



ERG S.p.A.
“3Q 2023 Results”
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MODERATORS:
PAOLO MERLI, GROUP CEO
MICHELE PEDEMONTE, CFO

Operator:

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the ERG 3Q 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 webcast.

Here with me, as usual, is our CFO Michele Pedemonte, who will later run you through our business performance over the period in more detail.

So, let us get started with the overview of results over the period.

I am on **page no. 4**. Numbers here are based on continuing operations, excluding CCGT which is still present in our reported figures up to the end of September. As already announced, on October 17th we finally closed its disposal to Achernar Group, thus completing our transformation into a pure renewable player.

For the sake of clarity, figures are presented also net of claw-back measures and windfall taxes. Anyway, later on Michele will provide you with all details.

In a nutshell, I would say results are pretty much in line with our expectations, though lower YoY at the EBITDA level, mainly as a result of the very tough comparison in terms of price scenario, as in Q3 2022 prices were at peak levels. This price effect was only partly offset by significantly higher productions (up 26% YoY), as a result of the larger installed capacity and better wind and solar conditions in the period.

So, at the end EBITDA closed with €102mn, down compared to €118mn last year. As said, this was entirely due to the sharp decline in electricity prices, coupled with the zeroing of incentive price in Italy, resulted in a very tough comparison. The price effect - just to give you an idea - had an impact of about €40mn, or slightly above this number. This was almost, or in big part, offset by higher productions.

Notwithstanding those trends, results at the bottom line were very satisfactory and in line YoY, as the lower operating results were fully offset by lower financial charges, thanks to higher yield on our liquidity. Over the 9M, adjusted net income was €149mn, so up almost 30% YoY, partly thanks to no windfall taxes in 2023.

We invested over the 9M almost €400mn, lower than the same period last year, which was boosted by more M&A. Capex was related to the advancements for assets under construction, both repowering and greenfield projects. As far as repowering, in the third quarter we completed the construction of our second repowering wind farm in Italy, at Camporeale.

NFP at the end of September was €1,406mn, slightly down compared to 2022 year-end, as cash flow and dividends from ERG Power, ahead of the sale of CCGT to Achernar, more than compensated dividend payments to our shareholders and investments, amounting – as said - to almost €400mn.

All in all, I would say resilient economics and very solid balance-sheet.

Now a quick update on our main achievements during the quarter. I am on **page no. 5**. I have already said: first of all, I think it is worth mentioning the closing of the CCGT deal with the disposal to Achernar. This was a top target for the year and a fundamental milestone in our strategic journey, as we worked towards this disposal for two years. With this transaction we completed the transformation of ERG into a pure renewable player, and it is also a crucial step to reducing our carbon footprint, pursuing our net zero carbon target, as clearly shown in the graph.

As far as our growth, we are also moving forward with the expansion of our RES portfolio in Europe: we started up our second repowering project in Italy at Camporeale, 50MW. We made an important step ahead with our diversification in PV Solar in Spain, with the completion of construction of the Garnacha solar plant (149MW), which is now at an advanced stage of commissioning, and we expect the solar plant to be fully up and running by the end of the year.

Also, thanks to our strong financial position, we launched a buyback for a max amount of 2.5% of own shares, as we believe the ERG share price performance was overly penalized by extreme volatility in the financial markets, exacerbated - let me also add - by the negative performance of the renewable energy sector as a whole, at a global level.

Now, over to Michele for his comments on the Third Quarter and 9M results.

Michele Pedemonte:

Thank you, Paolo. First of all, please note that all figures presented here are net of the effect of clawback/windfall profit taxes.

As you can see at **page no. 7**, in 3Q electricity market prices have been strongly lower than previous year: this trend has partially influenced our all-in unitary revenues, which are mainly dependent on incentive, feed-in schemes, long term PPA and short-term hedging made in the past.

In Wind Italy, for example, unitary revenues are influenced by the value of the incentive on the majority of our assets (which is null in 2023 vs 43€/MWh in 2022), and by the

lower market price captured in the quarter, compared to a market price at its historical peak in 3Q 2022. So, all in all, unitary revenues had a strong decline from 183€/MWh to 93€/MWh. The structure of the Italian green incentive will allow a recovery of the electricity prices below 180€/MWh in next year: this will be a significant positive reversal expected for next year, in 2024.

In France the large majority of our assets operate under FIT scheme without exposure to market prices. Anyway, the portfolio all-in price is lower than previous year, because of the few assets at merchant prices.

In Germany captured prices in 3Q23 lower than the 3Q of last year, because previous year was influenced by the one-way tariff structure that allowed us to capture higher merchant price.

Eastern Europe unitary revenues decreased in 3Q, driven by Romania and Bulgaria mainly due to lower merchant prices.

In UK, the all-in unitary revenues in the quarter are influenced by new PPA prices of our recently completed assets in Scotland, and by revenues from balancing services market. The all-in unitary revenues in the quarter are higher than the ones captured by the old PPAs on our Northern Ireland assets in 3Q22 by 78€/MWh, clearly showing the improvement of the PPA conditions over time.

As regards as the Solar all-in unitary revenues, there is an increase of value in 3Q in Italy thanks to a higher fixed price than the hedging of the previous year, coupled up with the end of the Italian clawback rule that impacted our asset in 3Q 2022. In Spain, where our assets have a tariff mechanism that operates as a floor to our revenues, all-in prices are influenced by short-term hedging made in line with our risk policy.

And now a focus on productions, I am on **page no. 8**.

9M productions reached 4.2TWh, 0.6TWh higher than previous year mainly due to perimeter effect. Productions coming from abroad represent more than 50% of the Group's total productions.

As regards as the 3Q, we have:

- in Italy: 584GWh, +18% YoY, thanks to better wind condition and better irradiation compared to 3Q of last year, coupled up with a perimeter effect (+39GWh) from Wind asset acquired in September 2022, and Repowering plant entered into operation from June 2023
- in France: 229GWh (+23%), thanks to better wind conditions in comparison with a very weak 3Q last year
- in Germany: 107GWh (+30%), again thanks to better wind conditions recorded
- in Eastern Europe: volumes higher than 3Q 2022, mainly due to assets entered into operation in the last quarter of 2022 in Poland
- in UK & Nordics: 109GWh (almost three times YoY) thanks to the assets energized by the end of 2022 and in early 2023 in Scotland. Production in Scotland and Northern

Ireland are influenced also by remunerated balancing services market in Scotland and grid curtailment in Northern Ireland. Low production in Sweden is due to prolonged test and commissioning activities on our Furuby wind farm, where we are progressing on the technical issues encountered during start-up

- in Spain: 56GWh (+14%) thanks to the production of the newly acquired plant, that entered into operation in July.

As you can see at **page no. 9**, in the third quarter of the year, we have an overall EBITDA net of clawback equal to €102mn, lower than the one of 3Q22, mainly due to lower captured price than previous year, when prices benefited from extremely high market scenario, partially offset by perimeter effect and better wind conditions.

In Italy the EBITDA is €66mn, lower than 3Q22 by €19mn, mainly due to lower captured price, driven by lower value of the incentive (which is null in 3Q23), partially offset by perimeter effect and better weather conditions, both on wind and solar assets.

In France the EBITDA is €8mn benefiting from better wind conditions compared to extremely low production of 3Q last year.

In Germany the EBITDA is €9mn, aligned to previous year, mainly due to better production in the period, offset by lower captured prices.

In Eastern Europe the EBITDA is €7mn, lower than last year, due to lower sales prices, partly offset by perimeter effect in Poland.

In UK & Nordics the EBITDA is higher than 3Q22 by €10mn, mainly due to perimeter effect.

In Spain the EBITDA is €8mn, higher than 3Q23, mainly due to higher captured prices and perimeter effect, as already commented on the productions slide.

9M EBITDA is €365mn, lower than previous year, mainly due to a lower price scenario, where 2022 was at historical peak, only partly offset by perimeter effect. In 2023 around 40% of EBITDA comes from assets outside Italy vs 31% previous year.

Let us comment now on the investments in the period. I am on **page no. 10**.

In 9M23 we invested €377mn: an amount which is lower than the one invested in 9M22. Please note that previous year investments were influenced by €610mn of acquisitions of Wind and Solar plant, mainly in Italy, vs €184mn of M&A this year for Solar assets in Spain.

In the first nine months of the year we executed about €195mn of organic Capex in Wind, in particular - -I underline - €129mn of CAPEX in Wind for repowering in Italy and greenfield projects in Sicily.

Let us now move on to the financials, commenting on other items of P&L, as per **page no. 12**.

In 3Q 2023 Net Financial charges are at €1mn, vs. €6mn in 3Q 2022, mainly influenced by increased liquidity remuneration in a scenario of higher interest rate, with a debt structure almost completely at very competitive fixed rate (gross debt cost of around 1.4%).

Tax rate in the quarter is 27%, in line with previous year.

As a result of all this, the adjusted Net profit on continued operations of the quarter amounts to €35mn in line with 3Q 2022, that included windfall profit taxes for a total amount of €14mn.

The adjusted Net profit on continued operations of the 9M amounts to €149mn (including €9mn of clawback measure) vs €115mn in 2022, that included Italian and Romanian *Extraprofitti* taxes for a total amount of €54mn.

In the quarter we still have the CCGT consolidated in the discontinued items.

On **page no. 13** you can find a summary of effects of the clawback measures and windfall taxes, affecting our figures.

The impact on EBITDA and net profit in the quarter is negligible because of the sharp electricity prices decrease, and it refers mainly to Eastern Europe and France. In Romania, the Government set a compulsory PPA mechanism at the cap price (roughly 90€/MWh), which has the same substantial effect of a clawback measure, but it is not reported here.

Comparing Net Profit net of clawback, we see a substantial increase vs 9M22, that was heavily affected by Italian windfall profit tax.

Finally, let us take a look at the Cash Flow Statement and the Net Financial Position for September 2023. I am on **page no. 14**.

The Net Financial Debt closed at €1.4bn, €28mn lower than the end of 2022, driven by a solid cash generation from EBITDA (€365mn), cash-in from equity distribution from ERG Power and reduction of mark-to-market of derivatives on commodities.

These impacts are netted by the already commented investment of the period of €377mn, and dividend payment for €152mn, including €3mn to minorities.

Considering the equity distribution from ERG Power in the quarter, and that the NFP of the CCGT assets is already accounted in the discontinued items, the adjusted net debt at the end of September already shows the effect of the disposal of the CCGT, closed at the beginning of October.

Thank you for your attention. I will now hand over to Paolo for his comments on guidance.

Paolo Merli:

Thanks Michele. Before going through guidance for 2023, let me update you on the execution of our strategy and targets over the year, so far.

As you can see from the chart on **page no. 16**, through a combination of M&A and organic growth, we expect to add a further 400MW gross by year-end, which is bang in line with - and I would dare to say in advance of - the trajectory of the Business Plan.

It is worth mentioning that out of this 400MW, a total of 210MW is now fully operational. In addition to that, as said we just completed construction of our 149MW Garnacha solar plant Spain, and the site is now in the commissioning phase and is expected to be at full speed by year-end. We have started this week the WTG erection at Roccapalumba wind farm in Sicily (47MW, the one signed here with a light blue tick, which is the last asset expected to enter into operation by year-end and with its full contribution, as all the other assets, in 2024.

This growth - let me say - will continue to be a driver of our results going forward, in particular in 2024, when we expect those assets to reach their full potential.

Let me now move, I am on **page no. 17**: this chart adds visibility to execution of our Growth Strategy.

All in all, we still have 387MW under construction, of which 47MW should be (as said) completed by year-end, and the remaining assets will be completed during the course of 2024 and 2025.

On top of those assets under construction, we have roughly a further 150MW that is now fully authorized and in a sort of pre-construction assessment.

So, we can count on a sustainable and visible growth, in line with our objectives.

Now, the last chart at **page no. 18**. Let me take a look at the guidance for the last part of 2023.

Q3 results, as I said, were bang in line with our budget, and the 4Q started off well with better wind availability across Europe. As such, in line with our policy to update our Board of Directors and the Financial Community on a quarterly basis, we have moved up our expected EBITDA range slightly, now seen at €490mn to €520mn, compared to the previous €480-520mn.

We are maintaining our guidance on CAPEX and NFP. Let me underline that the latter, in particular, remains unchanged despite the expected cash-out relative to the ongoing buyback program, with an expenditure in excess of €60mn by year-end.

We are moving forward very well to create the conditions for a stronger 2024.

So, thank you very much for listening. We are now ready to take your questions.

Questions & Answers

Operator:

Thank you. 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 is from Enrico Bartoli with Mediobanca. Please go ahead.

Enrico Bartoli:

Hi, good morning, everybody, and thanks for taking my question. The first one is regarding a possible outlook for next year, I know it is a bit early for a guidance, but just to understand, first of all, some hint about the capacity that you expect to install next year. You provided in the slide that you have around 150MW under construction. So where do you expect more or less to add up, and do you expect also some additional M&A to occur in 2024?

And on 2024, if you can update us on the comments that you gave during the past conference call on the hedged volumes and prices, and how you expect on a qualitative point of view the evolution of EBITDA over next year?

The second question is related to the guidance for full year 2023. If I made my calculation well last year, the last quarter EBITDA was around €100mn and- considering your EBITDA in the 9 months this year - the guidance that you provided is significantly higher than that. So, I was wondering, considering the current price scenario, what you expect to be the drivers of a strong performance in the fourth quarter?

And the last one is more strategic, particularly on Spain: in the presentation you had in Sicily you outlined that you have 1.3GW pipeline there, there are some assets starting to operate. I am curious about your view on this market, considering that there is a lot of capacity expected to come on stream there, particularly PV, and we are seeing some pressure on prices in some hours, so I was interested in your view on the potential from this market for ERG. Thank you.

Paolo Merli:

Okay, good morning to you, Enrico, and let me go in order of your questions. About the outlook for 2024, I can just stress what we have already said in the previous webcast and in the current one: we expect in 2024 to have almost all the investments done over the last 12 months in full operations, so we think we are able to reap the benefits of all the investments done and, on top of that, the hedging you mentioned for 2024 was slightly better than the numbers in 2023. And all-in-all, 2024 will enjoy the coming back of the

incentive in Italy, because - according to the mathematical formula, and considering the expectation for PUN price for 2023 - the incentive should go back in the region of 40€/MWh which, based on our numbers, means more than €40mn of EBITDA on top of the one of 2023. But even more in particular, I think that the main contribution will come from the larger installed capacity.

So, it is early as you said, to give guidance, but I am positive and confident that 2024 should see a huge increase in our EBITDA. And, as you mentioned, in order to touch the last part of your question, Q4 2023 is seen as a quarter where the earning direction showed a change, because over the first 9 months of the year we suffered from the very tough comparison in terms of prices, but in Q4 - given the larger installed capacity, given the low load factor registered in the fourth quarter of last year - we expect a reversal in this trend, and this trend should continue over 2024.

The last question was about Spain: yes, you are right. First of all, let me say that we are happy that the construction of our last Solar farm (149MW) was completed: we are now under the last phase of commissioning, and we expect the asset to be fully up and running by the end of the year. This is a major step, a major milestone for us in the development in the country.

Like everyone, we have a view that brings a larger discount in terms of captured price compared to the average baseload price in Spain, because of the penetration of renewable and particularly on Solar. And this is already included in our business model and, going forward, in the CAPEX, the investments we are envisaging in the country, that (as you correctly said) are based on organic growth, because it is a sort of co-developments, we are moving on and they are based on few projects (a very large one, sizable project), and for those kind of project we expect - notwithstanding the price scenario - the return to be positive, because the capital intensity is going down in the Solar, after having reached a peak in 2022, but now it is moving down quite significantly and, given the size, we expect further synergies in terms of efficiency, OPEX and whatever around the asset. But, in particular, we are still positive on the pricing because, based on our PPA, we are going to reach significantly higher pricing compared to few years ago.

And if you put all these factors together, the return should be higher than our hurdle rate but, if it is not, we will not move forward with the investment, because we are not obliged to do it. So that is our philosophy. All the projects should meet our financial discipline, and if they do not, we have to find the mitigants in order to make them.

You had recently a quite clear example on that: we had the inauguration of Partinico-Monreale in Sicily, that was our first repowering project and I hope those of you that came to join the event may have appreciated the quality of the asset, but let me remind you that on that asset we had a CfD awarded in an auction. The price of that auction was

no longer able to yield the right return for the project, then we abandoned the CfD and we moved to a PPA that has got a value more in line with the market trend, and the return was absolutely in line with our result. This is a strategy that we want to pursue, whenever we do not have a fair return. That is our philosophy. So, I hope to have answered your question.

Enrico Bartoli:

Yes, thanks, just if you can provide just a comment on capacity evolution in 2024 on top of the capacity on the construction, if you expect additional M&A, what kind of development is reasonable?

Paolo Merli:

Okay, according to organic growth, I can just repeat what is already written in the chart of the webcast: those are the projects we have now under construction or pre-construction, so anyway it is a quite significant amount, because if you sum all the projects we COD in 2024, you reach a value of more than 200MW but, on top of that - and I think that was your question - yes: we are pursuing several deals on the M&A field but, as you know, M&A is not completed till you have signed, so we cannot give any more indication on that, but - given the financial strength of the company - for sure M&A will remain a channel of growth for ERG. And let me say that the challenges the sector is facing right now is changing a little bit the secondary market, and we are even more confident that we can achieve better results from this channel, I mean, M&A.

Enrico Bartoli:

Perfect, thanks a lot.

Operator:

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

Roberto Letizia:

Yes. Thanks a lot for taking my questions. I would like to continue on Enrico's question about 2024 for what is possible. Just doing a few maths, if you allow me, just to have a reference on whether there is something more or something less, which I missed in the overall picture. But for what regards just the green certificate size on 40€/MWh assumption for next year development that there is 1TWh of production expected on this certificate, which is around €40mn. Then you have the additional capacity that should produce roughly 700GWh of additional production next year, which we can take, of course, whatever number, but this may be potentially additional €30mn of EBITDA, but just looking at volumes, added to your production.

Then you have the price effect at the end, because you are actually doing hedging, I guess, in the region of 15-20€/MWh above what you did this year. And if I assume only 20% of your production here, that is probably another €40mn EBITDA on the price side, which drives me to a number that is well above €600mn for next year in terms of EBITDA. Where am I wrong? What am I actually missing on the negative side, if I do this math?

Then the second question is on this year, whether you can help us working and figuring out the net income level that is associated to your guidance, because you are continuing to do very well on the interest cost. So, probably also the net income is going to benefit from it: can you provide any guidance on this element?

And finally, I was wondering if the disposal of the CCGT in your assumption is also producing cash-in within the year. Thanks a lot.

Paolo Merli:

let me go to your first question. I think you are very good at math. So, your analysis makes a lot of sense. We have, as you said, we have the incentive, which is worth more or less €40mn, or a little bit in excess of that. Then we have new productions, of course, based on a P50 statistic estimate for wind and irradiation, but let me say, it is reasonable at 700GWh. I am taking your analysis, but this makes sense. So, let me say, it is €70mn, €60-70mn based on the average price per megawatt hour.

So, if you sum adjust these two items, we are moving up by about €100mn, then we have some negative, some positive but, let me say, it is a good analysis. So, we could expect an increase of this tune, and with “tune” I mean, the sum of the two elements that you have mentioned before.

According to net profit, I think the company is doing a tremendous job on financial charges that was done on the indebtedness over the last few years. And now, we are in a nice position to have a bulk of liquidity that is invested at 4%, or even a little bit more than that, that is compensating for almost the financial charges we are paying on our gross indebtedness. And, as you can see, paradoxically this high interest rate environment is supporting our profit & loss, because basically, we did not pay very much financial charges, so net profit will enjoy this trend.

We are also doing some good job on expanding the technical life of our existing assets and consider that when we are lowering our depreciation it means the existing technical life has been assessed by the external and internal auditors, and the extension is based on lifetime extension programs. So, all in all, you see that the net profit is going very well, and we expect a very solid number for 2023 in excess to €200mn. That is, I think, the answer to your question.

Roberto Letizia:

Yes. And on the CCGT, do you expect the cash-in will be within the year?

Paolo Merli:

The cash-in from the CCGT was basically all included at 30 September because all the so-called permitted leakage were paid as a dividend from ERG Power to ERG Group for an amount of roughly €90mn.

On top of that, the price paid by the buyer was basically offset by the deconsolidation of our reported debt but we already deconsolidated the company. So, the debt was not included in our adjusted net debt. So, the answer is: all the effects coming from the transaction have already been accounted at 30 September when talking about the adjusted net debt. Going forward, in the fourth quarter, you will not see any longer a higher debt on a reported basis, because the asset went away from our portfolio.

Roberto Letizia:

Many thanks.

Paolo Merli:

You are welcome.

Operator:

The next question is from Francesco Sala with Banca Akros. Please go ahead.

Francesco Sala:

Yes, good morning, thank you for taking my questions. I just wonder whether you can give us some comments on the price trends that we saw in the UK, in Italy in Q3, whether there is something outside the general market trends we should keep in mind that is more specific to you, speaking about maybe PPAs.

Secondly, there was a quite a big release of cash from the net working capital in Q3. I wonder about the moving part of this big release we saw in Q3. And these are basically on the prices and net working capital. And also, there was quite a decrease in cost in Q3 in Italy. I wonder, again, whether this is something sustainable. Because if I run them up, the costs we have seen in the first 6 months are always higher than the one we saw in Q3, obviously divided by 2. So, I wonder whether there is something specific, or there are some efficiencies that will keep on hitting your numbers, going forward. Thank you.

Paolo Merli:

I am going and try to answer your 3 questions. So, let me start from cash flow. The cash flow, as I said at the beginning of the year, was already expected to be stronger *vis-à-vis*

the EBITDA because we have enjoyed the reversal of the mark-to-market derivatives and, on top of that, all the cash flow items coming from the transaction for the CCGT. Those are the two items that further increase our cashflow over the year, and they are almost over now, because we recovered all the mark-to-market of derivatives and the transaction of the sale of CCGT, as said, was basically all accounted in our adjusted net debt.

In terms of price trend, you mentioned Italy and UK: let me say the market remains very volatile. You can see just looking at the TTF price every day, up and down, up and down, because the market is very, let me say, fragile and because the Russian gas has been substituted basically almost by LNG, which is a little bit more unpredictable. So, depending on the weather report, depending on whatever, the price is more volatile. But our view is strong going forward, and we expect prices to remain higher, much higher than in the past. And I can tell you that, whenever we discuss a PPA, long-term PPA, that is also the view of private companies, private off-takers with prices, let me say, above 100€/MWh, or more or less in that region.

Michele Pedemonte:

Let me add a note regarding UK: you see an increase in price in the UK, because you have to consider that in the third quarter of last year we had just the old PPA in Northern Ireland (that was where the PPA was signed, several years ago, so in a different market environment), while this year we are starting selling with the new PPA signed in Scotland, that has a much higher price. And this is explained together with some merchant production that is an addition to the production in 2022: this explains the increase in our unitary revenues, so the trend is a strong increase thanks to this new PPA signed and entering commercial operation this year.

Paolo Merli:

And if I may, just to add color to what Michele just said, consider that the first PPA was signed in Northern Ireland, and the duration of that PPA was not long: it was 5 years, so we expect in a few years to renegotiate those contracts at a much higher price.

And your last question was about the cost. Let me say: yes, I confirm that we have done a tremendous job also on the cost side and enlarging the portfolio; we are having, for sure, some synergies, so whatever you have seen in the first 9 months we believe is structural, and we believe it is sustainable also going forward. And we are not at the end: we are continuing to try to squeeze as much as possible our cost to become even more efficient than it is today.

Francesco Sala:

Thank you so much.

Paolo Merli:

You are welcome.

Operator:

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

Nash Cui:

Hey, good morning, everyone. Thanks for taking my questions. Just a few follow-up questions, if that is okay. If I go to page no. 7 of the presentation, I still want to ask about the UK, the all-in wind price over there, 144€/MWh this quarter. I think Michele, you have explained earlier, it is because of higher PPA price achieved. Should we assume that similar price level will be sustained for the next few quarters or next year? That is my first question.

And my second question is still on 2024 EBITDA bridge. I did a similar thing as Roberto. And I also wonder one more thing, which is normalizing wind condition, because I remember we had very low volume in Q2. And I just want to understand, whether you see improved volume in Q4. Will you see 2023 in terms of volume as a normal year, or do you think the volume is slightly below an average year? In that case, will you also see an extra EBITDA for 2024 because of the normalized wind condition?

And my third question is on Solar in Spain. I understand the one-way collar pricing structure benefited you a lot. And are you going to look for similar pricing structure for other assets, especially the new one coming online and the ones in the pipelines? Thank you.

Michele Pedemonte:

Yes, regarding U.K., just to understand additional PPAs. In the U.K., in particular in Scotland, these figures at €144 is also benefiting from some balancing market services that we are giving to the Grid, that add additional remuneration to the Scotland asset, in particular. And so, this is the reason why we have some additional unitary revenues in respect to the merchant price and the PPA price. Yes, I think that these balancing market services can be structural, at least for the next few years. So, even if they are not fixed as a PPA, we expect that we will continue to offer this kind of services to the Grid, and so we can have this kind of extra remuneration. So, this is the answer regarding the UK. Obviously, there is also a part merchant component because our PPAs in the UK are baseload PPAs that are not covering 100% of the production, so we maintain some exposure, some limited exposure to merchant price, and this adds some additional potential upside to our unitary revenues.

Paolo Merli:

As far as your second question about the EBITDA: yes, I can just stress what I have already said of course. There are few elements and we have already mentioned the first two: the coming back of the Italian incentive plus the contribution of the larger installed capacity, but you are right as well. So, we expect the load factor to normalize in 2024 because it is based on our P50 estimates. But let me also say that the fourth quarter of 2023 is slightly - not slightly – it is recovering right now. I do not know how the year is going to finish, but in the first month and a half till mid-November, we have been recovering partially the gap we had accumulated from this point of view in the first six months.

But you are right: in 2024, if the load factor will normalize, then we will also have a contribution from the existing assets. Those three elements should make a compelling growth 2024 versus 2023.

And the third question was about Spain, again. Garnacha Solar farm is provided with a PPA, a long-term PPA. And the structure of this PPA is based on a floor, leaving all the upside also to the producers, so ERG, apart from a commercial discount of a few euro per megawatt hour.

Let me also say honestly that we are still waiting to understand, or to gain a better understanding, of what is going on from a regulatory point of view. Because there are several rumors that in Spain they are thinking of extending clawback measures and these kind of things, so we still do not know about that, but we should expect them not to be extended, according to the strong position the European Commission has taken on this item, but let us see. State members sometimes are not respecting these indications, let us see, but again: if the market is in line with the forward right now, 2024 should be better than compared to 2023, because 2023 was affected by those revenues cap at a much lower price compared to forward market.

So, for the time being, let me say all the KPIs are showing a recovery for 2024 versus 2023, but we will be more precise in March, when presenting the full year, the 2023 full year results and the business plan and guidance for 2024.

Nash Cui:

Very clear. Thank you, Paolo, Michele.

Paolo Merli:

You are welcome.

Operator:

The next question is from Giulia Noli at MetLife Investment Management. Please go ahead.

Giulia Noli

Hi, good morning, everyone. Just a very high-level question on the sector, I guess. We have been reading about large renewable players cancelling projects mainly in the offshores based, cancelling projects because of costs overrun, delays, issues with the turbine suppliers. I was wondering to what extent you have been affected on that front? Whether they have been any project cancels because of these reasons and, yeah, just I guess, a little bit of commentary on your end.

Paolo Merli:

Okay. We are living in a very particular time, because from one end, governments around the world have set ambitious targets to tackle climate change which - that is my personal belief - is the greatest challenge of our time. But despite these aggressive targets, the deployments of CAPEX and installed capacity, not just across Italy, not just across Europe, but across the world is lower than needed.

In this kind of environment, despite these flamboyant targets, the RES sector is facing some challenges, in particular, the interest rates and the arising cost of capital reflecting the higher interest rates, the green inflation, the bottlenecks in the supply chains and whatever. But we remain very positive. You ask top down questions and my top down view is that we remain very positive because I do not see any different options but renewable for tackling the climate change, because also other options I think are facing big challenges. For instance, nuclear: it is a fresh news that one small reactor projects in US was cancelled because of the higher cost than expected and the higher cost of producing energy. So, I think Wind and Solar remain very competitive.

For sure, as you said, offshore is facing another business environment, and we have been studying the possibility to enter the offshore, in the floating offshore in the Mediterranean, and we came to the conclusion that this is not yet time. So, we stayed out of this business segment, for the time being, and we do not have any short-term plan to enter.

Looking at our investments, the ones we have already approved, I repeat, are all yielding a return which is consistent with the theoretical cost of capital. Why am I saying theoretical? Because our policy is to assess all the project based on a hurdle rate that is consistent with current market trends, even though our cost of capital is much less, because we had €2.1bn gross debt already negotiated with a cost of 1.4%. But when we are assessing our projects, we consider a WACC and a hurdle rate, which is pretty consistent with the current market trends.

And even under this current market trends, all our projects are yielding a higher return. Why? Maybe because we were good at supplying the wind turbines. You know that supply of wind turbines for the projects so far was covered by a supply framework agreement with some major OEM, at a competitive cost.

Probably, your question is more about the future. About the future, I repeat, we have several projects fully authorized, but the final investment decision to go on with these investments will be based only on the return at the time of the deal. So, if the return is higher than our hurdle rate, we will go on; if not, we will be waiting for a different time. That is our philosophy. We are investing private capitals and we need to have a fair return on our investment but, for the time being, we are confident.

So, for instance, just to give you an example, we approved recently in our Board a small investment: it is a repowering in Germany. For sure, the capital in these wind projects, the capital intensity is much higher than the one we were used to but, at the same time, the wind farm was awarded with a tariff which is above CfD, which is above 100€/MWh. So, the two effects are resulting in a return, which is above our hurdle rate.

So, I hope to have answered your question. So, for the time being, we do not have any issues on our assets, either the one where we have completed the construction, or the one that are currently under construction.

Giulia Noli:

Perfect. Very, very helpful. Thanks a lot.

Paolo Merli:

Thank you.

Operator:

The next question is from Davide Candela, with Intesa Sanpaolo. Please go ahead.

Davide Candela:

Good morning gentlemen and thank you also from my side for the presentation. I just have two questions and maybe the first one following on the procurement side. You said, and you mentioned that we saw Solar capital intensity lowering. I was wondering if you can share your view on Wind as well, apart from the last answer you gave, in the sense that we have seen manufacturing wind turbine players suffering in the margins. So, I was wondering if you can share your expectation also on the evolution of the Wind costs in terms of procurement, and if you can share maybe your view also on the euro million per megawatt you are expecting or embedding in your assumption.

And maybe related to that the second question, very high level related to the European Wind, the power action plan that was published by you by the end of October. I am

aware that we are in the very early stage of this kind of action, but I was wondering if you could share the view on the potential impact of this kind of regulation of action plan, and which could be the effect on the industry, going forward? Thank you.

Paolo Merli:

Okay. I think your analysis was right, the Wind still facing more hurdles than the Solar in terms of capital intensity, because the major manufacturers are European, and the Western manufacturers are suffering. Their P&L are still in red, they are struggling to recover marginality. And my view is based on the fact that Europe and the world need both technologies: you cannot just survive on Solar, Solar is providing energy just 8-9 hours per day, while Wind is producing also in the night, and you need both technologies in the portfolio.

Over the last 6-12 months, we have seen divergent trends in CAPEX for the two technologies, but I think the regulatory answer to this point is to have different auctions. So technological separated auctions for Wind and Solar. And in any state in Europe this is the direction that it seems is going to be pursued. Even coming to the Wind action plan you mentioned, you are right: this action plan has been issued, it is an emergency action plan in order to support the above all the OEM, and the Wind industry in Europe. We are a producer, we are a buyer of technology, so we are enjoying EBITDA, we are enjoying profits, but those companies are struggling. And this plan has been thought in order to support the industry as a whole. The main line of actions of this plan is simplifying the permitting, in order to make the growth more visible, and then helping the OEMs also to program, and to plan their production lines. And in this respect the development of RES should become an overriding public interest, lowering and reducing massively the time of permitting. We are not yet there, but I think 2024 will be the year when we – I mean we as Europe - could accelerate on this point.

The other point the plan is pushing on is to set out CfD mechanisms that are providing a fair remuneration. And, in fact, in every State where this has already been done – let us take Germany, as an example - you see a fair health subscription to auctions. Where you did not do that - unfortunately in Italy, where the tariffs are still the one you used in 2019, and now they have just upgraded them to take into consideration the normal inflation, but the green inflation has been much higher than that - the auctions keep remaining severely undersubscribed.

Those are the two moves we expect and we perceive more and more important, so simplifying the permitting but, above all, to increase the CfD system. For a company like us, we have another option which are PPA, and in fact, whenever CfD is not sufficiently high to make us meet the returns, we switch to PPA. But let me say, for the industry as a whole, we would need higher CfD in order to deploy capital and install capacity in line with the national plans.

Davide Candela:

Thank you, thank you for the answer. Maybe just a follow-up, if I may, on the second part. So, reading through, if we can make an assumption on what you said with regard to the Wind action plan, we should expect the procurement cost does not vary so much in Wind from the ones we are seeing today, in the sense that they should support the Wind turbine operators. But on the other hand, the pricing environment and the auctions should be much more visible and supportive for the power generators, so as to crystallize the returns the industry is seeking for.

Paolo Merli:

Yes, yes, I think you are right and sorry, maybe I did not answer your question with numbers. You asked me before how we see the cost of Wind: let me say that all the projects we have already started up and we are in the last phase of construction had a cost of 1.2-1.3€mn/MW, which is a very good pricing compared to the current environment, because they were covered by this framework agreements and a supply chain.

Now, looking forward, we expect the intensity, the capital intensity in the Wind to be more in the region of 1.5-1.7€mn/MW. But - as you said, and I said as well - the importance is to find the right CfD in order to make all of the equation for concurring to the return sustainable. And we think that is the case, and that will be the case.

Michele Pedemonte:

Yes, if I may add that these figures can vary a lot among different countries in Europe. So, you have the countries much more expensive, in respect to other. Germany, for example: if you look at the statistics, it is the most expensive country where to build wind farms, but at the same time it is the one where the tariff schemes are more generous. On the other side, much more than in the past the DOP costs are relevant in the overall balance of a project, and more relevant.

So, the local factors affect a lot the overall cost of a project. So, to build a large project is more efficient than a small one, if the connection is closed to the plant, this can increase significantly the efficiency and cost of the project. So again, the execution of each specific project becomes a differentiating factor in this specific moment, because you need an industrial approach, also in the construction of a new project, much more than in the past.

Davide Candela:

Many thanks, very helpful.

Operator:

And the last question is a follow-up from Roberto Letizia, with Equita. Please go ahead.

Roberto Letizia:

Yes. So, quickly, sorry, you almost installed some 400MW per year in the last year. You have got 370, 530, 370 this year, so you're roughly in the 400MW per year, you are still out with a target of 4.6GW on your Strategy Plan I was wondering if this rate of growth will be maintained in the next 3 years, so something in the region of 400-450MW per year, that including 2024. Can you please confirm this? Thanks a lot.

Paolo Merli:

I would say yes, Roberto, we have not changed our targets. The targets remain the ones in the Business Plan, and we are confident that we are - I would like to say - slightly ahead of those targets. I repeat: through a combination of organic and M&A, we want to maintain more or less the same pace, even going forward. So 400MW was the average increase per year envisaged in our Business Plan. We want to go on with this pace. Yes, absolutely, and in 2024 we will work for this, of course. I could not exclude an acceleration or a slowdown, depending on M&A, but I would say we are working for an acceleration, because right now we still have a balance sheet that significantly under gear compared to our financial policy and thresholds set out by the rating agency in order to maintain our BBB- rating which is a core target for us, so to maintain the investment grade profile.

Roberto Letizia:

Thanks a lot.

Operator:

We have another question from Emanuele Oggioni at Kepler. Please go ahead.

Emanuele Oggioni:

Thank you. Thank you for taking my question as well. I have two left. The first one is if you see the risk of an extension basically of clawback price caps, *et cetera* in some markets, such as Spain or Romania for example in Eastern Europe for 2024, what are your expectations on that? And the second one, if you can update us on the hedging policy: maybe, if I remember well, in the last call you mentioned that for 2024, 0.5TWh was already covered at roughly more than 150€/MWh, but these volumes could have been progressively increased up to 1TWh. So, if you can update us on these figures. Thank you.

Paolo Merli:

About clawback, it is very difficult to say because I would say every State member has proved to be a little bit erratic on these points. For instance, in France there are huge probability, according to our insights, that the price cap should be extended to 2024 at

100€/MWh but, according to the draft amendments that are circulating, this should be applied just to 50% of the production. So, this price cap anyway is expected to improve compared to 2023. Still a question mark was going on in Spain, because the Government is in formation and we have to wait for instance the name of the Ministry who will have the energy transition, and there are circulating some rumors, but it is too early to say, even though there is a risk.

In Eastern Europe, in some countries, there are risks already factored in our numbers. Especially in Poland, the last Government changed the rule of obligation quota for CO2, then made the value of origin certificates collapse and this is already included in our guidance for 2023, but the new Government is more European-oriented and so we should expect in the next few months to change and to improve this law that was issued just months before the public election in Poland. So, it is a very difficult business, regulatory picture to make estimates, but we are confident that those measures should progressively phase out completely because, if not, the energy transition will stop, because the investments are not there as they should be, and it is a kind of “make it or break it” scenario, let me say like this.

So, if they want to progress on the instalment and deployments of investments, they will have to create a better and safer regulatory environment, and that is my view. that is what in my opinion will happen in 2024. We will see a lower and lower extraordinary measure.

And the hedging: yes, I confirm that what you remembered was said during the last webcast was confirmed, in the sense that right now, we have covered roughly 1TWh for 2024 at the price which is between 130-140€/MWh. This is just the short hedging, I mean, the one which is covered by financial instruments, but all in all, even including the recent PPA and blah-blah, so we expect a slightly better selling price for 2024 vs 2023.

Emanuele Oggioni:

Thank you, very clear.

Paolo Merli:

You are welcome.

Operator:

Mr. Merli, there are no more questions registered at this time. I turn the conference back to you for the closing remarks.

Paolo Merli:

So, thank you very much for listening and the attention, and speak to you soon in March for the full year results and the Business Plan. Thank you very much again.