ERG S.p.A.

"1Q 2023 Results"

May 12, 2023

MODERATORS:
PAOLO MERLI, GROUP CEO
MICHELE PEDEMONTE, CFO

Operator:
Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the ERG 1Q 2023 Results conference call. As a reminder, all participants are in listen-only mode. 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 morning, everyone and welcome to our First Quarter results presentation.
Here with me, as usual, is our CFO Michele Pedemonte who will run you through our business performance over the period in more detail later on.

So, let us get started with the overview of Results: I am on **page no. 4.** In line with last year, numbers here are based on continuing operations, excluding CCGT from the scope, and figures are presented gross of clawback measures and windfall taxes, as those items are accounted for as non-recurring, being extraordinary and temporary measures. Throughout the presentation anyway we will provide detailed disclosure of those measures.
In a nutshell, I would say results were solid once again, in line with our budget and mainly driven by larger installed capacity, that allowed us to almost fully offset the sharp reduction in captured prices, also reflecting the zeroing of the Green incentive in Italy, given the formula its pricing is based on.
EBITDA: €167mn, broadly in line YoY, as the larger installed capacity - partly through M&A, and partly through organic growth - contributed by roughly around €25mn. This positive contribution was basically offset by lower captured sales price (-€20mn) and lower wind availability, in general but (let me say) in particular in the UK. Solar in the period showed rising volumes due to better irradiation.
So, all in all we can say that those results, even though in line with last year, are a proof of the resilience of our portfolio in this extremely volatile business environment. I would like to say that in this quarter more than 50% of EBITDA came from outside the border.
Clawbacks during the period were €7mn against €3mn in 1Q 2022. Adjusted for those items, EBITDA net of clawbacks was €161mn in 1Q 2023 against €165mn in 1Q 2022. You will find those numbers - I mean, net of clawbacks - in the footnotes of this chart, so you have all the numbers: net and gross.
CAPEX in the period amounted to €66mn, lower than the same period of last year, as 1Q 2022 included €96mn from M&A in Spain. The CAPEX over the period was mainly related to the advancements for assets under construction, both repowering and greenfield projects.
Adjusted Net Profit was €84mn, in line YoY, reflecting the operating results and lower financial charges.

Bottom line the impact from extraordinary measures was €5mn in 1Q 2023 against €17mn in 1Q 2022, because I remind you that - on top of the clawback measures - Q1 2022 (as the remaining quarters of last year) was hit by some windfall taxes, in particular in Italy. Net of these items, Net Profit in 1Q 2023 was €78mn against €67mn in 1Q 2022, showing (and that is the good news) reduced intensity from these measures, which we hope are going to phase out completely soon, given the strong correction and reduction in gas prices. Again, you will find all those numbers in the footnotes.
NFP at year-end was €1.2bn, significantly down vs. the €1.4bn at the end of last year, mainly because of the strong cashflow generated by the company over the period, on top of the reversal I have been mentioning over the last few webcasts, given the delivery of derivatives that absorbed the last year negative Mark-to-Market.

Let us move now to **page no. 5**: I would like to give you a quick update on our main achievements during the quarter.
In general, the message here is that we are moving forward with our strategy, and in particular with the expansion of our RES Portfolio in Europe.
As far as organic growth, we started up our Creag Riabhach wind farm in Scotland (92MW).
As far as M&A, we made an important step in our diversification in Solar in Spain with the recent acquisition of 149MW under construction. More details will follow.
In terms of our financing strategy, we are very satisfied with the Investment Grade rating just confirmed by Fitch, which is a recognition of our business model and solidity of our financial structure, which remains a distinctive feature in the space of pure renewable players. YtD we signed re-financing for €330mn at very, very competitive market conditions, as €250mn were pre-hedged in 2019 at almost 0 risk-free rate, therefore with an all-in-cost which is pretty in line with our current cost of debt (slightly above 1%).
As far as PPA, we are moving forward consistently with our route-to-market strategy. We signed an important PPA with Luxottica for 900GWh related to our Partinico-Monreale repowering project, which is going to be the first one to enter into operation, as in fact it is now under its commissioning phase after the wind turbines erection was completed. We also amended the PPA with TIM (the Italian telecom champion) to extend yearly volumes by 200GWh and improving economic conditions for the entire volumes in excess of 0.5TWh.
Our ESG path is continuing to be successful, with important recognition on all the pillars of our strategy. We have been confirmed in the Bloomberg Gender Equality Index with an improved scoring, as proof of our commitment to fostering women’s leadership in our organization.
Sustainalytics improved our rating from medium to low risk as regards our governance model.

ERG has been included in the Global 100 most sustainable companies in the world by Corporate Knights in recognition of the ESG strategy fully embedded in our business model.

Despite equity markets have switched to a negative mood towards Renewables, we are still moving on, successfully and consistently with our strategic path.

Let me give you a little bit more color on the recent acquisition in Spain. I am on **page no. 6.**
The Garnacha solar power plant has a total installed capacity of 149MW in a very advanced stage of construction. In terms of size, it is going to be the largest photovoltaic farm in the Group's renewable portfolio.
I would also like to highlight the quality of the assets, that are equipped with best-in-class panels, trackers and inverters, with a load factor of 22%, which means almost 2,000 hours per year. As regards the route-to-market, the assets come with a 12-year PPA with Google, that covers 70% of production.
More importantly, with this acquisition ERG consolidates its industrial presence in Spain, with a total installed capacity of 266MW and over 1GW of pipeline under development.
We can now move to phase II of our development in the country, with greater focus on organic growth.

Now over to Michele for his review on Q1 results.

Michele Pedemonte:
Let us start on **page no. 8** with an overview of the unitary revenues of the period.
In 1Q electricity market prices have been lower than previous year; this trend influenced our all-in unitary revenues, which are also affected by the hedging made in the past, or by other revenues component.
In Wind Italy, for example, unitary revenues are influenced by the value of the incentive, which is null in 2023 and lowered by 43€/MWh vs previous year, while on the market we caught a price in line with previous year, thanks to hedging policy. All in all, we have a decline in unitary revenues from 124€/MWh to 116€/MWh.
In France the large majority of our assets operate under FIT scheme, without exposure to market prices. The increase in the unitary revenue is mainly related to the increase in FIT according to inflation and to some limited hedging activities.
In Germany the one-way tariff structure, coupled with some short-term hedging, allows us to capture higher prices than previous year.
Eastern Europe unitary revenues decreased in 1Q, mainly in Romania and Bulgaria. Since 4Q 2022 the Romanian Government introduced the obligation for our plants to sell

electricity through a PPA at a cap price (roughly 90 €/MWh) in order to reduce the impact of high energy prices in the country.
In UK the decrease in all-in unitary revenues (-€111) is related to PPA prices which are lower than the spot market price captured in the first months of operation of our Northern Ireland assets in 1Q 2022.
As regards the solar all-in unitary revenues, we see value increase in Italy thanks to the new assets at merchant prices vs previous year completely at fix prices. In Spain, where our assets have a tariff mechanism that operates as a floor to our revenues, all-in price reflects lower market scenario.
Finally, please note that, consistently with previous year results, our figures are presented gross of clawback measures implemented by various European Governments and accounted as non-recurring items also in 2023.

And now a focus on productions: we are on **page no. 9**. As regards the 1Q we have:

- in Italy 784 GWh, +11% YoY, thanks to wind & solar asset acquired in 2022 (+116GWh) partly offset by lower wind conditions and worse irradiation
- in France: 396GWh (+23% YoY), thanks to better wind conditions, and 21GWh coming from new perimeter
- in Germany: 203GWh (-2% YoY) compared to a particularly higher production in 1Q 2022
- in Eastern Europe: volumes higher than 1Q 2022 (+10%), thanks to assets entered into operation in 2022 in Poland (+41GWh), partially offset by lower wind conditions, especially in Bulgaria and Romania
- in UK & Nordics: 132GWh, thanks to the assets energized by the end of 2022 and in early 2023 in Scotland and Sweden, partially offset by lower wind conditions with respect to our Northern Ireland assets. Production at our Furuby wind farm in Sweden was lower than expected, mainly due to a slowdown in its commissioning and ramp-up phase, during which the manufacturer recorded some technical issues. The WTG manufacturer, Siemens Gamesa, is currently conducting a full root cause analysis. This is a new platform, one of the most powerful in the onshore wind industry at this moment. Additional testing and fine-tuning of the installed machines is normal during the ramp-up process of the new platforms
- in Spain: 35GWh (+30%) thanks to better weather conditions with respect to last year.

1Q productions reached 1.8TWh, mainly due to new assets acquired or internally developed in Italy and abroad, and lower wind productions in Italy and Eastern Europe.

In the first quarter of the year - I am on **page no. 10** - we have an overall EBITDA equal to €167mn, in line with 1Q 2022, thanks to €25mn coming from perimeter effect, which is

compensated by lower price scenario and lower volumes, in particular in Italy and Eastern Europe.
In Italy the EBITDA is €82mn, in line with previous year, thanks to perimeter effect compensated mainly by the lower value of the incentive, which is null in this quarter.
In France the EBITDA is €29mn benefiting from better wind conditions compared to extremely poor production last year.
In Germany the EBITDA is €28mn (+10%) thanks to higher prices captured through our hedging policy.
In Eastern Europe the EBITDA is €23mn, lower than 1Q 2022 mainly due to lower sales price and lower volumes, partly offset by perimeter effect in Poland.
In UK & Nordics the EBITDA is lower than 1Q 2022 (-€4mn), mainly due to PPA at a lower price than previous year market scenario, partially offset by perimeter effect (+€7mn).
In Spain the EBITDA is €4mn, in line with 1Q 2022, thanks to higher productions compensated by lower captured price.

At the end, a stable EBITDA in comparison with previous year, in a scenario of strong decrease of market prices, thanks to our revenues securitization strategy and to the growth of the installed base.

I am on **page no. 11**. And now a brief overview of investments in the period.
We invested €66mn: an amount which is lower than the one invested in 1Q 2022, which was affected by the acquisition of solar plants in Spain.
About €63mn are related to organic CAPEX in Wind, referred to construction activities mainly in UK, France and Sweden, and it also includes €36mn of CAPEX in Italy for the wind projects currently under construction in Sicily.

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

- higher depreciation, which reflects the contribution of the new assets, net of life extension of our Italian wind assets
- Net Financial charges at €3mn, vs. €6mn in 1Q 2022, mainly influenced by the increased liquidity remuneration in a scenario of interest rate increase, with a debt structure almost completely at fixed rate
- tax rate in the quarter was 22%, in line with previous year.

As a result of all this, the adjusted Results on continued operation of the quarter amount to €84mn, in line with previous year.

Our CCGT is consolidated in the discontinued items. Net results of -€6mn include depreciation of €5mn and an EBITDA at breakeven impacted by an extremely negative market scenario for gas generation margins, and further worsened by Government measures for maximizing power production not from natural gas, whose negative effects are expected to be mitigated from April 2023. Results are also negatively influenced by a machine downtime at the beginning of the year that now has been resolved.

On **page no. 14** you can find a summary of the clawback measures that we accounted as non-recurring items in the quarter. The impact on EBITDA can be summarized as follows:

- in Italy and France (€3mn)
- in Eastern Europe clawback measures are €4mn and they refer mainly to Poland and Bulgaria. In Romania, the Government set a compulsory PPA mechanism at the cap price, which has the same substantial effect of a clawback measure.

These measures have an impact on Net Profit for €5mn.

Comparing Net Profit net of clawback, we see a substantial increase vs 1Q 2022, that was heavily affected by the first version of the Italian windfall tax.

As already commented in the last webcast, we do believe that these measures are unfair, unjustified and ungrounded. For this reason, ERG has taken all required actions in order to protect its interests in all countries where it operates, including by challenging the relevant regulation before the competent courts.

Finally, on **page no. 15** let us take a look at the Cashflow Statement and the Net Financial Position for the 1Q 2023.
The Net Financial Debt closed at €1.2bn, €228mn lower than the end of 2022, driven by a solid cash generation from EBITDA and net working capital positive movement for €100mn mainly linked to a timing effect from hedging operations done in the period.
These impacts are netted by the already commented investment of the period for €66mn.
The net financial position at the end of the quarter includes €40mn due to the mark-to-market of derivatives on commodities.

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

Paolo Merli:
Thanks Michele.
Before going through guidance for 2023 let me take a look with you at ERG's delivery in terms of RES portfolio growth vis-à-vis the target we set in our Business Plan.
As you can see from this chart on **page no. 17**, through a combination of M&A and organic, we expect to add a further 369MW by year end, which is bang in line with the trajectory of the Business Plan.

If that turns out to be the case, it means we will have increased our RES capacity by more than 1.2GW in three-year time, from 2021 to 2023, so an average of 400MW per year, which means an increase of about 60% compared to the end of 2020, when we strategically decided for the Asset Rotation (Hydro and Thermo) and oriented our efforts towards a pure Wind & Solar model, being those – that is our view – the dominant technologies, going forward.
And this growth will continue to be a driver of our results.

So, let me conclude by giving a detailed guidance for 2023:

- EBITDA is confirmed in the range of €500-550mn. Let me point out that 2023 guidance is net of clawbacks.
- CAPEX range is moving up from €400-500mn to €500-600mn, to include the recent acquisition in Spain for €170mn, partly compensated by the fact that some M&A CAPEX was already included in our 2023 initial guidance.
- NFP is expected now in the range of €1.4-1.5bn compared to the previous €1.3-1.4bn, as a consequence of the same reason, i.e. the revised CAPEX.

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. Anyone who wishes to ask a question may press "*" and "1" on their touchstone telephone. To remove yourself from the question queue, please press "*" and "2." We kindly ask you to use handsets when asking questions.
The first question comes from Enrico Bartoli of Mediobanca.

Enrico Bartoli:
Hi, good morning, everybody and thank you for taking my question. Actually, I have a few. First of all, a general question on your comment about the fact that the market is not really any much in love with the Renewables. And I was wondering, if you can update on your view on the sustainability of the returns from your investments, and maybe some comment on actually what the market is maybe wrong in appreciating the share prices of the sector, and on ERG in particular?
The second question is regarding Spain: you completed this important acquisition in the past days. Also here, I am interested in your view on the Spanish market, because there is a lot of discussion whether actually the prices for solar assets are going to be sustainable going forward, considering the capacity additions in this market. And actually, Spain is going to be a big driver of your growth over the next few years: you highlighted the 1GW of pipeline under development.

The third one is related to PPAs in Italy: you signed these large contracts recently with Luxottica and TIM. Can you provide some color on the environment for PPAs in Italy (I have the impression that demand is actually continuing to grow), and some comments also on the pricing environment?
And the last one is an update on the hedging in terms of volumes and prices for this year, considering the evolution of power prices in the past few months. Sorry for the many questions.

Paolo Merli:
Good morning, Enrico. So, I try to follow the order of your questions. The first was about our view on the current business environment, including the regulatory and - let me say, *vis-à-vis* - the performance of the Renewables, as an asset class in the equity markets. Our view is that there are 3 main factors right now, that are putting a little bit of uncertainty on the sector. And the first is for sure the regulatory, because the big mess that has been created with this clawback, windfall taxes, extraordinary measures *etc*. has increased quite significantly the perception of the regulatory risk. On this aspect, my personal view is that sooner or later - and I hope soon - Europe will realize that the energy transition can go on only if the environment for investors stabilizes.
And I know, the European Commission is working on giving guidance to the member States whether to extend or not the clawback measures. And I think this should be a quite important message: my personal expectation is that they have realized the impact they have done with these measures, and they will stop them at the natural phase-out date, which in general is 30 June of this year, even though some member States (such as France) have already extended the measures till the end of the year. But let us say: I expect 2023 to be the last year with this kind of measures and then back to normal, or back to market.

The other two factors in my opinion underpinning this quarter performance of the sector - not of ERG, but of the sector - are also the interest rates, that keep moving on up. But from this point of view, let me say, we are in a quite ideal situation, because we have €2bn of gross debt, which has a cost of 1 point-something, less than 1.5%. And the only fundraising we needed in the short-term was already done in these first months of the year, at a very, super competitive conditions, basically in line with the cost of our debt: that was made possible, because we pre-edged mostly this amount in a time where interest rates were basically zero. So, this provides the company with a very strong financial power. And the next fundraising based on the Business Plan should be in 2025. So, let us see, but my personal expectation is the interest rates should reach, or have already reached, the peak probably in 2023. And then I expect them to cool off a little bit.
And the third element is the volatility of the gas price. So, last summer it touched 340€/MWh and right now it is 35€/MWh. So, the volatility is really extreme. In fact, we

are glad to confirm the guidance and to have posted results in Q1 that are basically in line or even slightly better than our budget. And then the number was embedded in our guidance. This is the third element, and again I expect the market will find a balance soon, and probably we expect the energy prices anyway to remain in the range of €100, not to go back to €50 or €60, as they used to be before the green inflation, the war and everything gone on in the world. So that is our view.

About Spain, for sure the elements you underline - the penetration of Renewables in the market - is one of the elements that have been taken into account when deciding the investments, and when deciding the strategy for the country as a whole. But we still believe, the area of Spain is quite an interesting area for photovoltaic investments, given the huge presence of the resource.
Let us take our recent acquisition: the plant has got roughly 2,000 hours per year… almost 2,000 hours per year, which is usually a load factor you can see for Wind, not for Solar. Consider also that the strategy for route-to-market is always based on PPA, and we have quite clear evidence that the PPA market is still hot.
I think one of your questions was about PPA: We have signed 2 PPAs with Italian entities - Luxottica, and TIM (which was an extension of the previous PPA) - but the company proved to be able to process PPAs also outside Italy. We made it in France, in UK, and we are working also - or we will be working after closing of this operation, which is already provided with a PPA - to further secure the remaining part of the revenues, which are floating, because the PPA with Google covers roughly 70%.

Looking forward, we think this acquisition should move our attention about M&A to other countries, in the sense that with this acquisition we will reach a size of roughly 300MW, and the next installation, the next moves should be more focused on organic growth. From this respect, we are working on several projects in our pipeline, quite large-scale photovoltaic projects, maybe with a time-to-market of a few years, but still very, very, very promising. I do not know, Enrico, if I touched all.

About the hedging, I must say - as you can see from our net financial position - the mark-to-market of derivatives is quite low, in the sense that the reversal we said last year has already mostly been realized in the first quarter. We still have some hedging as regards 2023, not very much on 2024, because our strategy is progressively moving from this kind of hedging to physical hedging provided by PPA.

Enrico Bartoli:
Thank you. Sorry, just for summary, a quick detail on the hedging: in terms of pricing, can you give some hint of where actually your average price is going to be in 2023, compared to 2022?

Paolo Merli:
The hedging price for 2023, on average, is above 100€/MWh, because it is a mixture of the hedging done a few years ago, when prices were lower than the ones executed last year. So, all-in-all, I think the value of this hedging is quite satisfactory.

Enrico Bartoli:
Okay, great. Thank you very much.

Paolo Merli:
Thank you. Thank you, Enrico.

Operator:
The next question is from Roberto Letizia of Equita.

Roberto Letizia:
Yes, good morning. Thanks for taking my question. The first one is on the guidance, and I would like you to explain us which conditions may allow you to realize the top of the range (i.e. the €550mn EBITDA). So, what has to occur to reach that level, and how do you think the potential elimination of the price cap in the second half may affect this, if it is actually related to this element?
A follow-up on the hedging: you said we are pretty much close to the hedging because the impact is now zero, you said a few things have remained on the hedging side. Does that mean that if the cap is removed in the second half, you may get upside effectively on power prices because you no longer have hedge on production?
I would like an update on the disposal process of the CCGT if possible, on how negotiations are evolving.
And a quick follow-up, sorry if I go back to the previous question on the risk of having very low prices, especially in the Spanish market. I was wondering if you can provide a few details of how the PPAs are built up: not full details, but just a sense to understand if those contracts, for example, provides you with a floor to the energy prices, because I guess that they have a profile which follows the market, but I was wondering if this gives you a floor, if you can provide any sense of what kind of floor is embedded in those countries to let us understand how you are protecting against the risk of zero prices, for example. And how much do you think in the mid-term you will still be open to market pricing, especially in Spain? Thanks a lot.

Paolo Merli:
So, Roberto, again I try to follow the order of your questions. The first is about the guidance and - I perceive through the lines - how confident we are about this guidance and what are the assumptions the guidance is based on. The necessary premise is that the price scenario is extremely volatile, as it has never been. Our forecast, and therefore

guidance, is based on the most recent forward curves, which are lower than the ones our initial guidance was based on. The fact that we are confirming the full year guidance (which is positive in itself) is because Q1 was slightly better than our budget and, going forward throughout the year, we expect the results to be supported by several factors, among which our revenues structure, which is mainly based on long-term contracts and fixed price tariffs, as the PPA we recently signed got the starting date from 2023… 1st January 2023, even though we announced them later on.
The second point - which is mainly the most important - is the strong contribution we expect from new assets: the ones that have already entered into our portfolio and that are already up and running, but also the ones that are going to start production during the course of the year, and I mentioned during my speech that one of them (the first Repowering in the Partinico-Monreale wind farm) is in these days energizing to start production, so the deployment of our investments, as represented during the webcast, is on-track and we expect this contribution.
And, last but not least, I would say a very, very big attention, a great attention of the Group on fixed cost, which maybe could be lower than what was envisaged in our guidance. So all-in-all, these 3 elements are suggesting us absolutely a forecast that is in line with our previous budget.
To reach the cap of the range depends on several factors but the most important one is the price scenario. The gas price is so volatile, and we cannot rule out the gas price will reverse the last month's trend, going up again during the summer, when hot should play a major role in the supply demand markets. So, the scenario, let me say, is the most important driver, and also the availability of Wind and Solar, because, you know, the presence of wind can change the game very easily, so down but also up. So, those are - I would say - the main elements.

As regards the clawback, it is really difficult to predict the evolution of the regulation. For sure, it is quite evident - also from public statements from EU representatives - that they are very well aware of the damage they have created with these measures. So, we expect these measures to progressively phase out from our landscape. During the previous webcast I said those measure were going to have an effect in the tune of €100mn, now it is much less because the price scenario went down: you see in the quarter just €7mn, so you can simply try to figure out how much it could be for the full year, but surely less than half what we expected just few months ago.
Yes: in our guidance we are expecting all the measures - we are obviously cautious from this point of view - to stay on for the full year. So, if they will be cancelled in the second part of the year - because the natural expiring date for most of these norms is 30 June 2023 – yes: for sure, we should have a little upside, let me say.

You ask also about the CCGT. Okay, you have seen the results were very poor during the quarter. I start from here, even though I know the question is more oriented to the sale

process; but let me elaborate a little bit on the results of the first quarter for the plant. So, we deem the poor results over the quarter were due to a couple of extraordinary factors. The first and most impactful is an extraordinary weaker business environment with clean spark spreads - particularly in the area where the plant operates - under strong pressure. And this is mostly related to the "*Piano di massimizzazione*", a program that has been approved by the Government last summer and is still in place based on which oil, fuel and coal plants can run at full speed to reduce gas consumption. This program is resulting in an oversupply that is pushing margins down. This program was expected to finish at the end of March 2023, but was recently extended till 30 September of this year. The economic impact from lower price scenario - at least looking simply at the comparison with a price scenario we had last year - was €5-6mn during the quarter, so quite a huge impact for the plant.
The good news is that, although extended, this program has been significantly reduced in intensity. As a matter of fact, the nearby fuel oil plant (which is impacting our economics the most) has been stopped since February 1 and, as a consequence, April I can say went better. Looking forward, we cannot rule out the possibility that this fuel oil plant will be activated again between now and September, if necessary. But the program, looking forward, will definitely come to an end, because it is in contrast with the energy transition target, simply as a polluting plant. After that, we expect CCGT profitability to come back to normal. This is an external factor, but it has quite a clear impact.
The second one is a more company specific, because during the quarter, at the very, very beginning of the year, we had a downtime of 400 voltage cable on a transformer connecting the module 1 with the Grid. This failure resulted in one month and a half shut down for the module 1, which - I remind you - is the one of the 2 trains benefitting from White Certificates under the CAR regime, the High Efficiency Co-generation regime. This downtime has an impact of roughly €3-4mn on the reported EBITDA over the period, so over the first quarter.
The failure has now been repaired, and the plant has been fully up and running since March. So, if you adjust the zero EBITDA of the quarter for these two main effects, you can see the normalized EBITDA is pretty in line with historical profitability of the plant.
So, when it comes to sale process, we can just say that it is moving forward: the objective absolutely remains to complete disposal by year-end. The fact that ISAB refinery has found a new owner, as publicly announced last week, gives more visibility and stability to the Priolo industrial site as a whole, and therefore we are confident to deliver on our objective. I cannot say more than that.

There was another question about Spain, the Spanish market and the PPA characteristics. As far as the market, I have already said: we are quite well aware of this item, underlined by several analysts and by our organization itself devoted to market

analysis. The penetration of Solar in the market should have, as a consequence, some hours with very low prices and so on: this has been factored in our evaluation.
As far as PPA, I cannot give you many details because, you know, we are under confidentiality agreements. But, let me say, you said it right: so, the PPA provides for a kind of floor to the sale price. So, that is providing a minimum return of the investment, that is quite safe. Roberto, I hope I have answered…

Roberto Letizia:
Yes, thank you.

Operator:
The next question is from Naisheng Cui of Barclays.

Naisheng Cui:
Hey, good morning, Paolo and Michele. Thanks for taking my questions: I have 3 if that is okay. The first one is just a follow up on the CCGT asset disposal. Paolo, I think you mentioned earlier that you are very confident to get that by end of this year. May I ask, with the introduced uncertainty around external oil and coal plants, will you be able to achieve similar EV as you announced last year around €180mn? Is that still possible?
And my second question is on a comment you mentioned earlier, regarding high power price volatilities. I am just wondering if you can let us know for the merchant exposure part of your portfolio, what is the realized power price discount you have seen across your business?
And my third question is on strategic investors, i.e. IFM infrastructure firm: I remember they purchased about 21% of ERG at about €31 per share. Do you know what their views on the current share price are? Are they happy with the business strategy, or do they want anything to change? So, those are my 3 questions. Thank you.

Paolo Merli:
Thank you Naisheng. So, about the CCGT, I can just say what I have already said. We had a very extremely negative scenario business environment for the first quarter and for the reasons I hope I have explained well. Going forward, it is inevitable, let me say, it is inevitable that this optimization program will be ended in the next months, because we cannot continue to produce energy from coal and fuel oil, which is even more polluting than coal. So, I am quite confident that after that - and the natural ending of this measure is September 30, but as I said it has already been reduced quite significantly since April 1 - I am quite sure that the number you mentioned can be realized after that, because the plant is super-efficient, has got PPA contracts in place till 2031 with the refinery, with the other plants on site. So, we are confident.
Looking at 2023, we are not providing any guidance right now, also because we are under the process of sale, but still - I repeat - we expect the forthcoming months to be

much better than the Q1. First, because we have solved the technical problem; and secondly, as I said, because in April we have seen already an improvement in the price scenario, given the reduction of this optimization program.

About the exposure of the Group to merchant, we have in place kind of a risk policy to cover roughly 80% of our production. If you take our production portfolio, you will see we should have roughly 1TWh which more or less is exposed to market, while the remaining part is secured through tariffs, PPAs or some hedging in place. So, the volatility of the price scenario is affecting, or could affect, just this portion of the portfolio. But consider the portfolio is very well diversified: in France, in Germany, in Spain, Sweden, UK, Italy. So, if you look at the forward price this morning, you realize that in France, the prices went up quite significantly over the last few weeks, maybe related to nuclear, I do not know, while in other countries are lower. So, the portfolio and the diversification of the portfolio, as it is in Q1, any way provides strong resilience of the revenues, let me say like this.
About IFM I cannot say, I cannot speak for them. But they are present in our Board of Directors, in our Strategic Committee, and they are super-confident about the value of the Group and also, *vis-à-vis*, about what they paid for the entrance in the Group. We are all together committed to move on, on our plan and maybe to do more than our plan. So, we remain super positive: I said, in my opinion, the market right now is not pricing well the sector in general, and in particular maybe ERG itself, because the results are solid, we increased the dividends. At current prices the dividend yield is almost 4%. We keep generating cashflow, we are moving on, on our strategic path. So, I am confident… very confident about the future.
Maybe it is a moment with some factors that are coming together, and I already said what kind of factors we are talking about: the gas price going down, Regulatory uncertainty, and interest rates… those are the factors that are affecting, I think, the performance of the sector. But we expect the reversal - hopefully of all these 3 factors - in 2023.

Naisheng, I hope I have answered your questions.

Naisheng Cui:
Yes, very helpful Paolo.

Paolo Merli:
Thanks to you.

Operator:
The next question is from Emanuele Oggioni of Kepler Cheuvreux.

Emanuele Oggioni:
Hi everyone and thank you for the presentation. I have only few clarifications. The first one is on the guidance. I would like to understand better, because you mentioned that the end of clawback in H1 could leave upside in your guidance, in your estimates. So, just a clarification: if in your guidance, you have included the clawback only for H1 or for the full year. This is the first question.
The second is still a further clarification on PPA pricing: could you confirm that the pricing for PPAs have stabilized on for sure higher price levels compared with historical averages, so interesting levels? Thanks to these levels, you could confirm or even increase the profitability of the IRR for your projects… indeed they are supportive, more than the historical average, for the profitability of IRR for your projects.
The third question is on the cost inflation: I wonder if you expect to have seen the peak of the cost inflation. And so, for the future procurement will the CAPEX per megawatt be lower compared to the expectation of few months ago? Thank you.

Paolo Merli:
Okay, thank you Emanuele. Again, following the order of the questions, about guidance: yes, I confirm clawback are included in our guidance. So, the guidance is net of clawback. And yes, I confirm clawback measure - in Italy, as in any State of Europe - are expected to last till the end of the year. So, we are taking a cautious approach, assuming that they will be extended till the end of the year, even though the hope is exactly the opposite.

About PPA, yes, I confirm the pricing of PPA remains much higher than the one we got used to in the past of the tune of 100€/MWh, so around that figure even for duration of 10 years or something like that. So, absolutely, this is one of the drivers of the return, it is the most important driver of the return of renewable investments. And it is right now capable or enough, let me say, to fully compensate or offset the reduction of returns related to CAPEX increase.
About CAPEX increase, as expected in the plan, it is still going up. Our projects, the current ones that are under construction, were more or less secured also through framework agreements. But going forward, the cost has progressively moved from 1€mn/MWh for Wind, let us say to 1.2, 1.3, probably 1.5€mn/MWh, if you have to build a new project right now. And it is difficult to say about the future for Wind because, without mentioning any names, if you just look at the economic results of the main OEM, they are under strong pressure, so I think they should have recovered marginality. So, it is difficult to say that CAPEX per megawatt in the wind industry will go down: probably the opposite, but I am quite sure that at the end, we should find… the sector should find a balance to make the supply chain as a whole sustainable.
And the solution is for us either PPA or higher tariffs in the auctions: that should be the game changer. Some countries in Europe, like France and Germany, have already increased the price for auctions moving from progressively from €50 to €75, €80 and

something like that: this should be the path, and I expect these tariffs should come to a level… should reach a level that is consistent with an overall investment case that provide the right return for the sector. So, either PPA or tariffs should be the solution to let the sector grow going forward. Michele?

Michele Pedemonte:
Paolo, let me add a comment on solar procurement: on this technology to the contrary, we see some signs of reduction of the cost per megawatt in comparison with the expectation that we had some months ago, when we were preparing the Business Plan. So, we see really sign of a reduction in France for solar panels. The industry is very different in the solar industry, we have much more competition among suppliers. The structure in the industry is completely different and this is leading to some significant reduction in cost per megawatt. You know that we have a repowering project on our solar plants in Italy and we are experiencing some positive news on this side in the procurement activities of this project. So, while on Wind the view is a bit more cautious, on Solar we see signs of an improvement.

Emanuele Oggioni:
Thank you for your clarifications.

Operator:
The next question is from Davide Candela of Intesa SanPaolo.

Davide Candela:
Hi good morning gentlemen and thank you for taking my question. I just have two; the first one is actually a follow up on the supply chain, especially speaking about Wind. I was wondering if you can share your view on when you see a normalization of the supply chain from the logistic and also from the cost side. Is it more a matter of the second part of this year, or have you seen better prospects for 2024?
And the second one is a more general question on the authorization procedures in both in Italy and in Europe: can you provide a view on how these are going on? So, can we have just a general view on the evolution of the authorization procedures? Thank you.

Paolo Merli:
So, starting from the last: the permitting remains a hurdle for the sector, for renewables in general, both Solar and Wind. The time to market - so the time needed from scratch to install the capacity - remains too long, in our opinion. All the members States have done some simplification with the permitting, but they are still discussing over the nature of overriding public interest of Renewables. We should provide governments with a power to overtake the boundaries and the constrains put from regions, from local authorities and so on. But it is still a jungle where we are capable of moving. I think we

provide some visibility on that, given our growth over the last few years, and we are dealing with it, but we are not yet where we need to be, in my opinion. And I hope also this should be a point of acceleration in 2023, because Europe must accept their policies right now are not enough to reach the targets they set out for 2030.

About inflation: yes, I expect 2023 should reach a peak, because inflation in general should cool off, and then interest rates should stop increasing, and the same for the CAPEX trajectory. But I will let Michele maybe elaborate a little bit, being responsible for procurement in the Group.

Michele Pedemonte:
Yes, I would say that maybe it is reasonable to expect an improvement in the second half of the year-beginning of 2024. I see a couple of trends. First of all, we see that commodities are going down in respect to the peak. But what happens is that the turbine manufactures sometimes have already edged the commodity at price near to the peak. So, before having the possibility to pass through the reduced commodity price to final customers, maybe they need some additional months.
For the moment, we do not see in the first half of this year strong change in the market. Consider that our last order is inside our framework agreement that is going to expire next month. So, at the end, we have some limited exposure to this trend.

The second trend that I see that could cause a decrease in the technology is the increase of the size of the wind turbines. So, if we had a possibility to install 4MW, 5MW, 6MW wind turbines, for sure the cost per megawatt decreases: there is a technological improvement that allows us to reduce the cost of our megawatt hour.

Davide Candela:
Thank you.

Operator:
The final question is a follow up from Roberto Letizia of Equita.

Roberto Letizia:
Yes, sorry, very quickly. We are now approaching June, and I guess the view progressively will move on 2024. So, I was wondering if you can spend just few words on how much visibility you have on capacity addition for 2024. Thanks a lot.

Paolo Merli:
Roberto, okay. We have several projects, currently under construction, that are expected to enter in 2024. We have just approved yesterday in the Board the investments related to 3 new projects: 2 in France and 1 in Northern Ireland, the 2 in

France should enter in operations probably in late 2023 or 2024. But anyway, they are moving on, and then we have other projects that have already entered into reconstruction phase: I mean Mineo-Militello-Vizzini, which is a big wind farm in Italy, in Sicily, it is a repowering project, for more than 100MW, gross of the megawatts that will be shut down from the whole plant. Then we have another project (Salemi-Castelvetrano, that again is larger than 100MW) under construction right now. It is again another repowering project. I just try to remind but, let us say, the size of what we could expect in 2024 is very similar to the one we expect in 2023. On top of that, we keep seeking for the right opportunities in M&A.

Roberto Letizia:
Thanks a lot, thanks a lot.

Paolo Merli:
Okay.

Roberto Letizia:
Thank you.

Operator:
Mr. Merli, at this time, there are no more questions registered.

Paolo Merli:
Okay. Thank you very much for the interest and the attention, and speak to you soon, on next webcast or maybe other events. Thank you very much. Have a good day.