



ERG S.p.A.
“2Q 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 2Q 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 afternoon, everyone and welcome to our Second Quarter and First Half results presentation.

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

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

I am on **page no. 4**. Numbers here are based on continuing operations, thus excluding CCGT from the scope; as you know, we reached an agreement for its disposal on June, 29. For the sake of clarity, figures are also presented net of clawback measures and windfall taxes, despite the fact that those measures are extraordinary and temporary. Throughout the presentation we will provide detailed disclosure of the effects of those measures.

In a nutshell, I would say results were slightly below YoY at the EBITDA level and – to be honest - substantially lower than our budget, mainly due to tough wind conditions over the second quarter, significantly lower than the historical average against a backdrop of lower electricity prices. Those effects were only partly offset by the larger installed capacity that suffered from the same poor windiness.

EBITDA in 1H of the year was €263mn, slightly down YoY. The larger installed capacity, brought up by M&A and organic growth, contributed by around €37mn. This contribution was more than offset by lower captured sales price and lower wind availability more or less across the whole of Europe, but in particular in Italy and the UK. Solar in the period showed slightly better volumes due to stronger irradiation.

Clawbacks at the EBITDA level during the period were €7mn against €5mn over the same period of last year. Michele will elaborate more on those figures in a while.

Notwithstanding those trends, results at the bottom line proved very satisfactory, with adjusted net income at €116mn, up more than 40% YoY, thanks to the reduction of 2022 windfall taxes and to lower, significant lower financial charges deriving from our cash management in a context of rising interest rates.

Clawbacks at the bottom line level were €6mn (basically the same at operating level net of the relevant fiscal effects) against €40mn in 1H 2022, when we had also windfall taxes in Italy.

CAPEX in the period amounted to €311mn, higher than the same period last year, boosted by M&A. The remaining CAPEX was related to the advancements for assets under construction, both repowering and greenfield projects. As far as repowering, in the period we completed the construction of the first repowering project.

NFP at year-end was €1.5bn, up vs. the slightly above €1.4bn at the end of 2022, mainly reflecting the dividend payment for €150mn, the investments in excess of €300mn (just commented), mostly compensated by the operating cash flow generation.

All in all, in light of this weaker business environment that I have just described (a very low wind and lower, much lower, electricity prices), the economics of the Group proved to be resilient, with strong cash generation: not immune but resilient.

Let us move on: now we comment on our main achievements during the quarter. I am on **page no. 5**.

First of all, it is worth starting with the agreement we reached with Achernar for the disposal of our CCGT, which was a top-target for the year. We expect the closing to take place by the end of the year, as already communicated, after completion of the golden power procedure, which – I update you - we have already filed for. This is a very important step for the transformation of ERG into a pure renewable player and a crucial step for the Net Zero target, which has been officially approved in the meantime by SBTi.

We are also moving forward with the expansion of our RES portfolio in Europe.

We started up, as I said, our first repowering project in Italy, the Partinico-Monreale wind farm in Sicily, 42MW. Now we are also finalizing the installation of another repowering project - Camporeale - which should be in operation soon. We made an important step ahead in our diversification in Solar in Spain, with the acquisition of 149MW under construction (in the very, very last phase of construction) and 25MW that just entered into operation. We also made important steps with the development of our pipeline, as we got the building permit – or, as we call it in Italy, the *Autorizzazione Unica* - for a 115MW wind repowering project, so one on the largest projects we have in our pipeline. We have other 30MW fully authorized and now RTB in Germany and 18MW fully permitted and already awarded in a recent auction in France.

Our ESG path is continuing - successfully, I would say - with important recognition on all the pillars of our strategy. We are particularly proud to have obtained the Net Zero Certification from SBTi. We have been promoted by MSCI to AAA, and we have been included in the Top 10 in the 2023 Integrated Governance Index. Last but not least, ERG joined the Nasdaq Sustainable bond network, an important recognition of ERG's financing strategy, focused on green instruments.

Now, over to Michele for his comments on Second Quarter and First Half results.

Michele Pedemonte:

Thank you, Paolo. First of all, please note that all figures presented here are net of clawback/windfall profit taxes implemented by various European Governments; also the 2022 data are represented on the same basis.

Now, let us start with an overview of the unitary revenues of the period. I am on **page no. 7.**

In 2Q 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 hedging made in line with our risk policy or by other revenues components.

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 and lowered by 43€/MWh vs PY, while on the market we caught a price higher than PY thanks to our hedging policy. All in all, we have a slight decline in unitary revenues from 122€/MWh to 117€/MWh. Please note that the structure of the Italian green incentive will allow a recovery of the electricity prices below 180€/MWh of this year in next year: this will be a material positive offside expected in 2024.

In France the large majority of our assets operates under FIT scheme without exposure to market prices. The all-in price is lower than 2Q22, because the few assets at merchant prices in 2022 were influenced by a higher market scenario.

In Germany the one-way tariff structure, coupled with some short-term hedging, allows us to capture higher prices than previous year.

East Europe unitary revenues decreased in 2Q, driven by Romania and Bulgaria mainly due to lower merchant prices.

In UK the decrease in all-in unitary revenues (-80€/MWh) are related to PPA price, which is lower than the spot market price captured by our Northern Ireland assets in 2Q22 during the first months of production of the plants.

As regards the Solar all-in unitary revenues, we see values to increase in 2Q in Italy, thanks to the new assets consolidated from July 2022 vs a PY at fixed prices, because 100% production was hedged. In Spain, where our assets have a tariff mechanism that operates as a floor, all-in prices are slightly lower and reflects lower market scenario.

And now a focus on productions, as per **page no. 8.**

In 1H productions reached 3.0TWh, 0.3TWh higher than previous year mainly due to perimeter effect. Production coming from abroad represents more than 50% of the Group's total productions.

As regards the 2Q, we have:

- in Italy 565GWh, +4% YoY, only thanks to perimeter effect (+75GWh) from Wind & Solar asset acquired in 2022, and a small contribution from Repowering plant

entered into operation in June. Perimeter effect is almost completely offset by lower wind conditions, well below the historical average, and worse irradiation in comparison to 2Q22

- in France we have 254GWh (+13% YoY), thanks to better wind conditions in comparison with the very poor 2Q22
- in Germany: 103GWh (-9% YoY) because of lower wind conditions
- in Eastern Europe volumes higher than 2Q 2022 (+17%), mainly due to assets entered in operation in 2022 in Poland
- In UK & Nordics we recorded 85GWh (+74% YoY) thanks to the assets energized by the end of 2022 and early 2023 in Scotland and Sweden. Production in Scotland and Northern Ireland is anyway well below the expectations due to very poor wind in the region in the quarter. Low production also in Sweden due to prolonged test and commissioning activities on our Furuby wind farm in order to resolve some technical issues encountered during startup activities
- in Spain: -7%, mainly due to worse irradiation with respect to 2Q of last year.

We are now on **page no. 9**. In the second quarter of the year, we have an overall EBITDA net of clawbacks equal to €103mn, slightly lower than the one of 2Q22, mainly due to lower captured price than previous year, where prices benefited from extremely high market scenario and lower production in particular in Italy, partially offset by perimeter effect:

- in Italy the EBITDA is €67mn, in line with last year mainly due to perimeter effect, offset by the lower value of the incentive (which is zero in 2Q23) and worse weather conditions both on wind and solar assets.
- in France the EBITDA is €14mn benefiting from better wind conditions and perimeter effect of +€1mn
- in Germany the EBITDA is €8mn, slightly lower than previous year mainly due to lower production in the period
- in Eastern Europe the EBITDA is €11mn, lower than 2Q22 mainly due to lower sales prices, partially offset by perimeter effect in Poland
- in UK & Nordics the EBITDA is lower than last year, mainly due to PPAs at a lower price than PY market scenario, partially offset by perimeter effect
- in Spain the EBITDA is €5mn, lower than last year, mainly due to lower captured price and lower production.

1H EBITDA is €263mn, lower than previous year mainly due to weaker weather conditions, partially offset by perimeter effect. In 2023 almost 50% of EBITDA comes from assets outside Italy.

And now, on **page no. 10**, a brief overview of investments in the period.

In 1H23 we invested €311mn: an amount which is higher than the one invested in 1H of last year.

About €182mn are related to M&A projects in Spain in 2Q of this year for about 149MW of assets under construction and 25MW of a solar plant already in operation: this acquisition occurred just on the last day of the quarter.

About €125mn are related to organic CAPEX in Wind, in particular we have €92mn of CAPEX in Italy for Wind repowering projects and greenfield in Sicily.

Let us now move on to Financials, commenting on P&L on a recurring basis. I am on **page no. 12**.

In 2Q 2023 we have Net Financial charges at €2mn, vs. €6mn in 2Q of last year, mainly influenced by liquidity remuneration in a scenario of interest rate increase, with a debt structure almost completely at fixed rate.

Tax rate in the quarter is 24% vs a 69% of 2Q of last year, which included Italian windfall profits taxes.

As a result of all this, the adjusted Results on continued operations of the quarter amount to €37mn vs €15mn of 2Q of last year, that included *Extraprofiti* taxes for a total amount of €23mn.

The adjusted Results on continued operation of the first half amount to €116mn (including €7mn of clawback measure) vs €82mn in 2022.

CCGT is 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 2Q23 is negligible because of the sharp electricity prices decrease in the 1H of the year, and it refers mainly to Eastern Europe. In Romania, the Government set a compulsory PPA mechanism at the cap price of 90€/MWh, which has the same substantial effect of a clawback measure, but it is not reported here.

Comparing Net Profit net of clawbacks, we see a substantial increase vs last year, that was heavily affected by Italian windfall tax.

In 1H23 the impact of clawback measures on EBITDA is €7mn and €6mn on Net Profit.

Finally, let us take a look at the Cash Flow Statement and the Net Financial Position for the 1H2023, as per **page no. 14**.

The Net Financial Debt closed at €1.5bn, €82mn higher than the end of 2022, driven by a solid cash generation from EBITDA and a positive net working capital movement for (-€61mn), mainly linked to a timing effect from hedging operations done in the period. These impacts are netted by the already commented investment of the period and dividend payment for €152mn.

The net financial position includes €23mn due to the mark-to-market of derivatives on commodities.

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

Paolo Merli:

Thanks Michele.

Before going through guidance for 2023 let me refresh our target for the year in terms of installed capacity. I am on **page no. 16**.

As you can see from the chart, through a combination of M&A and organic growth, we expect to add further 369MW by year-end, which is consistent with the trajectory of the Business Plan. It is worth mentioning that out of these 369MW, a total of 160MW is now fully operational, and the remainder is under construction.

The growth will continue to be a driver of our results in particular as of 2024, when we expect all those assets to reach their full potential on a full-year basis.

And now a deep dive on assets under construction (see **page no. 17**), as the perimeter enlarged compared to the last update.

Although we experienced a few months' delay for basically all our assets under construction, given a supply chain scenario that remains challenging (but we are talking about a few months, which - it must be said - had also an impact on our operating figures in the first half of the year), despite all this we are moving on with our developments, which will make our portfolio stronger ahead of next year, so with a higher degree of geographical and technological diversification.

As a matter of fact, new assets are spread out between Italy, France, UK, Germany and Spain, both Wind and Solar.

In a nutshell, we are moving forward in line with our objectives.

Now guidance: let us see the guidance for 2023, on **page no. 18**.

In light of the fact that – as I have already explained - Q2 results were significantly poorer than our budget (slightly down YoY, but significantly lower than what we expected and lower than our budget, which our previous guidance was based on), mainly as a result of extraordinary weaker wind conditions all across Europe, in particular in June and especially in Italy and the UK, we revised the guidance on EBITDA downward, while maintaining guidance on CAPEX and NFP. Given that, all in all, we expect cash flow to be confirmed, to be aligned with our previous expectations, as lower financial charges and some other working capital items will off-set the poorer operating margin.

Let me be more precise: we still expect today EBITDA to be at the lower-end of the previous guidance (€500-550mn) but we felt it was more transparent to re-calibrate the guidance range downward for the reasons I have just explained.

So, to summarize:

- EBITDA is moving from €500-550mn to €480-520mn. Let me remind you that 2023 guidance is net of clawbacks
- CAPEX remains in the range of €500-600mn, unchanged
- NFP is expected within a range of €1.4-1.5bn, again unchanged.

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 afternoon and thanks for taking my questions. The first one is on the guidance: can you elaborate a bit more on the bridge that you had to this reduction? Is it only related to volumes, or is there also some impact from the declining scenario for the spark spread prices, or some impact on your hedges for 2023? The second one is: can you update us on the hedging level in terms of volumes and prices for 2023, and possibly also for 2024?

And then a general question on the regulatory scenario. I think that the Government is implementing some revision of the maximum prices in the auction system: what visibility do you have on that, and what impact do you expect on participation to the auctions

and on your commercial policy? Is the update consistent with the current market conditions, or is it still not enough compared to what the PPA market can achieve in 2024? Thank you.

Paolo Merli:

Good afternoon, Enrico, and to everyone. I would say, the guidance - let me elaborate a little bit more - is reflecting mostly the lower production in the second quarter. I think you have seen the TSO monthly report: June was a very tough month in Italy, particularly in Italy but also in the UK. The whole wind production in Italy was down 19% YoY in June (I refer to the country production, not to ours), which means more than 20% lower YoY, if adjusted to take into consideration the higher installed capacity. So, most of the €20mn (more or less) we have lost coming from volumes was in Italy.

The price effect was very limited to be honest, because in 2023 most of the production is covered with hedging, PPAs, CfD tariffs and so on. It was a very limited impact - let us say a few millions of euros during the quarter - but please consider also the positive effect of having this year lower merchant prices because, as you know, the value of the incentive in Italy is inversely correlated to the electricity price. So, we expect next year to more than recover the impact from the energy price in 2023 because, according to the very latest forward for the calendar year, the value of incentive next year should be in the region of 40€/MWh, while in 2023 it is zero.

So, based on the volume we still have and under this kind of incentive scheme, this means that in 2024 we should recover roughly €40mn in terms of EBITDA, just for this effect, so that is why the reaction of the market to this €25mn seems to me a little bit overly excessive. But it is not in my power to change it.

So, coming to the second question on the hedging: if you refer just to the financial hedging, we are talking about a number that is in the region of €100 more or less for 2023, because it is a mixture of some hedging done and performed in 2022, plus some hedging that we inherited from the previous year, so €100. For 2024, the value of the financial hedging is in the region of €150, so much higher because, if you also look to the forward market, you can see that the market still expects higher electricity prices during the winter, and especially in the first quarters of 2024.

Last point, the auction system. Yes, you are right. It is an amendment that is already approved by the Parliament, and which basically revised upwards the base price for the next auction, still related to the "FER decree 2019", with the inflation. In other terms, it means that the base price will move from the current 65 to 76€/MWh. Is it enough? I do not think so. In fact, we are working on the PPA side, because we think the PPA market is now giving numbers that are much higher than those, and more consistent with the merchant prices going forward. It is anyway a step ahead, and we think in the new

decree the mechanism to regulate the auction will be further revised upward. That is my personal opinion, that is what we are working for with institutions here in Italy in particular, because in France and Germany they have already revised significantly up these tariffs. In France and in Germany, we are on average in the area of €90, because in Germany – please do not forget - there is a nominal value, which is €75, but then there is this correction factor that increases (especially for wind) the final tariff, sometimes in excess of 100€/MWh. So, the Italian one (€75) is still well below those levels.

So, I hope that I have touched on all your points.

Enrico Bartoli:

Yes, thank you. Just a quick follow-up on the hedges. When you talk about the financial hedges, is it possible to have an idea of what portion of the total revenues you are referring to? Of course, they do not take into account the feed-in tariffs and everything else...

Paolo Merli:

I must say it is limited: it is 0.5TWh or something like that, because most of our production is already covered by tariffs, PPAs or CFD and what else. So, let me say, half TWh is a good estimate for 2024. This amount could be further increased throughout the few months remaining, in the forthcoming months, let me say. And even when talking now, the forward for 2024 are in the level of 140-145€/MWh. So, we should consolidate this number.

Enrico Bartoli:

Okay, perfect. Thanks a lot.

Paolo Merli:

You are welcome.

Operator:

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

Roberto Letizia:

Yes, thanks for taking my questions. The first one is a follow-up on these 0.5TWh hedging. Is the 0.5TWh just for 2023, or is it also for 2024, or maybe 2024 is slightly less? And what is the total you may actually reach for 2024? Is it 1TWh, or is it something like that? Because some of the assets go out from the incentives, so maybe in 2024 you have a larger space for doing hedging at very good price.

Then, a follow-up on the previous question: you talked about the loss of production. I was wondering instead how much of the guidance reduction comes from the few months' delay that you mentioned, in terms of installation going forward?

Then, a clarification again on the guidance, in the sense of the impact from the clawbacks. So, months ago, when we talked about the net guidance for 2023, you mentioned a very high level of the impact from clawbacks, that have not materialized in the first and second quarter. And, I guess, actually the overall level of hedging has not changed dramatically versus when you gave this amount. So, I cannot reconcile actually now that, for example, Italy has no longer the clawbacks in place, and in some other countries, what do you expect now in terms of potential changes versus that impact on clawbacks, which - if I remember well - was €90mn... but maybe I am wrong, I do not recall it correctly.

Then please, can you start to elaborate a little bit on 2024, at least on the bridge of the components that will occur next year, to let us understand a general sense of the growth in EBITDA that we may look forward for next year?

And a final question... it is more a view on the PPA market development versus the volatility that we are seeing now in power prices at peak hour of productions, especially in Spain. So, I was wondering if you see any slowdown, for example, in the ability to close down PPAs because market participants are actually looking at that volatility at peak hours. So, they are increasing competition on the market prices, and is it becoming more difficult to sign PPAs or not? Can you give us a view on this topic? That would be very helpful. Thanks a lot.

Paolo Merli:

Okay. The 0.5TWh is just related to 2024. In 2023 we had almost 0.7-0.8TWh fully covered by financial hedging. So, this 0.5TWh could go up to almost 1TWh by the end of the year, because we have a policy to cover progressively part of this volume throughout the year (some each week, let me say), and the current value of this hedging is in the region of 140. The average at today is 150. Now, the forward are more in the region of 140, something like that. So, anyway, higher than the one we had, and we still have for the current year.

The delay has a limited impact on our financials: just a couple of million euros because, all-in-all, we are talking about just a few months' delay for each project. To be honest, it is a little bit challenging the environment in the BoP or in the construction, but anyway, we are managing it satisfactorily. So, the delay effect over the next 6 months is a couple of million euros, I would say, mainly related to Partinico-Montreale (that entered into operation 3 months later than what we expected in our budget), and also Camporeale,

which is the second repowering project that was expected to enter into operation in May, and now is expected to be completed by the end of August.

We have started just a few weeks ago the erection of the wind turbines. So, we are going on, we are organizing a field trip in October to visit the two wind farms (because they are one in front of the other) in Sicily, the wonderful wind farms. So, I would say: a limited impact, and the full potential of all these assets will be seen in 2024.

So, going to your questions about the expectation for 2024, I am not going to provide any precise number, but let me say that for several reasons - first of all, the reversal of the incentive in Italy, as said - this should account for €40mn more or less of EBITDA, and this is a price effect already very visible.

Then, we will have - and we will enjoy - the full potential of the roughly 400MW that entered progressively into operation in the current year. And this is another very important contribution to our EBITDA. If you add to this the fact that the hedging price and the forward prices for next year are stronger than the ones we are experiencing right now, we can surely expect an important growth. That is our current expectation.

Then you asked me for clawbacks. Yes, it is not a secret. The TTF gas price, that is the price set for the market - because the gas technology is still the one that sets the price on all the merchant prices across Europe - has totally collapsed compared to a few months ago. If you open the site - I have it in front of me right now - the price in August, which is 26€/MWh; last year it was 200-250€/MWh. So, the reduction in clawback measures simply reflects the reduction in energy prices. But again, given the structure of our revenues (80%-85% covered by all this mixture of price route-to-market mechanisms), our P&L is very resilient compared to merchant prices. What is more important is the volume, but I would exclude that what we experienced in these months should be extrapolated as a trend for the future. We have been analyzing, from any point of view, the windiness over the last 20 years, and also in the past we have seen cycles of 1-2 years of low wind, then followed by couple of years of stronger wind. So, I tend to see it as a one-off: the fact that wind is not there for a few months is part of the business.

Anyway yes, you were right. In the budget, we expected clawback measures in the region of €90mn, or something like that, and now we do not expect any further on top of the €7mn we have already accounted in the first half of the year, because the prices right now are mostly below the price cap. And some measures are off: in Italy, for instance, the Government confirmed its intention not to renew these extraordinary measures, that in fact were supposed to be temporary.

As far as PPAs, we are working on further negotiations, and from our point of view we still have corporates eager to secure energy in the longer term. You see we have closed a

couple of PPAs recently with Luxottica and with TIM, and now we are working on some others.

So, for sure the volatility of the market is a complexity to be managed, but I would say we do not see less interest in PPAs. I think you were referring to the profile effect in particular for solar, and especially in Spain: for sure that is a point of attention, but it has already been included in our estimates when we are buying the assets. And as regards our assets – in particular the 149MW, which should enter into operation by the end of the year – these are already covered by pay-as-produced PPAs. So, we are not in a hurry to find other PPAs in Spain.

Roberto Letizia:

Yes. Paolo really a quick follow-up on the 2024, just an adding but maybe you correct me. So, next year you are going to have €20-25mn (let us mention this way) from wind normalization. So, assuming wind resource or generally resource normalization, that should be €20-25mn, then you have some €40mn from the green certificate, then you have 400MW (let us take it at a half, because you got already there less than half contribution this year, but you still have at least 200MW full contribution), plus you have the 1TW, that has at least 40€/MWh higher prices. Am I accounting correctly? Is there any kind of negative? Because this sums up maybe to, I do not know, €70mn higher EBITDA... I do not know, something like €580mn next year. I do not know if I am losing something on the way.

Paolo Merli:

No, I think you are a good analyst, and what you did yourself make a lot of sense.

Roberto Letizia:

Okay, thanks a lot.

Operator:

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

Nash Cui:

Hey good afternoon, Paolo and Michele. Thanks for taking my questions. The first one is on project delay: I just want to understand what exactly caused the delay. Paolo, I think you mentioned it is construction: I just want to understand what exactly caused the delay, and what have you done to prevent further delays?

The second question is on the CCGT asset disposal. I understand you sold at a higher price this year versus last year on the back of a worse macro. I just wonder what had changed this time and how did you achieve such good price this year?

And the third question is on CAPEX. I just want to understand if your CAPEX on a per-megawatt basis are still within your budget plan, given the project delays *etcetera*? Thank you.

Paolo Merli:

Okay, your questions were very clear. I must say we are talking about few months, 3 months' delay, nothing very rocket science, let me say. Delays are caused maybe because during the construction, you find some obstacles in the field, which is not having major overrun cost. So all-in-all, we can confirm our budget because in our plan we already re-considered and revised upwards the CAPEX for the current challenging environment. So, no: I would say nothing worrying from these few months' delay, I repeat. So, for instance in Sicily, when you got the "*Autorizzazione Unica*", I mean the full authorization from the Authority, from the Region, there are 30-40 entities that have to express the "*nullaosta*" or the "go ahead with the works". Then they come to the site and they say "okay, this little - I do not know – installation, instead of putting it here, put it in there", so minor things, but no major cost associated, that cause a delay.

For instance, in Partinico-Monreale we waited a couple of months the permission to make our trucks (that were bringing the wind turbines) pass on a bridge. So, we waited for a couple of months the permission from ANAS, which is the authority controlling the viability and the motorways. So, that is the kind of reason that brought to this delay, but nothing very important.

Then the CAPEX plan: yes, I can confirm it. In some projects maybe we have something more, in some projects we are saving a little bit... but it is still, for sure, a point of attention. That is surely a point.

Then about the CCGT: the price is what you have seen in the press release. Consider that it is made of several items when compared to ENEL because, for instance, there is an unexpected tax asset that at that time was not spotted. And this is related to a regulation that was issued after the ENEL agreement, and it is related to the fact that the gas consumer such as the CCGT can enjoy some reimbursement for the higher cost of gas and for the penalties we went through for this particular gas scenario. So, if you look at the price all in all, yes: it may seem higher but, from the buyer perspective, the price is still good in my opinion, because it is paid by other sources. But in the press release I think these effects were very well specified. And also, the price is partly made of the permitted leakage, which is a cash flow generated in 2022, so when the asset was still under our management.

Nash Cui:

Very clear. Thank you, Paolo.

Paolo Merli:

Thanks to you for your questions.

Operator:

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

Emanuele Oggioni:

Hey, good afternoon, everybody. Thank you for taking my questions as well. I have only two left. The first one is still on the guidance, maybe focusing on the net profit, as I noticed that the D&A in Q2 were quite low, and lower than my expectation. So, could you give us a guidance for D&A in 2023? And the same: you had a very good control of financial charges, also very, very low in Q2 and in H1 in general. So, could you provide us with a guidance also, if it is possible, for net profit for 2023? Based on my estimates, it might be in the region of €200mn.

And the second question is on Sweden: you mentioned the technical issues for the 62MW wind plant in Sweden, still in commissioning phase. I suppose they are related to the well-known technical issues of one of the main worldwide suppliers in the industry. So, could you provide us with more details on this? Thank you.

Paolo Merli:

Okay, thank you for your questions. As regards the net profit, yes: we have a positive view also for the full year for the two reasons you have mentioned. First of all because we had been working for a while on the life-time extension programs, that led us to re-modulate the amortization and the depreciation of the assets, because all the progress we put in place reached a certification for a longer life of our assets. And thus, as a consequence, notwithstanding the large investments we have done in 2022, you can see the depreciation are more or less in line with last year or just slightly up, and this has helped the net profit.

The other area of interest is the financial charges. We had been good - and probably a little bit lucky - to renegotiate all our indebtedness in a time of very low interest rates. And we find ourselves with a lot of cash available that has been invested - not invested: say allocated - risk free, but with a return that is consistent with the current remuneration for liquidity in excess of 4%. So, if you take €500mn at 4%, you can easily realize that what we have missed from EBITDA was basically fully recovered from financial charges.

As a matter of fact, yes: we expect the same also for the full year, because this effect should continue in the second part of the year. We expect net profit to be reasonably in line with what you said, or maybe a little bit in excess of what you said.

Sweden, sorry: I forgot your question, but my colleagues just reminded it to me. Yes, we said the wind farm is branded new and is composed by 10 wind turbines from Siemens Gamesa, more than 6MW each: so, completely new and advanced technology. The capacity was fully installed by the end of last year; then we entered in the commissioning phase. But - this is in line also with public announcements from Siemens Gamesa itself - we encountered some technical issues in some components, but now the plant (which has got a full service agreement with Siemens Gamesa) is working on 8 out of 10 wind turbines. And according to the last news we had from the OEM, they should reach more or less the regime by the end of September. If not, of course we have contractual clauses that are covering part of the production loss.

Emanuele Oggioni:

Thank you very clear.

Paolo Merli:

But everything is already included in our guidance.

Emanuele Oggioni:

Okay. Thank you.

Operator:

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

Davide Candela:

Hi, good afternoon everyone and thank you also from my side for the presentation. I just have one question and maybe there is no answer for this, just a suggestion on my side. I was wondering if you feel that average load factors for the plants are going a bit down due to, I would say, severe weather condition because, if it is too windy, the wind farms are not working, or you can do some efficiency in the plants. It is just a feeling on this view, just to understand if I am completely wrong and this is not as it is. Thank you.

Paolo Merli:

Thanks for the question. I would say: whenever we had a performance below our budget, we started up all the analyses to understand if it is something company-specific, or if it is something related to outward and external conditions. And this time we did not make any exception, from this point of view: we made several analyses 360°all around the assets, in particularly focused on Italy and on the UK, where we had the lower load factors compared to our budget. And from those analyses it came out that there is nothing, or almost nothing, company-specific but it has been an external situation based on the weather conditions. High pressure in the UK, lower wind speed (in particular - I repeat - in June) in Italy. But when I had asked my engineers to say if this is related to

climate change or to this extraordinary climate condition, they said it is impossible to extrapolate this kind of trend or this kind of conclusion. And they showed me a 20 years'-30 years' analysis on wind, and they let me see that this kind of cycle is always being there also in the past. So maybe you have a couple of years' weak wind (because also 2022 was not that good) then followed by 2-3 years of stronger wind. So, it is very difficult to extrapolate a trend, especially for wind, looking at the long-term analyses. And, considering Italy, we have assets that started up productions more than 20 years ago: so, we have all the elements to run this kind of analysis. So, the message I want to give you is not to take one quarter as a proxy for the future: it would be completely wrong. That is my opinion, and our opinion.

Davide Candela:

Yes, for sure. Thank you.

Operator:

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

Roberto Letizia:

Yes, sorry for that, but I missed what you said on the net income because you said the reference is in line or even better to what Emanuele suggested, but I did not hear the number: can you please repeat it? And one very, very quick question: I was wondering if you can confirm that the Poland cap is in place only for 2023, or if it is going to continue even next year. Thanks, sorry for that.

Paolo Merli:

For the time being, for 2023; then let us see, because the Regulator in some countries is a little bit unpredictable. So let us see.

For the net profit, I said that if you take the number mentioned (in the region of €200mn), I would say it is a reasonable estimate. And I would be a little bit more optimistic of that because, also in the second part of the year, if you take our EBITDA and take the depreciation more or less in line compared to the first half of the year, and the trend in financial charges to remain basically the same, you will reach a number that is in excess of this reference estimate.

Roberto Letizia:

Okay, many thanks. Sorry for asking that.

Paolo Merli:

Do not worry.

Operator:

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

Paolo Merli:

Okay. So, thank you very much. Have a good summer and we are going on with our Business Plan.