



ERG S.p.A.
“4Q 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 4Q 2023 Results conference call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Paolo Merli, CEO of ERG. Please go ahead, sir.

Paolo Merli:

Good morning, everyone and welcome to our webcast. Here with me, as usual, is our CFO Michele Pedemonte who will later run you through our business performance over the period in more detail. So let us get started with the overview of results in 2023.

I am on **page no. 5**.

Full-Year EBITDA closed at €520mn at the very top-end of the latest guidance range of €490-520mn, and basically in line with our original guidance. The sharp decline in electricity prices, coupled with the zeroing of incentive value in Italy, resulted in a negative price effect year-on-year of about €90mn, which was more than offset by the contribution of new installed capacity (roughly €68mn) and a better performance on the existing assets for about €50mn in particular in the fourth quarter, characterized by strong windiness.

Clawbacks at the EBITDA level during the period were €12mn against €35mn in FY 2022, but basically concentrated in the 4Q of 2022. Michele will elaborate further on those figures in a while.

Results at the bottom line were very satisfactory because, against a backdrop of our low cost of debt (fully hedged), we enjoyed a high yield on our liquidity thanks to the excellent work done on cash-management by our Finance department. Over the FY, adjusted net income was €226mn, up 75% YoY. Please consider the easy comparison, given the windfall taxes paid in 2022. And Michele again will provide you with more details in a while.

CAPEX in the 2023 amounted to €489mn, slightly below the last guidance due to some delays in construction to be reabsorbed - or already reabsorbed - in the very few weeks of 2024. Capex was related to the advancements for assets under construction, both repowering and greenfield projects, in addition to some M&A.

NFP at 2023 year-end was €1.445bn basically in line Year-on-Year, as cash flow generation, including proceeds from the disposal of the gas-fired plant and the absorption of negative FV on derivatives, balanced the cash outs for CAPEX, dividends, share buyback, financial charges and taxes for a total amount of nearly €800mn.

So, all in all, I would say resilient economics and solid balance-sheet, based on which we can easily confirm a dividend at €1/share.

Let us move on, commenting **page no. 6**.

2023 was also a crucial year for ERG as we finally completed our energy transition, and we became a pure renewable and international player. Our strategic transformation was highly recognized by external ESG ratings, which put ERG amongst the top tiers as far as our ESG approach.

After the disposal of the CCGT plant we basically became zero carbon scope 1 and 2, and we paved the way for hitting our net zero target by 2040, including scope 3. I would like to remind you that our commitment in this respect has been certified by SBTi.

Capital employed is now 100% renewables based on taxonomy.

And let me spend a couple of minutes on a summary of the achievements in 2023 and early 2024: I am on **page no. 7**.

In 2023 we made significant steps forward in delivering our strategy with major accomplishments, among which the disposal of the CCGT - as already said - and our entry in the US market. Both of them are quite historical events for our journey.

We inaugurated our first repowering in Sicily, with Partinico-Monreale and Camporeale: most of you were there with us. Both plants are now finally up and running. We further consolidated our presence in Spain, UK and France.

We also started the construction of our first battery storage plant in Sicily: 12.5MW which will enter into operation in 2025. This is the first investment in storage for the Group.

In this volatile scenario we have been able to sign several major PPAs with tier 1 off-takers, which made our revenues more stable going forward.

Thanks to our sound financial conditions we also launched and completed a buyback program for 3.7mn shares.

Let me now give you a little bit of color on the US entry (see **page no. 8**): as I said, a historical move for the Group.

We believe it is a unique opportunity to increase geographical and technological diversification. We consider this partnership with Apex a major achievement. APEX is a leading player in RES development with strong know-how and an excellent track record. In addition to the acquisition of an operational portfolio of assets, we have also signed a cooperation agreement for about 1GW under development at a very advanced stage. Let us see what is going on in the next few months.

We tend to see it as a first step in the US – I mean, the acquisition of the operational portfolio – because it is a market that offers interesting growth and return opportunities.

Let us see now on **page no. 9** the execution we have obtained in the last three years, with a quick summary of what ERG has done in this circle, since we announced a transformation into a pure Wind & Solar player. And here we are now.

Through a combination of M&A and organic growth, since the end of 2020 we managed to add 1.2GW of new installed capacity in Wind & Solar, in different geographies.

Another way of looking at it is that we basically succeeded in making a big shift from conventional to renewable power in three year-time. So, quite a satisfactory execution.

Let us move to **page no. 10**.

Another pillar of our strategy is our commitment to securing the route-to-market for our productions. This is becoming particularly important in a time of high volatility and uncertainty about energy prices.

In 2023 we signed several major PPAs with big names: Luxottica, STMicroelectronics, TIM and Google.

As you can see, at today, if you sum the other PPAs we have signed in the years before, we can rely on about 2TWh per year, or about 30% of our entire portfolio, stabilized through long term contracts with big corporate names.

This is an efficient way to reduce exposure to volatility of market prices.

On **page no. 11** there are some more details on our financial structure.

As said, we can rely on a very flexible and efficient balance sheet. We do not have any further refinancing needs until 2025, and our cost of debt is very low thanks to the liability management signed in the past, when interest rates were at their minimum.

Paradoxically, this high interest environment boosted our bottom-line as you see in 2023, as we paid much less financial charges than normal, thanks to high yield cash management.

So, from a financial point of view the storytelling has not changed: we have an IG rating from Fitch, and we want to maintain it, in other words we will keep seeking sustainable growth on a financial basis. So, return and profitability are more important than volumes from our point of view.

And now over to Michele who will take you through our 2023 results.

Michele Pedemonte:

Thank you, Paolo.

As you can see at **page no. 13**, in Q4 electricity market prices have been significantly lower than previous year: this trend has partially influenced our all-in unitary revenues, which are, in any case, mainly dependent on incentive, feed-in schemes, long term PPAs and short-term hedging made in the past.

In Wind Italy, for example, unitary revenues are influenced by the value of the incentive on the majority of our assets (which is null in 2023 vs 43€/MWh in 2022) and by the lower market price captured in 4Q 2023, compared to Q4 2022. So, all in all unitary revenues declined from 120€/MWh to 106€/MWh. The structure of the Italian green incentive will allow a recovery of the electricity prices below 180€/MWh in this year: this will be a significant positive reversal expected in 2024.

In France most of our assets operate under FIT scheme without exposure to market prices. In 4Q 2023 the captured price is higher than PY mainly due to the adjustment of fixed tariff value related to inflation. Please note that in 4Q 2022 France has been affected by retroactive application of clawback measures.

In Germany captured prices in 4Q 2023 are lower than in the previous year, because previous year benefitted from the one-way tariff structure that allowed us to capture higher merchant prices.

East Europe unitary revenues decreased in 4Q, driven by Bulgaria and Poland, mainly due to lower merchant prices.

In UK, captured prices mainly reflect our PPA prices and closed at 96€/MWh in 4Q 2023, lower than previous year by 38€/MWh, when the PPAs have not started yet on our Scotland assets, and they could get higher market prices. Please note that the all-in price does not include revenues from balancing services market.

As regards as the Solar all-in unitary revenues, there is an increase of value in 4Q in Italy thanks to higher hedged prices, coupled up with the end of the Italian clawback rule that impacted our asset in 4Q 2022. In Spain, where our assets have a tariff mechanism, that operates as a floor to our revenues, all-in prices are influenced by short-term hedging made in line with our risk policy.

And now a focus on production, I am on **page no. 14**.

FY productions reached 6.1TWh (1.2TWh higher than previous year), mainly due to perimeter effect coupled with better weather conditions recorded in most of our countries. Productions coming from abroad represent 55% of the Group's total productions.

As regards as the 4Q, we have:

- in Italy: 851GWh, +50% YoY, thanks to better wind condition compared to 4Q of last year, coupled up with some perimeter effect related to Repowering plants entered into operation in the second half of the year
- in France: 435GWh (+27%), thanks to better wind conditions in comparison to a weak 4Q last year
- in Germany: 217GWh (+42%), again thanks to better wind conditions
- in Eastern Europe: 236GWh (+47%), a volume that is higher than 4Q 2022 thanks to better wind conditions recorded in each country

- in UK & Nordics: 129GWh (+60%) thanks to the assets energized by the end of 2022 and in early 2023 in Scotland and Sweden. Production in UK are influenced also by remunerated balancing services market in Scotland and grid curtailment in Northern Ireland. Low production in Sweden due to prolonged test and commissioning activities on our Furuby wind farm
- in Spain: 57GWh more than doubled YoY thanks to the production of the newly acquired plants that entered in operation between July and December 2023.

Now I am on **page no. 15**.

In the fourth quarter of the year, we have an overall EBITDA net of clawback equal to €155mn, €44mn higher than the 4Q 2022, thanks to better wind conditions and perimeter effect, partly offset by lower market scenario.

In Italy the EBITDA is €81mn, higher than 4Q 2022 by €27mn, thanks to better weather conditions and perimeter effect coming from Repowering plants, partially offset by lower captured price driven by lower value of the incentive, that is null in 2023.

In France the EBITDA is €30mn benefiting from better wind conditions compared to lower production of 4Q last year.

In Germany the EBITDA is €20mn, lower than previous year, due to lower captured price partially offset by better wind condition.

In Eastern Europe the EBITDA is €11mn, almost aligned with last year, with lower sales prices that are partially offset by better weather conditions in this area.

In UK & Nordics the EBITDA is higher than 4Q 2022 by €10mn, mainly due to perimeter effect.

In Spain the EBITDA is €3mn, higher than 4Q 2022, thanks to perimeter effect coming from new acquisitions and better captured prices thanks to short-term hedging made in the past.

FY EBITDA is €520mn, higher than previous year, mainly due to perimeter effect, better weather conditions, only partially offset by worse market scenario.

In 2023 around 45% of EBITDA comes from assets outside Italy, in line with previous year.

Let us comment now on the investments in the period (see **page no. 16**).

In FY 2023 we invested €489mn: an amount which is lower than the one invested in 2022 (€946mn). But last year investments were influenced by €610mn of acquisitions of Wind and Solar plants in Italy and €27mn in UK, vs €184mn this year for solar assets in Spain.

In addition, in 2023 we made about €286mn of organic Capex in Wind & Solar, in particular €196mn of CAPEX in Italy for Wind repowering and greenfield projects in Sicily, and €17mn related to activities of revamping and repowering of solar asset.

Let us now move on to the financials, commenting on other items of P&L, as per **page no. 18**.

In 4Q 2023, amortization and depreciation were at €54mn, lower than 4Q 2022 as an effect of lifetime extension projects on French and German assets.

Net Financial charges were at €0mn, vs. €7mn in 4Q 2022, mainly influenced by increased liquidity remuneration in a scenario of higher interest rate, with a debt structure almost completely at very competitive fixed rate (we have a gross debt cost of around 1.3%)

Tax rate in the quarter is 24%, lower than previous year, which was influenced by *Contributo Straordinario* in Italy for a total amount of €19mn.

As a result of all this, the adjusted Net profit of the quarter amounts to €77mn, higher than €14mn in 4Q 2022. The adjusted Net profit of 2023 amounts to €226mn (including €9mn of clawback measure) vs €129mn in 2022, that again included a series of extraordinary taxes: *Extraprofiti* taxes, claw back measure and *Contributo Straordinario* for a total amount of €83mn.

In this chart (**page no. 19**) you can find a summary of effects of the clawback measures and windfall taxes, that affected our figures.

The impact on EBITDA and net profit in 4Q 2023 is lower than 4Q 2022 mainly related to the sharp electricity prices decrease, and it refers mainly to Eastern Europe and France. In Romania, the Government set a compulsory PPA mechanism at the cap price (roughly 90€/MWh) which has the same substantial effect of a clawback measure, but it is not reported here, not being – technically speaking – a clawback.

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

Finally, on **page no. 20**, let us take a look at the Cash Flow Statement and the Net Financial Position for the FY 2023.

The Net Financial Debt closed at €1.445bn, substantially in line with previous year, driven by a solid cash generation from EBITDA, cash-in from ERG Power disposal and reduction of mark-to-market of derivatives on commodities, that is substantially 0 at the end of the year.

These impacts are netted by the already commented investments of the period of €489mn, dividend payment for €154mn, and buyback transaction for €61mn.

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

Paolo Merli:

Thanks Michele.

Before commenting on the guidance on **page no. 22**, let me put it in context.

In the last few years, we have grown accustomed to dealing with high uncertainty around energy prices. Recent months have been no exception. Since the last webcast in mid-November 2023, there has been a strong downward trend for both gas and CO2: for all other commodities, I would say, but these two are basically setting out the price for electricity in the European markets.

As a consequence, electricity prices in recent months have dropped by about 50-60€/MWh, as you can see in the chart, where there are just three countries represented for simplicity, but more or less the same trend happened to all our geographies.

In this context it is difficult to have a clear view on the scenario going forward and that is why the strategy we are implementing on revenue stabilization - about PPAs and CFD - is extremely important.

As you can see in this chart, most of our 2024 production is hedged through a mixture of short-term hedging, long term PPAs, CFD, among which some are one-way CFD, which basically means they are (or were) partially exposed to the market whenever prices are above the guaranteed floor.

A significant portion of merchant production is backed by incentives, similar to green certificates, the value of which in Italy is inversely correlated to the spot merchant price from the year before. So: the less you are gaining maybe this year, because the prices are lower, the more you will recover the following year.

You got to know our revenue structure, but I think it was useful to do a quick recap on the matter.

In the end, to cut the story short, notwithstanding this stabilization mechanism, a portion - though limited - of our portfolio production is still exposed to merchant volatility: that is unavoidable, also considering the intermittent nature of our sources, wind and solar.

Let me also give you a little bit of visibility on assets addition we expect in the very short term.

On **page no. 23** you will find a quick update on assets currently under construction.

We still have roughly 359MW right now under construction, of which 282MW should be completed by year-end. So, we can count on sustainable and visible growth.

If you add to the assets under construction all the M&A – some of them already done (Falcon in France) and some should come soon in the US – you can see on **page no. 24** that we should expect to reach almost 3.9GW by the end of 2024, so almost 600MW of

new capacity to be added in 2024 and basically all secured, as part is in construction and another part is already contracted.

Our journey is continuing with a visible growth despite an uncertain business environment out there.

Let me now wrap up by looking at the guidance for 2024 in detail, as per **page no. 25**.

I should mention that EBITDA figures include the effects of IFRS16, for about €15mn on FY 2024 because, after conducting a survey on Peers, we came to the conclusion that the whole panel is aligned in applying the principle when reporting their accounts. So, we believe this format makes our accounts more comparable with others, but nevertheless we will keep providing you with all the details about those items, so EBITDA and NFP.

Let me also add that the EBITDA guidance reflects the very last trend in electricity prices – so it is updated to today – and it is based on the most recent forwards for 2024.

Based on that, EBITDA is expected to be within a range of €520-580mn, so a little bit wider range to take into account the volatility of the commodity. And let me also add that in this number the US portfolio is consolidated just in the second half of the year: if you make a proforma considering the FY contribution of the US portfolio (by the way, it is ours, as the locked box date was in the second part of 2023) the FY EBITDA guidance would move up to a range of €540-600mn.

As far as CAPEX, in 2024 we expect to invest roughly of €550-600mn which includes also the cash-outs for the acquisition in the US and the one already done in France.

This would translate into a NFP guidance between €1.750-1.850bn at the end of the year.

Pending the closing of the US deal and the appointment of the new Board of Directors in April, I can confirm you that we are currently working on the new Business Plan, which we expect to present to the Financial Community and to the Market in the coming months, most likely when we publish our First Quarter results.

So, thank you for listening, thank you for your attention. And now we are now ready to take your questions.

Questions & Answers

Operator:

Thank you. This is the Chorus Call conference operator. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchstone telephone. To remove yourself from the question queue, please press "*" and "2." We kindly ask you to use handsets when asking questions.

The first question is from Enrico Bartoli with Mediobanca. Please go ahead.

Enrico Bartoli:

Hi, good morning all and thanks for taking my questions. First of all, some clarifications on the guidance. If I understood well, actually in November you provided more or less indication of something around €600mn: that could be reasonable. So, the current number is the result mainly of the impact of the new prices on the 20% of your volumes that are exposed to merchant. Can you confirm that, and provide some details? And can you say if in the merchant part you also include the volumes which are in Italy entitled to get the green certificates? Because, of course, you have a lower, cheap price during 2024, which is going to be partially compensated by high green certificate prices in 2025. Also, can you provide us with some details about the volumes assumptions you have there, compared to what you are seeing in the first two months in terms of wind production in the country where you operate?

The second question is related to the current guidance for 2026 in the Business Plan that you have at the moment. I was wondering if the current forward curves are more or less in line with the assumption that you had last year when you presented that plan, if there has been an acceleration of the downward trend, or if there are significant differences compared to what you were assuming last year, in particular in Italy, where we see that the forward price for 2026 are still above 70€/MWh.

And the last one, if you can give us some visibility on the hedged volumes that you have for 2025, in terms of both volumes and prices. Thank you.

Paolo Merli:

Okay. Good morning, Enrico. Good morning, everyone. As far as the first question about the indication of the guidance: yes, I confirm that all the difference is deriving from the strong downward trend that we have seen in the energy price over the last couple of months. I would like to remind you that during the last webcast, at the question if an indication of EBITDA in the region of €600mn would make sense, I replied - and I remember very well - yes, it made a lot of sense. But at that time, the forward for electricity were well above 100€/MWh, or even 140€/MWh for instance in Italy, and more or less the same in France and Germany.

So, consider that the numbers we have provided today about the breakdown of our volumes also include a component, a portion of production covered by 1-way CFD. At that time, the contribution we legitimately expected from those production was above the floor guaranteed by the 1-way CFD. And the precise number we got in our portfolio is 0.9TWh covered by 1-way CDF. You can simply work out the impact moving €50 in energy prices. €50 multiplied by 0.9 is just for that kind of contracts, the 1-way CFD,

which we feel to consider hedged. Even from a financial point of view, Fitch, the rating agency, considers those volumes covered and secured, but the P&L is going to have an effect if the price is at 140€/MWh or, like now, below the floor.

So, right now, we canceled the volatility on this kind of volumes because the prices... the prices we are assuming for the guidance are below the floor of these contracts. So - and you can see from chart no. 22, the one I just presented - we still have more or less 1.6TWh of production exposed to merchant. And let me say - and I think I have been always clear about that - it is unavoidable to maintain a part of our production exposed to market. If not, the risk is to overhedge the production, because our production is intermittent. So, you cannot predict with certainty if wind or sun is there. And if you simply multiply the 1.5TWh by the difference in energy prices, you can arrive at a very important number. So that is why I was so confident in November - with a completely different price scenario - to say that €600mn (or even more than that) was reasonable.

Finally, I confirm Enrico that a big part, more than 1TWh out of the 1.6TWh that we consider exposed to market is covered and backed by the GRIN. GRIN is the name of the *ex-Certificati Verdi*, green certificates, the value of which, as you know, is calculated through a mathematical formula. So now, we should expect - based on the current forward - that next year the green certificates will be higher than the current one at €40-€42, they should be in the region of €70. So, part of the theoretical downward compared to consensus estimates will be recovered next year, thanks to a higher green certificates value. So, I hope I have answered your question. And about 2025, maybe Michele will be more precise about the volume exposed to market.

Michele Pedemonte:

Yes. For 2025, we have a merchant exposure in the region between 2-2.5TWh, that means that we have already covered 65% of our production, and in order to reach our target (which is in the region of 80%-85%) we have all the months of this year to cover with short-term hedging the remaining portion of exposure by the end of 2024, so to enter 2025 with a percentage around 80% at least of coverage of hedged production.

The average figures considering all the instruments we have - so also CFD, PPAs, not only short-term hedging - is between 90-100€/MWh. This percentage excludes US contribution that - as you know, as explained by Paolo - is fully covered by PPAs, so it is 100% hedged from this respect. So, also the contribution of US will allow us to increase our percentage in terms of coverage against the merchant risk.

Enrico Bartoli:

... and I asked also for a comment on 2026 guidance...

Paolo Merli:

Well, Enrico, sorry, I forgot to answer. Right now, if you look at the forward, there is this kind of backwardation curve, with prices going further down in 2025-2026. In our scenario, or the one we believe in, we expect slightly better prices, meaning that when market approaches the delivery time, we expect this backwardation shape will disappear. We think now the market is overshooting - that is our personal view - overshooting in the downside for energy prices.

But please consider that those are months - especially March, April, May - where forward are suffering a little bit, because we are in the middle between the winter season (which was not very cold) and the summer season. So, we expect volumes and consumptions to recover and then prices to stabilize maybe at a better value. But if I have to be more precise, depending on the countries where we are - because we have different price expectations - let me say that for 2026 prices are in a range of 80-100€/MWh. This is the price estimates range on which we are basing our expectation for 2025 and 2026.

For the time being - but we will see in a couple of months - we expect, from a megawatt point of view, an installed capacity point of view - to be perfectly in line with the trajectory of the Business Plan we have already announced last year, and the same for the EBITDA as well. So, given the huge additions of megawatts we expect starting from 2024 - because, as you see, roughly 600MW will be added to our portfolio - we expect to be in line also with the trajectory for the EBITDA.

Enrico Bartoli:

Thank you.

Paolo Merli:

And, last but not least, please consider – but I have already said - that the current guidance for 2024 is just including half-year contribution from the US.

Enrico Bartoli:

Thank you very much.

Paolo Merli:

Okay.

Operator:

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

Roberto Letizia:

Yes. Thanks a lot for taking my questions. Of course, I remain on the guidance. I was just wondering if you can give us some more details of what sits behind the low and the high

end of the guidance in terms of power prices and production. So, actually, what is the scenario that takes you to €520mn, and what is the scenario that takes you to €580mn, because this is a very large range. So, can you maybe help us to compose this minimum and maximum with underlying assumptions?

I have a question also on the debt, because the guidance on the debt seems very low. If you can help me to compose the numbers. You have some €600mn of CAPEX, you have some €270mn of acquisition in the US. You paid €140mn of dividend and you have the remaining €40mn from the buyback. This is almost €1.050-1.1bn. But you have an operating cash flow from net income and depreciation of around €500mn. So, basically, if I only take these two numbers, you should be in the range of €2bn for the net debt of 2024, but your guidance is significantly below. So, I am wondering if you can help me to understand: what is the delta in terms of cash contribution expected to arrive from this year?

A very quick clarification on the debt guidance. I see now your EBITDA includes the IFRS16 contribution. But I think, I am not sure, the debt number which you put in the press release does not take into account the IFRS16. So, can you help us re-conciliate these two differences? I was just wondering if the full-year correct contribution expected from the US plant is now €30mn, because now a half year contributes for €20mn in your guidance. So, is it €30mn, is it €40mn... what is actually the expected full-year contribution of the US plants?

And then please comment on the new FERX decree. Do we see the first indication on prices, which are in the region of 80-85€/MWh? I was just wondering if this is satisfying for you, and if you can tell us what is the potential in terms of megawatts in the hands of ERG to participate in those tenders, which have apparently now more attractive prices? Thanks a lot.

Paolo Merli:

So, Roberto, I will try to navigate through your many questions. The first one is to explain the range of the EBITDA. Let me say that the central point is very much based on the current today - more or less - forward price of 2024, which is definitely different country-by-country, but for sure, it is in line with current forward price for 2024. The bottom part of the range, the €520mn, assumes conservative view that prices could move down by further 20%, more or less. So, we decided to enlarge a little bit the wideness of the guidance based on the current volatility, which is much higher than it used to be, as you can see from the screen. This is the answer to your first question.

In May, when we will provide the results of the first quarter, we could probably narrow a little bit this range. And if I may, I can tell you that January and February performed

quite well, including the US, which is not in our accounts yet, because we have not yet closed the deal, waiting for the last clearance. But I would like to remind you that the contract makes us owner of the cash flow even in the first part of the year, because the contract was based on a locked box date. Just to say that from my point of view, the better KPI for the EBITDA is the one including also the US for the first part of the year.

Yes, I confirm the guidance is including the effect of IFRS16, because during 2023 we conducted a survey with other peers in the industry. We came to the conclusion that after the first years since the publication of the principle, there were different behaviors, some accounting the ordinary numbers, some as a special item. Now, there is quite big alignment in applying the principle in the P&L. So, we came to the conclusion that including the IFRS16 made our numbers more comparable with others. But for sure, I said, we will keep providing you and providing the Financial Community with all the details in order to calculate.

As far as the net financial position: yes, I confirm the guidance. Notwithstanding more or less €600mn of investment, which includes already the acquisition in the US, and also the dividend for more or less €150mn, thanks to the high cash flow of the company, we expect to close the year with a net debt in the region of €1.8bn. This number does not include the IFRS16 effect, which is in the region of €200mn.

Michele Pedemonte:

Yes, it is detailed in the same slide: you have both figures. So, we are going to provide both figures: adjusted net financial position (without IFRS16), and reported net financial position, as we are always doing with this figure, just to explain.

Roberto Letizia:

So, on the last point, just to be 100% sure, the €600mn CAPEX indication for 2024 includes already the US asset acquisition...

Paolo Merli:

Yes, it may seem low compared to the 600MW we expect to install in 2024. But please consider that a big portion of those CAPEX was already spent in 2023 as advanced payments for wind turbines, BOP and other activities. So...

Michele Pedemonte:

You have the details of the construction expected to date, and that is in the first half of the year. So, the large portion of our CAPEX for the construction has been already spent in 2023.

Paolo Merli:

And you also asked about the FERX Decree. Yes, we have been waiting longer to have this first indication. We are still in the middle of the process, because this is just a draft. From some point of view, there are positive elements. For instance, the amounts of wind and solar capacity the Government expects to install in the next 5 years, because the decree is going to cover 2024-2028. And if you divide the number of megawatts (16.5 for wind, and roughly 50 for solar) you can come to a number which is 6-7 times higher than the country has installed, at least looking at large-scale plants, over the last few years. So, this is implying a very, very strong acceleration.

And the auctions are finally independent from a technological point of view, meaning there will be auctions for Wind and auctions for PV. The point we are not absolutely happy with is the fact that the price set up for Wind is lower compared to the one for Solar, which is a non-sense. Honestly, let me say, there is no other example across Europe. And we think it is kind of a misunderstanding, because if you see the table reporting the expected CAPEX per megawatt per technology, I mean, the reference investments needed for this kind of technology, in the draft it is reported that there is almost €1mn for Solar and just €1.3mn for Wind. But anybody following the sector knows that for Wind, the capital intensity is much higher, in the region of €1.5-1.6mn, or sometimes even €1.7mn, while for Solar is much lower than €1mn, it is in the region of 600,000-700,000€/MW.

So, I think the assumptions currently made for working out the reference price are wrong. That is our opinion, but we are working with the Ministry and with the technical Department of the Ministry to improve this decree. And we remain confident that a better outcome will be released in the next few months. Let us wait, we cannot control this, but just comment and give a constructive view to the decision-makers in order to improve the quality of the decree with a win-win situation, in the sense that the target they set out for the country will be reached only if there will be the right conditions.

If not, as I always said, we will slow down the investments, because the generation capacity of the Group is very big, and we will divert investments in countries or in areas where returns are more stable and appealing. So, the rule of thumb is value over volumes. So, we want to reach our hurdle rates, our return in this very volatile market and business environment... not just for the energy price, but also for the interest rates, that are still very high.

So, Roberto, I hope I have answered...

Roberto Letizia:

Yes. On this one, maybe I was more interested in what the potential is for ERG for participating in those tenders, which are a bit more attractive I would say, now.

Paolo Merli:

We are still assessing our investments - in particular, repowering - because we got several projects already fully authorized with *Autorizzazione Unica*, so ready to get started in terms of construction. But we are assessing the return on those investments because, as you know, repowering means dismantling an existing asset that could produce for the next 15 years without €1 of investments, and to substitute it with a new platform, which requires lot of investments. And we are assessing – and it has always been like this - the return of the investments on a differential basis, not in absolute terms.

So, we are working to improve the decree in order to prompt this kind of investments, and also to cancel the penalization the repowering is still subject to. You should remember that our price in the auction is discounted by a further 5%, because of the *Spalma-Incentivi* regulation that was issued in 2013, so in a different era: we think this is totally out of fashion. We are working to cancel this penalization, and whenever we will be succeeding in doing this - and we will be succeeding in having a fair remuneration through auctions - we will assess our investments. Until there are not these conditions, we prefer to maintain the investments in the pipeline, because - as I have always said - repowering is like a good wine: we can wait, and the return is going to improve. So that is the answer for the time being, but we are working on assessing project-by-project, monitoring the evolution of the regulatory in Italy and everywhere in Europe. And we will provide you and the Financial Community with more indications during the Business Plan presentation.

Roberto Letizia:

Thanks a lot.

Operator:

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

Naisheng Cui:

Good morning, Paolo and Michele. Thank you very much for taking my questions. I have two if that is okay, and I will ask them one-by-one. So, the first question: if I am not wrong, the wind condition year-to-date, especially in January/February, has been pretty strong and I wonder what your assumption on utilization is, because I remember in 2Q 2023 the wind condition was very weak. Are you assuming a similar wind condition as in 2023, or are you assuming a normalized utilization factor across your portfolio?

Paolo Merli:

Okay. I would say in 2023, actually, the availability of wind during the fourth quarter completely offset the lack of production in the first 9 months. So, in the end, in particular in some countries, we had a production that came out stronger than the P50. Let us take for instance Italy: in the fourth quarter, production was 50% higher than the one recorded in the fourth quarter of 2022 - much higher than our budget for the quarter - but compensating for the lack in the first 9 months. When looking at the guidance for 2024, we are a little bit more conservative in terms of production assumption compared to what we had registered in 2023. So, in other words, if the wind in 2024 will blow as much as it did in 2023, results could be better, but we cannot say... we cannot have this kind of certainty. I hope to get the message across...

Naisheng Cui:

Yes. That is very clear Paolo. And my second question, if that is okay, is about the chart at page 22. I am a bit confused with that chart: I just want to get a bit of clarification. I can see the 1-way CFD that hits 0.9TWh. I am assuming your floor protection will kick in if power price drops to a certain level. Do we know about that, and can I assume this €520mn guidance is a floor? And also, on that chart there is the GRIN part... for the GRIN part you have 1.6TWh there, of which 1.1TWh is the incentive plan. What is the other 0.5TWh? Do you have merchant exposure for the other 0.5TWh? Is that the only merchant exposure you have for 2024? Thank you, that was my last question.

Paolo Merli:

Okay. As I said, out of the 1.9TWh covered by CFD I can confirm roughly 0.9TWh is based on 1-way CFD. And according to our guidance, there is no more risk to those contracts, because the merchant price is below the floor guaranteed by those CFD contracts: in other words, few months ago we expected those productions to give us an upside compared to the floor of the feed-in tariff or CFD, while now with lower forward price, they went below the floor, so there is no downside risk. Still there is an upside risk: if the prices rebound and go up above the floor, for sure this is an upside we have, but not a downside from this kind of contracts in our guidance.

You said correctly: we have more than 1TWh of production in Italy, which is part of the GRIN bit (the 1.6TWh) that are still enjoying and benefitting from the green certificates in Italy, whose value is worked out through the well-known mathematical formula, i.e. 78% of the difference 180 minus the PUN, so the merchant price registered in the year before. So, looking forward, if right now the price is more or less 90€/MWh -this is the forecast for 2024 - if you make the calculation, you will come to 70€/MWh for the green compared to the 40€/MWh this year. So just to say probably €30mn, like-for-like, I mean, with *ceteris paribus* (as Latins used to say) for price scenario. But if price scenario remains flat in 2025, we should have roughly 30€/MWh more for green certificates,

which translates into €30mn more. So, part of the disappointment compared to the market estimates for 2024 will be recovered in 2025 through this mechanism.

Naisheng Cui:

Thank you, Paolo. Can I just get a further clarification on that? Because I did a bridge analysis based on my previous over €600mn EBITDA for 2024 then to the new guidance, and I thought the new Italian power price implied in your guidance should be around 80 to 90. Is that fair?

Paolo Merli:

I think so. Yes...

Michele Pedemonte:

I think so, more or less, yes.

Naisheng Cui:

Perfect. Thank you very much. That is very helpful.

Paolo Merli:

Thank you.

Operator:

The next question is from Paolo Citi of Intermonte. Please go ahead.

Paolo Citi:

Hello. Good morning, everyone. I have a follow-up question on Wind in Italy and in particular on green incentive volumes. Clearly, this is a quite important issue, taking into account the fall in electricity prices and the increasing value of the green incentive around 40€/MWh this year and maybe 60-70€/MWh as you said before for 2025. My question is: can you recap the expected trend in volumes backed by this incentive? It should be around 1.1TWh this year, almost stable in 2025. And then, if I remember correctly, a first step down in 2026 and a second one in 2027. Can you remind us of your expected volumes evolution for this particular output? Thanks.

Paolo Merli:

Thank you, Paolo for your question. Yes, you are perfectly right: 1.1TWh in 2024, slightly less in 2025, but more or less stable above 1TWh, then going down to 0.8TWh, and then the big phase out will be in 2027, with just 0.3TWh remaining covered by green certificates. Yes, you are right.

Paolo Citi:

Okay, thank you very much.

Operator:

The next question is from Stefano Gamberini of Equita. Please go ahead.

Stefano Gamberini:

Good morning, everybody and thanks for taking my questions. Could I come back to the FERX decree, please? Just to understand, Paolo, what is your view regarding the actual acceleration of investments in Italy, considering the rest of the conditions: you are right, the price of wind is too low, probably. So, if this price will be improved, all the rest of conditions - I mean, regarding the length of incentives, the volumes granted, and so on - are fine, and so can we expect an actual acceleration of installed capacity or not?

The second question is regarding Solar. The solar price it is fairer: do you expect an actual acceleration in this business, and are you interested eventually to enter this business? The third question regards the total amount of capacity you currently have that could be repowered if the decree will be adjusted, as you required. Many thanks.

Paolo Merli:

Stefano, yes: the target they set out in terms of megawatts are very, very aggressive because, I repeat it, if you take the number written on the decree - 16.5 for Wind and 50 for PV - and you divide it by 5 years, you will reach a number in the region of 12GW of installed capacity per year. And, as I said on many public occasions, we have to analyze the actual data. As if you take the number in 2023, you will realize that just 1GW of large scale plants (less than 500MW in Wind and less than 500MW in Solar) have been installed, because the remaining part, 4GW roughly (because the total capacity installed in 2023 was 5.7GW according to the official data), more than 4.5GW were plants below 10MW or even below 1MW. I mean, rooftop plants. And we all know that kind of developments has been propelled by the *superbonus*, the 110% fiscal bonus, that was available till last year. But you know, this bonus is phasing out quickly. So, we should not expect the same support from this point of view. And the objective - it is quite evident from the FERX of the Government - is to push now on the large installations. But I keep repeating that if you look at other countries - such as Ireland, such as UK, such as France or Germany - you see that the prices for Wind allocated through auctions are much higher than the ones awarded for Solar PV.

So, I think that - in order to reach the targets, especially for Wind - the Government should revise upwards this value. And for Solar the amount is very big, it is including - and this is an improvement in the regulation - is including also the Agri-Solar, because Agri-Solar was not eligible to participate to the auctions in the previous regulatory

framework. Now it is, so this is surely a positive. And I think 80€/MWh is a quite good price for Solar. Because it is a price based on a pay-as-produced production. Okay, so that is why I insist on the 85€/MWh for Wind, it is too low on relative terms. So let us see what is going on, because this is still a draft, as it has been well specified. We are working to correct this defect of the current draft. And, based on the final one, we will assess our investments.

Operator:

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

Davide Candela:

Hi, good morning gentlemen. Thank you for taking my questions: I just have two. The first one is the most strategical: I was wondering if you can share the view about the renewables market in Europe. So, do you see that - despite the declining prices that we have observed in the recent months - there is still room for developing, and the IRR and the projects are in the money?

And compared to that, looking at these declining prices and of course at the interest rates environment, and at other regions, meaning US, can you elaborate on the strategic rationale in US, if these regions are becoming much more competitive compared to Europe looking at this scenario?

And the second question is just a clarification on the P&L and the results in 2023. You recorded a capital loss on the CCGT sale. I was wondering if you can provide a little bit more color on the nature of this capital loss... maybe you said before and I lost it. Thank you.

Paolo Merli:

Okay. Let us go through your questions in order. I must say absolutely I am still absolutely positive on the future for renewables, because the current negative mood is very much related to the trend in prices, which has nothing to do - in my opinion - with yes-or-no growth of renewables. It is very much related to the fundamentals of demand for gas. So, there are now official data that are showing that over the last two years, there has been a demand destruction for gas in the region of 100bn cubic meter in Europe. So, then substituting basically a big portion of the Russian gas that we lost.

We expect nevertheless - and this is what all the price scenario providers are saying - we expect the demand to start growing again, because the electrification process is ongoing, just for instance, the artificial intelligence or the software, the data room are requiring a big step-up in the electricity consumption. So, from this point of view, we expect this is just a phase for energy prices: as we did not believe one year ago that prices would have stayed above 200€/MWh, now we do not believe prices will go down to 50-60€/MWh. If

not, energy transition will definitely stop. But do not forget that the objective of the Government decision maker is to combat the climate change: we cannot combat the climate change building gas stations or reactivating coal plants.

And also there is a lot of talk about nuclear. We are not against nuclear - let me be clear on that - but we think that to install new nuclear or fresh nuclear capacity will require a lot of time, in particular in Italy where it is banned by law. So, in the meantime, we think the right way is to keep growing the renewables and this is the work the regulator has done to redesign the market, because it is more and more evident that that kind of installations needs stability in prices. We are not looking for major price, but price that are consistent with the capital intensity required to install megawatts in Wind and Solar and Storage, and so on.

I think this is the next step Europe and each member State will go through in order to find the fixing for the energy transition. If not, the targets will remain targets, and will not transform into reality. So, we are positive, because we expect this improvement in the regulation to come soon. We also honestly expect a reduction in interest rates going forward even though paradoxically for ERG has been a positive contribution, the one we received from the higher interest rates, because we have all our debt hedged at 1.4% cost of debt, while the liquidity was invested with a higher yield. But going forward, we expect the cost of debt to start declining because - if I come back to the fundamentals, and I said - and this is an official data - the gas market has lost roughly 100 bn cubic meters, this just partly because of the warmer temperature during the last two winters, but in particular the industrial production.

So, I think the European Central Bank has to lower the interest rates in order to reactivate the industrial production in major countries in Europe, like in Germany, like in Italy, like in France... So, we are moving on step-by-step, keep growing and keep delivering solid results. That is our point, and we will assess project-by-project, taking the final investment decision just and when we have a return which is consistent with our value proposition.

US, yes, you asked if there are other markets. We announced the entry in the US in December but - let me be honest - we had been working one year on this opportunity, and the ABC of the decision was exactly this: to find an area in the world where the stabilization mechanisms – and in the US they are particularly strong through PPAs and production tax, equity partnership - are supporting the development of renewables. So, US will ease and will become - according to our analysis - an important stream for our growth. And, given the limited financial resources, we will allocate them based on the return each country, each area, each project will provide to our profit & loss and to our budget. That is for sure. So, it is reasonable to think that the US are going to be part of

the next Business Plan, not just the portfolio we currently have, but in terms of development.

About the CCGT, yes you read well the profit and loss statements, but absolutely it was already in our estimates that the capital employed recorded in the balance sheet was more than €300mn, then the write-off is consistent with the price we sold the asset, which was more in the region of €200mn, most likely... I cannot remember, slightly higher or lower than that. So, it was already all included in our guidance, estimates and so on. So, I hope you...

Davide Candela:

Thank you very much. Yes.

Paolo Merli:

Thank you to you.

Operator:

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

Paolo Merli:

Okay. Thank you very much for the attention and we will be speaking soon when presenting the first quarter results in May, and likely also the Business Plan. Thank you very much, and have a nice day. Thank you.

Michele Pedemonte:

Thank you.