

Q3 2020 Earnings Call

Company Participants

- Luca Moroni, Group Director of Administration, Finance and Control
- Stefano Venier, Chief Executive Officer & Executive Director
- Tomaso Tommasi di Vignano, Executive Chairman & Group President
- Unidentified Speaker

Other Participants

- Emanuele Oggioni
- Enrico Bartoli
- Javier Suarez

Presentation

Operator

Good morning. This is the Chorus Call operator. And welcome to the presentation of the Financial Results for Q3 2020 for Hera Group. All participants are in a listen-only-mode. Following the initial presentation, there will be a Q&A session. (Operator Instructions)

And now I'd like to give the floor to Mr.Tomaso Tommasi di Vignano, Executive Chairman of Hera Group. You have the floor, sir.

Tomaso Tommasi di Vignano {BIO 1449180 <GO>}

Good afternoon, everybody. Thank you for having accepted our invitation to take part in this presentation of our first 9 months results for 2020. We just wrapped up our Board meeting. And here we are, as usual, to give you some information.

The results were approved, obviously, with a positive assessment from the Board itself, especially given our good performance and our growth, despite the fact that we are going through some complicated times. But despite these complications, this hasn't affected any growth. We've been growing throughout all of our sectors, throughout the P&L. And of course, we wish to continue in our path forward, despite the context which the country has been going through in recent months.

As I was mentioning, we posted positive results throughout the P&L. Our EBITDA is at EUR806 million, EBIT at EUR415 million and net profit at EUR233 million. At the same time, our debt level decreased compared to the same period last year, and it is now down to 2.5x. Of course, these are all signs which clearly show that this isn't an enthusiastic

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phase. Although our results testify to our commitment (Technical Difficulty) of the profiles we will be discussing in a few minutes.

In terms of EBITDA, the growth was equal to EUR20 million. Of course, this is also the result we've gained despite the negatives we'll be illustrating in a few minutes. These EUR20 million are satisfactory to us due to the way we were able to achieve the results. As far as EBIT is concerned, the growth was equal to EUR9 million, we are now up to EUR415 million. This growth is also the result of some amortizations due to the acquisition of EstEnergy.

The growth goes down all the way to our net profit -- including the net profit, which is equal to EUR233 million, with a limited growth, although it is equal to EUR2 million. And thanks to the fact that we were able to also bring down the cost of debt to 27% compared to 28.5% in the same period last year. Over the first 9 months of the year I think that all of the main indicators have a positive sign. They allowed us to guarantee growth for the company, which wasn't something we were taking for granted given the events during the year, and especially the central 3 months and the first 6 months of the year, which was the moment in time which all of us of course were affected by the health emergency, and not only that.

From a financial standpoint we were able to achieve a positive cash generation, allowing us to fully cover the investments we made over the first 9 months, equal to EUR330 million. We were able to pay our dividends on the expected date with EURO.10 per share. We also made some financial investments, especially the one pertaining to the acquisition of 4.9% of the Ascopiave capital, which was part of the consolidation of the agreements we had with them, beginning last year.

Plus, we also used the buyback instrument. Given the fact that, honestly speaking, our performance -- our shares performance wasn't as prudent as we expected it to be. Therefore, we felt it was suitable to perform a buyback operation with an expense worth EUR24 million. Whereas the expense for the Ascopiave stake is worth 49% of their capital, which is equal to EUR47 million. And with these figures in mind, I hope you can recognize the fact that our business plans targets, if not from the quantitative point of view, did not have any strategic changes. Those are the strategies we had and those are the ones we continue to strive towards.

I think this is the most important aspect when describing the first 9 months of the year. During which, besides fully executing the goals of our business plan, we also brought about a number of actions which depending on each quarter, some of which we already illustrated, but in the most recent quarter, and besides confirming the goals we had in our business plan, we were also able to start a number of relevant initiatives such as the very recent partnership we signed with Tecnimont. Plus the launch of a new commercial approach towards our business customers. For the various services present in our portfolio, this is an offer which goes out to our largest customers which will continue in the upcoming months given the success in the way our clients received our offer.

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I already mentioned the buyback transaction. Which goes to show all of the things we did during the quarter, which is in line with the targets we had given ourselves. As I was mentioning, at the beginning of this 9 month period, we have fully integrated EstEnergy, allowing our customers in the Veneto and Forli regions to go beyond the 1 million threshold. We invested some EUR330 million over the 9 month period, which is fully in line with our -- with what we did the previous year, which means that 2020 has been a normal year as far as our investments are concerned. And to that, we also have to add the further EUR86 million, which are our financial investment, our way of increasing our stake in Ascopiave and the buyback operation. These were both opportunities that the market had in store, which we were happy to accept.

We started looking towards the future, not just with the partnership I already mentioned, the Tecnimont partnership as far as the plastics recovery and treatment sector is concerned. We also have two other initiatives that we will be finalizing soon with some major Italian players. Also in the waste business, which should further strengthen our leadership in the waste treatment and in the waste management sector, specifically as far as industrial waste is concerned.

The AGM was held on the expected date, and it confirmed our top management. Then it also renewed part of our Board members. This too is an element of continuity, both in our desires but also in the hopes that our shareholders have. The point that I'd like to draw your attention to is that our desire for continuity is something we mentioned from day one, in all of the ways which could also motivate the attitude our staff has. Our employees were happy to comply. But also when it comes to the industry around us, of course, a company such as ours which invests so much requires the support from the surrounding context. And this is a way of saying thank you, to the conducts around us, to all of the interlocutors that we have had despite the health crisis.

Moving on to EBITDA over the first 9 months of the year. Last year we were standing at EUR785 million, we are now up to EUR806 million. Within which we had some EUR40 million worth of negatives over the period which are due to the COVID emergency, but they're also due to the mild weather which had an impact on our business. And of course, it was also due to the expired incentives in the Ferrara waste-to-energy, which again expired over the period. These three negative factors were offset by EUR25 million worth of organic growth, which were brought about with a number of initiatives.

We worked on human resources, we were able to work on allowing our employees to take the days off they had accumulated, reworked on efficiencies and innovation, which was something we were very committed to. And then we had M&A transactions which were lagging over the period, which brought about a further EUR35.5 million growth in EBITDA. And therefore, with these two positive components, we were able to offset the EUR40 million negatives. And at the same time, we were also able to reach an EBITDA worth EUR806 million, which is a lower growth than expected despite it being important nonetheless.

As far as M&A is concerned, we have some EUR30.7 million, which stem from the consolidation of EstEnergy. Within which we also had the sale of the hydro and gas networks. This was part of the agreement with Ascopiave, that was worth some EUR12

million. And then we have the final portion of the acquisition of the Pistoia landfill, which for the most part had already been paid for in the period immediately prior to this one. Which brings us to the grand total of EUR35 million in M&A, which should have to be added to the organic growth results I mentioned earlier. Which, all in all, gave us a growth worth EUR20.4 million as far as EBITDA is concerned.

So these are the elements which had both positive and negative impacts from the first 9 months of the year, both in terms of the general weather and in terms of the health situation, which is something we're all still concerned with.

That's it as far as I'm concerned. I'd like to hand the floor over to Stefano now who will give us a business-by-business breakdown as usual. Thank you.

Stefano Venier {BIO 17107208 <GO>}

Good afternoon. Now moving on to Page 4 of the presentation to give you an overview of the various businesses, which, as you may remember, is divided into a regulated sector of networks for supply business and the waste business, plus other sectors such as public lighting and TLC.

What we can immediately notice is that there have been two sectors which performed with a positive growth. I'm referring to the energy sector, specifically, which was able to benefit from the increase in perimeter, adding EUR35 million to the results posted in 2019. The other businesses also performed well, this also includes the ITC activities which are conducted both for the group and for the market. The ITC sector was one of the ones which most benefited from the general situation we went through. We were able to have some significant upselling in this business, which brought about an increase in profitability, worth some 10% over the period.

We then have the two network and waste sectors which have to be interpreted very carefully. The network sector, as you know, at the end of last year, went through the Arera tariff review, especially cash distribution and water. Despite the review, as you can see, the result was worth EUR335 million, with a contraction worth some EUR8 million compared to 2019, which can be fully explained by the shipment parameter linked to the divestment from the Padua gas networks within the framework of the Ascopiave deal, without which we would have been up to EUR347 million, with a growth equal to EUR4 million compared to 2019 despite the effects of the tariff review and despite the effects linked to the health emergency.

In the waste sector, we have a contraction which we had already partly seen in the first half of the year. As we'll be seeing later, this is worth some EUR3 million in terms of waste collection and street sweeping and some million due to waste management, both in terms of the cost of electricity and volumes in the sector.

Now let's move on to the analysis of the individual businesses as a way of giving you some further food for thought. Beginning with the networks, the fully regulated part of the business on Page 5. What you'll notice is that the EUR4.3 million negatives are linked to a

contraction on the new connections, which have an impact worth some EUR2 million. The remaining part is linked to the mild winter in the first quarter of the year which had an impact on district heating, that is worth another EUR2 million. This explains the negatives you see in the graph. As far as organic growth is concerned, we have a positive sign here, which also reabsorbs the effects of the tariff reviews.

How were we able to achieve these positive results? This is partly due to the investments made in 2019. We also had a good recovery compared to previous years on efficiency gains, we had some premiums on the quality of service and we also had some efficiencies in our operational management. All of this allowed us to reabsorb the effects of the tariff review in 2020, which, as you may remember, had an impact on the gas service but also on the water service partly, giving us back these EUR7.7 million in organic growth. And then we have the minus EUR11.6 million due to the gas distribution activities in Padua, especially within the framework of the Ascopiave deal.

Now moving on to the various businesses within the network sector. The district heating sector had a EUR2.4 million contraction, from EUR9.7 million down to EUR7.3 million, due to the effects of the mild winter and this year's spring almost exclusively. If we look to the water business, we posted a EUR1 million growth compared to 2019, moving on from EUR200 million to EUR201 million. This EUR1 million, as I mentioned, is the result of the tariff reform, the lower number of new connections, but also of the increased efficiency on operations.

And finally, we also have gas distribution, which moves from EUR100 million to EUR93 million, which reflects the EUR11.6 million in reduced perimeter, offset by increased efficiencies and some premiums that we were able to obtain given the excellent performances in terms of operations. Electricity distribution was stable at EUR33 million. From this point of view, as I was mentioning -- as the Chairman was mentioning, our pace as far as investments are concerned wasn't reduced. In gas, electricity and water, in fact, we increased our investments slightly compared to last year.

Moving on to Page 6. We decided to give you a separate overview of the two businesses within the waste sector, beginning on the right-hand side with our collection activities. As you can see, the negatives are mostly focused on organic growth. This negative result worth minus EUR3 million can be split up in the following way. EUR2 million due to the economic and financial plan with a lower profitability, given the lack of the transferring of the higher management cost inflows and operations under the tariff.

To that, we also have to add some higher costs for the disposal of certain raw materials and process materials, especially the ones which don't have a market value, and which therefore have a cost for their treatment and recovery, I think of timber or large waste which have an impact on our accounts. And we will have to recover these costs in P&Ls in the upcoming years. And then, as you know, we still don't have the full application of the new tariff regulations which we will be completing by November of this year. And therefore, we will be implementing it as of 2021.

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As far as waste treatment is concerned, there are two items I'd like to focus on. First of all, we have the revenues from the generated electricity. The total cost, as you know, went down during the toughest month of the year, down to EUR30 per megawatt per hour. Despite the fact that we had covered some of our positions, we still had a negative effect, which can be estimated at some EUR10 million.

We also had a slight contraction in our activities and in volumes which was fully offset by a good dynamic as far as prices are concerned, with a net effect of plus EUR3.6 million. As far as Aliplast is concerned, you can see that there's a negative sign which has to be commented carefully. Because, of course, the comparison with last year has to take into account the fact that as of this year Aliplast no longer receives the energy consumption contribution which has benefited from in 2019, 2018 and 2017, which has an impact worth some EUR200 million. The remaining part, EUR1.7 million is linked to lower volumes sold.

But there is some good news, because in Q4 Aliplast sales -- in Q3, excuse me, not Q4. Q3 was performed better than Q3 2019, with a good performance as far as demand is concerned, especially from the consumer goods sector and from the furniture sector. Which means that instead of a minus EUR10 million that we had in the first half of the year as far as volumes are concerned, year-to-date we stand at minus 5%, which gives us hope for the final 2 months of the year.

So hopefully, although we won't be able to fully offset the effects we had in the first 6 months of the year, we will be able to mostly offset that. And as far as M&A is concerned, we already mentioned the information in this item, and it refers to the plant we acquired in Tuscany. In terms of overall volumes, just to give you a sentiment onto the current trends, as far as urban waste is concerned, to date the contraction in volumes is worth 100,000 tons, equal to minus 6% which is on a slow but a constant decrease given the fact that beginning in early September, after the summer vacations, we saw that the volumes on a weekly basis were in line with last year's figures or with a slight reduction which still allowed us to reduce the shortfall we had in the first 3 months and in the first 6 months of the year.

The period of the year in which we had a contraction worth 8% or 9%, whereas now we stand at minus 6%. As far as industrial waste is concerned, the comparison with last year, as far as we're concerned, is more complex. We added proactive activities. We added activities with our clients. But even here, compared to the dynamics we saw in the months up to July and -- June and July, beginning in August we saw a stabilization with figures similar to January, and that continued in September and October. So we're seeing a recovery, which is supporting prices.

And as we said on previous occasions, prices did not suffer due to significant contractions even in the months in which we were weakest in terms of offer. They are at a satisfactory level. In fact, they are above the prices we had in the first months of -- 9 months of 2019, giving us a positive contribution, allowing us to fully offset the lowered volumes and giving us the contribution worth EUR3.6 million, which you can see in the lower left hand, in the upper left-hand graph.

Moving on to the supply sector. Energy. In this case of course the figures are a lot more brilliant and dynamic. And they benefit of course from the contribution happening as of January 1 due to the broader perimeter. Also, thanks to our commercial actions in the first few months of the year, despite all the difficulties we encountered. And this allows us to be above 3.3 million customers in both electricity and gas. And even organic growth gave us a positive contribution in terms of achieving this result.

Moving on to our margins and the entire production chain. Our commercial activities on our traditional perimeter, the one before we moved into the northeast of the country, gave us some positive results worth EUR4.6 million. Obviously, these aren't results which stem from a significant volume growth. They are the results stemming from the optimization of internal costs specifically. And then the margins in commodities

I'm referring to margins because in a complex period such as one we've seen in the 9 months of the year, we were able to optimize costs by bringing certain activities which used to be contracted elsewhere in-house so that we can have all of our employees working full time. As you know, we didn't offer any redundancy, we kept our employees working. And this allowed us to improve some performance indices in the quality of service. But we were also able to work on optimizing certain costs. We were able to increase efficiencies, and this allowed us to improve the margins on the business in general.

So we have power generation, we were able to improve things by EUR12.6 million on ancillary services. This was partly eroded by the two effects I mentioned earlier, namely the negative effects linked to the pandemic, and especially its effects on consumption and on commodity prices, which, as you may remember from the summer, went down to EUR30 per megawatt-hour in electricity. But in gas, for a few weeks we went down to below EUR0.10 per cubic meter. That accounts for EUR17 million, whereas further EUR7.5 million are due to the lower volumes due to the mild weather we had in February this year. And that gives you the overall picture.

All in all, the electricity volumes sold contracted by some 100 gigawatts per hour, which is slightly above 1%, 1.2% or 1.3% compared to 2019, also due to the underlying Salvaguardia market dynamics. And then as far as gas volumes are concerned, we had a contraction due to the mild weather which is fully offset by the effects brought about by the increase in perimeter. Our customers are now stably above 3.3 million. The actual figure is 3,340,000 split down by 2.2 million in gas and 1.3 million in electricity.

At this point, I'd like to give the floor to Mr.Moroni who will be describing our financial situation which was positive because we got some good news, as we already mentioned in June, on the cash-ins we were expecting.

Luca Moroni {BIO 17372407 <GO>}

Thank you and good afternoon. As you can see on Page 8 in the presentation, our cash generation was especially positive, was some EUR260 million, which is the free cash flow. This stems from EUR624 million operating cash flow, EUR756 million in terms of the pure

operating cash flow. But of course, you also have to subtract EUR90 million worth of taxes, with a tax rate equal to 27%, which as we were saying early on, was better compared to the 28.5% we had last year. So it's another small step forward in the optimization of our ability to manage taxes.

We have some EUR40 million of financial provisions with the cost of debt which is increasingly close to 3%. The working capital is worth EUR34 million. On the one hand, we have the effects of the seasonality of things. We also had the effects of the commodity trends in terms of prices and lower volumes. On the other hand, we were able to stand our ground in terms of the management of cash-ins.

Also, because as I mentioned during our June presentation, we acted in a timely fashion. Before the effects of the collection activities and the implications due to the lockdown we were able to move with some softer approaches towards our customers. And they, in turn, reacted in a satisfactory way. So much so in fact that we didn't have any residual negative effects on the unpaid ratio.

As far as CapEx is concerned, as we mentioned a number of times, are worth of EUR333 million, a figure which is very much in line with last year's. Which brings us to the EUR260 million, which allowed us to pay 180

-- EUR180 million worth of dividends. And this figure also allowed us to support our financial investments, which refer to the completion of a number of M&A transactions, besides the investment and the increased stake we have in Ascopiave. Plus, of course, the buyback transaction for own shares with a level of debt which is in line with the year-end 2019 which stands at some EUR3.3 billion, including the EUR550 million referring to the put option on Ascopiave, which we mentioned a number of times already.

Let me conclude by underlining the fact that all of the financial metrics are positive. They are all growing compared to last year on a like-for-like basis, leaving out the debt component which stems from the put option. And at that point, you'll see that the EBITDA ratio goes down from 2.75 to 2.5, the ROI goes down up to 2.9, and ROE goes up to 11% from 10.6%. So these are numbers and metrics which show you the sound nature of the company's sustainability, I think it speaks for itself.

Let me just take this opportunity to give you a brief conclusion. It seems to me that we were able to illustrate these first 9 months of the year as if everything was due to our goodwill. That's only part of the answer. Of course, we have already declared what our attitude would have been, and we stuck to it, in all businesses, in all items, not just the results but also the sustainability policies that we had been committing to for quite some time now.

But I also wanted to give you another way to interpret the figures we presented today. Immediately after the end of the year, of course, we will be illustrating a new business plan to 2024. But if we focus on the current business plan to 2023, I think we can still add one element to what we've been saying. If you consider the EBITDA growth in 2019 and

the EBITDA growth in the first 9 months of this year, you will see that in this first year plus 9 months our EBITDA grew by EUR75 million.

That figure represents 34% of the overall target included in our business plan, which means that since we have taken a 35% of the time from when the business plan started. And despite all of the extra efforts, which were brought about by the emergency, I think it's safe to say that we are well above the targets we had given ourselves and ahead of schedule.

I'm saying this because this can give us hope for the upcoming months left in the year, plus the things we'll have to include in the next business plan. So I think that all of these figures and all these metrics are easy to interpret, showing the comforting nature of the results we illustrated today.

At this point let me open up the floor to any questions you may have.

Questions And Answers

Operator

(Question And Answer)

This is a Chorus Call operator. We will now begin our Q&A session. (Operator Instructions). The first question is from the Italian conference call, Javier Suarez, Mediobanca.

Q - Javier Suarez {BIO 1700016 <GO>}

Good afternoon, everybody. Thank you for your presentation. I have three or four questions for you. The first refers to the EBITDA growth summary slide, Slide number 3. The EUR40 million negatives, can you give us a breakdown of the effects of the COVID emergency and the effects due to the mild winter? Throughout the presentation, you mentioned these two negatives, and I would just want to make sure that I've the right figures between the COVID effects and the effects of the mild weather. I'm saying this because when adjusting the bottom line without M&A and without the COVID emergency, what I'm seeing is that the underlying growth of the net income of the company is very strong at 10%. Am I wrong? Or is this figure correct, if I adjust it with M&A and with the COVID effect?

The second question refers to the cash flow generation management. We can see a positive effect of the net working capital worth EUR34 million. What figure should we expect for the end of the year? And even in the third column, minus EUR65 million, we see impact on provisions. What is your forecast at year end? And do you feel the need to increase the number of bad provisions as a consequence of the things happening? There has been a certain improvement in the third quarter, but there is also a fear for a second lockdown.

Third question is for your supply activities. You mentioned that there was a -- that you were lagging behind in terms of some of your projects as far as the organic commercial business. How was the third quarter?

A - Unidentified Speaker

Let me try to give you some figures, and then we can do the math together maybe. The negatives include EUR28 million due to the COVID effect. Within the EUR28 million, just to be accurate, EUR16 million refer to our commercial activities, EUR5.5 million refer to waste and EUR6.5 million refer to our regulated businesses, for a grand total of EUR28 million. To that, we have to add further EUR7.5 million bringing us up to EUR35.5 million, linked to the thermal nature of the year, the lower gas volumes and the lower district heating in February, which you've already seen during the H1 presentation.

The remaining part from EUR35.5 million to EUR40.2 million refers to the expired incentives in the Ferrara waste-to-energy plant, bringing us to a grand total of EUR40.2 million. Of course, in an ideal context the EUR40.2 million would have been higher than the net contribution from M&A, bringing about a positive effect, a net on our organic positive effect worth EUR5 million, which would have gone all the way down to the bottom line, if I understood your way of thinking correctly.

Furthermore, since the contribution of these EUR40 million would not have been burdened by amortizations and further financial costs and given the fact that we have a EUR35 million impact on the accounts, we also have an impact on financial burdens and provisions. Given all of this, the net effect would have been worth some EUR30 million higher had we been in an ideal world without any health emergency.

Moving on to your second question, referring to the cash flow and I'll ask Luca to help me. The net working capital, as you saw, performed better. Just to give you a figure on cash-ins compared to turnover, taking into account the more recent four weeks, both the figures are similar for the remaining part of the year. Cash-ins on expiry are equal to 65%, whereas last year we stood at around 63.5 -- or 64%, which means that we are very much in line with last year's performances. This of course brings us to provisions linked to bad debts, which we don't expect to increase.

In fact, compared to this provision stocks we had at December 31, 2019, and implementing the new IFRS 9 accounting principles, we will be confirming those figures in fact, and we may even reduce something between the end of this year and 2021 which means that we are not expecting to increase our bad provisions.

And then moving on to the use of provisions and the use of funds, the EUR65 million, these are fairly straightforward throughout the year. There is a slight variation which as far as the -- its use in waste sector is due to rain. The more rain there is, the more sludges there may be, and that implies higher costs. Although these aren't major increases or major variations compared to the monthly ones we see.

Moving on to the development pertaining to our projects aimed at increasing our landfill capacity, as we had mentioned in June, there had been a slight delay. Unfortunately, the

work in our administrative offices hasn't been able to be in line with the pace of the various businesses and therefore there is a bit of a slowdown. And this hasn't stopped us, because it leads to one of the programmed broadening operations we have planned will be up and running in the upcoming weeks in one of the landfills, whereas the project we had in mind of starting a major landfill in the Modena territory will be reprogrammed for 2021.

Operator

Thank you. The next question is Enrico Bartoli, Stifel.

Q - Enrico Bartoli {BIO 3699377 <GO>}

Good afternoon. I also have a few questions for you. First of all, let me focus on the trends in Q3 for gas and electricity. You had a double-digit figure compared to the same period last year. Especially as far as gas is concerned, can you give us an idea of the drivers which brought about this result, also given the negative effects due to the gas network in Padua and also given the gas distribution tariffs? And as far as electricity is concerned, can you give us a flavor of the MSD contribution in Q3? And if there were any other effects on sales margins for instance?

Then I have a second question on waste. I seem to have understood from your presentation that the trend you've been seeing in recent weeks, both as far as volumes and prices are concerned, give you an outlook which shows improvement in Q4. Can you give us some further details? And can you also tell us what you expect in 2021? Considering some kind of a normalization as far as COVID emergency is concerned, it should be a positive comparison compared to this year.

And then a third question refers to the cost of debt. You are reducing it and I was wondering if there are any further possibilities to reduce the cost of debt given the current credit outlook and the things we've been seeing over the past few months. Can you give us some details on any expiries you have in 2021 and '22? And then the tax rate, can we consider 27% for the full year?

A - Unidentified Speaker

Beginning with the margins on gas and electricity. Compared to Q3 last year, in gas, we certainly had a higher margin. It grew by EUR7 million approximately, 80% of which is due to the shift in parameter, the consolidation, whereas the remaining 20% refers to our traditional market. And the underlying motivation is due to the fact that our trading company was to optimizing our capacity management interconnections and fine-tuning on margins besides stockpiling.

As far as energy supply is concerned, the improvement is worth at some EUR3 million, and in Q3, essentially they stem from improved margins. As far as power gen is concerned, the contribution stemming from MSD for Q3 is worth -- is EUR1.5 million above the one we had last year, slightly below EUR10 million. As far as waste is concerned, as I was mentioning earlier, we can see some positive trends on volumes, we're seeing this both in our top 30 customers, but also in the medium to smaller-sized

clients. In a very transparent way, I can say that volumes went well in all weeks beginning early September, all the way up to week 44 on the calendar, the last week in October, whereas week 45 marked a slight dip which we hope will be reabsorbed fairly swiftly.

This is allowing us to maintain prices on all types of waste. Liquid waste in chemical and physical waste had a slight reduction given the very low levels of rainfall we've had over the past five or six months, and therefore we had a lower availability, a lower level of demand. Other than that, as far as prices are concerned, we don't see any variations for 2021. Those are the levels we expect. What can improve in 2021 besides the effects stemming from our broader activities or the operational plans we have in mind which we'll be describing in the business plan presentation, we do expect to recover a major portion of the EUR10 million less from electricity revenues given the PUN prices we had over the summer.

As far as the cost of debt is concerned, we are increasing our efficiencies. We are close to 3%, and we are paying close attention to the evolution of the market which we feel is very positive in this phase following the effects of U.S. elections, and in the upcoming weeks, we'll be seeing whether or not we can take advantage of the market conditions, or whether or not to wait for the beginning of next year as a way of being proactive and as a way of finding opportunities to improve the average cost of debt.

As far as 2021 is concerned, we have some provisions in the second half of the year worth EUR250 million, nothing major. And as far as the tax rate, we expect to drag the 27% tax rate into 2021. And hopefully as far as the government is concerned, there won't be any strange changes vis-a-vis the choices they made especially between the months of April and June. And I'm saying this with a referral to -- with reference to the ELAP [ph] tax, they changed their minds there which removes EUR2 million in tax optimizations which were announced and booked in the first half of the year.

Operator

The next question is by Emanuele Oggioni, Banca Akros.

Q - Emanuele Oggioni {BIO 20133627 <GO>}

Good afternoon. Two questions (Technical Difficulty). The first refers to the impact of the retail business or on the supply business stemming from the Maggior Tutela market changes. Can we have an estimate for the 2021 margins, especially for your gas client portfolio? Given that in 2020, even more recently, in 2020, there has been a recovery in gas prices. So these are the first two questions.

The third question refers to the impact on 2021 of the water and waste tariff for you, which I seem to understand wasn't fully implemented by the regulator in 2020. And then for 2021, there may be a one-off event linked to 2020 which would have to be recovered in the tariff with a positive effect which will be factored in 2021. And this applies to both waste and water.

A - Unidentified Speaker

As far as the Maggior Tutela market is concerned, it is moving forward slowly but surely. And in 2021, we do expect for these first tenders to happen in the industrial client segment, we're ready. We're positive and for the time being we still don't have a clear view of all of the rules of the game. Although it is a sector in which we feel very comfortable and we'll be looking into it. This first round in 2021 will be more limited, whereas we're more confident as far as the things which will be happening in 2022, '23 and '24. Years at during which based on our interpretations, we will be increasing the number of interesting clients. As far as gas is concerned, as far as the retail market margins are concerned, yes, there has been a recovery in gas prices, but it's a recovery which brings us back to the level, so we already had in 2019. And in fact, we are still -- are far behind the prices we had in 2019.

Besides the strong competition in the market, although this is something we've been seeing for quite some time now, I don't think there's any specific reason which can bring about a structural variation in industry margins. I think the only major variation we'll be seeing as far as legislation is concerned is the fact that there won't be any room for summer capacities which had marked in previous years.

As far as the tariff reforms are concerned, I understand what you're referring to as far as the waste sector is concerned, as I mentioned earlier, 2020 is the first year in which the new tariff system is being implemented. The regulations arrived late plus the context we are in slowed down the implementation of the tariffs. All municipalities between May and June applied the 2019 tariffs temporarily, and they postponed the approval of the economic and financial plans for 2020, linked to the new tariff system. So this is something we're working on with the regional regulator. And I think we have done most of the work.

So I think it's reasonable to think that as things stand, we will be able to approve the tariff plans by the end of the year and they will be implemented, then we will be able to recover any difference in 2021. As you know, a cap exists on the increase of tariffs, and therefore, we will be having a progressive recovery over the years, which means that in 2021, we would be probably looking at a benefit worth some EUR2 million to EUR3 million. And in our territory, as you know, the tenders for the services are ongoing. We obtained the contract for the upcoming 15 years in the provinces of Ravenna and Cesena. We are in the very final stages when it comes to the Modena tender, which should be over by the end of the year.

And we expect to obtain the concession for further 15 years beginning in 2021. We will be presenting our offer for the Bologna territory in the next few weeks, and there too, we'll be seeing how the analysis would be completed in 2021. From the structural standpoint, although this means that if we are awarded the final two contracts, we will be managing the service for the next 15 years by having a well-defined economic and financial plan during the tender that will give us certainty concerning the revenues and that protects us from any fluctuation stemming from changes in regulation.

As far as water is concerned, I'm not exactly sure what you're referring to, but frankly speaking for 2021, the only changes in regulations, we expect a positive sign from, are the full implementation of the technical quality provisions, which our territories are part of from day one. And we expect a contribution worth at least EUR5 million to EUR5.5 million from that which is what we included in the business plan we illustrated in January.

Q - Emanuele Oggioni {BIO 20133627 <GO>}

Thank you. It was very clear.

Operator

Mr.Tomaso di Vignano, there are no further questions for the time being.

A - Tomaso Tommasi di Vignano {BIO 1449180 <GO>}

Thank you very much. And I'm sure we will have the chance to meet again in the near future. Thank you very much for your kind attention.

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