



# **Saras**

## **Third Quarter 2021 Results**

### **Welcome**

### **Operator**

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining Saras' third quarter 2021 results conference call. As a reminder, all participants are in listen-only mode. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing star and zero on their telephone. At this time, I would like to turn the conference over to Ilaria Candotti, Head of Investor Relations. Please go ahead, madam.

### **Ilaria Candotti Head of Investor Relations, Saras**

Hello, good afternoon, everybody. Thank you for joining us today for this conference call on Saras' nine-month and third quarter 2021 results. As usual, our analyst presentation is available on our website on the home page under the Investor Relations section. Our agenda today will be the usual: Mr Dario Scaffardi, CEO and General Manager of the Saras Group, will start with the highlights of the period followed by a review of the results of each business segment.

Then, Mr Franco Balsamo, CFO of the Saras Group, will be available for a review of our financial items. Then we go back to Dario and present the outlook and finally we will be delighted to take your questions.

At this time, I would like to hand over to Dario.



**Dario Scaffardi**  
**CEO & General Manager, Saras**

**Highlights**

Good afternoon, ladies and gentlemen, and thank you for joining us today. In this quarter, Saras' comparable EBITDA has amounted to €2.3 million compared to a negative 61.5 of the third quarter of 2020. Compared to the reported EBITDA, the comparable EBITDA does not include the positive effects of the scenario on the change in prices and the value of inventories, but it includes the impact of the exchange rate derivatives.

The difference in the third quarter compared to the same period in 2020 is mainly attributable to the improved results in the industrial and marketing segment. The Group's reported EBITDA in the third quarter of 2021 was 4.8 million, down from 36.3 million in the third quarter of 2020. The change was due, on the one hand, to the different impact of the commodity price dynamics on oil and inventories and the third quarter of 2021 and change of inventory net of the related hedging activities on this benefited from an appreciation of €4.7 million compared with an appreciation of 107 million in the same period of last year where there were dramatic changes in the market.

Furthermore, in the third quarter, we had a very significant impact from the surprising increase in the power price and in the CO<sub>2</sub> price in which the impact on variable costs was only offset partially from the refunds that we receive, but we will go into more detail later on in this.

If we move to the next slide, you can see how the price of Brent has reached higher levels than those of the pre-COVID period. So, we've been firmly in the range above \$80 in the last couple of months, with a sharp increase during the summer period. This is due mainly to the strong demand and strong and surprising OPEC+ discipline that have been able to have the market slowly reduce inventories. And today inventories are below the average level of the five-year period.

If we look at the crude price differentials, these present a favourable picture. Sour crudes have remained over the last year, firmly in the range of the Urals benchmark between \$1.5 and \$2.5, let's say, with an average of \$2 discount, which, excluding the COVID period, which was totally abnormal, it's better than the previous period, in which, in 2018/2020, there was a lot of moments in which this benchmark was at a premium to Brent. A similar situation for the OSP of market grade like Basra from Iraq, which has slowly come back to what we can say are more or less historical levels.

Different picture for the sweet grades. Sweet grades had a moment of weakness during the summer, in which Azeri had a modest premium, one of the lowest levels that we have ever seen. Since August, premiums have crept up on the back of strong demand. So, we are back to the mark of about roughly \$2, which we can consider as sort of a historical number for Azeri Light.



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By the way, another element which is important, of Azeri, is that the quality of this crude has changed. This crude is a benchmark crude in the Mediterranean, and it has become lighter. So, this is one of the reasons why maybe its premium also has increased; it's more desirable by certain type of refineries.

At the same time, if we look at the distillate prices, they have been moving strongly upwards in the last quarter. While we had a slow start in the beginning of the year, things have picked up at the end of spring and the beginning of summer, with a very substantial increase over the summer and today on the diesel crack, we are almost back to pre-COVID levels, while gasoline saw a very strong bounce during the summer period on the back of demand, and in the last month, it has backed down, as is normal due to the seasonality of gasoline.

What we have seen is that storage, both on diesel and gasoline, has diminished significantly and it's below historical levels. There was a strong impact also from the outages in the US Gulf Coast due to the hurricane season, which has been pretty strong. So, we have seen strong demand, strong physical demand for diesel. The drawback of this is that jet fuel is still under pressure, although there has been a marked improvement in jet consumption worldwide, in particular in Europe and in the US. It is still 40 to 50 percent below pre-COVID levels, but it is recovering also thanks to the resumption of transatlantic travel. So, we are expecting, as we'll show in the outlook, a much more bullish picture for middle distillates.

Furthermore, Chinese exports have slowed down. It seems that the Chinese authorities have put a cap to the amount of runs that the teapot refineries can perform, so this also is something which is constructive for the market.

All this has created a stronger refinery margin. We can see this in the ratios, which have been moving upwards, although partially dampened by the very strong, absolute price of crude, and as we'll see, the negative impact of power prices.

If we look at the traditional distillate crack and gasoline crack graph, which puts it in perspective over the five-year average, we can see that gasoline cracks are at the highest part of the five-year range, which is extremely constructive. And diesel, which has been for the last 18 months firmly below the five-year average, is now square in the middle and still improving.

The wild card is certainly the price of power. The cost of electricity in Italy in the third quarter has been on average €125 per megawatt, compared to €42 in the same period of 2020. So, a threefold increase in the absolute price of power. And in the period, there was a record price of €158. So, strongly up. Almost three times above, not only what happened in 2020, but to the average of the ten-year period between 2010 and 2019, excluding the COVID period where the price has been always roughly around the €50 mark.



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Right now, this value has exceeded almost €200 in October, and at the moment it stands at around €170. Similarly, the policies of restricting the amount of quotas on European Trading Scheme has had the effect of rising CO<sub>2</sub> costs, which has shot up to about \$60 per tonne of CO<sub>2</sub> compared to a price last year of about \$20, which was already significantly higher than the historical multi-year average of a number between five and ten.

This has altered the results of Saras. Here we have our traditional graph, which is based on the EMC benchmark. The EMC benchmark does not include extraordinary energy cost. It has a cost which is just based on a fixed percentage of the value of the barrel, so it does not reflect the higher power cost. It does not reflect or incorporate in any way the CO<sub>2</sub> cost. Its power cost is related to low-sulphur fuel oil, as is sort of the oil tradition – as was the oil tradition in the past. So, the sharp rise in power and CO<sub>2</sub> has altered the dynamic here. If we compare it to the month of June, the price of power was €80 compared to €125 in Q3.

The result is that it has lowered the premium that Saras adds to the EMC benchmark by roughly 50 cents a barrel. So, while we gave a guidance in our last call on August 2<sup>nd</sup> of around a premium of \$4.7 to \$5.2 over the EMC benchmark, we have to lower this guidance by about half a dollar to 4.1/4.2 dollars per barrel.

### Segment Reviews

Going into the various segments, the representation is just slightly more complex because now we are incorporating all the industrial and marketing results in one segment and representing what we receive as compensation for power production is not always immediate and easy, and we have made a specific table which Franco will explain.

#### **1. Industrial and Marketing**

Basically, we have a refining scenario which has been positive and has delivered about €60 million of extra refining margin, thanks mainly to the middle distillate complex. At the same time, power sales, due to the high-power price, were higher by about €15 million.

We've had some negatives. One has been a negative industrial performance of about roughly €30 million, which is mainly attributable to the fact that in July we had a very severe generalised blackout on the island of Sardinia, which shut off power for a significant amount of time. And this had a knock-on negative effect on units of refinery whenever you have a blackout as a sudden emergency shutdown of all the units and this tends to create problems, and it has caused indirectly the breakdown of several units that needed to be repaired during the month of July and August, which is the reason why there's been a negative refinery performance in this period.



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Power production is similar to the one of the same quarter of last year – so, just below a million gigawatts. Last year was slightly above a million gigawatts and this year is slightly below a million. On this, we have higher variable cost of almost €80 million euros. This is due to higher CO<sub>2</sub> and higher power prices.

Of these €80 million, about €54 million are covered by what we call the essentiality regime – the reimbursement that we get for providing the essential power on a constant basis to the local grid in the island of Sardinia. And there were about 5 million lower fixed costs.

We had a much more constructive marketing market. We have had almost €10 million of extra EBITDA in this quarter compared to the same quarter of last year, thanks to higher sales both in Italy and Spain, but mainly higher marketing margins due to a very high demand for products.

If we look at a part of the changes that we had – before going into more detail with Franco on the cost basis – from the crude oil slate and the products, you can see the changes that we've had in our slate to take into account the different scenario.

First of all, we have lightened the barrels. So last year we were running about 38 percent of light crudes and this year it's almost 50 percent. This is because we have privileged gasoline yields and petrochemical yields. We are not a large producer of petrochemicals, but still we have an important petrochemical complex in our northern site, and we have increased the yield from about two or three percent to almost six percent of petrochemicals, mainly in the aromatics. And you can see that they are mixed together with the gasoline yields. Also, the gasoline yield has increased, of course, and take into account in the first nine months the very strong gasoline crack.

Conversely, we have lowered the runs of the sour crudes that last year were about 60 percent and this year are roughly 45 percent. And at the end, you can see that the average API gravity of our slate has increased by almost a full API degree, which is quite significant. At the same time, we have tried to increase the yield of very-low sulphur fuel oil, which is the new marine fuel, which has given us some very positive results. We have plateaued and reached more or less the maximum amount that we are able to market locally, and we started to target also markets outside of our immediate region where we have basically doubled production compared to last year.

And now we made a more detailed table that I would leave Franco to comment.

**Franco Balsamo**  
**CFO, Saras**

Thank you, Dario. As you know, the essentiality contract provides for a certain level of electricity the coverage of variable costs, that is correlated to the defined production levels, and fixed cost. And this is



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net, I repeat, it is net of revenues generated from the sales of electricity. In case the selling price of electricity is higher than the recognised cost, the differential is returned. While otherwise, it is a sort of integration of the cost suffered.

So, the company within the essentiality contract is guaranteed the return on the invested capital and the depreciation that represents almost a fixed amount. This is the framework of the contract. Due to the accounting principle, of course, the total amount of coverage cost received by the contractor is classified in the income statement amongst the revenues, because, at the end, it is a revenue.

All cost suffered and associated to the production of electricity are of course classified as costs within variable and fixed costs. So, in order to have a proper understanding of the economics of these contractors, now we are disclosing the main component of the different costs, and we hope that this will be a benefit for a better comprehension.

So, looking at the chart on page 15, in the third quarter, variable costs increased by €75 million, that is €82 million if we only consider the Industrial costs and exclude Marketing costs, of which 54, are within the recovery of the essentiality contract. So, net/net, the increase of variable cost is €28 million. This increase is due to the CO<sub>2</sub> and electricity costs, as Dario explained before.

On the fixed cost, the €91 million are net of €16 million that are the fixed costs covered by the essentially contract.

On the other side, we have the remuneration of the capital invested and depreciation that, as said before, is almost a fixed amount for the third quarter, an amount of about €15 million.

Same situation, of course, for the nine months whereby the increase in variable cost by €131 million need to be netted by €87 million covered by the essentiality. So, net/net the increase in cost in nine months is about €50 million. We can say 50 percent due to the increase in electricity and 50% in CO<sub>2</sub>.

And finally, regarding the fixed cost, the increase of €33 million in costs, you need to take into consideration €29 million of coverage within the essentiality regime.

At the end we have the amount which represents the remuneration of capital and depreciation in nine months, which is about €30 million. But of course, Ilaria and myself, are available for further request of explanations.



**Dario Scaffardi**  
**CEO & General Manager, Saras**

**Renewables**

Thank you, Franco. If we look at renewables, this, of course, is a bright spot, luckily. We have had higher production in the quarter of about 56 percent, which is due partially to the new wind farm that we have acquired in the southern part of Sardinia to the re-blading activity carried out and completed in our existing wind farm and from meteorological conditions which have been better than those of last year, although below the historical averages.

So, still relatively low wind conditions, although better than the past ones. The main component is, of course, the power tariff, which has risen from four cents per kilowatt to more than ten. If we instead look at the investments on the nine-year period, those have been slightly above €30 million and they are the result of the finalisation of the new wind farm in Macchiareddu in the south of Sardinia, and the completion of all the activities to renew our existing wind towers.

So right now, we have an installed capacity of 171 megawatts.

**Outlook**

If we look at things from a global level, from the oil point of view, we are in the situation in which global oil demand is slightly below the 2016–2020 range. But the International Energy Agency is forecasting that global oil demand by the end of the year should get back to pre-COVID levels, recovering all the losses over these last few years.

The main product, which is still missing from the recovery, is, of course, jet fuel. Demand of which has improved, but is still significantly below pre-COVID levels. So, we are in a situation in which we need to recover roughly 2.5 million barrels of jet, half of which is projected to be recovered by the end of the year. This is going to create some pressure on the diesel pool. So therefore, we believe that, combined with the various effect of increased demand for oil and reduced refinery capacity due to certain shutdowns, outages, and a variety of other reasons, gives a very positive outlook for oil demand.

The other side is, of course, we are worried about developments on the power market, which is a cost for us, although partially compensated by our activities in the renewables space. But still, we are a larger buyer of power than what we are a producer of power from renewables. What we produce within the essentiality scheme, as Franco was explaining, is basically a hedged production in which we have a fixed remuneration of our production. In the history of more than 20 years, of course, it has never happened that our cost of production was lower than the power market.



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It's possible that things might have changed. The paradigm might have changed or not. I think it's a little bit too early to make assumptions, but certainly it's something that needs to be monitored closely. So, we have a refining scenario which is extremely constructive and it's playing into what we have always tried to guide the market. We're expecting a recovery in the Q4/21 and this is happening net of CO<sub>2</sub> and power.

Our cost saving programme is firmly on track and accruing the expected results. We are confirming an investment in the range of €85 billion for 2021 in order to be able to maintain our plant fully competitive. We have changed, as mentioned before, the guidance on the EMC benchmark.

In terms of new activities, there is a strong driver right now to implement technologies that can improve energy efficiency and cost saving conducive to the environment and the constraint that we have from the market. We are launching a refinery-centred programme called ESTI. Esti in the Sardinian language means 'We are'. And it is a programme that wants to enhance the efficiency and the reliability of the plant and create the conditions for the refinery of the forthcoming years in order to ensure it is competitive going forward.

We have finalised the acquisition of industrial land between our north and south sites. Our refinery is divided into two parts and it is separated. We have two entrances and separate facilities. With this acquisition, we will be able to unify the north plant and the south plant and with significant cost improvements on certain common facilities between the two sites that will be unified.

We are looking also very closely at petrochemical opportunities. This year has seen a strong rebound of the petrochemical market, which is strong now and has some very positive outlooks. We have a possibility of making investments in order to increase our share, particularly in the aromatics market, and this is something that we are looking at with new eyes.

Most importantly, in this period, we are also finalising the new company with Enel Green Power in order to build the largest hydrolyser to produce green hydrogen in operation in Italy. This plant would be a 20-megawatt plant, which will provide hydrogen to our system. But also, we are in a position to use the oxygen as well. So, this is something which is dependent also on the funding from the recovery funds and the green funds from Europe and from the central government. We were supposed to receive definite approval of the investment during the summer, but it keeps on being delayed and postponed. So, we're looking forward to end of the year or the very beginning of next year, but we're confident we will be able to move on.

At the same time, we have signed an agreement with Air Liquid for a new technology on CCS, which is also a technology that we need to monitor and follow closely compared to other things that we have studied in the past, which were more traditionally based. This technology, as well, is cryogenic. That means liquefying basically the CO<sub>2</sub>, and it would make it much easier to transport it and to move it around. So, opening up new avenues in something which is a very dynamic market.





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On the renewables side, I already mentioned what has been done. We are in the very final stage of the authorisation process for a further 18 megawatts of solar photovoltaic and 20 of wind in our existing farm. Both of these projects, hopefully, will be approved by the end of the year, at the very latest at the beginning of next year, and we'll be able to start building. And the investment plan for 500 megawatts by 2024 is on track.

In terms of guidance on the net financial position, we expect to match the same level as that of last year – so roughly in the €470-million mark, or 500.

So, thank you. Thank you very much.

**Ilaria Candotti**  
**Head of Investor Relations, Saras**

If we want to move to the Q&A, we are open to receive your questions.



## Questions and Answers

### **Operator**

Excuse me, this is the Chorus Call conference operator. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. To remove yourself from the question queue, please press star and two. Please pick up the receiver when asking questions. Anyone who has a question may press star and one at this time. One moment for the first question, please.

The first question is from Alessandro Pozzi of Mediobanca. Please go ahead.

### **Alessandro Pozzi – Mediobanca**

Good afternoon, and thank you for taking my questions. The first one is on the guidance on the premium. I believe it implies a further step down in Q4, and I was wondering if you can give us perhaps the assumptions behind that in terms of what electricity and CO<sub>2</sub> prices, especially electricity again, you are assuming in the next couple of quarters.

And also remaining on the electricity side, I'm sure, clearly, we've seen this big spike, there are remedial actions that you can take to offset the impact on the P&L, and probably the first one that comes to mind is to better use or increase the use of the power generation that you have. My understanding is that most of the power generation that you're producing goes to the grid, and I was wondering whether you can increase that to supply electricity to the refinery rather than buying off the grid. Because I believe that you are selling basically at a fixed price, whereas you're buying at spot price, which at the moment is not working out for you. So, I was wondering if you can give us maybe some more colour there.

### **Dario Scaffardi**

Well, going to the electricity pricing, maybe Franco can help me a little bit more on the guidance. The power plant that we have follows the rules of the unbundling system of Italy and of Europe. So, we have to sell our power to the grid and buy back from the market, whatever power. So, it's only the enclosed electric producers that are able to use their own power. So, it's not an option for us to use our power internally. Otherwise, we would have done so, obviously.

Here there's also a very exceptional situation in which there is a history of more than 20 years in which the economic driver was exactly the opposite. But I think that your question is absolutely legitimate. What happens is that with the essentiality regime – and we will maybe give a little bit more colour on it – if we produce more power, we have to sell this on the spot market for which we are not clearly equipped. But any extra revenues that we would accrue would undermine what we receive in terms of essential reimbursements. So, it's a rather complex calculation. We have to look at a variety of factors. We have to look at, first of all, the oil margin.



So, producing more power means buying more sour crude and basically running the refinery at a marginal margin. And this has to be coupled with what we actually get on the market. If the situation remains in this way, it may be convenient to do so, and we are actually following it. It has not been the case in Q3.

If the price of power remains at these levels, things could be altered a little bit. But it's not something easy to face because the refinery is not a flexible unit that can be turned on and off continuously. So, it has to basically follow a base-load regime. So, once we set to make a certain amount of power, this cannot be changed on a daily basis. This is not the equivalent of a gas-fired unit, which is able to ramp up in terms of minutes. I mean, we take, we believe, a short time, but we take days to ramp up, not seconds.

So maybe on the guidance, Franco—

**Franco Balsamo**

On the guidance, Alessandro, of course in the guidance, we take into consideration oil prices and electricity prices. In term of oil, the current level of crack spread with Brent at \$83 per barrel. As far as the electricity is concerned, the guidance is calculated to take into account our consumption. So, the electricity with a PUN price to €200 per megawatt hour. In the previous guidance, the price was very close to €70.

On the CO<sub>2</sub>, the model takes in consideration €62 for Q4.

**Alessandro Pozzi – Mediobanca**

Thank you. I think you also provided a very useful table in the presentation with variable cost. Can you just clarify how much was the impact in Q3 of the higher electricity and CO<sub>2</sub> prices versus a year ago?

**Franco Balsamo**

Of course, the classifications that we gave you is a sort of proxy, because the system is complex. But, as far as the third quarter is concerned, the €28 million increase of variable cost is, of course, compared to the previous period, let me say it's half and half more or less, it's more than €10 million in electricity and €17 million in CO<sub>2</sub>.

**Alessandro Pozzi – Mediobanca**

Thank you. If I can squeeze in the last one. When we look at the EMC, there's a lot of inputs that are maybe not quite right in the sense that, for example, there's heavy-sulphur fuel oil, there were Urals that you're not quite using at the moment. Would it be the right time to look at the EMC and change and create a new benchmark that is more relevant to the refinery?



**Dario Scaffardi**

Yes, I think it's a valid point. The EMC benchmark was already changed about two years ago, taking into account low-sulphur fuel oil. So, I think that the EMC benchmark has at least a component, if I remember correctly of low-sulphur fuel oil. It's not easy to find a benchmark. It's something that we have been debating. By the way, the EMC benchmark was introduced by Saras in 2006, and nobody has come up with anything better up to now. So, finding an appropriate benchmark is not easy, to be honest, but it's something that would certainly be necessary. And I think we would appreciate the inputs of the market. Maybe something that could be a Saras-specific benchmark, maybe. Other companies are doing something like that, of course.

**Alessandro Pozzi – Mediobanca**

All right. Thank you very much.

**Operator**

The next question is from Joshua Stone of Barclays. Please go ahead.

**Joshua Stone – Barclays**

Thank you. Good afternoon. Two questions, please. Firstly, Dario, if you could just elaborate on the petrochemical market opportunities you talked about. These are organic investments, I assume, and which aromatics are you targeting and what's the likely capex you're talking about? If you could just flesh that out a little bit.

And then secondly, it's going back a few months now, but I noticed you purchased the world's first carbon-neutral barrel from Lundin earlier in the year. Could you say whether paid a premium for that crude and how would you expect that market of carbon-neutral barrels to develop and to what extent would you be willing to pay a premium for carbon-neutral barrels? Thank you.

**Dario Scaffardi**

Let me start a little bit with the petrochemicals. Our particular petrochemical plant is a plant which we call BTX, which means benzenes, toluenes and xylenes. So, it's part of the aromatic complex of all those – without wanting to be too specific on chemistry – it's all those complex molecules that derive from the bases, which is benzene, which is an organic molecule which has a circular shape. And then according to how you fit all the various other molecules, atoms, you have very different properties, which are benzene, basically, which is used in all base-chemical production, specifically for making plastic.

Then we have a very specific product, which is called – we call it in Italian pseudocumene – it has limited production and it's a heavy aromatic which is used to make very, let me say, sophisticated plastics, in



particular in the dashboards of high-range automobiles; orthoxylene which is used to make, again, plastics and plastic bottles and resins and so forth; and xylenes which has basically the same use.

So, we would want to make investments in order to modernise the existing plants in order to increase production and efficiency. The existing plants are rather old. They were made more than a generation ago, so there is an investment here that could be theoretically in the range of €1 to €5 million, maybe, for this aromatic complex. And we could further improve also the production of propylene, which is petrochemical grade, not refinery-grade propylene. That would be a smaller investment and we could try to boost production. So, moving from production of propane or refinery-grade propylene to more petrochemical-grade propylene, which is much more valuable on the market.

We are talking relatively small quantities here. All in all, we could probably increase it by, let's say, something like 200,000 to 300,000 tonnes a year of this family of petrochemicals, basically at the expense of the naphtha gasoline complex. We could also increase paraffin production, but that is heavily dependent on the availability of certain types of paraffinic crudes, which is outside our hands.

And in terms of – because it's not a definite decision yet, it's something that we are we are looking at the moment in order to see if the market remains firmly in this area and it would look to be extremely constructive for the time being.

In terms of carbon-neutral crude, there hasn't been much follow up from that cargo. It was the first that came on the market and I think we were the first to buy it. There is no specific advantage at the moment for the buyer. So, the question, are we ready to pay a premium? Well, no, because this premium could not be offset in any way. It does not reduce our carbon footprint in any manner for the time being. So, it's something that instead goes to who is producing the crude and they should offer a discount, if the world was a fairer place.

So, I think all this is something which is an evolving market, in a way, and which we follow closely as we follow all the new trends. But at the moment, I don't see any development in this side.

**Joshua Stone – Barclays**

Okay, thank you.

**Operator**

The next question is from Henri Patricot of UBS. Please go ahead.

**Henri Patricot – UBS**

Yes, hello. Thank you for the presentation. Two questions, please. The first one, just going back to the cost. I was wondering if you were reconsidering, or if you've hedged any of these costs for the next few



quarters? Or if we just look at the spot CO<sub>2</sub> and electricity prices and use that to come up to the cost in the next quarters?

And then secondly, can you explain on the new programme, the ESTI programme, and what you expect the operational and financial impact to be? Thank you.

**Dario Scaffardi**

Well, on our new programme, it's exactly that. A new programme in which, it is a very local programme in which the refinery has to prepare and design itself for the forthcoming years.

Clearly, we need to increment digitalisation. So, stronger automation of processes, very close follow up of process technology. So, we will employ more highly-trained engineers in order to follow closely all the opportunities, even the micro-opportunities in process controlled where we require a high level of sophistication. And optimisation, thanks also to the possibility of unifying the sites in order to reduce fixed costs based on services that were rendered on both areas, and a rethink and re-internalisation of a certain number of activities that today are given outside.

So, a strong re-focussing internally on all activities that can be brought back in-house, and also thinking of the workforce, how this can be optimised looking forward; how it can change considering most of the change in demography, the change in the skills that are available on the market. So, the objective of this programme is to define what the refinery could look like, what the new refinery could look like in the next years and also in order to face the next decade.

On the cost, Franco, maybe..

**Franco Balsamo**

The hedging of CO<sub>2</sub> prices is an activity that is not in place in the sense that we buy our CO<sub>2</sub> need every day, on an average basis. So, the stronger volatility on the last months were not predicted. So, for the next year it could be an opportunity; we are evaluating it.

**Henri Patricot – UBS**

Okay, thank you. And yes, thank you.

**Operator**

The next question is from Massimo Bonisoli of Equita. Please go ahead.

**Massimo Bonisoli – Equita**

Thank you for the presentation. Good afternoon. I hope you can hear me well. The first question on renewable. If you can provide an outlook for EBITDA for this division in Q4 at mark-to-market prices



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of PUN. If I'm not mistaken, there should be quite a sizeable step up sequentially and any indication of sensitivity to PUN prices would help.

The second question is on CO<sub>2</sub> exposure. If you can provide any indication for 2022. If there is any sizeable difference versus 2021 in your expectation.

And the third for Franco on net financial position. If you can have just a very short bridge for Q4, considering that the oil price has increased versus the average of Q3, the excise duties and value added taxes should continue to increase. Just to understand the underlying assumption on your outlook.

### **Franco Balsamo**

In terms of net financial position, as Dario said, we foresee a level that will be about €500 million due to the current level of commodity prices. The fourth quarter will be positive after many quarters in terms of generation of cash. And that is positive, but partially will be offset by the other costs. Now we have an absolute level of inventories that is slightly higher the budget. But that could be different. So, let's say that the level of indebtedness at year end will be stable between €470 million and €500 million, as Dario said before.

In terms of CO<sub>2</sub> exposure, I will say that more or less we are short for about less than 1 million tons.

In terms of renewables, the last quarter would be extremely positive because the old plant re-bladed is fully in force. The new acquisition with farm is in full operations and we forecast an EBITDA of about €15 million.

### **Dario Scaffardi**

Yes, also in the last quarter, the weather conditions should be better for the wind here. So historically, at least, the last quarter, has always been windier than others. So that compounded with a much higher absolute price should give some very good results for the renewable division.

### **Massimo Bonisoli – Equita**

Many thanks.

### **Operator**

As a reminder, if you wish to register for a question, please press star one on your telephone. Once again, if you wish to ask a question, please press star one on your telephone system. Ms Candotti, gentlemen, there are no more questions registered at this time.

### **Ilaria Candotti**

If there are no more questions, I remind you that we are available, as usual, to answer any further questions you might have. I wish you a good afternoon and good evening, everybody.