



**ERG S.p.A.**  
**“3Q 2022 Results”**  
**November 11, 2022**

**MODERATORS:**  
**PAOLO MERLI, GROUP CEO**  
**MICHELE PEDEMONTI, CFO**

**Operator:**

This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 3Q 2022 Results Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Paolo Merli, CEO of ERG. Please go ahead, Sir.

**Paolo Merli:**

Good afternoon, everybody and welcome to our Webcast for the 3Q Results. Here with me is Michele, our CFO, who will take you through the results in more detail after my opening remarks.

Let me start summarizing the key figures over the period. I am on **page no. 4**. Numbers here - I remind you - are based on continuing operations, excluding Hydro and CCGT from the scope.

In a nutshell, I would say again a solid set of results in the third quarter, mainly driven by the larger installed capacity. But now let me focus on the 9M; later Michele will dive deeper into the third quarter.

We posted an EBITDA of €411mn, up 62% YoY, mainly as a result of the larger contribution from recently acquired assets in Italy, consolidated during the course of the third quarter – in particular the 34MW in Solar as of the beginning of the quarter, and the 172MW wind assets as of August, 1 - and all the other assets outside Italy that progressively entered into operation over the last 12 months. So, in the end, the results benefited from all the significant investments made in 2021 and in 2022. Let me also underline that the stronger EBITDA YoY in Italy was almost entirely attributable to the new assets. Although there is a lot of talk about extra-profits here in Italy, the price scenario for us was slightly negative paradoxically, as the reduction in the value of incentives was only partly off-set by the higher merchant prices that, I remind you, are limited by the hedging policies. Internationally the EBITDA growth - almost 3 times YoY - was significant and coming from the strong execution of our strategy to expand our asset portfolio beyond the border.

As a matter of fact, we continued to invest heavily with CAPEX in excess of €800mn in the first 9M of the year: more than double compared to the same period of 2021, which was already strong. We continue to do so through a mix of organic and M&A, relying on the financial firepower of the Group. In the first 9M 2022 we invested roughly €800mn, out of which €600mn from M&A and in excess of €200mn for our organic developments. And I am referring substantially to all the assets we have under construction - some of them already in full operation, some others will come shortly - in UK, Poland, France, Sweden and Italy, both repowering and greenfield.

Let me now comment on the bottom line. Net Profit from continuing operations was €174mn, more than double YoY - let me say almost triple YoY - reflecting the stronger operating results, but also lower financial charges.

Let me be clear: Net profit here does not include the impact of windfall taxes and claw-back measures effective in Italy and Romania – for the time being just those two countries envisage that kind of measures – that amounted to a total of €58mn in 9M, (that figure in reality includes also €4mn for the CCGT), out of which €45mn in Italy and €13mn in Romania. Given that those are temporary and extraordinary measures, we decided – according to the principles and together with our statutory auditors - to report them as non-recurring items, while providing full and detailed disclosure on our financial statements.

Although it is not represented here, let me tell you that the CCGT generated an EBITDA of €52mn in the 9M 2022 (+80% YoY compared to €29mn in the first 9M 2021). Let me say that a significant portion of this increase is due also to the fact that the plant became once again eligible for white certificates as of the beginning of the year.

NFP at the end of September was €1.542bn down vs. the €2.051bn at 2021 year-end. There have been many big items: on the positive side, definitely the cash-in of the disposal of the Hydro assets (almost €1.3bn) and the strong cash-flow generated by the company over the first 9M, whilst on the cash-out side we had the huge investments I have already mentioned and the dividends paid, those are the two main figures. But the last item – as it is underlined in the graph – is the fact that the NFP at the end of the period was inflated by roughly €310mn related to the negative fair value of derivatives on energy prices, given the huge swings in merchant prices registered in August and September. This item is just a temporary debt, and it is expected to reverse in 2023, because all our futures are going to be delivered next year.

Let us now move to the next page, **page no. 5** to give you a quick update on our recent achievements, which I believe have been quite significant.

We are moving forward with the expansion of our Portfolio of Renewable assets in Europe. And the third quarter was a good one as well.

During the quarter we completed the construction of the 50MW wind farm in Scotland - the first slot of Sandy Knowe project - that allows us to reach an installed capacity in the UK of 120MW. And this amount is expected to double in the next 5-6 months, because other two projects are completing the construction and are expected to enter soon.

In the UK we also acquired a fully permitted and a very high quality wind project in Northern Ireland - very close to all our other assets - with a capacity of 47MW, and this will enter into our next Business Plan. In Poland we commissioned our newly built wind farm at Laszki (36MW). We are very proud of this because despite a tough surrounding environment - consider that this plant is very close to the Ukrainian border - we

managed to complete it as expected. So now in Poland we have 142MW installed, which is quite a significant capacity.

Let me also tell you a quick comment on the CCGT disposal: as you know, the Antitrust Authority did not authorize the disposal to ENEL. It is undeniable, we were a little bit surprised by this decision, as our plant is mainly supplying the Priolo site, so a captive market and not a merchant market. So, we have a different view on this; nevertheless, we look forward and we reiterate our objective to sell the plant as soon as possible. Let us say, our objective is to rearrange the process, but we need to close 2022 to have a set of reference data, and we will work to relaunch very early next year the process and definitely to complete it – fingers crossed – during 2023 or the first part of 2024.

As far as ESG, we are continuing to receive important external recognition: Moody's included ERG in the Top 2% of the world ranking. We also strengthened our ESG governance model having published the Policy against Violence, Harassment and Bullying with a zero-tolerance approach, in order to once again confirm our commitment towards an even more inclusive approach. We also updated our Sustainability Policy, which is now incorporating a biodiversity policy in line with International Principles.

Last but not least, we strengthened our financial power, while confirming our commitment to green financing. As a matter of fact, in the last weeks in October we signed an ESG revolving credit facility for €600mn, which provides ERG with more flexibility to manage this very volatile business environment but – I would say - even more it will allow us to keep looking for growth opportunities in a cost-efficient way. We did not require any public guarantees, unlike others: it was an opportunity, and not a necessity.

Let us move on to **page no. 6**: this is the chart I like most because it provides you and ourselves with clear evidence on the execution of the Group. Please look at the chart: I think it is quite self-explanatory.

Thanks to the significant investments made in the second part of 2021 and in the first 9M of 2022, we could count on a larger Asset Base in service during the 9M, which in the end was the real reason behind the trend of our economic results.

In the fourth quarter of 2022 or the very beginning of 2023 – because some projects are going to be completed very near the end of the year - we expect to add a further 150MW from wind farms currently under completion in the UK and Italy, which will start slightly contributing to our results in 2022, but they will be contributing at full speed in 2023.

I will now hand you over to Michele for his review on results.

**Michele Pedemonte:**

Thanks Paolo and now let us have a look at our 3Q 2022 results. I am on **page no. 8**: let us start with an overview of unitary revenues trend.

The All-in unitary revenues per MW for Wind were higher YoY in all countries where we operate with the exception of Poland where they slightly declined, as the rise in electricity prices has been more than offset by the hedging made in line with our risk policy. In Italy, unitary revenues rose in 3Q thanks to the acquisition of new assets, while the assets already in the Group caught a price in line with PY, as the rise in electricity prices has been offset by the hedging and by the 2022 value of the incentive, which declined from 109€/MWh to 43€/MWh.

In France the large majority of our assets operate under FIT scheme without exposure to market price, so unitary revenues have a limited increase year-on-year.

In Germany the one-way tariff structure, coupled with some short-term hedging, allows us to capture part of the peak merchant prices.

As regards the Solar All-in unitary revenues, we see value increase in Italy, thanks to the acquisition of new assets. In Spain, where our assets have a tariff mechanism that operates as a floor to our revenues, the all-in price is aligned with the overall merchant scenario, and it has been influenced in the last quarter by the regulatory framework update.

Overall a positive scenario, in particular for our foreign countries.

As a side note, we expect a negative impact, recorded on our non-recurring results, of the Italian claw-back measures on the recently acquired solar asset (Project Siena, 34MW) that captures merchant prices.

Finally, please note that also the effect of the Romanian claw-back measures - that caps to roughly 90€/MWh the unitary revenues of our 70MW Corni windfarm - are recorded as non-recurring items.

And now, on **page no. 9**, a focus on productions. As regards the 3Q we have:

- in Italy 493GWh, + 8% YoY, thanks to the consolidation of new Wind & Solar asset in 3Q (+68GWh) coupled with better sun irradiation, partly offset by lower wind conditions
- in France: 187GWh, thanks to 46GWh coming from new perimeter, that more than compensated the weaker average production of the period in comparison with Q3 21
- in Germany: 82GWh, benefiting from the perimeter effect for 17GWh, due to the acquisition made in 2021 (55MW), partly offset by slightly lower wind volumes

- in Eastern Europe wind volumes higher than 3Q 2021 (+28%), which reflect better wind conditions in Bulgaria and Romania. Higher volumes in Poland reflect the new capacity in operation by the end of June (+11GWh)
- on top of that, we have the contribution to the portfolio of the assets built in Northern Ireland in 2021, and acquired in Spain in January this year, for a total of 88GWh.

In the first 9 months, productions reached 3.6TWh (+700TWh) mainly due to new assets acquired or internally developed in Italy and abroad, and higher wind productions in Eastern Europe.

Let us move on to **page no. 10**: In the third quarter of the year we have an overall EBITDA equal to €133mn, higher than 3Q21 by €58mn, of which €44mn from perimeter effect. In detail:

- in Italy the EBITDA was €90mn, +42%, mainly due to the 2022 acquisitions (€22mn from Wind and +€9mn from Solar assets) partly offset by lower wind volumes on our asset base
- in France the EBITDA was €7mn benefiting from the consolidation of the assets acquired in Q4 2021: the new assets contribute with €3mn
- in Germany the EBITDA grew consistently in the quarter due to a better scenario, which accounted for €5mn, and a perimeter effect of €2mn
- in Eastern Europe the EBITDA benefited mainly from better scenario which resulted in €11mn contribution, higher volumes (+€6mn) and perimeter effect in Poland (+€2mn). The figure does not include windfall tax in Romania, accounted as non-recurring items
- it is worth mentioning that in Q3 2022 UK and Spain have contributed to our results for €6mn.

In the first 9 months, EBITDA reached €411mn, €157mn higher than previous year, of which about €91mn comes from perimeter effect in Italy and abroad. Notwithstanding the last acquisitions in Italy, the Group EBITDA shows a significant increase of the geographical diversification in 2022: more than 40% EBITDA comes from a diversified panel of European countries, while in 2021 the foreign EBITDA was only the 25%.

And now on **page no. 11** a brief overview of investments in the period.

In the 9M 2022 we invested more than €800mn: an amount which is higher than the one invested in 9M 2021 (€350mn), which was strongly influenced by the M&A operations in France and Sweden.

CAPEX for the period are composed as follows:

- about €610mn of M&A related to Wind and Solar acquisitions in Italy (of which 172MW Wind and 34MW Solar) whose closing took place in 3Q 2022, and Solar acquisition in Spain (92MW), acquired in January this year
- about €194mn related to organic CAPEX in Wind, referred to construction activities mainly in UK (€70mn), Poland, France and Sweden. It also includes €60mn of CAPEX in Italy for the repowering projects of Camporeale, Partinico-Monreale, Mineo/Militello/Vizzini and the greenfield project of Roccapalumba in Sicily. It is worth mentioning that recently we made an important step forward in our construction works, with the commissioning of Laszki wind farm in Poland (36MW) and the first part of Sandy Knowe in UK (50MW)
- about €12mn related to the revamping of solar plants in Italy, and finally
- about €7mn related to maintenance CAPEX spread across all countries.

Let us now move on to Financials (**page no. 13**), commenting on P&L on a recurring basis. We have:

- higher depreciation (€8mn), which reflects the contribution of the new assets, so a perimeter effect
- Net Financial charges at €6mn, vs. €7mn in 3Q 2021, thanks to a lower cost of gross debt, mainly following the issuance of our third Green Bond in September 2021
- Tax rate in the quarter was 26% against 24% in 3Q last year mainly due to the lower impact from tax benefit (Ace and Rol) on the higher EBT driven by a higher EBITDA. Taxation in the quarter does not include the effects of windfall taxes in Italy, as they are accounted as non-recurring items (€40mn).

As of January 2022, our CCGT is consolidated in the discontinued items. In Q3 this year it recorded an EBITDA of €32mn (versus €9mn in Q3 21) and a net profit of €17mn against €2mn last year. These improved results of 2022 are also due to the contribution of the new 10-year period of white certificates following the 2021 refurbishment of investments on the asset.

As a result of all this, the adjusted Net Profit of the quarter amounts to €64mn vs €30mn in 3Q 2021. If we look at the first nine months of 2022, the Adjusted net profit is equal to €190mn, €60mn higher than 9M 2021.

Finally, on **page no. 14** let us take a look at the Cash Flow Statement and the Net Financial Position for the first nine months of 2022. The Net Financial Debt closed at € 1.5bn, €500mn lower than the end of 2021.

Starting from the left, we have the cash-in from Hydro disposal, and the deconsolidation of Thermo & Hydro, then the dividends paid in the period (€136mn), our EBITDA (€411mn), investments made in the period (€823mn), the change in working capital, the Financial charges, and Tax & Others for €174mn (in this amount we have different effects: we have a contribution of €191mn of commodities derivatives, a positive

contribution of €79mn in terms of fair value IRS and +€49mn tax cash out), and finally €75mn of distribution of reserves coming from ERG Power.

The net financial position includes €310mn due to the mark-to-market of derivatives on commodities. This is a short-term effect, that will have a positive reversal during the last quarter of the year and in 2023.

A final word on the closing in October of our first ESG linked €600mn revolving credit facility: it will add flexibility for our financial structure, and it will be able to support potential acceleration of our growth strategy. The RCF was signed with a pool of international and Italian banks without need of any public support or guarantee.

I think I have touched all the relevant items. Thank you for your attention. I will now hand over to Paolo for his final remarks.

**Paolo Merli:**

Thanks Michele. Now the guidance for the 2022 Full-Year, I am on **page no. 16**.

We have revised the EBITDA range upward by €35mn, therefore the new range is €520-550mn: say, mid-point at €535mn. The upward revision, which is the fourth in a row, basically reflects the quicker than expected deployment of a larger installed capacity, both organic and M&A. Please consider that this guidance is based – this is very important - on our best understanding of the regulatory frameworks in each country where we operate; particularly I am referring to the claw-back and price-cap measures, that should be effective as of December 1, 2022 following the EU regulations (which were published on October 8 last), on top of those already effective. But please consider that all Member States have the option to introduce more conservative measures, so we should gain more visibility on that in the weeks leading up to December, 1. I hope this point is clear but if not I think in the Q&A we can address a little bit better on this point. We are confirming the CAPEX guidance in the range of €900-1,000mn, as per the last webcast.

As far as NFP, we are lowering our guidance range by €50mn, and this basically reflects the higher EBITDA and – let me say – also a little bit lower contingency in our estimates, given the limited time left until the end of the year. Please note that the Debt guidance at year-end still includes about €260mn, which is our best estimate related to the negative MtM of derivatives which, as you know (and I repeat it), is a temporary debt that will reverse in 2023, with the roll-out of hedging at their delivery time.

I think I have touched on everything, so thank you very much for listening. We are now ready to take your questions.

## Questions & Answers

### **Operator:**

Excuse me. This is the Chorus Call conference operator. We will now begin the question-and-answer session. The first question is from Enrico Bartoli with Mediobanca. Please go ahead.

### **Enrico Bartoli:**

Hi, good afternoon and thanks for taking my questions: actually they are 3 on my side. First of all, I am interested in your view on recent developments in the industry, particularly in the current interest rate scenario. I was wondering if you think that the additional cost of capital that the industry is facing will be able to be transferred in the final prices in the PPAs that you expect to sign over the coming quarters. And if eventually the new scenario will be also translated into higher prices in the auctions organized by the Government, and particularly I refer to the Italian auctions, where there is a cap which is fixed. On top of this, can you also update us on the situation of the cost in the industry, particularly on the CAPEX and the inflation that you are facing?

The second question is related to the guidance. You highlighted in the press release that you expect the contribution from Italy to EBITDA at full year to be lower than 2021: this would imply a very significant reduction in the fourth quarter, compared to last year. Can you provide some details on the reason for this, on what you are expecting, and on the evolution in Italy in the fourth quarter?

And the last one is in some way also related to the interest rate scenario to the cost of debt: in your Business Plan, you have an assumption of 1.3% fixed in terms of cost of debt. So, what can you envisage now: can this assumption be moved, considering the current interest rate scenario? Thank you very much.

### **Paolo Merli:**

Okay. I will try to go through your question, Enrico. First of all, I hope I find you well. So, the first question was the outlook in terms of returns for the industry *vis-à-vis* the rising cost of capital and the evolution of prices in the markets, in particular in the PPA and CFD auctions. I think it is "The Question", a very complex one. But I think this is for all the industry: over the last 15 months, more or less, we have seen an increase in interest rates (these are risk-free) by 200 basis points, so 2%, which is quite a significant amount, in particular for business that are valued on a discounted cash flow model. But we are at the same time experiencing very, very high merchant prices, and if you look at the screen for forward prices, they are well above 100€/MWh even in 4, 5, 6-year time.

And I can tell you that what we are experiencing on the field, when negotiating PPA, is that the major players, off-takers we are talking with are assuming a medium long-term view with a very high price. So, if the question is also “how much of the current merchant prices can be translated in the PPA”, I would say today for a 10 year-duration PPA, we are definitely looking at number above 100€/MWh... sometime significantly above 100€/MWh. That is a clear view that the market is reflecting the fundamentals, because it is not just speculation, guys. There is a shortage of gas all around Europe - it is quite evident - and there is an impossibility to switch overnight from the cancelled North Stream 1 and 2 into new capacity. And the only very quick capacity to be deployed is the renewable one, because there is a lot of talking about nuclear of 4th and 5th generation, but that would take 15-20 years to be on the field.

The other part of your question was about the CFD, if I got it well: this is the problem. So, the Government and the State members are acting, not as fast as they should do, in order to create the right conditions for investors to deploy capital as quick as it would be needed by this very tough environment. But we have seen over the last few days important signs from Europe: the European Commission is now circulating a draft document that should be transformed into a regulation soon in the next few weeks. And the aim of this document is to significantly accelerate the deployment of renewables, through a quite important simplification in the permitting. And, in particular, they are talking about reducing and squeezing the timing for authorization within one year for greenfield and within 6 months for repowering. Let us see if they will be able to do it, because in the end all these good intentions, you know, have to face with the reality, the regional, the local, the countries' realities. But, on paper, all the signs from this point of view are positive. And if you want my view, my view is very clear: I do not see any other alternative solutions to this energy crisis other than the liquefied natural gas coming to Europe to offset the lower flows from Russia and - I would say, above all - the deployment of renewables, because all other solutions are just, you know, said for political reasons. But there is no time to deploy new nuclear or kind of nuclear capacity.

You also ask about the evolution of CAPEX: this is another issue for the industry, I would say, a theme for the industry because in the end, if the market works as it should work, we should expect everything to be reflected in the PPA prices, or in the CFD auction prices, providing the right and fair return for this kind of investment. But right now, the CAPEX per MW for a wind installation is moving up: that is at least according to our understanding of the industry, and we are the first player of wind in Italy and one among the first 10 in Europe. It is going up in the region of €1.5mn/MW, which is quite a significant increase, compared to what we got used to until 24 months ago, when it was in the area of €1-1.2mn/MW, or something like that.

For photovoltaic or for the solar it is even worse, because of the cost of panels, the silicon, and all the equipment. Please also consider that the incidence of BOP and all the

ancillary activity in the photovoltaic segments are bigger than in the wind, where 80% or 75% is the turbine. So, in the solar we are seeing even more this trend, and we have an idea - just to say a rounded number - in the region of €1mn/MW. We were used to see half that number until 24 or 18 months ago. So, I think I have addressed your first question.

The second one: yes, you are right. The implicit value in our midpoint EBITDA guidance is a little bit below what we posted in the fourth quarter of 2021, with a larger installed capacity in 2022. So, the question is absolutely legitimate. Please Enrico consider, first of all, that over the fourth quarter in 2021 we had really exceptional, really exceptional wind conditions: in the 9 months 2021 they were bad, but in November and December last year they were amazing. So that is a point you should take into consideration in your analysis. In the fourth quarter of 2021, the energy prices were already very high, in particular in December 2021, while in our forecast for 2022, we assumed all these caps they are talking about around Europe, with State members that are issuing draft decree not fully consistent with 180 spotted and indicated by the European Commission. We are applying, as I said, our best understanding for France, for Germany, and for the other countries. So, we are assuming caps in some States much more conservative than the 180. We will see it in a month but, for the time being, it is like this. Let us say, if the production will be in line with our budget, probably the midpoint guidance is a little bit conservative. But we are happy with it, for the time being.

I would leave to our CFO to answer your third question.

**Michele Pedemonte:**

Just a final additional comment on the last quarter. Remember that, in comparison with last year, the Italian incentive last year was 109€/MWh, this year is 43€/MWh. So, we have also this element that explained the difference of 2021 against 2022.

The cost of debt in the Business Plan was 1.3%: for sure, when we did our assumption for a Business Plan, we were in a different rate environment. So, we should expect that in the new Business Plan the projections will be based on higher cost of debt. But consider at the same time that, at least for 2023 and 2025, we have pre-hedging in place that for €500mn of notional will protect us against this increase in interest rate. So effectively we fix the 0.3% roughly cost of debt on a 5 year-tenure and this currently has a positive mark-to-market that we recorded in our 9M balance sheet for an amount of €60mn: so, it is a protection against this rate increase.

**Enrico Bartoli:**

Thanks a lot. Very clear Paolo. Thanks a lot.

**Paolo Merli:**

You are welcome.

**Operator:**

The next question is from Roberto Letizia with Equita. Please go ahead.

**Roberto Letizia:**

Yes. Good evening. Thanks for taking my question. I would like to move the ball on 2023 for whatever is possible to comment on next year, which is very interesting for the moving parts. So, I would like you to possibly sum up the moving parts for next year - as far as your understanding, of course, of both regulation and market prices as we have today - starting for example from a comment on the hedged prices... if you can comment for example on how much you expect in terms of increase in average hedged pricing euros per megawatt hours for next year? When actually do you expect old hedges to terminate, both to let us understand when exactly for example the hedging you have in the balance sheet will fully disappear, and when the full market price will start benefitting your hedging policy in 2023. And then if you can comment on the total additional capacity expected next year beyond the 150MWW you commented at page 6, which will probably enter already this year. So instead, I would like you to sum up on what is the total capacity addition expected next year?

Coming back just briefly, I would like to understand if you believe that, for what regards Italy, the net effect from the additional reduction in Green Certificate, and the higher hedged price for 2023 will be a flat effect or eventually a positive or negative: I would assume it should be roughly flat, so letting for example the M&A to fully contribute in Italy next year. Can you briefly comment on the refinery ownership for your CCGT electricity sales? I know this is non-core, but it will affect probably the sale of the asset. So, what do you expect for the control of that asset, which is crucial for the sale of electricity prices next year? And when do you expect to give us a new strategy guidance, a new Strategy Plan? Thanks a lot.

**Paolo Merli:**

Okay. Roberto. I will try to touch the points you raised. So, first of all, 2023 is very difficult. As I said, we did a quite complex exercise to elaborate the forecast for the full year, because the uncertainty right now is massive, let me say, because everything will depend on the rules and the guidelines we are still expecting from the European Commissions to implement the infra-marginal electricity price cap. And this is quite material because, if the ceiling, the cap is at 180, it is a thing and we can elaborate the decision. But in France they are talking about 180 plus or minus 80€/ MWh (then it could be even 100€/MWh), in Germany they are talking about 100... there is nothing certain in this moment. There are just draft documents that are circulating or even rumors... just

rumors. So, I do not want to give a number for 2023, because it is too early, and I do not want to create expectations. For sure, the industrial platform of the company is growing up quite significantly. And, you know, there are megawatts that have entered into operations just as of August, and they will be fully up and running for 2023. So, this is our first upside.

Then the second upside: we have a concentration of new entries from organic growth, concentrated in the end, in the last part of the year and in the early part of 2023. So, for instance, we have 92MW in Scotland - Creag Riabhach - where we have installed more or less 60%, 65%, 70% (I do not know, I cannot remember well the right numbers) of wind turbines, so the field should be fully up and running by the end of the year, or later in January, at the end of January 2023 or something like that. Then we have roughly other 36MW in Scotland, again, that should enter into operation in the first quarter of 2023. We are finalizing the construction of more than 60MW in Sweden, that should enter in operation in the first quarter. And some repowering projects should be entering in operations: some by the end of this year, and the biggest part in 2023. So let me say, all-in-all, we have roughly at the moment roughly 350MW under construction: part of it should enter by the end of the year (and we gave an indication in the region of 150MW), while the remaining 200MW more or less is fully organic, that will enter into operation during the course of 2023.

So, from an industrial point of view, let me say that the portfolio is going to be stronger than in 2022. But there are also other effects. The first one (I have already mentioned) is the price cap and the mechanisms through which they will implement this price cap across the different countries. The second element - do not forget – is the incentive in Italy that in 2023 will go down to zero, because you know, there is this regulation according to which the value of green incentive is calculated based on a formula that says 180€/MWh less the merchant price registered in the year before, but in 2022 the price should be much higher than 180€/MWh, then that will bring the value of the incentive for 2023 at zero compared to the 43€/MWh. So, there are many elements that have to be put together.

Let me say, my feeling is positive but I stop here, okay. So, I see still upside, but I stop here, because I prefer to do the exercise in full and then come back to you probably in March, when we hope to present an updated Business Plan.

And you had a third question, probably...

**Roberto Letizia:**

Yes, I have asked about the CCGT plant and the issue of the refinery, the control of the energy you are going to provide to them: do you have some thoughts on that?

**Paolo Merli:**

Yes, there are lots of articles, lots of rumors about the ISAB refinery, because the point here is that the oil embargo is going to be effective as of December 5, and the question is if ISAB can keep running the business without any supply from Russia and supply from other sources. From a technical point of view - and we are the past owner of the refinery - I can assure you that the refinery can work on different set of crudes coming from everywhere. So, when we used to manage the refinery, just less than 20% came from Russia. The other crudes came from other areas.

It is more a financial issue, because ISAB is asking for credit lines in order to maintain a certain autonomy, legitimately, in operating the refinery, and I think the issue is on the table of the Ministry of the Business Development, and they are trying to fix it. And so, I am a bit optimist that they will find a solution, because Italy cannot afford the Priolo site to stop, because they are supplying 20% to 25% of oil, fuels, gasoil, gasoline to the Country, and there are 10,000 people who work in the industrial supersite of Priolo. And everything is connected. If the refinery is going to stop, then also the chemical plants, our plant would stop as well, so I cannot even imagine a situation like that; so, from this point of view we are absolutely confident that they will find solution.

In terms of business environment, again, it is difficult to predict, in particular the merchant part, because the spark spreads are very much sensitive right now, very strongly volatile, with big swings we are seeing in gas price, but also in demand, so it is difficult to predict them. In our scenario, and even in the forecast for the full year, we are quite conservative, but please consider that more or less 80% of the contribution margin of the plant is coming from the captive market and the white certificates.

That is why the results in the first 9 months were so high compared to last year because, you know, 2021 was the only year in which the plant was completely out of any efficiency scheme regime. In the meantime, we made this refurbishment, important investments to substitute the steam turbine and, as of the beginning of the year, the plant is still eligible for white certificates. So again, I am quite positive and confident that the plant can keep performing well, and generating cash flow to the group, as it did over the first 9 months of the year.

**Roberto Letizia:**

So Paolo, if I can very briefly bring a piece of the first question regarding the hedging. I would actually imagine the forward sales for this year have been in the region of 65, or very close to the cap, or what is the hedging for the energy component of 2023?

**Paolo Merli:**

Yes, the question is clear: I just forgot to answer. But nothing has changed compared to what we said in August, because in the meantime, we decided to stop any short-term hedging based on futures, because the volatility is so high, and I think that, covering the

utility sector, you have an idea of what I am talking about. It is so high that we preferred not to take any further actions, because you see our net financial position was inflated by €310mn at the end of September, because of those hedging, simply the negative mark-to-market related to those hedging. But this is the first important point. Being all our hedging based on futures fully related to 2023, because we stopped any hedging beyond a 12-month horizon in order to reduce the volatility.

So, the first positive message is the €310mn will reverse as a cash flow in the 2023 fiscal year. So, we should expect a very strong cash generation in 2023, because at delivery of those futures we will recover the anticipated cash in the clearing house to face the mark-to-market. And this is the positive, the first message I want to give you from a financial point of view. From an economic point of view, I can just confirm what we have said: so, more or less the average prices in the region of 120-130€/MWh, but the real revenues will depend on those price cap. The important, surely positive news is that it seems that, according to the European regulation, any negative impact deriving from hedging could be included in the computation for the application of the price cap, as it was for Italy. As a matter of fact, for us the impact of Art. 15-bis of *Decreto Aiuti*, so the one that set out the claw-back measure at €65, basically has not had any effect, because we had this hedging, and those hedging were included in the computation. So, I hope I have answered your questions.

**Operator:**

The next question is from Naisheng Cui with Barclays. Please go ahead.

**Naisheng Cui:**

Hi, good afternoon, everyone and congratulations for the great results. Only two questions from me, if that is okay. The first one (sorry to go back to the commodities derivatives again, the €310mn derivatives): are we expecting the unwinding to be linear next year, I mean do you have equal amount every quarter, or do we expect a large amount to be unhedged, to be unwound in the first part of next year? So, that is my first question.

Then my second question, sort of related to this: you are going to deleverage quite a lot next year because of this, does that have any impact on your CAPEX? Do you have any guidance, or can you provide bit of color on your CAPEX for next year? Thank you.

**Paolo Merli:**

The deployment of hedging should be more or less linear throughout the year, maybe a little bit more in the first quarter, in the last quarter because they are the one where we have expectation for higher production, but more or less, it should be linear throughout the year.

In terms of CAPEX for 2023, let me say that it is still early to give an indication, so I prefer to wait for the Business Plan. Please consider that in 2022 we are going to invest roughly €1bn, which is well ahead of what was envisaged in the Business Plan. But my feeling – that is just a feeling, and not precise indication – is that the company is really strong, not just from an economic point of view, but also from a financial point of view. So, and then I see the right firepower to keep accelerating on our external growth, just if the conditions and the opportunities are the right one, because we have our own financial discipline, and we do not want to derogate from it. But on top of the organic growth that is the one I commented before - because we have a lot of capacity that should enter anyway, because we are completing the construction - we will keep looking for external opportunities, in Solar in particular, because we need to strengthen our solar portfolio, but also in Wind, maybe not in Italy, but outside Italy, and particularly in the North. But let us work for a couple of months, and then we will come back to you and provide you with the right set of targets for 2023 and for coming years.

**Naisheng Cui:**

Perfect. Thank you very much, Paolo very clear.

**Paolo Merli:**

Thanks. You are welcome.

**Operator:**

Gentlemen, this concludes our Q&A session for today. The floor is back to you for any closing remarks.

**Paolo Merli:**

Thank you very much for your attention. And we will see soon at the next occasion. Thank you very much. Thank you. Have a nice weekend.