn't consider for growth in 2024. Or is it that any kind of growth in 2023 can be a starting point for 2024 to build on top of?

And what do you think the drivers are, the main growth drivers for 2024. And can you tell us what you expect as far as retail margins, especially are concerned. As for the biggest surprises tend to be -- has there been an increase in competition? Do you have any specific expectations as far as the opening up of the markets is concerned, any risk for margins. How much of the performance on the retail market do you think is really sustainable.

Cristian Fabbri ***Hera S.p.A. - Executive Chairman & Ad Interim Group Market Manager***

Well, let me begin by saying that in 2022, the energy margin grew despite not having any production. So the supply side of the business proved to be perfectly capable of managing the volatility we saw during that year. It was capable of reacting to the complexities of the year, and we were able to reach year-end with growth. On the supply side, I think it's -- we were one of the exceptions in Italy with these kinds of results last year. So that's the first thing I wanted to say.

Moving on to 2023 and our forecast for 2024, well, certainly, we do have some nonrecurring elements. I mentioned the 110% bonus, which is a nonrecurring element. In 2024, we will no longer be having the 110% bonus of the decarbonization services. And the decarbonization services will be affected by that, although we have developed an increasing number of services, which will continue to increase even further.

Something different is that what we have this year and what we will not have next year is the fact that in the first part of this year, due to reversion of volumes, we also had some shaping costs for the gas that we had procured on the spot markets for our customers, which had an especially negative effect on margins. That was still the final part of the energy crisis we had last year. And that negative effect will no longer be present for two reasons. First of all, because we've equipped ourselves to avoid that from repeating itself. And even if it were to happen once again, those effects would be negligible in fact. So we have something extra and something less.

Moving on to the margins on the retail market in general, we aren't seeing any specific criticalities. In fact, things should stabilize and with even a plus sign potentially compared to this year because as we've explained a number of times, in line with the expired contracts, we were able to readjust that contracts. And therefore, we were able to focus on hedging even the more negligible things in the past, things which weren't fully hedged in the past have now been entirely hedged vis-a-vis our end customers. And we've also been able to link the shaping costs in the profits. So with these updated contracts that we'll be having at the end of the year, roughly 90% of the customers whose contracts expired in the year will not have these new and positive things.

As far as the gas last resort markets are concerned. We have visibility all the way up to the end of September 2025. We have some further lots of catchment areas, we may have some increased margins despite lower volumes. And we'll have to see how things go during the year because, of course, on these markets, volumes tend to be quite sizable, although they do tend to vary. As far as the safeguarded market is concerned, we have 1 year ahead of us, and that's another effect we have to consider.

Moving beyond the energy sector. As the CEO was saying earlier, we've had -- we didn't have a growth in the Networks business. We had more inflation. We had more costs. Next year, we'll be having an increase in WACC. We'll be having an increase of inflation on RAB and the increase of recognized costs linked to inflation. So we'll have a number of positive elements, which will certainly round up the margins for the Networks business. allowing us to achieve a growth we haven't had this year, and we'll be seeing a significant growth next year. So these are some of the things we're looking forward to.

As Orazio was saying, we have a waste market which is characterized by a very strong sales team, a very strong commercial team. We are the -- we are market leaders in treatment and recovery of materials. Therefore, even with the slowdown in the economy, we were able to grow 15% on volumes. We were able to allow our plans to run on full capacity, and we are continuing to invest on our assets that we can continue to grow. And that's what makes this area of business such a strength for us.

And along with the things Massimo was saying earlier, I think it's safe to say that we're looking to the future. with the idea of being able to take advantage of any possible opportunity as we saw with the ACR transaction. It was a great deal, in fact, for two reasons. First of all, because it allows us to add another piece to the integrated services puzzle. We are now a global waste management company. And with this partnership with ACR, we are now leaders in the site remediation sector. And we will certainly be able to see if there's any upcoming opportunities on the market.

Operator

The next question is by Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni ***Kepler Cheuvreux, Research Division - Equity Research Analyst***

I have a couple of questions. On the energy supply outlook for 2024, with the focus on the liberalized market. Can you just go over what your expectations are as far as the liberalization of the market is concerned for Hera. What do you expect in terms of acquiring new customers in 2024? And then with the new clusters of customers, what your outlook is or what you expect in terms of the margins from customers regardless of the delay there may be in the liberalization process with a delay to the first half of the year 2024?

Then my second question refers to the cost of debt. In a slide, you said that it stands at 2.8%. All of the overall figure for debt is reducing.

Although if we look at the slide with the details pertaining to the financial costs, they have gone up from EUR 67 million to EUR 124 year-on-year. So can you explain to us what the underlying dynamics are since you said that the cost of that is equal to 2.8%?

Unidentified Company Representative

Let me begin, and then I'll give the floor to Massimo for the question on the cost of debt. As far as the liberalized market is concerned, the customers who are already in the liberalized market won't be affected by the tenders. As we said earlier, we are not especially concerned, as far as the sector is concerned, for next year, you may remember that our churn rate is very low, which allowed us this year to perform well in terms of this market's growth.

As far as the tender for the liberalization of the market is concerned, it's difficult to say what the time line is as you probably know yourself since you do -- you all read the newspapers. According to the most recent news we have, we should be beginning on the 1st of April 2024, although the energy draft -- the draft of the energy decree mentioned a certain degree of flexibility, a 6- to 12-month flexibility compared to the actual date of the tender is concerned. So it could be next year or could be postponed to the beginning of 2025.

We still don't understand where we actually are for the time being. Of course, most of the debate on the topic refers to the fact that we had committed to liberalize to obtain the NPPR funding. And therefore, we have to come up with the resolution. Now what do we expect from these tenders? Well, we know we'll be making a bid in the tenders with the idea that through these tenders, we can create value, but of course, we have to understand that one of the tender will be happening and what the tenders will actually imply because you may remember that half of the regulated clients will remain on the regulated market, only the remaining 50% of the customer base will be auctioned off in 26 different groups.

The previous sessions, we have been awarded for clusters of customers. But given the market cap, we were only able to retain 3 of them. The second group of clusters were awarded one, in terms of size, although we were interested a little less. We've always made a bit to create value, which means that we'll see, we'll see. There are still plenty of variables that have to be taken into account, making it difficult to actually understand when the tenders will be happening.

But what we've seen this year is that with or without the tenders, we are still able to achieve our results. So the tenders are an extra opportunity. And when they will be happening, we'll be making our assessment and we'll be ready to seize opportunity. But we ranked #3 in Italy in terms of our customer base, which now stands at 3.8 million. We are right behind Eni and Enel. Of course, they were much bigger than us -- than our company.

We started 20 years ago with 700,000 customers. We've added over 3 million customers in 20 years with commercial activities with some mergers. So even without the tenders, we certainly were able to grow. But then of course, with the tenders, we'll make a dip -- our bid. And I'll give the floor to Massimo for the question referring to our debt.

Massimo Vai ***Hera S.p.A. - Group Manager of Administration, Finance & Control***

Well, there are a couple of things which have to be described a little bit better. So that you can better understand the dynamic of the flows. The debt level as of September 30 this year, is a debt which has already been reduced significantly compared to the first 9 months of the year in the short-term volatility.

And we did that with an increase in the loans we got with the interest rates, if we compare it to last year, our debt is very different than with the interest rates, which are very different as well. And this explains why our medium- to long-term debt has a rate, which is stable despite the fact that the absolute value of interest rates has increased in terms of euros. The other thing which I'd like to underline is that the progression compared to the first months of this year as far as the increase in interest rates dropped because we are comparing it to the same period last year, which is linked to the increased cash availability we needed last year.

Operator

(Operator Instructions) The next question is a follow-up question by Javier Suarez, Mediobanca.

Javier Suarez Hernandez ***Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research***

I have a question on Resolution 497. Regarding the ARERA (inaudible) system. It's a very technical document. Can you give us your view as to this document is concerned, there was the downside maybe for electricity distribution is concerned beginning 2024 and onwards?

Unidentified Company Representative

In fact, the document isn't very easy to grasp that refers to the direction of new tariffs for electricity. We don't see any negative elements in the draft we've seen. There are some positive things. Others are negative. But all in all, our mood isn't negative. Of course, we then have to understand what the ultimate implementation will be. Because, of course, the resolution is very complex. And it's very complicated to actually understand the final figures. But according to our very first opinion, our outlook isn't negative. And of course, it's linked to the electricity sector, which is relatively small as far as our asset base and our RAB is concerned or the impact on our RAB in asset base.

Operator

Mr. Fabbri, gentlemen, there are no other questions for the time being.

Cristian Fabbri ***Hera S.p.A. - Executive Chairman & Ad Interim Group Market Manager***

Thank you. Well, then that concludes our call, and we are looking forward to talking to you in January with a business plan, and we will be giving you perhaps some information regarding our figures pertaining to 2023. Thank you very much.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]