

## Y 2020 Earnings Call

### Company Participants

- Luca Moroni, Group Manager of Administration, Finance And Control
- Stefano Venier, Chief Executive Officer
- Tomaso Tommasi di Vignano, Executive Chairman
- Unidentified Speaker

### Other Participants

- Emanuele Oggioni
- Enrico Bartoli
- Javier Suarez

### Presentation

#### Operator

Good morning. This is the Chorus Call operator. Welcome to Hera Group's 2020 Financial Results Presentation till December 31, 2020. All participants are in listen-only mode. Following the initial presentation, there will be a Q&A session. (Operator Instructions)

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

#### **Tomaso Tommasi di Vignano** {BIO 1449180 <GO>}

Good afternoon, everybody. As usual, I am here with Mr.Venier, Mr.Moroni, and Mr.Hansen to give you a quick presentation of our 2020 results, which was -- which were just recently approved by our Board and that we will be presenting to our shareholders assembly. We are satisfied, because these results don't mirror the concerns we had a few months ago. In fact, the results were better than what we had expected at the time, because we did have an improvement in our operational management, but also from the financial and fiscal standpoint compared to 2019 a bit better.

And as you'll be hearing later, when it comes to sustainability, we confirmed what our approach is. It's nothing new and it's becoming increasingly consolidated. And we have further integrated this approach in our company's statutes or bylaws. Now these results, of course, have to be considered while we look at how complicated the year was, and that makes our results even more satisfactory.

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We decided to act strongly and we decided to use all the levers that we could in order for us to be successful. We made some organizational changes to guarantee the continuity and the health and safety of our employees that is something, which accompanied us throughout the period. We continue to monitor all of our activities constantly with a few recovery plans, which helped us when the situation appeared to be especially complex. And therefore, we should thank all those, who worked, but I think that the results we obtained were also thanks to the right approach, the right attitude we had. Our EBITDA grew by a EUR38 billion as you saw. We are now up to EUR1.12 billion and we overperformed what our forecast were in January last year.

We were also comforted by Q4. The contribution of which was equal to EUR18 million on top of all the things that you had already heard from us, another EUR20 million that we had obtained in the first nine months of the year. Growth went down all the way to the bottom line. Also thanks to an improvement in our financial costs at a tax rate, which declined significantly. Profit per share has improved to EURO.26. Also thanks to the intense acquisition phase behind us, which increased the number of shares in our portfolio through our buyback.

Just to give you a quantitative figure, we reached year end with a EUR28.9 million such shares. From the financial standpoint, things went well. As I was mentioning earlier, the cash flow generation increased decidedly and it covered a number of different items in fact, because the operational investments were equal to EUR528 million, which is significantly above what we had done in the previous year. So, we didn't hold back in any way. Payment of dividends, worth EURO.10 was the figure you were familiar with, but we'll certainly be going back to the topic of dividends later. And then the buyback of our own shares was worth EUR45 million. That refers to the transaction I mentioned earlier.

And finally, we also had EUR47 million which for the time being have been used to reduce our debt. With the growth of EBITDA, the reduction of debt, which is something I like very much, we were able to quickly go back down to below 3x net debt to EBITDA, which was the threshold we have given ourselves, we now stand at 2.87x, which given the overall scenario is a significant level that we intend to defend. For final remark, I'd like to mention what you can see in our chart, we confirmed the good trend for ROE and ROI, and that goes to show that we are in line with what we had achieved for the previous year as well. Now to obtain these results, we decided to use all of the possible growth levers with a significant effort as far as M&A is concerned, we're still ambitious from that point of view.

We integrated EstEnergy by adding a piece to the transaction that we had started developing with Ascopiave. We also finalized the Pistoia Ambiente transaction, a major asset that we had acquired last year that we concluded integrating in our portfolio. When it comes to the waste treatment abilities of our group, this transaction is very helpful, because it's always difficult to obtain authorizations for new assets. And therefore sometimes, we have to prove that there are certain opportunities and the neighboring territories that we can look to.

As far as our future growth is concerned, an interesting factor which characterized 2020 is the fact that we have activated some strategic partnerships in some new areas that I'm sure Mr.Venier will go into when it comes to this (inaudible) project, when it comes to

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research and development for hydrogen. We also have an MOU with NextChem to build a plant in Modena to recycle rigid plastics, which is a something entirely new for us. And therefore hopefully, this deal will help us to speed up the achievement of this integration in our platform. And with Eni, we signed an interesting agreement for the city of Ravenna for an industrial waste treatment platform, which is yet another strengthening of our asset base.

As far as our organic growth is concerned, well, first of all, as we'll be seeing, we had to offset the physical negative impact of the COVID pandemic with all the initiatives we had to implement during the year as a way of facing the emergency. But we also added some new things, which helped us to achieve the result I mentioned. First of all, we decided to work on our employees, especially when it comes to the backlog of holidays or leaves, which had -- which were a burden on our budget and which were used by all of our employees during the year. This is something that we inherited from the past.

From the organizational standpoint, we also decided to internalize some of the previously outsourced activities. We also strengthened our digital channels, so that we could continue to be committed on the market and we were able to obtain a further 72,000 energy customers, which is a part of the process, which through gas and electricity, allow us to currently stand at 3.4 million customers with the target that you're familiar with, of achieving something beyond that in the upcoming months. And hopefully, the regulatory framework will be consolidated without being reviewed every couple of weeks.

As far as investments in development and innovation is concerned, we invested significantly. Even in an innovation with a specific focus on the water business, which is something that we are working on from a number of different aspects. And more in general, we focused on all of the business areas in our portfolio. Also when it comes to supply, the EstEnergy customer base was the one, which benefited from the merger and the northeastern part of the country, which will benefit from our constant growth and presence in that part of the country.

To the 700,000 EstEnergy customers, we added a number of offers that we started experimenting in the more traditional area of our territory. And we also were able to extract deficiencies from the digitization process immediately. And since it was the very first year during which we could see the effects of the Ascopiave deal, we were already able to see some very positive things in terms of synergies. So, these were the more important items. And when it comes to our investments, keep in mind that the very first three months of the year were the more sensitive one, so we decided to focus on our suppliers, some of whom went through a rough patch. And therefore, our ability to finance them allowed us to overcome that the more difficult part of the year by supporting our traditional suppliers. These are the more important items, I think. And when it comes to sustainability, I think that the commitments we made and the perspectives for the future that you'll be hearing about from our CEO is guarantee of the serious attitude we have when it comes to this topic.

Let me conclude with two remarks, which I want to underscore, the elements on Page 3 in the presentation. Besides the two M&A transactions I mentioned earlier, which I won't repeat and which allowed us to increase our EBITDA by EUR42 million, which is a sizable

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amount. To that, we also have to add the effect of the organic growth, thanks to the efficiencies I mentioned and also thanks to a reduced cost of serve, which are marked to the period, which means that by increasing our customer base and by offering further services compared to our previous offer plus the growth of our customer base show that we didn't suffer during the year. Obviously, thanks to the very intense way with which we decided to serve our customers.

Obviously, besides the EUR81 million growth, we also have EUR43 million in terms of negatives, the biggest chunk of which stems directly from the more pressing period of the health emergency, which still continues. All of us hoped for the emergency to be shorter and we also hoped for our country to be able to react more swiftly in terms of a treatments and in terms of the way in which the country chooses to deal with the emergency. Unfortunately, things didn't turn out that way, and therefore we have to continue dealing with the COVID pandemic. We also had a negative contribution when it comes to the weather. In fact, the climate during the winter affected us. And then of course, you also have also have to take into account the expired incentives on some renewables, which also eroded the good EBITDA growth that we have achieved.

At this point, I hand the floor over to Stefano, who has quite a few things to mention. Our board meeting lasted four hours, and therefore, we certainly do have a few things to mention.

### **Stefano Venier** {BIO 17107208 <GO>}

Good afternoon. And today's agenda was filled with a number of topics including complex topics. And I'd like to share with you the more important aspects, the ones that can help you understand the trends in the various business areas.

Beginning on Page 4 with networks, we're seeing a contraction here compared to 2019, which can be fully explained by two things. On the one hand, we have the Ascopiave deal, which affected a part of our assets, especially, the gas distribution networks in Padua. And these assets alone are worth EUR17 million in terms of contribution to our margins. They were obviously offset by the consolidation of our -- on the supply side.

Although if we look at the networks business, of course, we have to take stock of this effect, which we won't be seeing in 2021. Second element is that as you will remember on January 1, 2020, the tariff reform came into effect with a specific focus on gas with recognized OpEx. And as we said on previous occasions, gas covers some EUR9 million and then water all-in-all accounts for minus EUR11.6 million.

We also had an -- the COVID effects to take into account, which implied some further costs on the one hand, beginning with personal protection equipment and also by the lower performance we had over the year due to the decreased demand for a new meters and third-party activities, all of which happened during the year. To that, we also have to consider a EUR15.4 million in organic growth, which we were able to recover from our operational activities and cost reduction, and all this was able to offset the negative effects, of course.

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As the chairman was saying earlier, we developed investments worth more than EUR500 million, and this too allowed us to offset the negative changes in the rev due to the sale of the gas distribution networks in Padua, which means that we stand at the EUR3.2 billion in rev that includes the chunk, which refers to district heating. I'm sure this is a typical question you always ask, which is how does this overall margin -- how is this overall margin distributed various -- between the various business areas. What I can say is that water had an EBITDA, which was constant between 2019 and 2020, at EUR266 million, electricity had a contraction of EUR2 million, which was partly due to the lower performances and also in part due to the expiry of a EUR1 million extraordinary item moving from EUR48 million to EUR46 million.

Gas moved from EUR151 million to EUR136 million that by some EUR15 million due to the shift in perimeter, whereas district heating had a contraction were EUR3 million, which was almost entirely due to the weather. And the spring 2020, you'll remember that in late February, we were wearing shirts, T-shirts, and that had an impact worth EUR7 million, two of which refer to district heating, the remaining part refers to gas. The remaining EUR1 million chunk is something that we had in Q4 2020, and not so much due to the thermal season, but due to the fact that most of the meters latched onto district heating referred to public administration buildings, schools and such, which during Q4 had a very slow activity especially schools, which means that the distributed volumes shrunk as well, and that is worth EUR1 million, a very limited amount indeed.

Moving on to Page 5, we have the supply side that the Chairman already mentioned a few important things. Let me just add that the growth here was equal to EUR62.6 million, of which EUR54 million refer to the shift in perimeter brought about by the Ascopiave deal, and the remaining EUR8.5 million refer to the rest of our activities. A portion of which, refers to the synergies we already extracted from the Ascopiave supply transactions, some EUR9 million. You remember that our target is to develop synergies worth EUR30 million roughly over the four-year period.

And the first year, despite the lower commercial activities, because our indirect channels weren't able to operate for a few months. We were still able to achieve EUR9 million in synergies, whereas the organic development is worth some EUR26 million, and that is made up of a number of components I'll be listing later. And that allowed us to offset both the mild weather that I was referring to earlier, then also the effects of the COVID pandemic, which when it comes to the supply side of the business were measured by the lower volumes sold, as a consequence of the shutting down of the number of product -- productive activities in March and April. And then a number of businesses will also shut down in May and June, along with the decrease in commodity prices during the same period forcing us to sell the electricity that we hadn't sold to our customers at very low prices, and that accounts for some EUR20 million, which we're able to offset in the following way.

On the one hand, we have our commercial growth which is plus 70,000 customers. We also improve things in our operational costs, we were able to reduce our cost to serve by almost 10% over 2020, moving from EUR26 per customer 2019 to slightly below EUR24 in 2020. With a major amount of savings from these processes and from an increased use of our digital platforms, which have become prevalent especially in 2020 due to the change

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in the behavior of people. Still to this day, besides these more recent two weeks of lockdown and previous months and at the end of the year, we had seen a decline in the use of physical shops even in Q4 last year equal to 34%, whereas we had an increase up to 40% of accesses and contacts on our virtual channels. Of course, this shift and flows allowed us to optimize things. Another element which contributed to these results was the good performance, we had in Q4 2020 on the last instance market tenders and the gas sector, as the MUI and a default markets, where the contribution worth EUR8 million to EUR9 million in the last quarter.

And last, but not least, we were fairly effective in seizing the opportunities offered by the incentives on building a refurbishment works, so that in 2020, we worked intensely despite the situation, and we took advantage of the facade -- building facade bonus that was worth some EUR8 million. And then currently, we are working especially on the super ecobonus, so this is the overall picture.

And I'm sure, you'll also ask us, how do you -- what is the breakdown of the EUR367.8 million in 2020. EUR200 million referred to gas applied, EUR92 million referred to the electricity supply, EUR50 million referred to power management or asset management rather, and EUR25 million referred to energy services. That is a way of giving you the full picture allowing you to carefully and accurately consider all of the different contributions to growth, which are positive enough all of the four dimensions, which make up this segment.

Moving on to the waste business, as elsewhere, we have a number of positive things and a number of negative things. Obviously, the ones which we can describe as being negative is the COVID pandemic, which was pretty limited in general. It accounted for some minus EUR4.5 million roughly due to a slight contraction in volumes. We also mentioned minus EUR4.3 million due to expired incentives referring to green certificates. And then, the very same effect which had an impact on electricity supply had an impact on the production of electricity, especially, in our waste energy plants, but also in our biomethane plants, because of course the price of gas had gone down to its lowest levels ever and that, of course, had a negative impact worth EUR8.6 million.

Moving on to the positive things now, we had an organic growth worth EUR6.3 million due to the increase in the prices on the liberalized market businesses. And then we had EUR4.8 billion, which is -- which refers to the six-month consolidation of Pistoia Ambiente for a total of EUR258 million. Then if we break it down between a collection and the treatment and recycling, as you can see in treatment and recycling, we have the same result. We were able to post in 2019.

We were to fully offset the positive and the negative effects, whereas in the collection side of things we had minus EUR6 million, which is due, of course, to the contraction of volumes of our collected urban waste, which in our territories accounted for minus 5%. And then partly due to higher costs, due to the various personal protection equipment, which was needed to allow our employees to work safely, both during the peak of the pandemic and also during the remaining months as a way of avoiding COVID clusters and that could impact -- threaten the continuity of our services.

Another question you always ask is the breakdown, EUR258 million, EUR190 million refers to treatment and recycling and EUR67 million refers to which collection with the -- all the changes as you can see on Page 6.

As Chairman was saying earlier, during our Board meeting today, we examined the non-financial report. The so-called sustainability report, which this year was enriched by a number of new elements. We recorded and certified the shared value of our industrial margin, which grew by roughly EUR29 million, almost EUR30 million up to EUR420 million, which is equal to 37.4%, which is exactly in line with the target we have for 2024, which is equal to 50% target. Obviously, this amount has waste such as the reuse of resources and the circular economy, these elements contribute to the biggest chunk, EUR240 million, which is roughly half of the overall amount if you consider, of course, our presence in the waste sector.

But if you also consider our size and the management of water resources, which relates to the policies that we have implemented in these two sectors with a view to achieving a circular economy. In the energy sector, thanks to our initiatives in pursuing carbon neutrality and that is worth roughly EUR137 million, roughly one-third of the total. And then finally, the territories worth of EUR75 million.

I let you remind you of something you've already familiar with that we're very pleased with. Last year, we enter the Dow Jones Sustainability Index. We're recognized as world leaders in our sector. That was I think the most important recognition we received vis-a-vis our activities over the years. We haven't stopped. This year in fact, we have further refined our reporting as a way of keeping into account the so-called TCFD, the guidelines on the - of the Task Force on Non-Financial Disclosure. And then we also defined the targets referring to the emissions of CO2 and climate altering gases, recently science-based target initiatives, so which we applied for last January.

Now if we turn to Page 8, and we look at the various targets we have. According to the parameters that we also mentioned that during our business plan presentation without boring you with a long list of numbers. On this page, you can find the target we have given ourselves for 2030 and the result that we have obtained during 2020. 10 years from our final goal, there are a number of very important figures beginning with the very less that I mentioned, which is the reduction of greenhouse gases, minus 5.4%. Of course, that refers to Scopes 1, 2, and 3, and that of course has to be assessed and taken into account, also by taking into account our lack of the use of fossil fuels. And then we also have water and water recycling and the reduction of the water footprint, which three years from the start of our activities in this area has not been reduced by almost 12%. You can see the rest of the figures for yourselves, and I think they speak for themselves.

I'd like to hand the floor to Mr. Moroni now for a focus on (Technical Difficulty) the most important aspect, which emerged when we were finalizing our figures versus the cash flow generation and number of other aspects, which contributed to our figures in a very important way.

**Luca Moroni** {BIO 17372407 <GO>}

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Good afternoon. The trend of everything below the EBITDA, which contributes to our cash flow, I think it's very clear. We have to continue to improve of course. We have to continue to strive to reduce our cost of debt, which as you can see went from 3.6% to 3%. But that's something we're already working on to reduce things even further below 3% to beginning this year.

Our tax rate moved from 29% of 25.7%. I think that is an absolute record. In terms of the average rate we were able to obtain, and this effect was also due to the fact that we took advantage of a number of opportunities on the extraordinary operations we concluded. But it's also due to a constant search for opportunities I think, which is something we have always done on investments and the Industry 4.0 project, which is one of the most important levers, plus all of the other levers that we always try to use and all of the opportunities were given in legislation and in the various budget laws.

When it comes to the EPS, I don't think the EPS really shows how good our results are. Because as you know, in 2020 and our P&L, we had to take into account two items, which stem from the Ascopiave deal. One refers to amortization and one refers to figurative financial costs, which have an overall impact worth EUR40 million. Therefore perhaps we should look at the cash flow, and especially, cash flow per share.

If you look at Page 10, I think that the result in terms of the operating cash flow is quite striking this year. We are above EUR340 million with a lever, which is above EUR1 billion and a cash flow generation. I also brought about by a net working capital. I continued underscoring the constant focus we have on how we manage our credits. And even in such a complicated year, we're able to keep our focus very high. And even when we couldn't act to recover our credits, we were still able to maintain a contact with our customers so that we could recover proactively as soon as possible. And that allowed us to obtain some excellent results in terms of our cash flow, as we've mentioned on other occasions as well.

We invested over EUR500 million; and with the free cash flow, we were able to decrease our net financial position to having fully paid for the dividends, the buyback and the extraordinary M&A transactions. And as the Chairman already said at the beginning of the presentation, that allowed us to reduce our net debt to EBITDA ratio from 3x to 2.87x. And that is ahead of schedule compared to the rating agency's expectations by one year, and that is a result, which I think is highly satisfactory for everybody, especially us.

And I'd now like to hand it over to the Chairman once again.

**Stefano Venier** {BIO 17107208 <GO>}

Here we are. Thank you. I don't have very many other things to add, although, I would like to mention one thing; if you're familiar with the company, you can imagine that we are back to work. Today, we illustrated the things we've achieved so far. And then we also have the things that we're working on currently, some of which have already partly been completed. It depends on trust of confidence. Together with the CEO, we've been spending many night here in our company headquarters. We wanted to be present to

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check on everything, which is happening on such a difficult year. So, that was our approach.

So, having seen our results, I think that I can only add two more things. The first thing is that our Board of Directors approved a proposal we made today, which is that of increasing our dividend is up to EURO.11 that isn't something extraordinary, but it is something that we could afford to do. Given the cash flow, we were able to obtain last year. I think that's due to our wisdom. In other words, we have always been conservative. But at the same time, we always have felt that it was more than fair to give something back to those, who believe in us.

So, that is a radical decision that we want to make, which was approved by the Board and which we will be presenting to our shareholders meeting. And of course, we also have to keep in mind that since this growth has an impact on the dividend policy over the five-year period, which we presented during the business plan, of course, the decision we made now, we'll have an impact on the following years too. By keeping the same changes beginning next year, the total amount of dividend we'll be paying for is covered by our cash flow and it's something more, of course, compared to what we had done in previous years. And this is a focus, which we couldn't take for granted in a difficult year like 2020, although we did feel that we could afford to do this quite easily.

And one final remark, this is something that we are already working on and that I'd like to mention. I did mention some of the important industrial agreements that we have already signed. What I didn't say is that has been announced when we illustrated our business plan that we are also working on M&A. And in fact, we are doing something in M&A. Hopefully, we're not too far from finalizing things and hopefully the next time, we talk -- we can announce some of the things with that we are currently looking at. So, these are the two items that I wanted to add, two things we've said. Because everything else has been described perfectly well by our colleagues.

Thank you for your attention and we are more than willing to answer 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 by Javier Suarez, Mediobanca.

### Q - Javier Suarez {BIO 1700016 <GO>}

Good afternoon, and thank you for the presentation. I have three questions for you. The first is the thing which surprised me most, which is the major cash flow generation, despite the very difficult year. And my question is, what is the reason behind this very

strong cash flow generation, because I remember that the company had been very cautious in the first quarter of the year. This is an unprecedented situation and you didn't know what the impact on the cash flow would have been. So, why is it that your cash flow generation was so good? What happened and what does that teach us about your resiliency, despite the very difficult year?

My second question is on the dividend -- on your dividend philosophy. What we have seen is that structurally, the company was able to reduce the debt significantly and you were able to overperform and that had a -- an effect on the dividend for all the business plan years. Is this a shift in your dividend philosophy and what would happen next year, will there be another overperformance? Would that also have again an impact on your dividend policy, would there be another overperformance?

The third question is on the buyback. We've invested EUR45 million, and what does this mean? What does this imply in terms of our plans to 2024 for the business plan years, does this mean that the company won't have to admit new capital? Thank you.

## A - Unidentified Speaker

Good afternoon, Javier. I have to say that the biggest reason behind the improvement of our working capital is linked to our credit towards clients. During 2020, they reduced, if you compare year-end 2019 to year-end 2020, they were done by EUR90 million. And I think that this was brought about by two factors. On the one hand, our evaluation for the unpaid ratio level was the same basically, our operating ratio was equal to 1% and now stands at 1.14%, a very minor change. Therefore, we didn't have any old receivables. Secondly, along with that, we had an improvement in -- payments within the deadline and that was 3% to 3.5% improvement. The third thing is that, you can see the effects of a number of optimization measures on our invoicing system with a year-on-year benefit of EUR30 million.

Now the first two elements, of course, will depend on the movements we'll be seeing in the next few months. Also given the overall economic situation, but also given the price and volumes trend whereas the third element I mentioned, the structural. And that's something that we want to continue focusing on in the future to further optimize things. So, we will be broadening our scope of actions that will require some technological upgrades so that we can improve the timeliness of our invoicing system and therefore, the timeliness of our cash. We want to have to use quantum computing but we will have to have a further processing capability that we will have to implement, both by using cloud solutions and by using on-premise solution. This is a little technical, but it's just a way of explaining the type of work we did.

Moving on to your question on our dividend policy, I think we've always said that our dividend policy, the one we announced the market had to be considered as a floor, a guaranteed floor for the years included in the business plan. And what we've always said was with an overperformance -- and were the trends to be in line with our targets well then, we would have given back part of that overperformance to our shareholders. Now this isn't the first time it happens, 2020 isn't the first time, it already happened a couple of years ago when we had increased the dividend one year ahead of schedule given the

excellent performance we have had from the economic standpoint and from the financial standpoint as well.

So to a certain extent, this year's shift is a way of confirming our approach, which means that going forward be it this year or next year, we will be to have a another performance comparable to the one we had this year, we would definitely consider the same kind of choice. And as you can see, we have been fully consistent because we had a 0.5 increase on the dividend each year, requires a further EUR8 million per year for our shareholders, which over the five-year period moving forward is equal to EUR40 million, which is the increased cash flow we have this year at year end.

So moving on to the buyback question. What's the meaning behind the buyback? We've always said that, we need it for M&A transactions as well. We have a couple of transactions that we are assessing, including a -- the reacquisition of minorities stakes that we want to do by using our own shares as well. And therefore, given the opportunity, we decided to stock up on our own shares which we can then use in the future without having an effect on the net financial position.

## Operator

The next question is by Enrico Bartoli, Stifel.

### Q - Enrico Bartoli {BIO 3699377 <GO>}

Good afternoon, everybody. I also have a few questions for you. You commented on the fact that the company has recovered from the worst part of the COVID pandemic. So can you give us a flavor of how much of the EUR31 million impact on EBITDA you had in 2020 can be reasonably recovered in 2021? Then I have a second question on the MoU, you signed with SNAM concerning the possibility of using the waste energy electricity to produce hydrogen. First of all, I was wondering whether these projects can also be replicated on other assets. And if the profitability of these initiatives is sustainable you think even without the funding of the recovery fund or if you would need some support and what would the contribution to your business is stemming from the recovery fund?

My third question is on the waste business. You mentioned that the prices for the liberalized part of the business for waste treatment namely are on the rise. Can you give us an update on what you've seen in recent months and what the outlook for 2021 can be?

### A - Unidentified Speaker

The Chairman was saying that we are back, that we have recovered, obviously, that refers to the continuation of the activities that we had during last year, which means that we didn't stop to look back to the past, we decided to look to the future and things went fairly well in this early part of the year. As you know, we have a dashboard called the crisis barometer and in the 12th week last Friday, we compared things with 2019 because 2020 is no longer interesting ever since the end of February. So compared to 2019, we're still seeing some difficulties on the consumption of electricity. We have a contraction worth 4% or 5% compared to 2019. When it comes to waste, we stand at minus 2%, minus 3%,

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which happened especially over the past two or three weeks given the lockdown and the closed businesses. We've seen a recovery when it comes to a new connections and even for third-parties, we've had a very good trend in terms of the payment of invoices and bills with an increase of 4.5% as the growth of recycled plastic sales by Aliplast.

Now these indicators translate into final figures at the end of February which are on the rise compared to last year. Of course, last year, we suffered due to the mild weather, and this year we were able to fully offset it. And moving on, we will be reabsorbing the effects of the COVID pandemic, which last year accounted for some EUR30 million. And this year, we'll have to see the effects of this dip now and we hope to recover at least half of the dip. We want to sterilize that all of those -- all that 50% and then we want to use some organic growth that we want to have in the supply side and on the waste business.

As far as the MoU is concerned, in fact, we have more than one MoU. Let me just give you a brief summary, one MoU refers to an agreement with the world leader of a fertilizer called urea [ph], which is produced from ammonia, which is produced with hydrogen. They have a production site in Ferrara. And in that case, it's a Sapio, which is a technical gas producer and we want to produce green urea in the Ferrara petrochemical site where we have an incinerator.

So that would be the very first case in which we would connect production with an incinerator. The second MoU refers to our agreement with SNAM in cooperation with the University of Modena and Reggio Emilia. And the regional agency for energy and Sapio and that refers to the Modena area. Again, we're working on a hydrogen production from our waste energy plant. And in this case, it would be at best -- tend to hard to evade industries especially in that territory, you have the tiles industry which has a number of production processes, which aren't electrified. And therefore together with the companies themselves, together with a couple of those companies, we are studying a solution for that kind of industry. And then, a third item that we're working on alongside the SNAM refers to heavy mobility, so that we can have any hydrogen station on the -- near the Brenner pass. I think it's a little too early to say, how these will move along, we're still on a feasibility research phase.

But when we look at the future perspectives for hydrogen, we have take into account, a CapEx component for the acquisition for the buying of (inaudible) and then there's also an OpEx component too. And in this case, it is essential that the use of these green gases such as hydrogen especially, can benefit from the incentives linked to energy efficiency, few white certificates, because these are initiatives -- our network initiatives to reduce emissions and to reduce the consumption of fossil fuels.

So, for this point of view, we feel that they are fully within the boundaries of energy efficiency as a lever to achieve carbon neutrality. The weight of prices are stable. We have no signals that they are on the decline. Also because in recent months, the industry made it bounce back or some industrial segments made it bounce back. And as far as the offer is concerned, we haven't added anything. And therefore, currently, there's no reason to imagine a reduction in prices. Thank you.

## Operator

The next question is by Emanuele Oggioni, Banca Akros.

### Q - Emanuele Oggioni {BIO 20133627 <GO>}

Good afternoon. Thank you for your presentation. I have a couple of questions. The first is a more general question on 2021 and on organic growth. What do you expect from 2021? And in which business, do you expect to see an organic growth compared to 2020? And then, moving onto the retail business, you have added 72,000 customers to your customer base in 2020 and what do you expect from 2021, could there be a speeding up of this growth? And also as far as this business is concerned, what is the year-on-year impact? What is the impact on the 2021 margins compared to the 2020 margins on the gas and electricity supply? What is the impact this year compared to 2020 in terms of margins? Then a final question on the retail side of the business, is there any room for a further reduction of the cost to serve? What further synergies do you think there can be?

### A - Unidentified Speaker

In 2021, we expect -- we do not expect regulated businesses to grow even more, because they won't be having any major tariff changes. I think, they'll stay relatively flat that's what we are targeting, whereas we certainly expect the bigger growth on the supply side and on the liberalized the market in the waste business. We'll have to see how the financial and economic plans will be -- we'll look in the final draft. The incentives decree won't be finalized until June, but we will be testing the first year during, which the regulation is implemented. And waste treatment, we do expect to recover part of the things, and of course, the easiest way to begin is to recover the EUR8 million impact on the commodity price, which we certainly don't have this year, because all of the positions close to at around EUR54 to EUR55 per megawatt per hour.

We've recovered due to an effect or vis-a-vis an effect we were subject to last year because with energy plants, we can expect because they are subject to unexpected maintenance. And therefore we can only cover a base load, but not all the available. So we'll be improving there and we will be improving on the commercial side of things.

Why is that? Well on the one hand, because of an increase in our customer base. We though expect explosion in our customer base though. Keep in mind that our activities in the field is still very limited. Our sales people can't move from one region to another, movements are still very limited. And therefore 2021 is little still be subject to some conditioning. Our target for 2021 is to achieve a further 70,000 customers. I think that is a realistic target.

And then moving on to your third question, we do expect some benefits of this in Q4 of the year from our procurement activities and gas, for instance, because the contribution of the TAP pipeline on the market is visible. As of August 1, our 300 million cubic meters per year will start to be delivered, that is something that we have signed a contract for, for 20 years. And therefore we expect to have an economic benefit from this new procurement source, which as far as the Italian market is concerned has an impact worth

10% and therefore we do hope that it will also have an impact on the procurement costs in our portfolio.

And then your final question was on cost to serve. In 2020, we certainly had an excellent result for the reasons I mentioned earlier. And we expect to further improve it. I expect a reduction of worth EUR1 to EUR1.5 as a consequence of the new salesforce platform that we will start using between the end of 2021 and early 2022. Thank you.

## Operator

Mr.Tommasi di Vignano, gentlemen, the Q&A session is now over.

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

Thank you. Thank all of you for joining us. We're going to get back to work. Happy Easter and see you soon.

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