ERG S.p.A.

"2Q 2022 Results"

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MODERATORS:
PAOLO MERLI, GROUP CEO
MICHELE PEDEMONTE, CFO

Operator:
This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 2Q 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. Here with me is Michele, our CFO, who will take you through the results in more detail after my opening remarks.

Let me start summarizing the key figures over the period. I am on **page no. 4**.
For clarity, those numbers are based on continuing operations, excluding Hydro and CCGT from the scope.
In a nutshell, results ended up being quite positive, mainly thanks to the contribution of new assets: I would say this is the main message.
Looking at the first half, we closed with an EBITDA of €277mn (up 55% YoY), driven up as said by capacity addition, both from M&A and organic growth. In other words, let me say it like this: the semester reaped the benefits of all the significant investments made over the last 12 months.

We continued to invest heavily, with CAPEX at €218mn in the first half of the year, though slightly less compared to €301mn in 1H 2021 which, I remind you, included almost €190mn of M&A. During the period in 2022 CAPEX were related to the solar acquisition in Spain (€96mn), and the remainder to the assets currently under construction in UK, Poland, France, Sweden and Italy from our organic pipeline, both repowering and greenfield.

Net Profit from continuing operations was €122mn, more than doubled YoY, reflecting the stronger operating results and lower financial charges.
For the sake of clarity, the Net profit does not include any windfall taxes neither in Italy nor in Romania given that they are temporary and extraordinary measures, then accounted as non-recurring items for a total amount of about €40mn in 1H, of which €36mn in Italy and €4mn in Romania. Of course, you will find all the details in our financial statements.

NFP at the end of June was €1.0bn, about half compared with the one at 2021 year-end, mainly reflecting the cash-in of the Hydro disposal, and then of course the cashflow during the period, the investments, the dividend and all the items that Michele will comment later on. Please note that the NFP was inflated by roughly €216mn related to the negative fair value of derivatives on commodities, given the huge swings in energy prices. This is an item that should reverse by the end of 2023, given the roll-out of this hedging at the delivery time.

Let me move on to **page no. 5** to quickly comment on our recent achievements.
We are moving forward in reinvesting proceeds from Asset Rotation, thus expanding our portfolio of Renewable assets in Europe.
As you know, we acquired 18 solar plants in Italy and 7 wind farms in Italy as well, all of them already in operation, for a total amount of 206MW. On top of that, we brought into operation a couple of wind farms from our organic pipeline: one in France (20MW) and another one in Poland for 25MW.
After our Business Plan presentation, it is important to remind you that Fitch confirmed ERG's Investment Grade rating and stable outlook, so our quasi-regulated business model was once again rewarded by the Agency.

We also kept implementing our ESG strategy, signing during the period the Women Empowerment Principles and entering the UN Global Compact as a clear sign of our commitment towards a more inclusive approach. I am also proud to say that our ESG strategy received further recognition, having ERG been included in the top 10 of the Integrated Governance Index, as well as MSCI confirming our double A rating.

Last but not least, I would like to remind you that there has been some important news - as publicly announced - about our shareholding structure during the period: San Quirico and IFM Investors agreed to form a long-term partnership, with a clear commitment to sustain our Business Plan and foster ERG's leading position in the RES space.
So, we are all thrilled and honored to be a part of this, and I am personally confident that the partnership will result in an upside for ERG, and consequently for all our shareholders.

In the next couple of charts there are some more details about the recent M&A: I am on **page no. 6**, that is about the Solar acquisition that was closed in early July, so it will start contributing to our economic results as of July 1. You already know everything so, just to remind that - consistently with our business model – all the production is backed by a Feed-in-premium tariff (the so called *Conto Energia*) that is going to last up to 2030-2031.This acquisition strengthens our Solar presence in Italy, where we have now about 175MW of installed capacity. And we expect that the integration of these plants within our portfolio will allow us to achieve surely industrial synergies, but also to carry out some revamping and repowering activities going forward.

On the next **page no. 7**, there are some more details on the agreement signed last week with EDPR to acquire 7 onshore wind farms, located in three regions in Southern Italy.

The asset portfolio is made up of quite young assets, as you may see from their average COD, i.e. October 2019, with a sound load factor and backed once again by CFD mechanisms, mostly “one-way CFD”: 6 out of 7 wind farms, whilst just one wind farm has got a “two-way” CFD.

With this acquisition ERG confirms and strengthens its leading position in the Italian Wind market, with a total installed capacity of about 1.3GW after the completion of this acquisition. Let me say that this number is expected to grow further, after the deployment of our repowering pipeline, as well as a greenfield project right now under construction. Those plants are strategically located near our existing facilities, and this will allow us – exactly the same for the solar - to develop important industrial synergies.

It is important to say that we expect the closing of this transaction in late September, after the Antitrust clearance: therefore, it will be consolidated as of Q4 2022. This is at least the assumption we made for our guidance.

Let me just comment on **page no. 8**. This is the most important chart to me, as it shows that the execution of our Business Plan is very well on track: I would say, ahead of schedule.
Thanks to the significant investments made in 2021 and in the first half of this year, we could count during the period on a larger asset base for about 450MW, which was in the end what really drove our economic results up.
We are continuing our journey forward, towards technological and geographical diversification: please consider that 1/3 of this capacity addition production is made of Solar, and plants spread over five different countries, as shown clearly in the chart.
By the end of 2022 we expect to add further 400MW, made up of wind farms currently under construction in UK, Poland and Italy, plus the already commented acquisitions of solar plants and wind farms in Italy.
This new capacity is going to start contributing to our numbers progressively over the second half of the year, and this has been reflected in our Full Year Guidance, which I will discuss later on.
But before 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 2Q 2022 results.

Let us start on **page no. 10** with an overview of unitary revenues trend.
The All-in unitary revenues for Wind were strongly higher YoY in all countries where we operate with the exception of Italy, where they slightly declined, as the rise in electricity prices has been more than offset by the hedging made in line with our risk policy, and by

the 2022 value of the incentive, which declined from 109€/MWh to 43€/MWh, being inversely correlated to last year electricity prices.
As regards the Solar All-in unitary revenues, we see values in lines in Italy. In Spain - where our assets have a tariff mechanism, that operates as a floor to our revenues - the all-in price is aligned with the overall merchant scenario, and has been influenced in the last quarter by the recent regulatory framework update (the Gas Cap) in Spain.
Overall a positive scenario, in particular for our foreign countries.

And now a focus on productions, as per **page no. 11**. As regards the 2Q, we have:

- in Italy: 545GWh, + 3.5% YoY, due to better wind conditions coupled with better sun irradiation
- In France: 224GWh (+29% YoY), thanks to 77GWh coming from new perimeter, that more than compensated the weaker average production of the period in comparison with Q2 21
- In Germany: 114GWh (+29% YoY), benefiting from the perimeter effect of 21GWh, due to the acquisition made in 2021, and from slightly better wind volumes
- In Eastern Europe the production is in line with 2Q 2021, which reflects slightly better wind conditions in Bulgaria, offset by lower wind volumes in Romania.

On top of that, we have the contribution to the portfolio of the assets built in Northern Ireland in 2021, and acquired in Spain in January this year, for a total of 109GWh.
In the 1H, productions reached 2.7TWh, mainly due to perimeter effects abroad and higher wind productions in Eastern Europe.

As you can see on **page no. 12**, in the second quarter of the year we have an overall EBITDA equal to €110 mn, of which €20mn from new assets.

- In Italy the EBITDA was €67mn, in line YoY, mainly due to higher Wind & Solar volumes with a negative price effect due to the hedging policy in the period, coupled with the lower value of incentive as mentioned before.
- In France the EBITDA was 46% higher YoY and equal to €11mn, benefiting from the consolidation of the assets acquired in 2021. The perimeter effect is €4mn.
- In Germany the EBITDA almost doubled in the quarter due to a better scenario, thanks to the tariff structure - which is a one-way CFD - and a perimeter effect of €1mn.
- In Eastern Europe the EBITDA benefited mainly from a better scenario, which resulted in a €8mn contribution.

It is worth mentioning that in Q2 2022 UK and Spain have contributed to our results for €13mn.

1H EBITDA shows the strong increase of the geographical diversification in 2022: almost half of our EBITDA comes from a diversified panel of European countries.

And now a brief overview of investments in the period: I am on **page no. 13**.
In the 1H 22 we invested €218mn: an amount which is lower than the one invested in 1H 2021, which was strongly influenced by the M&A operations in France and Sweden.

CAPEX is composed as follows:

- about €96mn of M&A related to the Solar acquisition in Spain (92MW), whose closing took place in January this year
- about €113mn related to organic CAPEX in Wind, referred to construction activities mainly in UK, Poland, France and Sweden. It also includes €43mn of CAPEX in Italy for the repowering projects in Sicily and the greenfield project of Roccapalumba. It is worth noting that we made important step forward in our construction works, with the entry into operation of Piotrkow wind farm in Poland (25MW) and of Champagne 1 in France (20MW)
- about €5mn related to the revamping of solar plants in Italy. The dismantling is going ahead, in line with our target on circular economy: the waste in landfill will be a maximum of 10%, in line with our ESG plan.
- about €4 mn related to maintenance CAPEX, spread across all countries.

We expect a strong increase in CAPEX in the second half, thanks to the acquisitions just commented by Paolo.

Let us now move on to **page no. 15** about Financials, commenting on P&L on a recurring basis. We have:

- higher depreciation (€4mn) which reflects the contribution of the new assets, so a perimeter effect
- Net Financial charges at €6mn, vs. €8mn in 2Q 2021, thanks to a lower cost of gross debt, mainly following the issuance of our third Green Bond in September 2021
- tax rate in the quarter at 24% against 17% in 2Q21, mainly due to the lower impact from Italian tax benefit (Ace and Rol) on the higher EBT driven by a very good EBITDA abroad. Taxation in the quarter does not include the effects of windfall taxes in Romania and in Italy, as they are accounted as non-recurring items.

As of January 2022, CCGT is consolidated in the discontinued items, with a net profit in 2Q of €9mn.
As a result of all this, the adjusted Net Profit of the quarter amounts to €46mn.
If we look at the first half of 2022, the Adjusted net profit is equal to €135mn (€35mn higher than 1H21), with a tax rate at 22%, slightly higher than previous year.

Finally, let us take a look at the Cash Flow Statement and the Net Financial Position for the 1H 2022. I am on **page no. 16**.
The Net Financial Debt closed at € 1.019bn, €1.0bn lower than at the end of 2021.

Starting from the left, we have the cash-in from Hydro disposal, then our EBITDA, the investments made during the period, the change in working capital, the financial charges, and tax & others.
The Net Financial Position includes €216mn due to the mark-to-market of future derivatives on commodities, executed according to our hedging policy.
Let me just point out that the cashflow from taxes includes €16mn as down payment on windfall tax in Italy, and that we will pay the balance (€24mn) in November.

We expect a re-leverage of our financial position to reach a more balanced financial structure in the short term, thanks to the CAPEX planned in the second half of the year.

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. Here we are with our guidance for 2022, on **page no. 18.**

We revised upward the EBITDA range by €35mn, therefore the new range is €485-515mn, with a mid-point at €500mn. The upward revision basically reflects the contribution we expect in the second half of the year from the two recent acquisitions in Italy. And I repeat: the solar one consolidated as of July 1, and the wind one expected to be consolidated as of October 1, so in the fourth quarter.
Basically, for the same reason CAPEX guidance has been increased up to €900mn-1.0bn, about €0.5bn invested in M&A.
Consequently, the new NFP range is €1.4-1.5bn. Please note that the NFP guidance at year end still includes about €200mn related to the negative MtM of derivatives, which must be seen as a temporary debt that will reverse as said in 2023, with the roll-out of hedging at their delivery time.

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

Questions & Answers

Operator:
This is the Chorus Call conference operator. We will now begin the question-and-answer session. The first question is from Enrico Bartoli of Mediobanca. Please go ahead.

Enrico Bartoli:
Hi, good afternoon, and thanks for taking my question. I have a few. The first one is related to Italy, and it is a bit articulated. You announced recently these two acquisitions in Solar PV and Wind. I was wondering if this is the start of an increased focus on Italy that we can expect over the next quarters or years, and if we can expect that also the capacity on top of what you have in the Business Plan will derive from additional M&A opportunities, or even from organic growth in this country. Related to the two acquisitions, can you provide us with some indications of the IRR that you are expecting from those transactions? And also - regarding the contribution from the wind plants which are, as you mentioned, exposed to price effect in Italy - can we expect that those plants in 2023 will contribute more than in 2022?

The second question is related to your hedging policy: can you update us on where we are in terms of pricing and volumes, and in particular - considering the current forward curve that is pointing to high prices for next year - can you expect the price effect you are seeing in your number now to even accelerate next year?

And the last one is related to the 120MW of repowering projects that you mentioned, that have been authorized: can you give us the possible timing of execution of these projects, and if they are going to participate into the next auction. So, if you are considering some PPAs, can you give us some indication on the route-to-market that you have in mind for those projects? Thank you.

Paolo Merli:
Thank you, Enrico: your questions are very clear. Let me start from the first one about the M&A in Italy. Yes, there were a couple of important M&A in Italy compared to the last ones, that were all concentrated outside of Italy. But let me say, we do not have right now further plans to push on the accelerator of M&A in Italy. So, in Italy we are now quite happy with the size we reached after the most recent announced acquisition in Wind. This allows us to consolidate our positioning as the primary operator in Italy, so we are quite happy with that. And, taking into account all our repowering projects plus a 47MW greenfield plant right now under construction, we will reach more than 1.6GW of installed capacity in Wind in few years. So, I think this is a quite sizable positioning for just one single country… this is my feeling for the time being: we cannot exclude anything but let me say that, going forward, our M&A should be more concentrated outside of Italy.

About the IRR of the deal, let me say, it is very much consistent with our hurdle rates for this kind of completely de-risked assets. But we should expect an unlevered return in the region of 7%. And these assets are completely financeable through Green Bonds. And then on a levered basis, we should expect a return double-digit (a little less than double-digit or a little more), but around 10%.

About the hedging policy, the price we have secured for 2023 is more or less on average 115€/MWh, which is the average of the hedging done over the last few years (at an average price of €60-65) and the hedging that is performing in 2022 with a price on average in the area of €250. Now, the prices are even higher: if I look at the forward for 2023, we have on the screen roughly €350, and that is why we had at the end of June an excess of €200mn related to the negative mark-to-market of those hedging, that in our forecast for the year end (so, given the still movements that we have seen in the markets in July, with very huge swing, in particular for the gas price), in our guidance for the net debt, we expect a mark-to-market even higher than the one we reported at 30 June. But this is, let me say, a temporary debt. It is financed by short credit lines at a very negligible cost, let me say. And this is something that will be completely reabsorbed by the end of 2023, when those futures are going to be closed, because they got the delivery time. So please consider that our Net Financial Position guidance (€1.4bn-€1.5bn) is inflated by roughly €200mn of negative mark-to-market, which is basically the €200mn we had at 30 of June plus (which is positive) the roll-out of hedging during the second half of 2022, plus the spike, the increase of 2023 mark-to-market caused by the further pressure on price we have seen all over July. So, I hope I have touched this point.

The second question: yes, you are right. We received a couple of *Autorizzazioni Uniche* (so, sole authorizations, I beg your pardon for the lack of words, this is my translation), two sole authorizations for two wind farms, both repowering projects: 1 is Castelvetrano Salemi (for 80MW, located near Trapani in Sicily) and the other one is Greci Montaguto, a 40MW wind farm located in Campania. And let me be very transparent with you: all these two projects already participated into the last auction for the awarding of the CFD, that was closed at the end of June. But for one of the two projects - the smaller one, Greci Montaguto - we were pulled out after a few analysis, because the price (€60) is no longer enough to make this investment sustainable, given that the higher prices are boosting the value of the existing assets because, you know, the IRR of any repowering projects must be measured on a differential basis, because you are going to dismantle an existing asset - that nowadays is worth much more than it used to be, given the price scenario - and then invest to substitute it with a new one.

The first project – Castelvetrano Salemi - is much bigger and windier, because we are talking about an asset that has got 2,700 hours, so it is a fantastic asset. We tripled the installed capacity. So, for all its specific characteristics this plant is sustainable from an economic point of view, even with 60€/MWh, which is the cap reachable from the auction. But please consider that I am not saying that we are not going on with Greci Montaguto or other projects. There is another way, another route-to-market, which is

PPA, and then we will move on also with the other projects, but maybe looking for a PPA, and hoping that in the meantime, the Ministry of the Energy Transition will have adapted the auction system with prices that are more consistent with the current environment, characterized by the so-called green inflation. So, I hope I have touched all your questions.

Enrico Bartoli:
Yes. Thank you very much. Very clear.

Operator:
The next question is from Roberto Ranieri of Stifel. Please go ahead.

Roberto Ranieri:
Yes. Good afternoon, everyone. I hope you can hear me. I have a couple of follow-ups and 1 or 2 questions on the outlook and regulatory issues. The first follow-up is on repowering. Paolo, it would be very useful if you could give us an update, not only in the short term, but also in 2023 and 2024 on how the repowering is going on and, in particular, if you see any stop or any delay due to regulatory and authorization process.

My second question is on the outlook. You know, I am afraid that the capacity development in Italy seems to be pretty slow: I mean, if we want to achieve 70GW capacity increase for Fit-for-55 Plan, my feeling is that we have to go at a much higher speed in terms of capacity development. So, what is happening in this field, and more than that, what do you expect from the Government to speed up the capacity improvement in Italy?

My third question is on regulatory issues and taxation. If we look at Europe, we see that there are also different schemes or proposals in terms of taxes. Do you think that -I do not think this current Government, but - the next Government could deploy some additional taxes like taxes on revenues as in Spain, or differently? So, I am wondering, what is your feeling about the taxation items and outcome in the next few months? And on the auction prices, a follow-up on this item: if I have understood correctly, you have an alternative, all the operators have an alternative to the auction and auction prices, which are pretty low. If we look at the current scenario, the most important would be the PPAs. According to your feeling, do you think that the Authorities are going to increase the auction prices in the next future? Thank you very much.

Paolo Merli:
Thank you, Roberto. Okay, I try to go quickly down the list of your questions, starting from the first one about repowering: I can try to give you a general view. The repowering is going on very well in terms of permitting, considering that basically almost all our

projects have completed the authorization path. And let us say that now the question for us is whether to delay some repowering or doing it right now because, on a differential basis, it seems on paper that postponing the repowering in terms of value creation might be stronger. And this is a positive for the company, because the repowering - once fully authorized - is in your pocket: you can do it, maybe not now but in a couple of years. So, for the time being - I am fully transparent with you – we are going on with the projects that have already been fully authorized and for which we ordered the wind turbines etc.; and we are perfectly on track with the timetable envisaged in our Business Plan. Whilst, about other projects for which maybe we already got the full authorization, but we still can decide when exactly starting up the project, we are making some more analysis in order to understand - from an equity point of view, from a value point of view - if it is better to start soon or as soon as possible, or maybe delay a little bit. But let me say: the general view is that all our projects are worth being maintained in our Business Plan. It is a matter of just doing now or waiting a little bit. That is my point.

Roberto Ranieri:
Sorry if I interrupt you, Paolo. So basically, I understand that the problem is not the authorization process: it is just a problem of opportunities. So, you are waiting to exploit the maximum value from the project, aren't you?

Paolo Merli:
Roberto, let me be even more clear than that. €60, which is the price set in the RES decree (that, do not forget, was issued in 2019) and was not meant to be inflated (because the decree does not envisage the possibility to inflate the cap), is no longer enough to attract all the investments needed to reach the 2030 target.

And then, coming to your second question, the 70GW, which means that at least every year this number is going to be higher, you know, because you have to divide 70 by the number of years left to 2030, which is lower and lower. So now, it means installing almost 10GW of renewable capacity every year: we are far away from this point. So even according to the TSO data for the first semester, if it is good, we should have installed in Italy as a country 1,000MW, i.e. 10% of what needed. So, we are not yet where we need to be: that is the point. The Government has done a lot of work in simplifying the procedures, but it is not enough, because the real point is to identify the so-called "go-to areas", or the eligible regional areas, okay? That is the point. And this is what is written also in the repowering EU declaration issued just a few months ago at a European level. They said we need to identify the "go-to go areas", okay.

Windfall measures: I do not know what to expect, because we are prepared to everything in this kind of scenario, but the predictability of anything is very, very difficult. Let me say that I would be very surprised if the Government should issue further measures like those - Italy was the only one in Europe taking this kind of measure - because they prove to be very inefficient, and they scared the investors, they scared the industrial operator that should be the ones, you know, leading the energy transition. And we are already talking about an underperformance in terms of installed capacity every year, I have just touched this point. And I think that would be a big mistake, because this is kind of a quick fixing to long-term trend because the energy prices are there to remain high, maybe not at this level, but they should find structural mechanisms to reduce the cost of energy. And I think in the declaration of the Energy Authority issued just few days ago - and I can subscribe every statement that was written in that document - the Authority clearly said that we need to insert a price cap on the gas market that is driving up the energy prices in the TTF market, but not temporary measures like those that are changing the rules on which the operators must rely in order to invest safely in the energy transition.

PPA and auction: yes, I think I have already answered. The problem is the level of prices in the current auctions, so we know that the Ministry of the Energy Transition is working to release a new decree on RES that was expected by the end of the year, setting up the new auctions for the future. Unfortunately -and I am among those that are very sorry for that - the Government, in the meantime, fell down. No, it is still there, but is expected to resign in September-October, whenever a new Government will be formed, and this should not help. Let me be honest, it should not help in this direction. Let us see what the Energy Transition Ministry will be able to manage from now till this Government remains in place. And I am quite confident that Mario Draghi will push as much as he can to issue the needed decree, but let me say: I am optimist, but let us see what is going on, which is very difficult to say.

Roberto Ranieri:
Thank you very much.

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

Roberto Letizia:
Yes, good evening. Thanks for taking my questions. I want to stick on the covered hedging on next year. You provided us with a price for the next year hedges: I was wondering if you can give us also a quantity on how much of the output for next year has been covered at that price. And, as you split it up also the contribution of the old hedges done in 2020 and 2021, I was wondering when those hedging will expire, in order to better understand how it will be your sensitivity on the future power prices. So, thanks for these clarifications.

I would like to ask you what exactly is the contribution of the newly acquired asset in the guidance. I guess, you meant a differential of €35m: I was wondering if this €35mn is fully attributable to the acquisition. And specifically, if you can give us a general idea of what is the expected contribution from the Wind acquired from EDP, that will enter only in the fourth quarter. So how much of that do you assume will be the contribution in 2022?

I would like to move for a while, if possible, to 2023, in terms of capacity that you reasonably expect to be added next year, provided the amount of assets and authorization that you currently have in hand. So, what is the reasonable potential capacity addition next year? Very quickly, I would like to know if the €40mn taxation impacts that are one-off are already the full year accountancy, or what could be the impact for 2022?

And just two other quick clarifications. I was wondering if you can spend a word on the industrial PPA market. If you are in discussion with players, and if you believe that the price that you currently can get from those contracts is still in the region of 100€/MWh, or is anything moving up or downward in this market?

And the very final question on the turbine procurement… sorry for making all these questions. On the turbine market, can you give us an idea on how much of the plan is currently covered by already contracted assets? And how much of the assets will be contracted going forward? Thanks a lot for your time.

Paolo Merli:
Okay, Roberto, I will try to answer… I signed here six questions. So, the first one on hedging: the volumes we cover is roughly 1.4GWh of productions, let me say 1.4-1.3TWh in 2022 and 1.3-1.1TWh for 2023. The prices at which we hedge those production are more or less the same, let us say 260-250€/MWh on average. Please consider that, for instance, in Italy the incentive in 2023 will go to zero, based on the mathematical formula through which the incentive is calculated - you know: €180/MWh less the merchant price in the year before, i.e. 2022, and this year probably the price will be for sure higher than 180€/MWh. So yes, you are right. This mark-to-market - that was €216mn as at 30 June, is expected to be (notwithstanding the roll-out during the second half of the year) still €200mn, and is fully factored in our Net Financial Position guidance at the end of the year - should go to zero by the end of 2023, because all the hedging we were talking about now was basically up to 2023. We have a very, very small amount, because we have slowed down this coverage, this hedging, given the very high volatility of those instruments that should absorb liquidity, as you may have seen for other larger names than our, when they reported the results for the semester. So, we avoided to go

on with hedging for longer duration, I mean, 2024 and 2025. So, all the hedging - I repeat it - is limited basically to 2023.

About the prospective, I already said that we target to reach 3GW of installed capacity by the end of the year, adding further 400MW of installed capacity in the second half of the year. 206MW are basically the two acquisitions in Italy, then we have a couple of wind farms in Scotland, one is Creag Riabhach (93MW) and the other one is Sandy Knowe (86MW), and a big portion of those megawatts should be already fully up and running by the end of the year, the queue, the remaining megawatts should be seen in the first month of 2023.

Then we have 62MW in Sweden, that is right now under construction, and it is not included in the 3,000MW because this asset is expected to enter into operation in the first quarter of 2023. And then there are other projects, but they are basically the ones already included in our Business Plan. In September we will run once again our Business Plan with the new scenarios and so on, and I hope we will be ready to give to the Financial Community a serious update in March 2023.

PPA: yes, I confirm that the market is scaling up, not just in Italy, but also in Europe because in this kind of situation made for consumers, for off-takers, PPA is more attractive. In fact, this market, which used to be completely a buyer market, now I would not say that it is becoming a seller market or producer market, but it has changed quite significantly, as the PPAs we recently signed, for instance, in Scotland have demonstrated. Probably right now, the pricing would have been even higher than that.

The wind turbine procurement: the framework agreement basically covers all the repowering projects and, notwithstanding that, I can tell you we can have some overrun costs anyway, even though more than offset by the surrounding price scenario. But let me say that securing the procurement of a wind turbine on a completely new project is not a matter for ERG: this is a matter for the industry. It is going to cost – in mine and in our opinion, based on our analysis - at least 20%-30% more than it used to do before the Russians' invasion, but in general also before the inflation dynamics we have started seeing in the second part of 2021.

So - that is our view - the LCOE of both Wind and Solar, after a few decades of continuous declining, is expected to reverse. And that is why I am asking loudly to revise the auction system with higher prices, because if we want to get there - to get to 2030 with the installed capacity declared by the European Commission and every State member - we need systems more attractive than the current ones.

Michele Pedemonte:
Sorry, the contribution of new assets in guidance.

Paolo Merli:
Sorry, I forgot it. Yes, I would say the €35mn - you are right - is basically the sum of the two: €10mn more or less for Solar, and €25mn for Wind. Maybe, as I told you - let me be honest - the guidance is slightly conservative, but in this kind of unpredictable and very volatile market, we cannot exclude anything. So maybe the EBITDA guidance is a little bit conservative, based on the forward prices that we are seeing for the next part of the year. But we cannot exclude - and in some way (let me say, even though maybe it is against our economics) it would be appreciated - that the European Commission will decide to put a cap on gas in order to keep the energy prices under more control.

So let me say that our guidance is based also on an outlook for energy prices that is cool off quite significantly in the second part of the year compared to what the forwards and the screens are saying right now.

Roberto Letizia:
Yes, thanks, Paolo. Sorry, capacity before was for 2023, not for 2022 because that was clear. So, if you do not want to give a precise number, what is actually the rate of annual addition that you think now ERG has reached?

Paolo Merli:
Roberto, I will let you make your own assumptions: for sure the Investor Relations will help you, but I do not want to give precise guidance on that. For sure in 2023, the contribution of new assets is going to be much stronger than the one in 2022, because it is a simple equation. Most of them have entered or are entering in the last part of the year, so 2023 should see the full contribution of the assets. But let me wait, because we still have to work on a price scenario for 2023: we are still based on a price scenario that was updated in March-April, but now maybe it is quite evident that the prices could be stronger than that. Sorry, Roberto, but I cannot be more precise than that.

Operator:
The next question is from Nash Cui of Barclays. Please go ahead.

Naisheng Cui:
Hi, good afternoon, everyone. Congratulations on the strong results. Two questions left from me. The first one is about the dividend. I just wonder if IFM Infrastructure becomes a very large shareholder, how will that change your dividend policy? And just thinking about special dividends, what will trigger a special dividend for ERG? If you can provide a bit of color on that, it would be great.

My second question is on storage, because I remember previously you said storage will be a key growth part, probably not a key growth part, it will be an important part of the strategy, but I do not see any mention about storage this quarter. Just wonder if there is any update on that. Thanks.

Paolo Merli:
Okay Nash, thank you for your questions. As far as dividend is concerned, let me say that our practice is to define the dividend at year-end, at least when we have clear visibility on the results of the year. Our dividend policy has always been the same over the past: let us say, a kind of increasing the dividend only if it is sustainable in the future. I do not see space in this moment, we will reason about that at the end of the year, but I do not see any reason to pay a special dividend, because the company right now - it is true - divested a lot, and the capital gain from the asset rotation will be seen, it is already evident in the financial statement at 30 June: we posted a capital gain of €340mn on the sale of Hydro, but at the same time, we reinvested basically all the proceeds, because in 2021 we invested €650mn, now we expect to invest in 2022 almost €1bn, a little bit less than that. So let us say that in two years we should have invested roughly €1.6bn, which is basically all the amounts, the proceeds we are expecting from the two disposals. I take the chance to say that our Net Financial Position guidance at the end of the year includes the disposal of the CCGT at the price we have already announced. So, I would not see a special dividend.
About the ordinary dividend, please be patient, in the sense that we need to see how the year is going to finish, and to see it altogether with the next 4-5 years Business Plan, based on the updated scenario, updated installed capacity evolution, etc. So, for sure I can guarantee that €0.90 are there, and that must be seen as a floor. And then in a few months we will take a decision on that as well. Nash, I hope I have answered your curiosities and questions.

Naisheng Cui:
That is very helpful.

Paolo Merli:
Thank you.

Operator:
The next question is a follow-up from Enrico Bartoli of Mediobanca.

Paolo Merli:
Sorry, sorry, my colleague claims that I forgot to answer the second question about the storage. Yes, the storage was part of the Business Plan. Please then consider that we

have in the Plan a target of 50-100MW of battery storage, but those were expected in the last years of the Business Plan, because we just launched this Recharge Project in 2021. So, we are a little bit behind on that. And in this environment, let me say that the storage inflation is probably even higher than on other technologies. So, we have to re-assess all the projects we have in our pipeline: I am not saying that we are not going on, but we need to carefully assess all of them, given the price pressure on all the materials associated with the battery storage. Sorry.

Naisheng Cui:
Perfect. Thanks a lot. Very clear.

Paolo Merli:
Okay. Thanks to you.

Operator:
Now, the last question is a follow-up from Enrico Bartoli of Mediobanca. Please go ahead. Mr. Bartoli, your line is open.

Enrico Bartoli:
Yes, sorry, I was on mute. Sorry, a quick follow-up. Regarding your answer to Roberto Letizia on the hedging, just to be clear: before you mentioned the €115, which is the average of the €65 of old hedging and the new one at €250-€260. Is it correct to interpret that that the €65 will be the price that we are going to see in the second half of this year? And that for 2023 we have to take into account the €250-€260 you mentioned, and that that price can even be applied to the regulated assets, considering that the incentive will be zero next year?

And the very last question is that in Europe - in particular, Germany and Poland - there were recently some regulatory changes by the Government, allowing more space for development of renewables, the H10 rule in Poland was cancelled. I was wondering whether, if compared to the targets that you have in your Business Plan, these initial changes in regulation can provide some upside for your development in those two countries.

Paolo Merli:
Okay, Enrico, on your follow up on the hedging, Michele has got more details....

Michele Pedemonte:
€115 roughly is the average price that we have in Italy for 2023. For 2022, the hedging was executed well in advance, and so the price was the one that we have communicated

in previous webcast, it is in the region of 64-65€/MWh. So, the bigger (€115) in this area is for 2023, just to clarify this point.

Paolo Merli:
The prospects in Poland and other country: Enrico, I would say yes, you are right, they are all trying to simplify, every State member I think is trying to create the right condition to attract investments from domestic operators, but also from outside investors. And Poland is proving to be quite a reliable market: take for instance, the auctions that are quite significant in terms of amount, the mechanisms are more efficient in the European countries because the tariffs there are inflated and so on. So yes, they are moving even further. Please consider that, as far as Poland -and that was the reason why we decided to enter the country - it is a country that still works on coal and lignite, so there is a huge need for renewables in Poland.
In our plan, in our Business Plan, there were just the projects coming from our pipeline. For sure I can tell you that it is a country that we are looking at with renowned interest and could become more than what we expected in our plan.

Operator:
The very last question is from Philippe Ourpatian of ODDO. Please go ahead.

Philippe Ourpatian:
Good afternoon. I have just one question considering the two acquisitions you made in the Solar and Wind in Italy. When I look at the price in terms of EV/MW for both acquisitions, we are quite far away from the average transaction we recorded in Europe, including - I would say, for the Italian Wind - the figure recorded by EDPR itself. I mean that we have for Solar almost 3 times higher than the average (which is almost around €1mn/MW), and for the Wind in Italy we are around 50% higher than the €1.7mn/MW installed, which is an average in Europe. Could you just explain why there is this kind of deviation? Is it because of competition, synergies or something which allows you to reach a return? But why is there a deviation in terms of price you paid per installed capacity? Many thanks.

Paolo Merli:
Good afternoon, Philippe. Let me say like this: the EV/MW is just one of the KPIs you have to take into consideration when assessing the value of an asset, okay? Because the megawatt is always the same: 1MW can produce 3,000 hour or can work just 1,000 hours. So, it depends on the quality of the assets, it depends on the value of this ratio, it depends on the COD, the commercial operation date: if the asset is younger and new, then this multiple tends to be higher, if the assets are old *vice-versa*.

And the third crucial point in this case - and it was what made the difference - is the capacity of the asset to generate cash flow, and this is mainly related to the route-to-market mechanisms. And in these cases, differently from other assets in Italy, those plants got one-way CFD: that means the assets are exposed to the merchant component, that is an upside for the assets.

So, in the end, I think it is a very limited analysis, just looking at the EV/MW. And sometimes I am surprised when I see some comments in general in the market, because what to me is more important is the EV/EBITDA, you can simply extract the EV/EBITDA. You see that the asset has posted €36mn of EBITDA in the first half: this is an actual number. And we reported it because, when we acquired this asset, in the contract there was a lockbox date mechanism, and then this EBITDA is part of what we have bought. So, it is simple to double by 2, sorry, and then take that EBITDA and take the enterprise value, divide it for that EBITDA, and you will see that it does not seem so expensive at all. And the competition, that is the last part of the equation: there was a very tough competition on the dossier. Philippe, I hope I have answered your question.

Philippe Ourpatian:
Very clear, very clear. Thank you very much.

Paolo Merli:
Okay. You are welcome.

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

Paolo Merli:
Okay. Thank you very much to you all. I wish a fantastic summer and see you in the second part of the year. Thank you