



ERG S.p.A.
“1Q 2022 Results”
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MODERATORS:
PAOLO MERLI, GROUP CEO
MICHELE PEDEMONTI, CFO

Operator:

This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 1Q 2022 Results Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Paolo Merli, CEO of ERG. Please go ahead, Sir.

Paolo Merli:

Good afternoon everybody and welcome to our Webcast on the first quarter results. Here with me is Michele Pedemonte, our CFO, who will take you through the results in more detail after my opening remarks.

Let me summarize the key figures of the period, as per **page no. 4**.

For the sake of clarity, those numbers are based on the continuing operations. As such, any comparison is on a like-for-like basis, thus excluding Hydro and CCGT from the scope.

Results are strong and better than expected, mainly thanks to the growth of the portfolio.

EBITDA was €168mn, up 69% YoY, with significantly stronger volumes (almost +30%) in all the geographies, thanks mainly to the contribution from new assets that progressively entered into operation in the second half of 2021 and as of January 2022. In a nutshell, results reflect the ongoing growth of our portfolio of assets following significant investments in 2021. In Italy, despite a lot of talking about extra-profits, the scenario was basically neutral, as the significantly higher merchant prices were offset by negative MtM of derivatives and the lower value of incentives, inversely correlated to it.

We invested €146mn during Q1 2022, which is 5 times more YoY. A significant portion is related to the solar acquisition in Spain (€96mn), whilst the remainder refers to the plants currently under construction in UK, Poland, France, Sweden and Italy, both repowering and greenfield.

Net Profit from continuing operations was €84mn, more than double YoY, reflecting the stronger operating results and lower financial charges. Let me be clear once again. This number – I mean the €84mn - does not include any windfall taxes neither in Italy nor in Romania, as those are temporary and extraordinary measures, subsequently accounted as non-recurring items for a total amount of €17mn, out of which €14mn in Italy and €3mn in Romania. To be even clearer, the €14mn in Italy are based on an extra tax rate of 10%.

Finally, NFP at the end of March was €890mn, significantly down compared with the €2.051bn at the end of 2021, mainly reflecting the cash-in of the Hydro disposal.

Let us move now on the next chart: I am on **page no. 5**. Our journey forward continued over the period with some significant achievements.

As far as asset rotation is concerned, we finalized the Hydro disposal and we also reached an agreement for the Thermo plant sale, the closing of which is expected to take place in the third quarter of this year, subject to Antitrust approval.

We continued to expand our portfolio of renewable assets in Europe. We entered into Spain with 92MW of Solar, and in Italy we secured through Auction tariffs on 97MW, of which 50MW from Repowering and 47MW from greenfield projects. Most importantly, we ordered wind turbines for a total of 240MW of repowering projects in Italy, which are now finally under construction.

We entered into the Storage market with the awarding of a tariff through the last Capacity Market Auction for two projects, totaling 22MW.

We strengthened our quasi-regulated business model by closing two long-term PPA with Engie in UK, covering assets that are about to enter into operation in the coming months.

As discussed during our Business Plan presentation, the integration of ESG into our strategy proved once again to be successful, with some important recognitions, as you can see in the chart, such as the entry into the Bloomberg Gender Equality Index and into the Suppliers Engagement Leaderboard of CDP.

Let us now move onto **page no. 6**. Execution of our Business Plan is very well on track.

Following the sizable investments made in 2021 and early 2022, we had about 400MW of new fresh installed capacity in service in the period, which drove up our operating results.

This considerable step-up in scale allowed us to strengthen both technological and geographical diversification even further, with 170MW made of solar out of 400MW, and all the 400MW spread-out in four different countries outside Italy, as you can see from the chart.

Looking at the forthcoming months, we expect to add further 250MW currently under construction, again in four different countries (UK, Poland, France and Italy, which is the first project of repowering).

This fresh capacity is going to enter into operation in a time of high energy prices, which we have now reflected into our full year guidance, which I will discuss later on.

But before I do that, I will now hand over to Michele for his review on results.

Michele Pedemonte:

Thanks Paolo, and now let us have a look at our 1Q 2022 results.

I am on **page no. 8**. As a premise, please note that after the disposal of ERG Hydro and the signing of the sale agreement for our CCGT plant, we are presenting figures on an adjusted basis, including only Wind and Solar operations; the CCGT is considered amongst the discontinued operations.

Let us start with an overview of unitary revenues trend.

All-in unitary revenues for Wind were strongly up YoY in all countries where we operated (with the exception of France, where we have fixed tariff schemes, and Italy), as the rise in electricity prices has been offset on one hand by the hedging run in line with our risk policy, and on the other hand by the level of incentive, which declined from 109€/MWh to 43€/MWh, being inversely correlated to last year electricity prices.

With regard to Solar, all-in unitary revenue in Italy was slightly up YoY, thanks to rising electricity prices, partly offset by hedging.

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

And now a focus on production, on **page no. 9**.

In Italy production was at 706GWh, +7.5% YoY, due to better wind conditions coupled with better sun irradiation.

In France production was up 23% at 322GWh, thanks to 80GWh coming from the 2021 investment (M&A and organic growth), that more than compensated the weaker asset base production of the period in the comparison with Q1 2021.

In Germany production was up 73%, benefiting from a generalized better production, coupled with 42GWh of perimeter effect, due to the acquisition done in 2021.

Eastern Europe's production was up 32%, which reflects stronger wind conditions in all the countries, with Poland up 41%, Romania 32% and Bulgaria 21%.

Finally, we have the contribution to the portfolio of the assets built in Northern Ireland in 2021 and those acquired in Spain in January this year.

This chart clearly shows the increasing technological and geographical diversification of our portfolio, which will be further enhanced in the Business Plan period.

Now I am on **page no. 10**: Q1 2022 EBITDA per country reflects the production and the trend in electricity prices.

Starting from Italy: EBITDA was €82mn, up YoY (+14%), mainly due to higher Wind. The strong rise in prices proved to be almost neutral in Italy, as results have been penalized by lower value of incentives, coupled with the hedging policy in the period.

In France EBITDA was up 12% YoY, benefiting mainly from the consolidation of the assets acquired in 2021. Perimeter effect in France was €5mn, compensated by weaker asset base production.

In Germany EBITDA grew consistently in the quarter, due to the following items: perimeter effect (€5mn), better volumes (€7mn) and better scenario, which accounted for €6mn.

In Eastern Europe EBITDA benefited mainly from rising volumes (which accounted for €9mn) and better scenario, which resulted in a €14mn contribution.

It is worth mentioning that, as of the beginning of 2022, UK and Spain started to contribute to our results, for €12mn and €4mn respectively.

Again, also the EBITDA shows the strong rise of the geographical diversification in the first quarter of 2022: more than half of our EBITDA comes from a diversified panel of stable European countries, and this was 21% in 2021 considering all ERG assets, Hydro and Thermo included.

This means a more reliable cash flow generation from an anemological and market point of view, and also in term of regulatory risk.

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

We invested €146mn: an amount which is almost 5 times more than what we invested in 1Q 2021.

CAPEX are composed as follows:

- about €96mn of M&A related to the recent acquisition in Spain (92MW) of solar assets, and
- about €51mn related to organic Capex in Wind, referred to construction activities mainly in UK, Poland, France and Sweden. It includes also €21mn of CAPEX in Italy for the starting of construction of the repowering projects at Camporeale, Partinico-Monreale and the beginning of the solar revamping, coupled with the greenfield project at Roccapalumba, in Sicily.

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

I have already commented on Ebitda. Here we have:

- higher depreciation (€5mn) reflecting the contribution of the new assets, so a perimeter effect
- net financial charges at €6mn, vs. €8mn in 1Q 2021, thanks to a lower cost of gross debt, mainly following the issuance of our third Green Bond in September last year, and to all the operations of Liability Management brought forward during 2021.
- tax rate in the quarter was 22% against 20% in 1Q 2021. Taxation in the quarter is not including the effects of windfall taxes in Romania and in Italy, as they are accounted as non-recurring items. I will show you the impact of this taxation for ERG in the next dedicated slide.

As of January 2022, CCGT is consolidated in the discontinued items with a contribution of €5mn. As a result of all this, adjusted Net Profit amounted to €89mn vs €65mn in Q1 last year.

And now, on **page no. 14**, a comment on the windfall tax the Italian Government is implementing in Italy.

First of all this tax, to the best of our knowledge as of today, does not apply to effective earnings, but to the difference of the VAT balances recorded during the period October 2020-March 2021 compared with the period October 2021-March 2022. The VAT balances do not consider the hedging transactions and the incentives.

This extraordinary tax is intended to hit alleged extra-profits deriving from the exceptional high electricity prices in the period to the benefit of Italian assets.

As already explained in previous slides, we did not get any extra-profits in Italy, as we had a neutral impact from prices trend due to the hedging policy (which is usually negative in a context of rising electricity prices), in addition to the declined value for incentive. So figurative EBT in Italy was only €14mn up, due to higher volumes coupled with lower depreciation.

It is particularly frustrating that in such a context, where we do not have any extra-profits led by electricity prices, we have additional taxation to the tune of €14mn, with windfall tax rate at 10%, or of €35mn with windfall tax at 25%, as rumored. In this last scenario – the most probable one - the tax rate reaches an unreasonable 90%!

So, in a few words: a tax out of any logic, against Italian Constitution with the only outcome to increase country risk and to delay the energy transition, which is crucial to fight the climate change and for a reliable power market.

Finally, let us take a look at the Cash Flow Statement and the Net Financial Position for the 1Q 2022. I am on **page no. 15**.

Net Financial Debt closed at €890mn, nearly €1,161mn down from the end of 2021.

Starting from the left, we have the cash-in from Hydro disposal, the effect of Thermo & Hydro Deconsolidation, then our EBITDA, the Investments made over the period, change in working capital, financial charges, and Tax & Others. A strong deleverage, as expected, that gives us the flexibility to accelerate our growth in Wind and Solar.

I think I have touched on all the relevant items. Thank you for your attention.

I will now hand over to Paolo for his final remarks.

Paolo Merli:

Thanks Michele. Here we are with guidance for 2022. I am on **page no. 17**.

We revised the EBITDA range upward by €50mn, and therefore the new range is €450-480mn. The upward revision is mainly due to the stronger contribution we experienced during the first quarter coming from the new installed capacity, and the contribution that we expect in the forthcoming months deriving from the further new installed capacity which is about to enter into operation, against a backdrop of a favorable price scenario.

CAPEX remain unchanged compared with the previous guidance, in the range €420-480mn. Investments almost entirely relate to assets under construction and the acquisition closed in Spain at the beginning of the year. So here in these numbers there is no further assumption of M&A, which as you know are a little bit unpredictable at least until the moment of the closing.

Based on the assumption of EBITDA and CAPEX, NFP is confirmed within the range €750-850mn: we expect that the higher EBITDA, net of tax, will be more or less offset by the negative effect of the windfall taxes in Italy and Romania, which cautiously we have decided to insert in our cashflow, as well as higher negative MtM of derivatives.

Before starting the Q&A, I am glad to say that Fitch has just issued a few minutes ago its rating letter confirming our investment grade rating BBB- based on the 2022-2026 Business Plan. But, most importantly, the agency revised upwards the upper threshold of "FFO Net Leverage" ratio, from 4.2x to 4.4x, which basically means more financing power for the Company. Reading the letter, the upgrade reflects our execution, the asset rotation strategy, the acceleration of the geographical diversification process, the solidity of the "infrastructure" business model, the extension of the average life span of the incentives, as well as the recent track record in the PPA market and the award of auctions in Italy for greenfield and repowering plants. So, I think it is a key achievement for ERG, that recognizes the validity and resilience of our business model, and we are very happy of this.

Thank you very much for listening. And now we are ready to take your questions

Questions & Answers

Operator:

Excuse me, this is the Chorus Call conference operator. We will now begin the questions and answers session. The first question is from Enrico Bartoli with Mediobanca. Please go ahead.

Enrico Bartoli:

Hi, good afternoon and thanks for taking my question. The first one is related to some details, if possible, on your capacity to include all-in unitary revenues the increase in the energy prices, in the main European countries where you operate apart from Italy. I do

not know... for instance in the UK, if I am right, you have some bigger PPA contracts that were closed on baseload terms, and the same was also related to the Eastern countries. So, can you provide some details on how your contracts are leveraged to the current scenario? And can this level of prices be considered sustainable over the next quarters?

The second question is more general, on what is happening at political level in Europe: mainly after the European crisis, there is a political push for speeding up authorizations of renewable projects. Also in this case, can you elaborate what you are seeing actually happening in the main countries where you operate? The Italian Government, political parties have approved some measures to try to ease the authorization processes: are you seeing actually some speeding up happening in the main countries where you are?

And the third one is related to M&A. You are very clear about what is going to happen this year in terms of organic growth: I was wondering if you are discussing any additional transactions that we can visibly expect over the next quarters? Thank you.

Paolo Merli:

Okay. Thank you, Enrico, I am very pleased to hear from you. So, I try to go through your questions. So, the first one was about the terms and conditions of the PPA: we have confidentiality agreements on the condition. What I can say is the very last PPA we signed - which are not yet effective, because they are related to the assets that are about to enter into operations in the forthcoming months - in terms of pricing they reflect the price of today's market. So let me say, I would not be wrong to say that €80-100 for 10 years is a collar that I can provide you, the right latitude of the market right now.

The reflection that I think must be taken into consideration is the fact that PPA levels right now overtake the value of prices through auctions. So, in this inflationary world, in this green inflationary world, I think regulators must accelerate their thinking about changing the auctions throughout Europe in order to make the investments in the renewables more appealing. That is my personal opinion. Otherwise, the flamboyant targets for installed capacity in 2030 are very, very challenging.

The second question is about the simplification. Simplification is a part of the equation in the sense that the other one is the pricing -I have just touched the point - through auctions. About simplification, it is true; yes, over the last 12 months Governments - because it is not just a matter of Italy, but of every country where we are, in particular, in France, Germany, and the U.K. - are trying to accelerate the permitting processes.

But still, in general - and I am sorry to say that - in Italy, in particular, the permitting and the landscape is not absolutely what we need. We are not where we need to be, but I

think it is a fact. We started the repowering project in 2018, and now we are reaping the benefits... but just because we launched this project in the right time, in the right moment. So, for instance, in the Solar we see more acceleration, but as long as our projects require the sole authorization - which means the VIA Decree - plus the *Autorizzazione Unica*, it remains a little bit painful process. But this is not jeopardizing our targets, because the plan was already considering those hurdles.

And if I may, I would also be positive in the sense that the projects that we are now bringing forward are already larger than the ones envisaged in the Business Plan. I think you might have seen in newspapers that one of our projects has been approved by the Presidency of the Council of Ministers, which is quite a significant project: Nulvi Ploaghe in Sardinia is more than 100MW. So in this respect, there is some acceleration but, in my opinion, not enough to ensure the country to reach the targets the national plan has set out for 2030.

In terms of M&A, yes, you are right: in the guidance for CAPEX in 2022 there is nothing about M&A because M&A for its nature is unpredictable. Yes, I confirm that the Group is working on several dossiers right now, some more advanced than others. And for sure, the hope from our point of view is to grasp something by the end of the year, at least to accelerate the growth, but also to accelerate the reinvestments of all the proceeds that came from the asset rotation.

Enrico, I hope I have answered your questions. If not, then I am here for...

Enrico Bartoli:

Yes, very clear, thank you very much. Just a follow-up on the second one. Of course, we know the situation in Italy and your comment was very helpful. But some more color, for instance, on France and Spain: are you experiencing some faster development in terms of authorizations, or also there things are moving a bit but not as much as in Italy'

Paolo Merli:

In Spain, for instance, we are working on some agreements on a kind of co-development approach. And we have seen a quite important step forward, in the sense that, as you probably know, in Spain there is the big problem on overbooking for the capacity, because every operator is booking capacity, maybe without having all the authorization to build the megawatts. And then there has been an overbooking of the capacity.

Now with this process called *Concurso de capacidad* they are trying to streamline this process in order to avoid bottlenecks. And some projects we are looking at are in this kind of situation, and we are confident that the country got the right fundamentals to invest. And from a Solar perspective, in particular, the country is the ideal area for us to

invest. So, I would say yes: in Spain we have seen important steps forward. Even in France: there we have a proprietary pipeline, and we struggled very much in the last few years to carry forward our projects. But right now we have seen some accelerations, which reflect also a change in attitude for the *Préfet*. The *Préfet* in France is basically the person in charge to give the final authorization and - at least related to some projects we have in our pipeline - we have this kind of feedback.

Also in the U.K. there have been some changes over the last few months. For instance, till mid-2021, there were not auctions for onshore installation: the last auction was opened also for onshore. We decided to go down the way of PPA, because PPA is much more convenient: at least in our analysis, even though maybe based on baseload and *blah blah*, it is more convenient right now in terms of pricing compared to a CFD awarded through auction.

Enrico Bartoli:

Thank you very much, Paolo. Very clear.

Paolo Merli:

You are welcome.

Operator:

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

Naisheng Cui:

Okay. Good afternoon, everyone. Congratulations for the great results, well done. I have three questions, if that is okay. So, the first one is on dividend. I know in the past ERG paid special dividends, and I just wonder: under what circumstances are you going to consider a special dividend going forward? Are there any criteria you can make for that to happen? I just want to have a bit of color on that.

And the second question is on your CCGT assets. So remind me, if that is okay: where do you source your natural gas from, and can you give an update on the sale process to ENEL? Do you think that is still going up pretty well? I just want a bit of update on that.

And my last question is on project development. So, looking at the current market, Spot power price is very high, and you have a very strong balance sheet. So, it looks to me that probably, having more Spot exposure is going to be very favorable, a very natural thing to do. So, I wonder what your view on that is. I know PPA probably is preferred, but I just want to understand what's your view, just given the current condition. Thanks.

Paolo Merli:

Okay. Let me start from your question about the dividend. So, we just announced our dividend policy in March, when we presented the Business Plan. We raised the dividend

from €0.75 to €0.90. And I clearly said that this dividend must be seen as a kind of floor, because it is perfectly sustainable based on the bottom-line expectations going forward and the stronger balance sheet the company is sitting on right now.

As far as the special dividend: maybe in the past we have paid a special dividend, usually following a large capital gain on transactions. So, I cannot exclude this aspect, but let me say I would see more likely - and that is my personal hope - that the company keeps growing, creating the conditions maybe in 2-3-4 years to revise upwards our dividend, as it happened in the past. If you see, over the last 15 years our dividend moved from €0.20 and then €0.40, then €0.50, then €0.75 and now €0.90. So, on average, this company managed to increase it every 3-4 years, something like that: that is my expectation. But let us see, and we will discuss in one year: right now we have to pay the dividend, which is I think by the end of this month. I hope anyway I have answered your question.

The second one was about the CCGT. The sales process is going on as predicted for the time being, in the sense that it still remains subject to the Antitrust approval. The other CP, which was the Golden Power, has already cleared: so just one left, which is the Antitrust. We expect to receive the so-called reversal to the Italian Antitrust from the EU Antitrust. And when we receive this green light, we will proceed with the normal traditional filing to the Agency. And I confirm that we expect the closing to become effective over the third quarter of 2022, so that is our expectation.

About the supply of the gas, I think you touched this point, everything is going on well. Remember, ISAB is an Italian company, which is controlled by LITASCO, which is a Swiss company. And according to our understanding, there is no restrictions, no sanctions on ISAB. So, we keep providing them with all the utilities, based on the contract we renewed last year.

The third question, if I got what your point is, was about our view on the energy prices going forward. I would say, it is quite evident that prices are going up, not just because of the situation in Russia, which definitely exacerbated the situation: this trend for energy prices started in mid-2021. So, we had several reflections, strategic reflections on that in the company.

The peaks in the prices were already touched in early December 2021: so, I think there is something more structural. And you may remember that when we presented the Business Plan in May 2021 - and we had at that time the first sign of some reversal trend for the energy prices - I said that on some PPAs we are slowing down, and I was referring at that time to the one we then signed just a few months ago in Scotland, because we have the feeling something was going to change structurally. Of course, the Russians invasion of Ukraine has created a very, very particular situation, where climate change has been taken over by the necessity to guarantee security to supplies from Russia, because security means freedom, and it means democracy and *blah blah*. So now, all the

states are changing the plan to accelerate on renewables or any other solution to this dependency.

In this context, I think that -even though the war could finish tomorrow or in a month as we all hope - the geopolitical risk in the market is there, and it will remain for long. So, I think the market is going to face long-term high volatility and higher prices. And it is not me saying that: it is the market saying that, because the forwards are well above 100€/MWh, even looking at 2025 and 2026, so I think that some parts of this on the market have changed.

I do not know if that was the kind of the answer to your question.

Naisheng Cui:

Yes, that is helpful, Paolo. I just want to follow-up on the last question: I just wonder if ERG is willing to take more Spot exposure. Because, I guess, you have a stronger balance sheet, you can take on more risk. Are you willing to take more Spot exposure, at least for the short term?

Paolo Merli:

I would say you know that one of the hallmarks of our business model is relying on a portion of revenues to be backed by incentive, tariffs and so on, because these also influence the rating and the capacity of leverage of the Group. But definitely, what you are saying is a reflection we had not now, not 6 months ago, but more than 1.5 years ago, when we were elaborating our plan with the asset rotation. Because for the CCGT and the Hydro, it was a necessity to have a knowledge and know-how about Energy Management. And we asked ourselves if, going forward with a purer Wind and Solar model, maybe we would have needed just a Sales Department able and capable of signing PPA. The answer was we would have not. We have to maintain Energy Management know-how, because through these competencies, we can optimize the way of selling energy, doing exactly what we did: some optimizations, maintaining for instance PPA, maybe on baseload terms, not covering 100% of the P50, but just covering 70% and leaving some space to increase our cash flow and revenues, leveraging on the current market conditions. So the answer is yes. And I think it is yes because of our background. Because if we were an infrastructure fund, maybe we could not have that kind of competence built over the last 10 years, probably.

Naisheng Cui:

Very helpful. Thank you so much, Paolo, thanks.

Paolo Merli:

Thank you to you.

Operator:

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

Roberto Letizia:

Yes, good evening. Thanks for taking my question. I apologize, I will be a bit more technical on the guidance and figures. So, I was wondering whether you can also give us an indication: I promise I will not take it as a guidance, but just an indication on how the EBITDA will be at the end of the plan, maybe potentially increased from the scenario you are envisaging, and is this leading you for a significant higher figure for the end of the year? Maybe just an indication of sensitivity of what can be a potential upside. Again, I will not consider it as a guidance, but just qualitatively what is the space to go beyond that target?

What is going to be probably the EBITDA contribution of Germany and Eastern Europe, (the ones who experienced the best results in the first quarter) by the end of the year? Just to get a sense on what is the upside on those regions that you are already materialized in the first part of the year. Can you remind us how many megawatts you will add through this whole year?

And then a more general question on the M&A that you have not included. I was wondering if you feel that the current environment that it is a bit more stressful on the debt side, actually improves or not the condition for doing M&A. So, if you feel that under this current environment, you have more, equal or less options to achieve attractive deals?

The very last question: we touched it also in the past call, but maybe you can update us over time, what is the view on potential offshore deal participation from your side, given the relevant space in your balance sheet and increasing opportunity that this is materializing also in Italy? Maybe this is a new frontier for you, that may arrive in a shorter period of time than initially expected. Thanks a lot.

Paolo Merli:

Okay, Roberto, let me try to address your questions, but in a qualitative way. The sensitivity is very difficult to say, because that depends really on what kind of assets we are looking at, and let me try to explain it better. So, for instance, right now, looking at the numbers the stronger contribution, as you spotted, came from our foreign operations. Because, for instance, in Germany, we have this year this one-way CfD, so whenever the price is higher than the tariff, you got the upside. That is why Germany performed better than France, for instance, even though we have more assets, more megawatts in France. For instance, *vice-versa* in France, the tariffs are kind of a feed-in tariff: so, they are fully blocked.

Another area where we are enjoying higher contribution is the U.K. because the plants that entered into stream at the end of 2021 are enjoying a sort of a grace period before starting the fixing of the PPA exposed to merchant. And in the Eastern Europe we have some parts of the production which are very well exposed to the market, and that is why this area is generating good results.

Let me also say that the first quarter was quite good also in terms of anemology, so the presence of wind, especially when compared with the first quarter. So, all this together gave the set of results we are today presenting to you. But the sensitivity is exactly the same I have already given during the Business Plan presentation. So, every 10€/MWh for the energy prices - when I say energy prices, take a mix of the prices in the countries where we operate - roughly turns into €10mn of EBITDA: more or less, this is the sensitivity.

About M&A, I cannot comment on the situation, the specific situation we are working on. Yes, you are right: the environment out there is quite complex because I think it is just the mirroring of the difficulty of growing organically, due to the difficulty of the permitting, *etcetera*, there is a strong focus on the secondary market. So that is why we, as a company, try to pursue a cherry-picking strategy, looking for maybe a smaller asset, where there is a little bit less competition, and so on. So that is the way we are trying to operate in the secondary market, and also looking at some co-development agreements. And we made some steps forward in this direction, which allows you to enter in an earlier stage instead of buying pipeline and paying not sustainable value, as sometimes it may seem from public transactions you can find on the market.

And there was maybe, a fourth question, but I did not write it, so I...

Roberto Letizia:

The offshore and the additional contribution specifically of Germany and Eastern Europe only in this year. Thanks.

Paolo Merli:

Yes. As far as the last piece, I let Michele to answer. But the offshore is not part of the Business Plan but, as I said in the angle of innovation, we stated that we would have a look at it, and that is what we are doing. I can confirm you that we have spotted 2-3 projects in a very, very early stage. So please do not take it as a target, they are in a very early stage, but are quite big in terms of scale - "big" means a few hundred megawatts each - and we are performing some due diligence, we are performing some analysis. But let me say, especially floating offshore for the moment is an idea, because there is not yet a framework agreement, a regulatory framework in order to sustain the development of this technology, at least in Italy. So, it is unthinkable that floating

offshore can survive, can repay the capital invested with a tariff of 60-65-70€/MWh. You can easily understand that the capital intensity of this technology is 4-5 times the onshore. And then it would require a specific auction ensuring the right return: if not, the investment would remain just on paper. But yes, I think the only breakthrough to reach our targets as a country is to at some point open up to this kind of technology. That is my personal opinion. But I would see more in the 2025-2030 than in the first 5 years of the decade.

Michele Pedemonte:

In relation to the contribution of Germany and Eastern Europe, these are areas where the production was very good in the first quarter. And in addition, in these two geographies the structure of the incentives is such that we have some exposure to the current market prices. And this is the reason why we have such a good result in Germany and in Eastern Europe in this first quarter. At the end of the year, we foresee a contribution of Germany - assuming a larger production in line with budget, so not as positive as in the first quarter - in the region of €40-50mn, whilst Eastern Europe in the region of €70-80mn.

Roberto Letizia:

Sorry, can you repeat the numbers, I missed them. Sorry, just the numbers.

Paolo Merli:

Germany €40-50mn, Eastern Europe €70-80mn.

Roberto Letizia:

Thanks a lot.

Operator:

The next question is from Carlos Razuri with Schrodgers. Please go ahead.

Carlos Razuri:

Hello, can you hear me?

Paolo Merli:

Yeah, perfectly.

Carlos Razuri:

Okay, perfect. Yes, I have 3 questions. The first one is on page no. 14, I believe, where you show the windfall tax impact. I am just trying to understand what you were trying to show here, and if you could provide more details on how you arrived at your estimate for the full year impact, and also if this has already been provisioned in the first quarter.

My second question is about the costs of wind turbine components, the key purchase during the quarter: I just want to know how that compares to your Business Plan CAPEX.

And finally, given that you have not rolled out more M&A, I would like to understand more about your strategy. How do you think about acquisitions, which type of assets are you targeting? My understanding is that you have mostly required operational assets with a certain pipeline component, but it is mainly operational. So, you are paying quite high multiples for this type of assets. Is that something that you expect to continue going forward, or could you change that approach post your new Business Plan? Thank you.

Paolo Merli:

Okay, let me try to answer starting from the windfall tax. At the profit and loss level, we have accounted €17mn as a non-special item in our reported profit and loss, which refers to €14mn on the so-called "*extra profitti*" in Italy - or windfall tax, as you prefer - based still on the Article no. 37 of the law measures against the conflict in Ukraine. Now, according to some rumors and some drafts that are circulating, the Government is working on a revision of the tax rate from 10% to 25%, extending the period to April 2022. And this article will be inserted in a new decree, so extending the timing of conversion in law, but if you want to know the general impact moving up the tax rate to 25%, the impact should be roughly €35-40mn for the group, out of which €15mn have already been accounted in our profit and loss.

Let me specify that the guidance we are giving today to the market for net financial position is already including the 25% assumption for the windfall tax. I do not want to comment, but I think you all know that we are a little bit - just for a lack of a word - disappointed by this kind of tax, because it is not linked to the real profit of the group, because it is measured just on the items relevant for VAT purposes. And for instance, this taxable base does not include the negative effect of derivatives, does not include the reduction of incentives in Italy, because incentives are inversely correlated to the energy price. So, it is really unfair. In fact, I think the chart Michele, our CFO, showed you demonstrates basically that applying this tax, the tax rate would be 90%. That is why we isolated this item as a non-recurring, because the law is a temporary measure. But again, it is not consistent with the Article no. 53 of our constitution, which says that any tax must be consistent with the capacity of paying those taxes. So, it means with the profits, not with the settlement of VAT items, but let us see.

Carlos Razuri:

Can I ask a clarification before we move to the next question? So for that assumption, I understand like there is a retroactive period, I believe it is October 1 to March 31: is that correct?

Paolo Merli:

Yes, it is correct, but that is the period through which they measure the taxable base, but everything...

Carlos Razuri:

For profits?

Paolo Merli:

Everything was already accounted in the first quarter, I mean based on a 10% tax. Now, if they raise it to 25%, we will make the right provision during the second quarter. But anyway: yes, there is a retroactive period. And another aspect which must be considered is the comparison, because the same period of 12 months before was right in the middle of lockdown. They are comparing a period of very high prices with a period of very low prices. So that is another aspect to be considering when you put it on a jurisdictional claim. Michele.

Michele Pedemonte:

Maybe, an additional point: in the last draft it is also included the potential extension to April, this additional month will be included in the next quarter results, in any case.

Paolo Merli:

But let us see, for the time being, it is just rumors, there is a draft. So, we do not know yet what is going on exactly. So, it is a little bit too early... but anyway, the size, the latitude is €35-40mn. It is not the amount that is worrying us: it is the way they are trying to collect it (which is very unfair) and the consequences on the capacity of the country to attract further investments.

Michele Pedemonte:

And this is in any case a full year impact, because the law is a temporary measure. So, we expect that, according to the current law, the impact in the quarter - or maybe also adding April - remains in this area of valuation that Paolo just mentioned, so that it can be considered as a full year impact for this extraordinary taxation in Italy.

Paolo Merli:

The second question, on CAPEX. Again, it is very difficult to say: now for the time being, we have just presented our CAPEX plan. But for sure we have never seen this kind of situation: with the price of steel that has doubled, all the materials related to energy transition are going up very, very significantly. Fortunately, the biggest part of our megawatts in the pipeline and then in the plan were already secured through a

framework agreement with the wind turbine suppliers. We had already signed the BOP contracts in most cases. So, I would not see a major risk related to this Business Plan.

But going forward, the new instalments that are not yet covered by that kind of contract will be submitted to a strong pressure from the CAPEX side. That is not ERG's problem: it is an industry issue. And it was my point before, when I said that I think the Regulators around the world, but especially across Europe, have to think about mechanisms that are capable of attracting investments, allowing energy companies to obtain a return, which is consistent with the LCOE of the plants. That is my point. And I think the 50€/MWh world is not there anymore. That is the point, I think.

And M&A, what kind of M&A. On paper, if you bring me, you know, a business combination with megawatts, with the right mix of Wind and Solar, with the right mix of countries, with a large pipeline - some at early stage, some almost ready to build - that would be the ideal target, because we believe in the energy transition. We believe this is a long wave trend, not finishing in 2-3-4, even 10 years, but a long way secular trend, let me say. The problem is, whenever you go for assets like that, the competition is very strong. Sometimes competition comes from oil companies, from big infrastructural funds that maybe have different logic compared to a company like ERG. So, we have a strict financial discipline. We have our way of valuing pipelines, we have also accumulated important know-how and, when we scrutinize pipelines, we can see the value that some others maybe cannot see, because we have maybe more strict criteria. Against the backdrop of this is we prefer, you know, to build inside the competencies. In fact, we have invested on our own organization, on our own pipelines, starting from scratch. And we are trying to accelerate on the co-development agreements. So, to answer your question: we are now looking more at operative assets, without excluding - if there is - some cherry-picking situation pipeline. But for the time being, for us - given also the bulk of cash in our balance sheet - the ideal would be to invest it in something that already generates cash flow and is fully de-risked.

Carlos Razuri:

Okay. Thank you. Can I add just one final question? If you think about your own development pipeline, would you cover the repowering and Greenfield projects - including this order you placed of wind turbines for your project in Italy with a CfD - what percentage of the cost rate is has already been locked in?

Paolo Merli:

What percentage, sorry, I did not get the last point.

Carlos Razuri:

So, I assume that you have contracts with the suppliers of these wind turbines. I just

want to understand what percentage of a cost rate for your development projects has already been fixed.

Paolo Merli:

Michele, our CFO, is responsible also for the Procurement.

Michele Pedemonte:

I would say that all the 2022 CAPEX are under framework agreement, and a large part of 2023 CAPEX is just for the framework agreement. That is over 100% against this inflation, but it is a very strong mitigation against these inflation on CAPEX. So, we are speaking of 100% of 2022 and a large majority of 2023.

Carlos Razuri:

And nothing beyond 2023?

Michele Pedemonte:

No.

Carlos Razuri:

Okay, Thank you.

Paolo Merli:

You are welcome.

Operator:

The next question is from Emanuele Oggioni with Kepler Cheuvreux. Please go ahead.

Emanuele Oggioni:

Good afternoon and congratulations for the results, first of all. I have few questions on my side. The first one is on the hedging policy: could you update us on the hedging policy for 2022 and for 2023?

The second one is still on the cost inflation, but not as regards the risk on it... because I think the IRR is safe, considering it will be more than offset by the current power pressure scenario. So, my question is more about the risk or the disruption for the supply chain in the next few quarters. Could you elaborate on that? This is the second question.

And the third question is on the pipeline: could you update on the portfolio of the projects in the pipeline, which you consider as a mature pipeline? Thank you.

Paolo Merli:

Okay. Michele, on cost hedging and cost inflation disruption.

Michele Pedemonte:

Yes, regarding the hedging policy this year, for 2022 we have roughly 80% of our production covered and this through short term hedging, with or future and some similar instruments; this percentage decreases to roughly 50% in 2023. What is important to say is that with our last Business Plan, we moved our hedging policy from a short-term hedging policy to a more infrastructural business model, where the hedging is not based on the short term, but we try to target long term hedging through PPA or, as we already did in the past, through auction and incentive. And you have seen this through this year with the PPA that we closed in UK, last year in France and also in Northern Ireland, and so on. So, there is a change in our strategy: short-term hedging futures remain as an optimization tool, but there should be a residual part of our production to be covered this way, the idea is to have more long-term hedging through PPAs and auction.

Regarding cost inflation, you know, this is not an issue, as commented by Paolo before. We are having in front of us very tough months: for sure, the supply chain is under stress, we are seeing it in different countries. The idea, again, is that ERG has selected the right partners. So first-tier wind turbines and solar panels manufacturers, as a way to mitigate this risk, but in any case, the supply chain is under stress. What I can say is that our assets are under production, are currently performing. We cannot exclude short term delays, but at the moment everything is going in the right direction.

And finally, I will hand over to Paolo to comment on the pipeline.

Paolo Merli:

The Pipeline we presented the plan a couple of months ago: no major changes from that. Compared to what we said in March, we had some advancement in the repowering in Italy. I mentioned the Nulvi Ploaghe project, which was in our plan, expected to enter into operation in 2026. But compared to the assumptions we had a few months ago there has been a strong acceleration, because as I said, the Presidency of the Council seems – “seems” because we still have to receive the *Decreto VIA* – to have signed the approval for this project. So, it is a major acceleration. We had some advancement also in the Solar pipeline and, as I said, not just in Italy but also in Spain. So, we hope part of the securitization of the target for 2025-2026 will be covered by these new additions.

You may remember that there is also a part of the pipeline related to Storage. Now, Storage is becoming even more crucial because of the acceleration all the countries must put in place in order to substitute the Russian gas. And then storage is becoming even more important. And from this point of view, I have to say that the Government has simplified very much the Storage permitting and now, neither the *Decreto VIA* nor

Autorizzazione Unica for some kind of projects are acquired. But it is just needed a *DILA* (*Dichiarazione Inizio Lavori Asseverata*), which is basically a communication to the *Comune*, to the municipality. So that is something that should streamline the process very much, and I hope the deployment of the pipeline in at least one of the projects we have already well identified.

So, we are really working on several angles in all the countries. After all, remember that our strategic idea to spread out in more countries is not just based on trying to diversify the availability of sources - Wind, Solar... - but also to be in the position to seize opportunities wherever they come. And so, we are working to enlarge the pipeline. But for sure, I personally said pipeline is a dynamic KPI, but it takes anyway time to make it evolve. But everything is going well. Hope we have answered your question.

Emanuele Oggioni:

Thank you. If I may, a quick follow-up on the level of pricing for the hedging?

Paolo Merli:

65?

Michele Pedemonte:

65 for 2022 and for 2023, more or less 65.

Emanuele Oggioni:

The same as well for 2023, it is the same: 65, okay. Thank you. Thanks so much.

Michele Pedemonte:

Thank you.

Operator:

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

Paolo Merli:

So, thank you very much to all, and see you on next occasion, which should be the first semester results. Thank you very much again.