



## Press release

**The Board of Directors approves the consolidated financial statements and the draft financial statements at 31/12/2021**

**The Consolidated Non-Financial Statement has been approved  
A dividend of EUR 0.9 per share has been proposed**

### **2021**

**Adjusted consolidated EBITDA<sup>1</sup>: EUR 580 million, EUR 481 million in 2020**

**Adjusted Group net profit (loss): EUR 202 million, EUR 106 million in 2020**

### **Fourth quarter 2021**

**Adjusted consolidated EBITDA: EUR 180 million, EUR 119 million in the fourth quarter of 2020**

**Adjusted Group net profit (loss): EUR 72 million, EUR 27 million in the fourth quarter of 2020**

- **2021 Results** – Adjusted EBITDA is up, exceeding the guidance range, thanks to the significant increase in wind and hydroelectric volumes in Italy in a favourable price scenario and the contribution of new wind farms abroad. Net profit increased significantly thanks also to lower depreciation and amortisation, due to the extension of the useful life of certain assets, and lower financial expense.
- **Asset portfolio and sales** - Installed capacity in wind and solar power grew by 309 MW, of which 80 MW in solar, distributed across France, Germany and the UK. During the year, the Group made its entry into Sweden, with a 62 MW plant currently under construction, and in Spain with the acquisition of 92 MW of solar, which entered the consolidation scope at the beginning of 2022. Decisive progress also for the Repowering and greenfield projects in Italy with the award of 240 MW in RES auctions. During the year, PPAs were contracted for approximately 0.7 TWh. Innovation received a boost with the award of 22 MW in the capacity market auction for two electrochemical storage projects.
- **Capital expenditure quadrupled** – EUR 648 million in 2021 compared to EUR 156 million in 2020, aimed in particular at the acquisition of wind and solar farms abroad, the construction of wind farms in the UK, Poland and France and the start-up of repowering and greenfield projects for new wind capacity in Italy.
- **Asset Rotation** – With the sale of the hydroelectric assets and the signing of the agreement for the sale of the thermoelectric asset to Enel Produzione, ERG is on the way to completing its business transformation to a pure "Wind & Solar" model and is continuing along the path of decarbonisation envisaged by the ESG plan.
- **ESG** - ERG's sustainable strategy, increasingly an integral part of the business model, was rewarded through upgrades and confirmations in international ratings. The Consolidated Non-Financial Statement has been approved and the Executive Summary summarising our approach to Sustainability has been published today.
- **Guidance:** EBITDA for 2022 (no longer including the result of the thermoelectric plant being sold) is estimated in the range between **EUR 400 million** and **EUR 430 million**, capital expenditure is forecast to be in the range between **EUR 420 million** and **EUR 480 million**. Net financial indebtedness is expected to be between **EUR 750 million** and **EUR 850 million** (EUR 2,051 million at the end of 2021), including the distribution of the ordinary dividend of EUR 0.9 per share.
- **Dividend:** The increase of the 2022 dividend from EUR 0.75 to EUR 0.9 has been approved.

---

<sup>1</sup> In order to facilitate an understanding of the operating segments' performance, the operating results are shown with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "adjusted". A definition of the indicators and the reconciliation of the amounts involved are provided in the "Financial Statements and Alternative Performance Indicators" section of this document.

**Genoa, 15 March 2022** - In its meeting yesterday, the Board of Directors of ERG S.p.A. approved the draft financial statements at 31 December 2021, the report on corporate governance and ownership, the consolidated non-financial statement, the report on the remuneration policy and fees paid and the 2022-2026 Business Plan and ESG Plan.

### **Adjusted consolidated financial results**

IV Quarter			Key economic data (EUR million)	Year		
2021	2020	% change		2021	2020	% change
180	119	52%	EBITDA	580	481	21%
107	45	140%	EBIT	304	183	66%
72	27	166%	Profit attributable to owners of the parent	202	106	91%

	31/12/2021	31/12/2020	Change
Net Financial Position (EUR million)	2,051	1,439	612
Leverage <sup>2</sup>	57%	45%	

Paolo Merli, ERG's Chief Executive Officer, commented: **"2021 was a year characterised by the ongoing pandemic and the start of an energy crisis with unprecedented price increases. In this context, the Group has been able to demonstrate resilience, financial solidity and a strong ability to execute in carrying out its transformation and growth plans well in advance.**

**The 2021 results were decidedly positive thanks to higher volumes and prices as well as the enormous efforts made, with capital expenditure quadrupled compared to the previous year and higher than the EBITDA of EUR 580 million. The sharp increase in net profit to EUR 202 million also reflects lower amortisation, depreciation and financial expense. With the full contribution of the new wind and solar plants and on the basis of the new scope, without Hydro and CCGT, for 2022 we estimate an EBITDA in the range between EUR 400 million and EUR 430 million, capital expenditure in the range between EUR 420 million and EUR 480 million and net financial indebtedness down sharply in the expected range between EUR 750 million and EUR 850 million. These conditions have allowed us to propose a dividend of EUR 0.9 per share".**

The Board of Directors proposes to the Ordinary Shareholders' Meeting, which will be convened for 26 April 2022 on first call and, if necessary, for 27 April 2022 on second call, the distribution of a dividend equal to EUR 0.90 per share which will be paid as from 25 May 2022 (payment date), with an ex-dividend date as from 23 May 2022 (ex date) and record date of 24 May 2022.

In order to minimise the risks associated with the ongoing COVID-19 health and epidemiological emergency, the Board of Directors has decided that for the purposes of calling the Ordinary and Extraordinary Shareholders' Meeting it will make use of the option introduced by Italian Law Decree no. 18 of 17 March 2020 containing *"Measures to strengthen the National Health Service and economic support for families, workers and businesses connected to the COVID-19 epidemiological emergency"* (converted, with amendments, by Italian Law no. 27 of 24 April 2020, and most recently modified by Article 3, paragraph 1, of Italian Law Decree no. 228 of 30 December 2021, converted, with amendments, by Italian Law no. 15 of 25 February 2022), providing that (i) the Shareholders may attend the Shareholders' Meeting exclusively through the Designated Representative; (ii) the management and control bodies of the Company, as well as the Designated Representative, may participate in the Shareholders' Meeting by means of telecommunication which guarantee the identification of the participants, their participation and the exercise of the right to vote, without in any case the need for the Chairman and the secretary taking the minutes to be in the same place.

<sup>2</sup> Ratio of total net financial indebtedness (including project financing) to net invested capital

## **Change in business scope in 2021**

### ▪ **Wind – Sweden**

On **10 May 2021** ERG, through its Swedish holding, completed the acquisition from the BayWa r.e. Group, active in the development, construction and management of renewable energy plants, of the permits for the construction of a wind farm with a capacity of 62 MW in southern Sweden.

The project envisages the installation of 10 latest generation Siemens Gamesa turbines of 6.2 MW with estimated annual output of approximately 210 GWh, equal to almost 3,400 equivalent hours and roughly 140 kt of CO<sub>2</sub> emissions avoided each year. Construction started on the wind farm in the first half of 2021, and it is expected to enter into operation by the end of 2022. The total capital expenditure amounts to EUR 99 million, including both construction permits and construction costs.

BayWa r.e will support ERG through the entire phase of construction, until commissioning of the plant.

### ▪ **Wind, Solar – France**

On **24 June 2021** ERG, through its subsidiary ERG Eolienne France SAS, signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio composed of 5 wind farms, for a total of 58 MW and two photovoltaic installations for a total of 22 MW.

The average entry into operation of the portfolio is 2017; the plants benefit from an incentive tariff regime with average expiry in 2034. Total annual estimated production is 174 GWh, equal to more than 2,400 equivalent hours for wind assets and over 1,200 equivalent hours for photovoltaic assets, and corresponding to 95 kt of avoided CO<sub>2</sub> emissions every year.

The value of the transaction in terms of equity value is EUR 45 million. Average expected EBITDA is roughly EUR 11 million and the net financial position at the end of 2020 is EUR 101 million.

### ▪ **Wind, Solar – France and Germany**

On **1 October 2021** and **28 October 2021**, ERG, through its subsidiaries ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, signed two agreements with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG to acquire 100% of the share capital of 15 companies owning a 152.4 MW renewable portfolio in operation in France and Germany.

The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW.

The plants came into operation between 2013 and 2015. They benefit from an incentivised tariff system with an average expiry date of 2032 and an estimated total annual production of 273 GWh, equal to approximately 2,100 equivalent hours for wind assets and approximately 1,300 equivalent hours for photovoltaic assets, which amount to 150 kt of avoided CO<sub>2</sub> emissions each year. The value of the transaction in terms of enterprise value is EUR 202 million.

### ▪ **Hydroelectric**

On 3 January 2022, ERG finalised an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The transaction was concluded in line with what was announced on 2 August 2021.

## **Fourth quarter 2021**

### **Consolidated financial results**

In the fourth quarter of 2021, **adjusted revenue** totalled EUR 443 million, an increase of EUR 189 million compared to the fourth quarter of 2020 (EUR 253 million), mainly due to increased wind speeds in Italy, the increase in energy sale prices associated with the greater unit value of the incentive in Italy (from 99.0 to 109.4 EUR/MWh) and the contribution of the greater installed capacity in France and Germany. These effects were partly offset by the end of the first decade of high cogeneration of the CCGT plant.

**Adjusted EBITDA**, net of special items, amounted to EUR 180 million, up by EUR 61 million compared with the EUR 119 million recorded in the fourth quarter of 2020. The change is a result of the following factors:

**Wind (EUR +70 million):** EBITDA of EUR 145 million, an increase compared to the same period of 2020 (EUR 74 million) mainly due to the higher result in Italy of EUR 98 million (EUR 41 million in the fourth

quarter of 2020), thanks to the increased wind speeds compared to those recorded in the fourth quarter of 2020 (625 GWh in the fourth quarter of 2021 compared to 486 GWh in the same period of 2020), the higher value of the GRIN incentive and the improved market scenario compared to the particularly depressed market scenario in 2020. The operating margin abroad, equal to EUR 47 million, increased compared to the same period of 2020 (EUR 34 million) mainly due to the consolidation of the wind farms in France and Germany (EUR +6 million) and higher volumes in Eastern Europe.

**Solar (EUR +1 million):** EBITDA, equal to EUR 9 million, is up slightly compared to the fourth quarter of 2020 (EUR 8 million) with lower volumes in Italy (30 GWh in the fourth quarter of 2021 compared to 32 GWh in the fourth quarter of 2020) offset by the scope effect of EUR 1 million (15 GWh) deriving from the consolidation of nine solar farms in France.

**Hydroelectric (EUR +11 million):** EBITDA of EUR 34 million (EUR 23 million in the fourth quarter of 2020), a sharp increase compared to the same period of the previous year due to the better market scenario, despite slightly lower production compared to the fourth quarter of 2020 (314 GWh compared to 319 GWh in the fourth quarter of 2020) due to lower availability of resources in the last months of the year.

**Thermoelectric (EUR -18 million):** thermoelectric EBITDA, amounting to negative EUR -2 million (EUR 16 million in the fourth quarter of 2020), was affected both by the end of the high-yield cogeneration period and by a particularly unfavourable scenario due to the significant and sudden increase in gas and CO2 prices, only in part mitigated by hedging transactions. The results were affected by the general shutdown of Module 1, starting in early September and finishing in early December, aimed at revamping it, which will make it possible to benefit from white certificates for another 10 years from the restart of the module.

**Adjusted EBIT** amounted to EUR 107 million (EUR 45 million in the fourth quarter of 2020), after depreciation and amortisation of EUR 72 million, down compared to the fourth quarter of 2020 (EUR 74 million), mainly as a result of the review of the useful life of some assets relating to hydroelectric and wind plants, only partially offset by the contribution of wind and solar assets acquired during the fourth quarter of 2021.

**Adjusted profit attributable to the owners of the parent** was EUR 72 million, a significant increase compared to the result of the fourth quarter of 2020 (EUR 27 million), in view of the better operating results and lower financial charges, already commented on. Net financial expense (EUR 6 million) was lower than the fourth quarter of 2020 (EUR 9 million) due to the reduction in the cost of gross debt thanks to the contribution of liability management transactions that took place during the year. In addition, the adjusted effective tax rate stood at 29%, an increase compared to the fourth quarter of 2020, and includes the effects (approximately EUR 5 million) of the Wind Fall Tax introduced in Romania in the face of high energy sales prices.

## **2021**

### **Consolidated financial results**

In 2021, **adjusted revenue** totalled EUR 1,232 million, an increase of EUR 258 million compared to 2020 (EUR 974 million), mainly due to greater hydroelectric and wind production in Italy, the increase in the unit value of the incentive in Italy (from 99.0 to 109.4 EUR/MWh) and the increase in energy sale prices. These effects were only partly offset by the reduction in wind generation abroad and the end of the first decade of high cogeneration of the CCGT plant.

Adjusted **EBITDA**, net of special items, amounted to EUR 580 million, up by EUR 99 million compared with the EUR 481 million recorded in 2020.<sup>3</sup> The change is a result of the following factors:

- **Wind (EUR +76 million):** EBITDA of EUR 358 million, up compared to 2020 (EUR 282 million) due to the improved result in Italy of EUR 243 million (EUR 165 million in 2020), primarily due to the increased wind speeds, the higher value of the GRIN incentive and the better market scenario compared with the particularly depressed market of 2020. The margin abroad was down slightly at EUR 115 million (EUR 117 million in 2020), despite the contribution resulting from the consolidation of the new wind farms in France and Germany, due to worse wind conditions compared to the particularly high values of 2020 (1,838 GWh in 2021 compared to 2,009 GWh in 2020).

<sup>3</sup> The adjusted EBITDA is shown net of the positive effects arising from the application of IFRS 16, equal to approximately EUR 10 million, as well as other special items for EUR 12 million and the IFRS 5 reclassification.

- **Solar:** EBITDA, equal to EUR 66 million, is substantially in line with 2020 thanks also to the contribution of EUR 1 million deriving from the two new solar farms in France.
- **Hydroelectric (EUR +70 million):** EBITDA of EUR 151 million (EUR 81 million in 2020), up considerably compared with the previous year. The result benefits from notably higher outputs (1,637 GWh in 2021 compared to 1,097 GWh in 2020), thanks to the high resource availability in the early months of the year, particularly when compared to 2020, which was well below the average historical levels.
- **Thermoelectric (EUR -46 million):** thermoelectric EBITDA, amounting to EUR 21 million, is below the EUR 67 million in 2020, mainly as a result of the end of the high yield cogeneration period on both modules of the CCGT plant for approximately EUR 22 million. The scenario effect, with the reduction in generation margins due mainly to the significant increase in gas and CO2 prices, was only partly mitigated by hedging transactions. The results are affected by the general shutdown of Module 1 aimed at guaranteeing the CAR (High Yield Cogeneration) qualification, started at the beginning of September and concluded in early December. It should be noted that 2020 benefited from insurance reimbursements and adjustments relating to site contracts.

It should be noted that the overall gross operating profit (loss) is impacted by the electricity price hedging policies implemented in line with the Group's risk policies.

Adjusted EBIT amounted to EUR 304 million (EUR 183 million in 2020), after depreciation and amortisation of EUR 276 million, down significantly compared to 2020 (EUR 298 million), mainly as a result of the review of the useful life of some assets relating to hydroelectric and wind plants, only partially offset by the contribution of wind and solar assets acquired during the year.

**EBIT** was EUR 163 million (EUR 145 million in 2020) after depreciation, amortisation and impairment of EUR 263 million (EUR 256 million in 2020), which includes the application of IFRS 5 with the reversal of the economic results relating to the hydroelectric business sold and the effects of the write-down of the wind power assets subject to repowering.

**Adjusted profit attributable to the owners of the parent** was EUR 202 million, including approximately EUR 2 million attributable to minority interests, up significantly compared to 2020 (EUR 106 million), in view of the above-mentioned improved operating results and lower financial expense. Net financial expense (EUR 29 million) was lower than the same period of 2020 (EUR 47 million) due to the reduction in the cost of gross debt thanks to the full contribution of liability management transactions that took place over the last two years.

**Profit attributable to the owners of the parent** was EUR 173 million, an increase compared to EUR 108 million in 2020 for the same reasons as outlined above. The result also includes the effects of the application of IFRS 5 for ERG Hydro and the write-down of the wind assets subject to repowering and the costs related to the liability management transactions carried out in 2021.

**Adjusted net financial indebtedness** totalled EUR 2,051 million, up (EUR 612 million) compared to 31 December 2020 (EUR 1,439 million). The change reflects mainly the impact of the recent acquisitions in France, Germany and Sweden (EUR 389 million), the capital expenditure in the year (EUR 258 million) connected mainly with the development of the wind farms in the United Kingdom, Poland, France and Sweden, as well as the developments on Repowering and Reblading projects, the distribution of dividends to shareholders (EUR 114 million), the payment of taxes (EUR 42 million), the impact on liquidity of daily settlement of the fair value change in commodity future hedging instruments (EUR 321 million), partly offset by the positive cash flow (EUR 498 million) and other positive items (EUR 14 million).

It should also be noted that the indebtedness at the end of the period reflects the negative fair value of commodity futures of roughly EUR 344 million (EUR 277 million at 30 September 2021 and EUR 23 million at 31 December 2020). Adjusted net financial indebtedness is presented net of the effects deriving from the application of IFRS 16, therefore excluding the discounting of future lease payments of approximately EUR 129 million at 31 December 2021.

## **Capital expenditure**

The breakdown of capital expenditure by business segment is shown in the following table:

IV Quarter		EUR million	Year	
2021	2020		2021	2020
213	37	Wind	538	127
52	1	Solar	76	2
12	6	Thermoelectric	25	18
2	2	Hydroelectric	7	6
1	1	Corporate	2	2
<b>281</b>	<b>46</b>	<b>Total capital expenditure</b>	<b>648</b>	<b>156</b>

In the fourth quarter of 2021, capital expenditure amounted to **EUR 281 million** (EUR 46 million in the fourth quarter of 2020) and referred mainly to the acquisition in October of wind and solar farms in France and Germany (for EUR 202 million). Investments in property, plant and equipment and intangible assets were also made, of which 80% in the wind sector (in line with the fourth quarter of 2020), mainly in relation to the continuation of the construction of the wind farms in the UK for roughly 250 MW (70 MW of which became operational in December), Poland for 60 MW, France for 27 MW (7 MW of which became operational in December) and Sweden for 62 MW, and to the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini wind farms for 143 MW of new wind capacity; 16% refers to the Thermoelectric sector (12% in the fourth quarter of 2020) as a result of capital expenditure to modernise and boost the efficiency of the combined cycle, which guaranteed the CAR (High Yield Cogeneration) qualification for Module 1 of the CCGT for an additional ten years, 3% refers to the Hydroelectric sector (5% in the fourth quarter of 2020), 0.3% to the solar sector (1% in the fourth quarter of 2020) and 1% to the Corporate sector (2% in the fourth quarter of 2020), mostly for ICT and minor maintenance and development projects.

In 2021, capital expenditure totalled EUR 648 million (EUR 156 million in 2020), and refer primarily to the acquisition of wind farms and solar plants in France (EUR 147 million) in June, of a project for the construction of a wind farm in Sweden (EUR 41 million) and of wind farms and solar plants in France and Germany (for EUR 202 million) in October. During the period under review, investments in property, plant and equipment and intangible assets were also made in the amount of approximately EUR 258 million, of which 86% in the wind sector (74% in 2020), mainly in relation to the continuation of the construction of the wind farms in the UK for roughly 250 MW (70 MW of which became operational in December), Poland for 60 MW, France for 27 MW (7 MW of which became operational in December) and Sweden for 62 MW, and to the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini wind farms for 143 MW of new wind capacity; 10% refers to the Thermoelectric sector (17% in 2020) as a result of capital expenditure to modernise and boost the efficiency of the combined cycle, which guaranteed the CAR (High Yield Cogeneration) qualification for Module 1 of the CCGT for an additional ten years, 3% refers to the Hydroelectric sector (6% in 2020), 1% to the solar sector (3% in 2020) and 1% to the Corporate sector (2% in 2020), mostly for ICT and minor maintenance and development projects.

**Wind:** Capital expenditure in 2021 (**EUR 538 million**) refers primarily to the acquisition of wind farms in France and Germany (154 MW), a project for the construction of a wind farm in Sweden (62 MW) and the development and construction of new wind farms in the UK (EUR 123 million), Poland (EUR 47 million), France (EUR 20 million) and Sweden (EUR 16 million), the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini plants (EUR 5 million) and the completion of Reblading activities on the Lacedonia-Monteverde plant (EUR 6 million), in addition to the usual maintenance targeted at further boosting plant efficiency.

With regard to the wind farms under construction, the two projects in the UK (in Northern Ireland), Evishagaran for 47 MW and Craiggore for 24 MW and the project in France Valle dell'Aa Ext. for 7 MW were launched at the end of 2021. For the remaining wind farms under construction in the UK (Scotland), Poland and France, whose CODs are expected in 2022, the construction timelines are confirmed.

**Solar:** Capital expenditure in 2021 (**EUR 76 million**) refers mainly to the acquisition of photovoltaic plants in France (79 MW) and contracts aimed at further improving the efficiency of plants.

**Hydroelectric:** Capital expenditure in 2021 (**EUR 7 million**) relates mainly to mini hydro plant development contracts, maintenance contracts and planned projects in the fields of seismic improvement of infrastructures

and Health, Safety and the Environment.

**Thermoelectric:** Capital expenditure in 2021 (**EUR 25 million**) relates mainly to the project to revamp the steam turbine, the electric generator and the steam generation plants of Module 1 of the CCGT plant, geared towards greater plant efficiency, which will make it possible to renew the right to accrual of energy efficiency certificates from the parallel connection of new components, expected by the end of 2021, for a further ten years.

The targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants continued. Progress was also made on the planned Health, Safety and Environment projects.

### Operating data

The ERG Group's electric power sales, made in Italy through ERG Power Generation S.p.A.'s Energy Management, refer to the electric power generated by its wind, thermoelectric, hydroelectric and solar plants, as well as purchases on organised markets and through physical bilateral agreements.

**During the fourth quarter of 2021**, total sales of electricity amounted to 3.5 TWh (3.9 TWh in the fourth quarter of 2020), versus a total output from the Group plants of approximately 1.9 TWh (2.0 TWh in the same period of 2020), of which roughly 0.6 TWh abroad and 1.3 TWh in Italy. The latter figure corresponds to approximately 1.7% of electric power demand in Italy (1.9% in the fourth quarter of 2020).

**During 2021**, total sales of electricity came to 14.2 TWh (14.9 TWh in 2020), against overall production for the Group plants of around 7.7 TWh (7.7 TWh in 2020), of which roughly 1.9 TWh abroad and 5.8 TWh in Italy. The latter figure corresponds to approximately 1.8% of electricity demand in Italy (1.9% in 2020).

The breakdown of production volumes and electricity sales, by type of source, is shown in the following<sup>4</sup> table:

2021	4th quarter			Electricity Output (GWh)	2021	Year		
	2020	Δ	Δ%			2020	Δ	Δ%
1.221	1.029	192	19%	<b>Wind power output</b>	3.917	3.911	5	0%
625	486	139	29%	- Italy	2.078	1.902	176	9%
596	543	53	10%	- Overseas	1.838	2.009	-171	-9%
45	32	13	39%	<b>Solar power output</b>	240	228	12	5%
30	32	-2	-7%	- Italy	216	228	-12	-5%
15	0	15		- Overseas	24	0	24	
314	319	-5	-2%	<b>Hydroelectric power output</b>	1.637	1.097	540	49%
360	617	-257	-42%	<b>Thermoelectric power output</b>	1.869	2.441	-572	-23%
1.940	1.997	-58	-3%	<b>ERG plants total output</b>	7.663	7.678	-15	0%

As regards output, in the **fourth quarter of 2021** the following is noted in particular:

**Wind:** the production of electricity from wind sources, equal to 1,221 GWh, is up 19% compared to the corresponding period of 2020 (1,029 GWh), due to more favourable wind conditions in Italy (+29%) and 'Abroad (+10%) compared to those of the same period of 2020; the increase in production in Italy (+139 GWh) is linked to better wind conditions than those recorded in 2020 across all regions. As regards abroad, output was higher than in the same period of 2020 (+53 GWh), with lower volumes in France and Germany linked to the poorer wind conditions, more than offset by the scope effect deriving from the consolidation of wind farms in France and Germany (+95 GWh). Higher Eastern European output.

**Solar:** output amounted to approximately 45 GWh, up compared to the fourth quarter of 2020 (+13 GWh), mainly due to the new wind farms in France (+15 MW)

**Hydroelectric:** ERG Hydro's overall production in the fourth quarter of 2021 equal to 314 GWh is slightly down compared to 2020 due to the lower water supply recorded in the last months of the year.

<sup>4</sup> Electric power sources refer to the output of the Group's plants and to the purchases made on wholesale markets; uses include sales made through physical bilateral agreements and on the spot and forward markets.

**Thermoelectric:** ERG Power's net electricity power output was 360 GWh, down on the same period of 2020 (617 GWh) due to the general shutdown of Module 1 and a market environment with generation margins strongly affected by the significant increase in the price of gas and CO<sub>2</sub>. The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 275 thousand tonnes, up with respect to 258 thousand tonnes in the same period of 2020.

#### **During 2021:**

**Wind:** the electricity output from wind power amounted to 3,917 GWh, in line with 2020 (3,911 GWh), due to increased volumes in Italy (+9%) offset by less favourable wind conditions abroad (-9%) compared to the particularly high wind levels in 2020.

The increased output in Italy (+176 GWh) is linked to better wind conditions than those recorded in 2020, with higher volumes across all regions with the exception of Calabria (-5%). In particular, Sicily recorded significantly higher volumes (+22%). The reduction of 171 GWh in output abroad due to the low wind speeds recorded with respect to the same period of 2020 is attributable to all countries and is more pronounced in France (-88 GWh) despite the consolidation of five wind farms as from 30 June 2021 (+61 GWh) and three wind farms as from 1 October 2021 (+30 GWh), Germany (-42 GWh) despite the consolidation of five wind farms in the fourth quarter (+28 GWh) and Poland (-28 GWh).

**Solar:** output amounted to approximately 240 GWh, up compared to 228 GWh in 2020 due to the new acquisitions in France (+24 GWh), partly offset by the lower irradiation recorded in Italy.

**Hydroelectric:** ERG Hydro's overall production in 2021, equal to 1,637 GWh, increased compared to 1,097 GWh in the same period of 2020 thanks to the high availability of resources in the early months of the year.

**Thermoelectric:** ERG Power's net electricity power generation was 1,869 GWh, down on the same period of 2020 (2,441 GWh) due to a market environment with generation margins strongly affected by the significant increase in the price of gas and CO<sub>2</sub>, partially offset by the clean spark spread hedging policies implemented in line with the Group's risk policies and the greater use of the dispatching services market. The results are also affected by the general shutdown of Module 1 aimed at guaranteeing the CAR qualification, started at the beginning of September and concluded in early December. The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 1,024 thousand tonnes, down slightly compared with 1,067 thousand tonnes in the same period of 2020.

### **Significant events during 2021**

#### **Corporate**

On **28 January 2021** exercise of the redemption option for all outstanding bonds issued on 19 July 2017, for a total nominal amount of EUR 25,000,000. (Press release of 28/01/2021)

On **21 April 2021** ERG joined the "S&P Global Clean Energy Index", the stock market index of Standard & Poor's, which incorporates 82 companies at international level that are key players in the production of green energy with high ESG standards. (Press release of 21/04/2021)

On **26 April 2021** the Shareholders' Meeting of ERG S.p.A. approved the 2020 Financial Statements and resolved on the payment of a dividend of EUR 0.75 per share, appointed the new Board of Directors, confirmed Edoardo Garrone as Chairperson, and approved the Long-Term Incentive Plan (2021-2023 LTI System). The Board of Directors, in its meeting on the same date, confirmed Alessandro Garrone as executive Deputy Chairman, Giovanni Mondini as Deputy Chairman and appointed Paolo Luigi Merli as the new Chief Executive Officer. (Press release of 26/04/2021)

On **14 May 2021**, the Board of Directors of ERG approves the Business Plan and the 2021-2025 ESG Plan. Sustainability-oriented growth in renewables continued, with an increase in installed power of 1.5 GW, investments of approximately EUR 2 billion and EBITDA at the end of the plan of EUR 550 million. (Press release of 14/05/2021)

On **5 August 2021**, ISS ESG upgraded ERG to A- rating (formerly B+), placing the Group in first place in the world ranking in the "Electric Utilities" sector, which includes 125 international companies. (Press release of 05/08/2021)

On **5 August 2021** and **8 September 2021**, ERG S.p.A. completed the placement of a third bond of EUR 500,000,000 with a maturity of 10 years at a fixed rate, issued as part of the EUR 3 billion Euro Medium Term Notes (EMTN) Programme.

The issue was in the form of a Green Bond, with approximately 40% intended to be used to refinance wind and solar projects that have recently entered the ERG Group's portfolio and the remaining ca. 60% to finance new wind and solar projects in other European countries in which ERG operates.

The notes, which have a minimum unit value of EUR 100,000, pay an annual gross coupon at a fixed rate of 0.875% and were placed at an issuing price of 99.752% of their nominal amount.

(Press releases of 05/08/2021 and 08/09/2021)

On **14 October 2021**, ERG and the Italian Institute of Technology (Istituto Italiano di Tecnologia, IIT) signed a multi-year collaboration agreement aimed at accelerating the digitalisation process in the renewable energy sector. (Press Release of 14/10/2021)

On **19 October 2021**, ERG entered the new MIB ESG Index of Borsa Italiana, the first ESG index dedicated to the 40 leading listed Italian issuers that stand out for their best practices in sustainability. (Press Release of 19/10/2021)

On **26 November 2021**, ERG won the 2021 Financial Statements Oscar in the 'Medium and small listed companies' category. The award, sponsored by FERPI (the Italian Federation of Public Relations), Borsa Italiana and Bocconi University, rewards organisations that through their financial statements show their willingness to share their results and goals with their stakeholders through timely and transparent communication. (Press Release of 26/11/2021)

On **9 December 2021** CDP confirms ERG's "A-" rating in the Climate Change programme promoted by Carbon Disclosure Project (CDP), the global non-profit organisation that, by monitoring company performance in the fight against climate change, guides companies and governments towards the reduction of greenhouse gas emissions. (Press Release of 9/12/2021)

## **Wind – Solar**

On **28 January 2021**, ERG signed a framework agreement with ENERCON GmbH to supply wind-power generators with a potential capacity of approximately 190 MW, earmarked for Repowering projects in Italy and a greenfield project in the United Kingdom. (Press release of 28/01/2021)

On **14 April 2021**, ERG obtained the Single Authorisations as part of the Repowering project for the wind farms of Mineo - Militello - Vizzini and Monreale/Partinico, located in the Sicily region, for a total capacity of 143 MW.

On **27 April 2021**, ERG and Renergetica, a company that develops renewable energy source projects on the international market and listed on the AIM Italia market managed by Borsa Italiana, signed a co-development agreement in the Spanish market for greenfield projects in the photovoltaic and wind power sectors, with an objective of roughly 100 MW per year, when at operating at full capacity. (Press release of 27/04/2021)

On **10 May 2021** ERG, through its Swedish holding, completed the acquisition from the BayWa r.e. Group, of the construction permits for a wind farm with a capacity of 62 MW in southern Sweden. Entry into operation is expected by the end of 2022. The total capital expenditure amounts to EUR 99 million, including both construction permits and construction costs. (Press release of 10/05/2021)

On **14 May 2021**, ERG and TIM, a leading group in Italy and Brazil in the ICT sector, signed a ten-year corporate PPA (Power Purchase Agreement) for the supply of 3.4 TWh of green energy for the period 2022-2031. (Press release of 14/05/2021)

On **24 June 2021**, ERG signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio composed of five wind farms, for a total of 58 MW and two photovoltaic installations for a total of 22 MW. (Press Releases of 21/05/2021 and 24/06/2021)

On **21 July 2021**, ERG signed a long-term agreement with ElectroRoute Energy Supply Ltd. for two Power Purchase Agreements (PPAs) for the supply of renewable energy produced by the onshore wind farms of Evishagaran and Craiggore in Northern Ireland. Energy will be supplied in "pay as produced" mode, with

remuneration at a fixed price on all energy produced. ElectroRoute will also guarantee the "Route to Market" service to allow the injection of energy to the country's electricity grid. (Press release of 21/07/2021)

On **28 September 2021**, ERG was awarded a tariff for 20 years on 143 MW of new wind capacity as part of the sixth auction called by GSE (Gestore dei Servizi Elettrici). This refers, specifically, to three Repowering projects, Partinico-Monreale, Mineo-Militello and Vizzini, all located in Sicily, for which ERG obtained the Single Authorisations on 14 April 2021. ERG's projects were awarded at a minimum discount of 2%. The entry into operation of the new wind farms, the construction of which is in the start-up phase and the output of which is estimated to be approximately 330 GWh per year, equal to approximately 166 kt of CO2 emissions avoided each year, is expected between the end of 2022 and the third quarter of 2023. The total capital expenditure in the three projects amounts to approximately EUR 150 million. (Press Release of 28/09/2021)

On **1 October 2021 and 28 October 2021** ERG, through its subsidiary ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, signed two agreements with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG to acquire 100% of the share capital of 15 companies owning a 152.4-MW renewable portfolio in operation in France and Germany. The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW. (Press Releases of 01/10/2021 and 28/10/2021)

On **1 October 2021**, ERG signed an agreement with ENGIE SA for a five-year Power Purchase Agreement (PPA) for the withdrawal of renewable energy produced by five ERG wind farms located in France. The five plants, which have a total installed capacity of 55 MW and an annual energy output of over 100 GWh, will exit the FIT (Feed-in Tariff) incentive scheme at the end of 2021. Energy will be supplied in "pay as produced" mode, with remuneration at a fixed price on all energy produced. (Press release of 01/10/2021)

On **9 December 2021**, ERG signed an agreement with GEI Subasta 1 SA for the acquisition of 100% of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively for a total of 91.6 MW. The plants were commissioned in early 2020, having participated in the auctions regulated by Italian Royal Decree no. 359 of 2017 and have an estimated total annual production of 188 GWh, equal to over 2,050 equivalent hours/year, one of Europe's highest, corresponding to 110 kt of CO2 emissions avoided every year.

The consideration for the transaction amounts to EUR 96.2 million (asset value). The transaction was concluded on 31 January 2022. (Press Release of 9/12/2021)

On **29 December 2021**, the first two wind farms in the UK, in Craiggore and Evishagaran, County Londonderry, Northern Ireland, with a capacity of 23.5 MW and 46.8 MW, respectively, for a total of 70.3 MW, started production. In addition, to be noted is the commissioning of the Vallée de l'Aa wind farm at Pas-de-Calais, in Hauts-de-France for 7 MW. The project is the extension of the 13.2 MW Parc Eolien Vallée de l'Aa2 launched by the Group at the end of 2018. (Press Release 29/12/2021)

## Hydroelectric

On **2 August 2021**, ERG, through its subsidiary ERG Power Generation S.p.A., completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The operation of the hydroelectric complex is ensured by 114 people, included within the scope, including technicians highly specialised in the operational management of the plants, energy management specialists and dedicated staff. Thanks to a successful collaboration with the trade unions and the serious willingness of the buyer, the company has reached an innovative agreement for the electricity sector that guarantees important protections for the ERG employees who are part of the company being sold. The transaction was concluded on 3 January 2022 for EUR 1,265 million. (Press Release of 02/08/2021)

## Thermoelectric

On **6 August 2021**, through its investee ERG Power Generation S.p.A., ERG concluded an agreement with ISAB (Lukoil Group) for the amendment and extension to 2032 of the current contract for the supply of the entire energy requirements of the ISAB refinery in Priolo Gargallo, for which the term had been envisaged at 31 March 2025. ERG's CCGT plant will supply approximately 150 GWh of electricity and approximately one million tonnes of steam to ISAB, the main consumer of the Priolo site, on an annual basis. (Press Release of 06/08/2021)

### **Significant events after the reporting date**

On **3 January 2022**, ERG, through its subsidiary ERG Power Generation S.p.A., has completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The consideration totals approximately 1.265 billion euros, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro plants.

On **26 January 2022**, ERG entered Bloomberg's Gender Equality Index (GEI), which includes more than 400 companies in 45 countries worldwide – measures companies' commitment to supporting gender equality by promoting a more inclusive environment, ensuring the transparent and comprehensive representation of information. In particular, Bloomberg acknowledged the effectiveness of ERG's initiatives to promote gender equality among its staff in all countries, through clear guidelines in recruitment processes, development plans in line with best practices, equal pay, inclusive culture and maximum clarity and quality in data reporting.

On **31 January 2022**, ERG has been awarded a tariff for 20 years on 97.2 MW of new wind capacity as part of the sixth auction called by GSE (Gestore dei Servizi Elettrici). These are, in particular, the repowering project in Camporeale (50.4 MW) and the greenfield project in Roccapalumba (46.8 MW), both located in Sicily, for which ERG obtained the Single Authorisations, respectively, on 22 September and 4 October 2021.

On **31 January 2022**, ERG has acquired from GEI Subasta 1 SA 100% of the capital of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively.

On **9 February 2022**, ERG, through its subsidiary ERG Power Generation S.p.A., agreed with Enel Produzione S.p.A. to sell the entire share capital of ERG Power S.r.l.. The latter owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant, powered by natural gas located at Priolo Gargallo, in the province of Syracuse. With an installed capacity of 480 MW, the average annual production is around 2.4 TWh.

The consideration in terms of Enterprise Value, at 31 December 2021, is equal to EUR 188 million and will be subject to price adjustment at closing. The transaction is expected to be concluded in the third quarter of 2022.

On **10 February 2022**, ERG has entered the CDP (Carbon Disclosure Project) "Suppliers Engagement Leaderboard", which brings together the best-performing companies globally in the creation of a sustainable supply chain. Amongst more than 13,000 companies assessed in 2021, ERG is among the 8% of companies who have received an 'A' rating - the highest on the scale created based on CDP's 'Climate Change' questionnaire.

On **23 February 2022**, ERG enters the storage market with two projects for a total of 22 MW of installed capacity in the Centre-South and Sicily. The two projects are currently in the authorisation phase and the construction is planned near two ERG wind farms in operation in Ginestra degli Schiavoni in Campania and in Vicari in Sicily.

*As already commented in the "Significant regulatory updates" in the first part of 2022, urgent measures were introduced to contain the effects of prices increases in the electricity sector. The implementation methods by ARERA are still in process of being issued, on the basis of which the impacts for the Group can be better defined.*

*In view of the war that broke in Ukraine at the end of February 2022, management is monitoring any critical issues and impacts that the conflict could have on the ERG Group, in particular with reference to credit risk, security and business continuity.*

*The geopolitical tensions are significantly impacting the financial and commodities markets, with a sharp increase in gas and electricity prices, in respect of which further regulatory measures in the energy sector cannot be ruled out.*

## **Business outlook 2022**

In a context of high market prices due to the energy crisis and high natural gas prices, it should be noted that ERG, in line with the best practices in the sector and its consolidated risk policy which reflects a non-speculative approach to business, has in recent years made forward sales, mainly through long-term supply contracts at fixed prices (so-called PPAs) and forward contracts also through derivative financial instruments, at prices considerably lower than current prices. These hedges, carried out with a portfolio approach by the Group's Energy Management through ERG Power Generation S.p.A., are then allocated by agreement to the various project companies, which own the Production Units (PUs).

The hedge allocation criterion follows a cascade mechanism which, with the idea of mitigating the associated risks, has the following order of priority:

- 1) electricity produced by PUs that do not have an incentive mechanism and are therefore fully exposed to the risk of market price volatility;
- 2) electricity produced by PUs that are subject to "Feed in Premium" tariffs, or mechanisms that provide for an incentive that is added to the market price;
- 3) any residual hedges are finally attributed to the quantities of electricity subject to for-difference incentive mechanisms, such as the former green certificate incentive tariffs (GRIN).

However, no hedges are envisaged for production subject to two-way for-difference incentive mechanisms.

In line with changes to the group's business model, starting from 2022 the economic and financial results will be represented by geographical area.

The expected outlook for the main operating and performance indicators in 2022 is as follows:

### **Italy**

**Wind:** EBITDA is expected to decrease compared to 2021 as a result of the substantial decrease in the value of the incentive, determined by difference taking into account the average energy prices for the year 2021.

**Solar:** the stable performance over time is confirmed and there will be continued benefit from certain synergies deriving from the optimisation of the Energy Management portfolio.

On the basis of the hedge allocation criteria referred to in the introduction and production estimates based on historical averages, it is expected that a large majority of wind and solar production in Italy exposed in any way to market risk will be forward valued at an average price of approximately EUR 65/MWh.

**Wind & Solar Italy EBITDA for the year 2022 is expected to decrease compared to 2021.**

### **Abroad**

The **Wind Abroad** result is expected to increase in comparison to 2021 due to more favourable statistical wind forecasts compared to the particularly low forecasts for 2021, in a context of rising market prices in Europe. Furthermore, the results will benefit from the full contribution of the Wind and Solar farms acquired during 2021 as well as the two plants in Northern Ireland (70 MW) and one in France (7 MW) developed organically and entered into operation at the end of 2021. The results will also reflect the contribution of the new plants in France (20 MW), the UK (142 MW) and Poland (61 MW) which are expected to come into operation in 2022. **Solar Abroad**, in particular, will benefit from the contribution for the entire year of the plants consolidated in France (79 MW) between June and October 2021 and the new plants acquired in Spain (92 MW) in January 2022.

The result in **France** is expected to improve, not only due to more favourable wind forecasts compared to those in 2021, but mainly due to the contribution over the entire year of the wind farms (98 MW) and photovoltaic plants (79 MW) acquired between June and October 2021, and the commissioning of a wind farm at the end of 2021 (7 MW) and, in the course of 2022, of a wind farm currently under construction (20 MW).

The result in **Germany** is expected to improve mainly due to the effect of higher statistically estimated volumes than the particularly low volumes for 2021, in addition to the contribution for the entire year of the scope deriving from the wind farms acquired in October 2021 (55 MW).

The result in **Eastern Europe** was mainly influenced by the favourable price scenario and by the entry into operation of two wind farms in Poland (61 MW).

The plants in two new countries, the **United Kingdom** and **Spain**, will contribute to the 2022 results.

**EBITDA for Wind & Solar Abroad is therefore expected to increase significantly compared to 2021.**

Total EBITDA for 2022 is forecast within a range of between **EUR 400 million** and **EUR 430 million**. The reference figure for 2021, assuming the same Wind & Solar scope, and net of the full allocation of the residual plant costs, is equal to **EUR 399 million** (EUR 580 million also including Hydro and CCGT).

Capital expenditure for 2022, forecast in the range between **EUR 420 million** and **EUR 480 million** (EUR 617 million in 2021 assuming the same Wind & Solar scope and EUR 648 million including Hydro and CCGT), includes the acquisition of two solar farms in Spain (92 MW) in January 2022, the repowering activities of the Italian farms and the development of greenfield investments through the construction of wind farms in the United Kingdom for approximately 142 MW, in Poland for 61 MW and in France for 20 MW, in addition to the usual capital expenditure for fleet maintenance.

Net financial indebtedness at the end of 2022 is expected to be in the range between **EUR 750 million** and **EUR 850 million** (EUR 2,051 million at the end of 2021), including the distribution of the ordinary dividend of EUR 0.90 per share.

As regards the thermoelectric business, the sale of the assets is expected by the third quarter of 2022. For this reason, the relative results are not included in the continuing operations commented on above, and will be classified in the financial statements under discontinued operations.

### **Additional information**

#### **Appointment of the new Board of Statutory Auditors**

The Ordinary Shareholders' Meeting will be called upon, among other things, to resolve on the appointment of the members of the Board of Statutory Auditors and the Chairman as well as on the determination of their remuneration on the basis of the proposals made in compliance with the applicable laws, regulations and statutory provisions.

The Board of Directors recommends that such remuneration be consistent with the professional commitment required by the office, as well as with the related responsibilities.

It is noted in this regard that the Board of Directors, with the support of the Nominations and Remuneration Committee, assessed the annual fixed remuneration paid, for financial year 2021, to the Chairman of the Board of Statutory Auditors and the Standing Auditors, using as reference both MID CAP companies and those included in the FTSE MIB, taking into account the professionalism and commitment required by the positions.

The suggestions and guidelines formulated by the outgoing Board of Statutory Auditors regarding the quantitative and qualitative composition deemed optimal for the renewal of the supervisory body are available to the public on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/2022 Shareholders' Meeting".

#### **Directors' remuneration**

The Ordinary Shareholders' Meeting will be called upon, among other things, to resolve on the fee to be paid to members of the Board of Directors, valid until the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2022, and on the additional remuneration to be allocated to the Directors, who are not employees of the Group and do not hold offices in the Board and who are members of the Control, Risk and Sustainability Committee and the Nominations and Remuneration Committee, valid until the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2022, based on the proposals made in compliance with the applicable legislative, regulatory and statutory provisions.

The Board of Directors recommends that these fees be consistent with the professional commitment required by the office, as well as with the related responsibilities.

In this regard, note that the Board of Directors, with the support of the Nominations and Remuneration Committee, assessed as adequate the annual fixed remuneration recognised, for financial year 2021, in favour of all members of the Board of Directors and all directors called upon to sit on the Nominations and Remuneration Committee and the Control, Risk and Sustainability Committee, using as reference both MID CAP companies and those included in the FTSE-MIB, taking into account the professionalism and commitment required by the position.

#### **Purchase and sale of treasury shares**

The Ordinary Shareholders' Meeting will be called upon, among other things, to resolve on the authorisation for the Board of Directors to purchase treasury shares up to a revolving maximum of 30,064,000 ordinary shares, corresponding to 20% of the share capital of ERG (i.e. the maximum amount of treasury shares held in the portfolio from time to time), upon annulment, for the remaining period, of the previous authorisation resolved by the Shareholders' Meeting on 26 April 2021, in order to optimise the capital structure with a view to maximising value creation for Shareholders, also based on available liquidity and, in any case, for any other purpose permitted by the current applicable laws and regulations.

The authorisation will be valid for eighteen months from the date of the resolution. The purchase must be made through the use of distributable profits and available reserves resulting from the latest approved financial statements, in compliance with Article 132 of the Italian Consolidated Finance Act and in accordance with the procedures set out in Article 144-bis, paragraph 1, letter b) of the Issuers' Regulation at

a unit price, inclusive of the ancillary purchase costs, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Company currently holds 782,080 treasury shares, equal to 0.520% of the capital.

The Ordinary Shareholders' Meeting will be called upon, among other things, to resolve on the authorisation for the Board of Directors to dispose of treasury shares, all at once or in several steps, for a period of 18 months from the date of the related resolution, upon annulment, for the period still remaining, of the previous authorisation resolved by the Shareholders' Meeting on 26 April 2021, pursuant to Article 2357-ter of the Italian Civil Code, at a unit price not lower than 10% below the closing price of the stock on the day immediately preceding each individual sale. This is with a view to optimising financial leverage and, in any case, may be carried out in any other circumstance in which the disposal of shares appears to be consistent with the interests of the Company and Shareholders, as determined by the management body.

### **Report on the remuneration policy and the fees paid**

The Board of Directors has approved the Report on the remuneration policy and the fees paid. The Ordinary Shareholders' Meeting will be called upon to resolve, pursuant to Article 123-ter of the Italian Consolidated Finance Act, in favour of or against:

- the first section of the Report, relating to the Company's policy on remuneration of the members of the management bodies, general managers, key management personnel for financial year 2022 and members of the supervisory bodies. The relative resolution shall be binding.
- the second section of the Report. The relative resolution shall not be binding.

### **Amendments to the Articles of Association**

The Extraordinary Shareholders' Meeting will be called upon to resolve on the amendments to the Articles of Association proposed by the Board of Directors and shown in the Directors' Report, to which reference is made, and which will be made available to the public in full within the deadlines and in the manner required by current laws.

*With reference to the estimates and forecasts contained in the section "Business Outlook 2022", it should be noted that the actual results may differ significantly from those presented due to a number of factors, including: future price trends, the operating performances of plants, wind conditions, irradiation, water availability, irradiation, the impact of energy industry and environmental regulations and other changes in business conditions and competitors' actions.*

*The format of the Financial Statements corresponds with that of the statements indicated in the Directors' Report. Specific explanatory notes illustrate the adjusted result measurements.*

*The manager responsible for preparing the Company's financial reports, Michele Pedemonte, declares, pursuant to paragraph 2, Article 154-bis of the Consolidated Finance Act, that the accounting information this press release contains matches the documentary records, books and accounting entries.*

*The results of the fourth quarter and financial year 2021 will be explained to analysts and investors today at 2:30 p.m. (CET) during a conference call with relevant webcasting that can be followed by connecting to the Company's website ([www.erg.eu](http://www.erg.eu)); their presentation will be made available on the same website in the "Investor Relations/Presentations" section, at Borsa Italiana S.p.A. and on the authorised storage mechanism eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)) 15 minutes before the conference call.*

*This press release, issued on 15 March 2022, is available to the public on the Company's website ([www.erg.eu](http://www.erg.eu)) in the "Media/Press Releases" section, at Borsa Italiana S.p.A. and on the authorised storage mechanism eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)).*

*The Annual Financial Report with the reports of the Board of Statutory Auditors and the Independent Auditors, the Consolidated Non-financial Statement, the Explanatory Report of the Board of Directors, the Report on the remuneration policy and fees paid as well as the additional required documentation, will be made available to the public within the terms and in the manner prescribed by current legislation at the Company's headquarters in Genoa, Via De Marini 1 as well as on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/2022 Shareholders' Meeting", at Borsa Italiana S.p.A. and on the authorised storage mechanism eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)).*

**Contacts:**

**Emanuela Delucchi** Chief IR, ESG & Communication Officer– tel. + 39 010 2401806 – e-mail: [ir@erg.eu](mailto:ir@erg.eu)

**Anna Cavallarin** Head of External Communication – mobile +39 3393985139

**Matteo Bagnara** Head of Investor Relations - tel. + 39 010 2401423 - e-mail: [ir@erg.eu](mailto:ir@erg.eu)

[www.erg.eu](http://www.erg.eu)

**Financial Statements and Alternative Performance Indicators****Alternative Performance Indicators (APIs) and adjusted results**

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.

Finally, in order to facilitate an understanding of the business segments' performance, the operating results are also shown with the exclusion of significant special income components of an exceptional nature (special items): these results are indicated with the term "**Adjusted results**".

A definition of the indicators and the reconciliation of the amounts involved are provided in the "Alternative Performance Indicators" section.

## Performance highlights

4th quarter		(EUR million)	Year	
2021	2020	Key economic data	2021	2020
443	253	Revenues Adjusted <sup>(1)</sup>	1,232	974
180	119	EBITDA adjusted <sup>(1)</sup>	580	481
107	45	EBIT adjusted <sup>(1)</sup>	304	183
72	41	Net Profit	174	110
72	41	of which profit attributable to owners of the parent	173	108
72	27	Adjusted Net profit attributable to owners of the parent <sup>(1)</sup>	202	106
Key financial data				
3,608	3,209	Net adjusted invested capital <sup>(2)</sup>	3,608	3,209
1,556	1,770	Shareholders' Equity Adjusted	1,556	1,770
2,051	1,439	Total net financial indebtedness <sup>(2)</sup>	2,051	1,439
237	417	of which non-recourse Project Financing <sup>(3)</sup>	237	417
57%	45%	Financial leverage adjusted	57%	45%
41%	47%	EBITDA Margin %	47%	49%
Operating data				
2,198	1,967	Installed capacity of wind farms at the end of the period	2,198	1,967
1,221	1,029	Electric power generation from wind farms	3,917	3,911
480	480	Installed capacity of thermoelectric plants	480	480
360	617	Electric power generation from thermoelectric plants	1,869	2,441
527	527	Installed capacity of hydroelectric plants at the end of the period	527	527
314	319	Electric power generation from hydroelectric plants	1,637	1,097
220	141	Installed capacity of solar plants at the end of the period	220	141
45	32	Electric power generation from solar plants	240	228
6,656	3,864	Total sales of electric power	14,160	14,897
281	46	Capital expenditure <sup>(4)</sup>	648	156
808	784	Employees at period end	808	784
Net unit revenues <sup>(5)</sup>				
198	115	Wind Italy	149	119
130	93	Wind Germany	112	96
86	89	Wind France	88	89
130	84	Wind Poland	101	78
215	79	Wind Bulgaria	128	66
247	65	Wind Romania	135	56
n.a.	n.a.	Wind UK	n.a.	n.a.
339	318	Solar Italy	335	315
95	n.a.	Solar France	90	0
147	103	Hydroelectric	118	109
27	39	Thermoelectric <sup>(6)</sup>	30	35

<sup>(1)</sup> Does not include special items and related applicable theoretical taxes.

<sup>(2)</sup> Adjusted net financial indebtedness and the adjusted net invested capital are presented net of the effects deriving from the application of IFRS 16 therefore excluding the recognition of assets and the discounting of future lease payments of approximately EUR 129 million from net financial indebtedness and approximately EUR 126 million from net invested capital.

<sup>(3)</sup> Including cash and cash equivalents and excluding the fair value of the derivatives hedging interest rates.

<sup>(4)</sup> In property, plant and equipment and intangible assets. They also include M&A investments of EUR 389 million made in 2021 for the acquisition of companies owning wind and solar farms in France (EUR 147 million), a project for the construction of a wind farm in Sweden (EUR 41 million) and companies owning wind and solar farms in France and Germany (EUR 202 million). In 2020 investments through Merger & Acquisition transactions amounted EUR 44 million for the acquisition of wind farms in France (EUR 42 million) and a project for the construction of a wind farm in Poland (EUR 2 million).

<sup>(5)</sup> Net unit revenue is expressed in EUR/MWh and is calculated by dividing the technology output by the revenue achieved on energy markets, inclusive of the impact of hedges, of any incentives due and the relative variable costs associated with generation/sale including, for example, the cost of fuel and imbalance costs.

<sup>(6)</sup> With regard to thermoelectric, the contribution margin is meant net of the associated variable costs (CO<sub>2</sub>, gas).

## Performance by sector

4th quarter			(EUR million)	Year		
2021	2020	Δ	Adjusted revenues	2021	2020	Δ
206	106	100	Wind power	515	402	113
12	10	1	Solar	75	73	3
46	32	14	Hydroelectric power	194	118	76
179	105	74	Thermoelectric power <sup>(1)</sup>	448	381	66
11	10	1	Corporate	38	36	3
(11)	(10)	(1)	Intra-segment revenues	(38)	(36)	(3)
443	253	189	Total adjusted revenues	1,232	974	258
Adjusted EBITDA						
145	74	70	Wind power	358	282	76
9	8	1	Solar	66	66	0
34	23	11	Hydroelectric power	151	81	70
(2)	16	(18)	Thermoelectric power <sup>(1)</sup>	21	67	(46)
(6)	(3)	(2)	Corporate	(17)	(15)	(2)
180	119	61	Adjusted EBITDA	580	481	99
Amortisation, depreciation and write-downs						
(40)	(40)	(0)	Wind power	(155)	(165)	10
(12)	(11)	(0)	Solar	(42)	(42)	0
(11)	(14)	3	Hydroelectric power	(44)	(57)	14
(9)	(8)	(1)	Thermoelectric power	(31)	(30)	(2)
(1)	(1)	0	Corporate	(4)	(4)	(0)
(72)	(74)	1	Amortisation and depreciation adjusted	(276)	(298)	22
Adjusted EBIT						
105	35	70	Wind power	203	118	85
(3)	(3)	0	Solar	24	23	0
23	9	14	Hydroelectric power	108	24	84
(11)	9	(19)	Thermoelectric power <sup>(1)</sup>	(10)	37	(48)
(7)	(5)	(2)	Corporate	(20)	(19)	(2)
107	45	63	Adjusted EBIT	304	183	121
Investments <sup>(2)</sup>						
213	37	177	Wind power	538	127	411
52	1	51	Solar	76	2	73
2	2	0	Hydroelectric power	7	6	0
12	6	7	Thermoelectric power	25	18	7
1	1	(0)	Corporate	2	2	(0)
281	46	235	Total investments	648	156	492

<sup>(1)</sup> Includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units. With regard to revenues, the share for the resale of electricity purchased from the market was approximately EUR 173 million (EUR 50 million in 2020).

<sup>(2)</sup> Includes investments in property, plant and equipment and intangible assets and M&A investments.

## Adjusted Income Statement

To enhance understandability of the Group's operating performance, as already stated in the Introduction, this section contains the adjusted operating results, presented to exclude the impacts relating to the adoption of IFRS 9 and of special items, and with the reclassification for IFRS 16.

The adjusted operating results also include in ordinary operations the results of the hydroelectric assets being sold, including among other things the full contribution of amortisation and depreciation for 2021.

Lastly, this Report reflects the economic impacts of the consolidation of the companies acquired during the year as from:

- 1 July 2021 for the French wind companies acquired in June 2021;
- 1 October 2021 for the wind and solar companies in France and Germany acquired in October 2021.

For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, reference is made to that indicated in the Alternative Performance Indicators section below.

4th quarter			(EUR million)	Year		
2021	2020	Δ	Adjusted Income Statement	2021	2020	Δ
443	253	189	Revenue	1,232	974	258
5	10	(5)	Other revenue	11	22	(11)
<b>447</b>	<b>263</b>	<b>185</b>	<b>TOTAL REVENUE</b>	<b>1,243</b>	<b>996</b>	<b>247</b>
(172)	(80)	(92)	Costs for purchase and changes in inventory	(395)	(282)	(113)
(74)	(47)	(27)	Costs for services and other operating costs	(197)	(168)	(29)
(21)	(17)	(4)	Personnel Expense	(71)	(65)	(6)
<b>180</b>	<b>119</b>	<b>61</b>	<b>EBITDA</b>	<b>580</b>	<b>481</b>	<b>99</b>
(72)	(74)	1	Amortisation, depreciation and write-downs of fixed assets	(276)	(298)	22
<b>107</b>	<b>45</b>	<b>63</b>	<b>EBIT</b>	<b>304</b>	<b>183</b>	<b>121</b>
(6)	(9)	3	Net financial income (expenses)	(29)	(47)	18
0	0	0	Net income (loss) from equity investments	0	0	(0)
<b>101</b>	<b>36</b>	<b>66</b>	<b>Profit before taxes</b>	<b>275</b>	<b>136</b>	<b>138</b>
(30)	(9)	(20)	Income taxes	(72)	(29)	(43)
<b>72</b>	<b>27</b>	<b>45</b>	<b>Profit for the period</b>	<b>203</b>	<b>107</b>	<b>96</b>
0	0	(0)	Minority interests	(2)	(2)	0
<b>72</b>	<b>27</b>	<b>45</b>	<b>Group's net profit (loss)</b>	<b>202</b>	<b>106</b>	<b>96</b>

## Adjusted Statement of Financial Position

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, used in the preparation of the annual financial report, highlighting the uses of resources in non-current assets and in working capital and the related funding sources. For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the "Alternative Performance Indicators" section below.

The adjusted reclassified Statement of Financial Position is shown below and it does not include at 31 December 2021:

- the impact deriving from the application of IFRS 16 of increased net financial indebtedness of approximately EUR 129 million with a balancing entry in net invested capital amounting to approximately EUR 126 million
- the impact related to the application of IFRS 5 on the hydroelectric scope.

Adjusted Statement of Financial Position	31/12/2021	31/12/2020
(EUR million)		
Non current assets	3,624	3,262
Net working capital	177	152
Provisions for employee benefits	(5)	(5)
Other assets	434	213
Other liabilities	(623)	(412)
<b>Net invested capital</b>	<b>3,608</b>	<b>3,209</b>
Group Shareholders' Equity	1,547	1,760
Non-controlling interests	10	10
Net financial indebtedness	2,051	1,439
<b>Equity and financial debt</b>	<b>3,608</b>	<b>3,209</b>

## Cash Flow

4th quarter		(EUR million)	Year	
2021	2020		2021	2020
		<b>Cash Flow</b>		
180	119	Adjusted EBITDA	580	481
(30)	(19)	Change in net working capital	(53)	(41)
<b>150</b>	<b>100</b>	<b>Cash Flow from operations</b>	<b>527</b>	<b>440</b>
(80)	(46)	Investments in property, plant and equipment and intangible assets	(258)	(111)
(201)	-	Company acquisitions (business combinations)	(389)	(44)
(0)	(0)	Capital expenditure in financial non-current assets	(0)	(0)
(6)	(1)	Divestments and other changes	(3)	(0)
<b>(287)</b>	<b>(47)</b>	<b>Cash Flow from investments/divestments</b>	<b>(651)</b>	<b>(156)</b>
(6)	(9)	Financial income (expense)	(29)	(47)
(3)	(13)	Closure of loans	(16)	(24)
0	0	Net gains (losses) on equity investment	0	0
<b>(9)</b>	<b>(22)</b>	<b>Cash Flow from financial management</b>	<b>(45)</b>	<b>(71)</b>
<b>(17)</b>	<b>(12)</b>	<b>Cash Flow from tax management</b>	<b>(42)</b>	<b>(25)</b>
(1)	(1)	Distribution of dividends	(114)	(115)
(59)	(36)	Other changes in equity	(288)	(35)
<b>(60)</b>	<b>(37)</b>	<b>Cash Flow from Shareholders'equity</b>	<b>(402)</b>	<b>(150)</b>
<b>1,829</b>	<b>1,421</b>	<b>Opening net financial indebtedness</b>	<b>1,439</b>	<b>1,476</b>
223	18	Change in the period	612	(37)
<b>2,051</b>	<b>1,439</b>	<b>Closing net financial indebtedness</b>	<b>2,051</b>	<b>1,439</b>

## ALTERNATIVE PERFORMANCE INDICATORS

### Definitions

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and presentation of Alternative Performance Indicators (APIs) in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Indicators (CESR/05 – 178b), aim to promote the usefulness and transparency of alternative performance indicators so as to improve their comparability, reliability and comprehensibility. Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.

Finally, in order to facilitate an understanding of the business segments' performance, the operating results are shown with the exclusion of significant special income components of an exceptional nature (special items): these results are indicated with the term "Adjusted results".

Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these indicators may not be consistent with the method used by other operators and so these might not be fully comparable.

Definitions of the APIs used by the Group and a reconciliation with the items of the interim financial statements adopted are as follows:

- **Adjusted revenue**<sup>5</sup> is revenue, as indicated in the Interim Financial Statements, with the exclusion of significant special income components of an exceptional nature (special items);
- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment losses" to the Net Operating Profit. EBITDA is explicitly indicated as a subtotal in the Financial Statements;
- **Adjusted EBITDA**<sup>5</sup> is the gross operating profit (loss), as defined above, with the exclusion of significant

<sup>5</sup> Moreover, the adjusted results do not reflect the effects of the application of IFRS 5 to the hydroelectric assets being sold.

special income statement components of an exceptional nature (special items) and with the reclassification of the impact tied to the IFRS 16 application;

- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income statement components of an exceptional nature (special items) and with the reclassification of the impact tied to the IFRS 16 application;
- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **adjusted tax rate** is calculated by comparing the adjusted amounts of taxes and pre-tax profit;
- **Adjusted profit attributable to the owners of the parent** is the Profit attributable to the owners of the parent, with the exclusion of significant special income statement components of an exceptional nature (special items), and with the reclassification of the impact tied to the IFRS 16 application, net of the related tax effects;
- **Investments** are the sum of Investments in property, plant and equipment and intangible assets;
- **Net operating working capital** is the sum of Inventories, Trade Receivables and Trade Payables;
- **Net invested capital** is the sum of Non-current assets, Net operating working capital, Liabilities related to Post-employment benefits, Other assets and Other liabilities;
- **Adjusted net invested capital** is Net invested capital, as defined above, with the exclusion of the impact relative to the application of IFRS 16 mainly linked to the increase in right-of-use assets;
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with ESMA Guidelines 32-382-1138 (Guidelines on Prospectus disclosures) and CONSOB Warning Notice no. 5/2021, also including the portion of non-current assets relative to derivative financial instruments.
- **Adjusted net financial indebtedness** is the Net financial indebtedness, as defined above, net of the liability linked to the discounting of future lease payments, following the application of IFRS 16;
- **Financial leverage** is calculated by comparing the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital;
- **Special items** include significant special income components of an exceptional nature. These include:
  - income and expense connected to events whose occurrence is non-recurring, i.e. those transactions or events that do not frequently re-occur over the normal course of business;
  - income and expense related to events that are not typical of normal business activities, such as restructuring and environmental costs;
  - capital gains and losses linked to the disposal of assets;
  - significant impairment losses recognised on assets following impairment tests;
  - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

#### COVID-19 emergency

In 2021, no items related to the COVID-19 emergency were recorded; note that, in 2020, the charitable donation of EUR 2 million approved by the Group was isolated as a special item.

#### IFRS 16

The Group, as lessee, has recognised new liabilities for leases and higher right-of-use assets related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory.

The application of the standard has changed the presentation in the income statement of costs for operating leases: these costs are now recognised as depreciation of the right-of-use assets and as financial expense correlated to the liability linked to the discounting of future lease payments.

Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially when the relative lease payments were made.

The application of IFRS 16 in 2021 therefore led to:

- an improvement in gross operating profit (EBITDA) in respect of the lease payments that fall within the scope of IFRS 16, of approximately EUR 10 million;
- an increase (approximately EUR 129 million) in the net financial indebtedness and the net invested capital (approximately EUR 126 million) in relation to the application of the equity method indicated by the standard;
- greater depreciation and amortisation (EUR 6 million) and greater financial expense (EUR 4 million) linked to the application of the above-mentioned method.

Based on the above, and given the typical nature of the item, in order to best present the business profitability, it has been deemed opportune to recognise, in the adjusted Income Statement, the depreciation of the right-of-use assets during the year and the financial expense on the IFRS 16 liability within the adjusted EBITDA, by way of a reasonable estimate of the lease costs in accordance with the financial expression (periodic instalment) of the same. Similarly, the adjusted net financial indebtedness and the adjusted net invested capital are presented net of the liability linked to the discounting of future lease payments.

### **ERG Hydro Asset Rotation**

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the hydroelectric plants to aid in further accelerating the growth and development of its business model. Following the close of the first half of 2021, the bids were received in early July 2021 from the interested operators.

The Group, having read the market assessments, therefore decided, starting from 20 July, to launch a program for the potential disposal of the hydroelectric plants, entrusting its management with the start of negotiations and the related analyses for the potential disposal of the aforementioned assets.

On 2 August 2021, ERG concluded this programme by signing an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The transaction's closing took place on 3 January 2022 and the consideration totals approximately 1.265 billion euros, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.

The operation scope involves the assets portfolio owned by ERG Hydro S.r.l., which consists of an integrated system for the generation of hydroelectric energy that extends across Umbria, Lazio and Marche. It consists of 19 hydroelectric plants, 7 mini-hydro plants, 7 dams, 4 water basins (corresponding to Salto, Turano, Corbara and Piediluco) and a pumping station, for an effective capacity of 527 MW. The operation of the hydroelectric complex is ensured by 114 people, included within the scope, including technicians highly specialised in the operational management of the plants, energy management specialists and dedicated staff.

In consideration of the above, for the purposes of the application of the IFRS 5 provisions, the Net Assets and the results relating to the hydroelectric scope described above were recorded under assets/liabilities held for sale in the reported financial statements at 31 December 2021.

For clearer disclosure, the results of the ordinary operations of the assets being sold are shown and commented on in the adjusted values of this Report.

Furthermore, it should be noted that in application of IFRS 5, the depreciation of hydroelectric assets was calculated up to the IFRS 5 classification date (beginning of July 2021, corresponding to the date on which Group management was tasked with opening negotiations for the sale of the assets); for the purposes of the adjusted results, the full contribution of depreciation in 2021 was instead taken into consideration.

### **ERG Power Asset Rotation**

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the thermoelectric plants to aid in further accelerating the growth and development of its business model.

Following the close of the first half of 2021, the bids were received in early July 2021 from the interested operators.

Having read the market indications, the Group proceeded to assess the potential sale of the thermoelectric plant, a process which was still underway at 31 December 2021 (Reporting Date of this Report). Furthermore, at the Reporting Date, the thermoelectric plant was not yet available for immediate sale in its current conditions.

In consideration of the above and in application of the provisions of paragraph 12 of IFRS 5, in this Report the Net Assets were not classified as assets/liabilities held for sale at 31 December 2021.

In 2022, having successfully completed the checks, Group management opened negotiations for the sale of the thermoelectric plant, signing an agreement with Enel Produzione S.p.A. on 9 February 2022 for the sale of the entire share capital of ERG Power S.r.l. The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

Subject to the approval of the relevant antitrust authorities and the successful completion of the Golden Power procedure at the Italian Presidency of the Council of Ministers, the transaction is expected to be concluded in the third quarter of 2022.

## Reconciliation with adjusted operating results

4th quarter		EBITDA	Note	Year	
2021	2020	(Euro million)		2021	2020
144	92	<b>EBITDA from continuing operations</b>		<b>426</b>	<b>401</b>
34	10	Contribution of Assets Held for Sale		152	67
178	102	<b>EBITDA</b>		<b>577</b>	<b>468</b>
		<b>Special items exclusion</b>			
		<b>Corporate</b>			
2	1	- Reversal of ancillary charges on non-recurring operations	1	7	2
(0)	(0)	- IFRS 16 reclassification	2	(1)	(1)
-	-	- Reversal of COVID-19 donation	3	-	2
-	-	- Reversal CEO termination indemnity	4	3	-
2	1	- Reversal for release of provision for disposed businesses	5	2	1
		<b>Thermoelectric</b>			
(0)	(0)	- IFRS 16 reclassification	2	(1)	(1)
1	-	- Reversal for release of provision for disposed businesses	5	1	-
		<b>Hydroelectric</b>			
(0)	(0)	- IFRS 16 reclassification	2	(0)	(0)
0	16	- Reversal of allocation to provision for Local Entities	6	0	16
		<b>Solar</b>			
(0)	(0)	- IFRS 16 reclassification	2	(0)	(0)
0	0	- Reversal of allocation to provision for Local Entities	6	0	0
		<b>Wind</b>			
0,31	-	- Reversal of ancillary charges on non-recurring operations	1	0	-
(2)	(2)	- IFRS 16 reclassification	2	(8)	(7)
0	1	- Reversal of allocation to provision for Local Entities	6	0	1
180	119	<b>Adjusted EBITDA</b>		<b>580</b>	<b>481</b>

4th quarter		Amortisation, depreciation and impairment losses	Note	Year	
2021	2020	(Euro million)		2021	2020
(65)	(70)	<b>Amortisation and depreciation expense for continuing operations</b>		<b>(263)</b>	<b>(256)</b>
-	(14)	Contribution of Assets Held for Sale		(22)	(57)
(65)	(84)	<b>Amortisation and depreciation and impairment losses</b>		<b>(285)</b>	<b>(313)</b>
		<b>Special items exclusion</b>			
(11)	-	- Impact IFRS 5 on depreciation ERG Hydro	7	(22)	-
2	1	- IFRS 16 reclassification	2	6	6
(1)	-	- Reversal write-down Repowering Wind Italy	8	22	-
3	9	- Reversal write-down of plants for Impairment Test	9	3	9
(72)	(74)	<b>Adjusted depreciation and amortisation</b>		<b>(276)</b>	<b>(298)</b>

4th quarter		Profit attributable to owners of the parent	Note	Year	
2021	2020	(Euro million)		2021	2020
72	41	<b>Profit attributable to owners of the parent</b>		<b>173</b>	<b>108</b>
		<b>Special items exclusion</b>			
(8)	-	Exclusion of IFRS 5 impact on D&A ERG Hydro	7	(16)	-
0	0	IFRS 16 reclassification	2	(0)	0
-	0	Exclusion of the impact of the COVID-19 donation	3	-	2
2	17	Exclusion of ancillary charges on loan prepayments	10	14	30
2	1	Exclusion of ancillary charges on non-recurring transactions	1	6	2
-	-	Exclusion CEO termination indemnity	4	2	-
-	-	Exclusion of IRAP 2019 balance - Decreto Rilancio	11	-	(1)
-	(54)	Exclusion of deferred taxes on goodwill exemption Solar and alignment Hydro plants	12	-	(57)
2	1	Exclusion of expenses related to disposed Businesses	13	2	1
-	14	Exclusion of expenses related to allocations to Local Entities provisions	9	-	14
3	-	Exclusion of expenses related to write-downs of plants	9	3	-
(1)	7	Exclusion of write-down Repowering Italy	8	16	7
(0)	1	Exclusion impact gains/losses on IFRS 9	14	2	(1)
72	27	<b>Adjusted profit attributable to the owners of the parent</b>		<b>202</b>	<b>106</b>

1. Accessory charges relating to other non-recurring transactions and the acquisitions in 2021 relating to operational wind farms and solar installations in France, the acquisition of a project for the development of a wind farm in Sweden, as well as the unsuccessful acquisitions.
2. Reclassification for impact of IFRS 16. Reference is made to the comments made in the previous paragraph.
3. Donation approved in the first half of 2020.
4. Termination indemnity related to the end of office and succession of the Chief Executive Officer, which took place on 26 April 2021.
5. Provisions relating to exceptional items on businesses disposed of by the Group.
6. Allocations to provisions for risks vis-à-vis institutional counterparties in respect of charges related to fees to be paid to Local Entities for public concessions.
7. Exclusion of the amortisation adjustment of ERG Hydro, in application of IFRS 5 following the classification as Assets held for sale.
8. Write-down of the net residual value of the property, plant and equipment and intangible assets of wind farms in the Italian portfolio, following the authorisation of four Repowering projects obtained during the year.
9. Impairment losses recognised on the CCGT plant in Sicily following the Impairment Test procedure in the 2021 Financial Statements and on some wind farms in Germany following the Impairment Test procedure in the 2020 Financial Statements.
10. Financial expense related to the early closure of Corporate loans and project financing as part of liability management transactions.
11. Reversal of the IRAP benefit deriving from the Italian "Rilancio" Decree, which introduced the cancellation of the payment of the IRAP balance for the 2019 tax year.
12. Exclusion of the positive effect related to the release of deferred taxation on the revaluation of hydroelectric plants and the substitute tax on capital gains related to the Andromeda (Solar) Business Combination in 2019.
13. Provisions relating to exceptional items on businesses disposed of by the Group
14. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability: this resulted in net gains of approximately EUR 2 million being accounted for in the first half of 2021. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.



## **Management Report as at 31 december 2021**

**We are #SDGsContributors**



# INTRODUCTION

The Document is an annex supporting the press release of 15 March 2022 in order to better detail and comment on the ERG Group's results for the year 2021. The comments provided are an extract from the Management Report which, together with the Notes to the Financial Statements, will be published within the time limits established by current regulations.

## **Disclosure pursuant to Articles 70 and 71 of the Issuers' Regulation**

The Parent has selected the option, introduced by CONSOB with its resolution no. 18079 of 20 January 2012, of waiving the obligation to make available to the public an information document upon carrying out significant transactions, i.e. mergers, demergers, share capital increases by contributions in kind, acquisitions and sales.

## **Operating segments**

Operating results are presented and commented on with reference to the various generation technologies, in line with the Group's internal performance measurement methods.

The results by business segment reflect also the energy sales on markets by Group Energy Management, in addition to the application of effective hedges of the generation margin. The above mentioned hedges include, inter alia, the use of instruments by Energy Management to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, the wind, hydroelectric and solar power results include the hedges entered into in relation to renewable sources ("RES") and the thermoelectric power results include the hedges on the "spark spread".

## **Alternative Performance Indicators (APIs) and adjusted results**

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.

Finally, in order to facilitate an understanding of the business segments' performance, the operating results are also shown with the exclusion of significant special income components of an exceptional nature (special items): these results are indicated with the term "**Adjusted results**".

The results, which include significant special income statement components of an exceptional nature (special items) are also defined as "**Reported results**".

A definition of the indicators and the reconciliation of the amounts involved are provided in the "Alternative Performance Indicators" section.

## **Finalisation of the sale of the Hydroelectric Business**

On 3 January 2022, ERG concluded its transaction with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l., as announced on 2 August 2021, following the approval of the Italian Antitrust Authority and the successful completion of the golden power procedure at the Italian Presidency of the Council of Ministers. The consideration totals approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro plants. The sale and purchase agreement envisages a further price adjustment mechanism in the coming months based on the actual values, recorded at the closing date, of the net working capital, the net financial position and the actual level of water reserves of some of ERG Hydro S.r.l.'s reservoirs.

With reference to what has been said above, in the reported financial statements the accounting results of the hydroelectric assets being sold are indicated separately in accordance with IFRS 5.

To enhance understandability of the Group's performance, the adjusted results commented on in this Report also include in ordinary operations the results of the assets being sold at the reporting date.

For the reconciliation of these amounts, reference is made to the "Alternative Performance Indicators" section.

## **Agreement for the sale of the Thermoelectric Business**

On 9 February 2022, ERG signed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l. The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

The transaction is expected to be concluded in the third quarter of 2022.

In consideration of the above, in this Annual Financial Report, the Net Assets under Assets held for sale were not recorded in the reported financial statements as the conditions set forth in paragraph 12 of IFRS 5 were not met.

# HIGHLIGHTS

## KEY ECONOMIC INDICATORS



### ECONOMIC DATA

Adjusted revenues



vs. **2020** = Δ



+26%

EBITDA



+21%

Investments



+316%

Net Financial Debt

€2,051 million

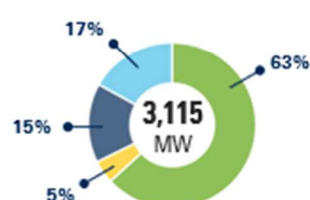
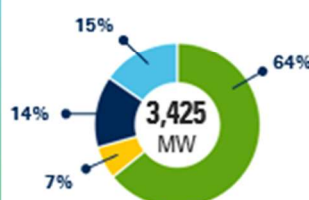
€1,439 million

+43%



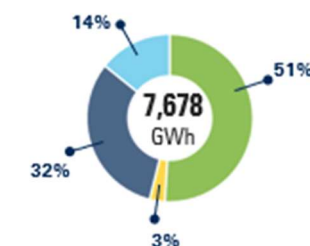
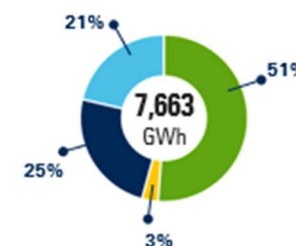
### OPERATING DATA

Installed capacity



+10%

Energy production



-0%

Employees at period end

808

784

+3%

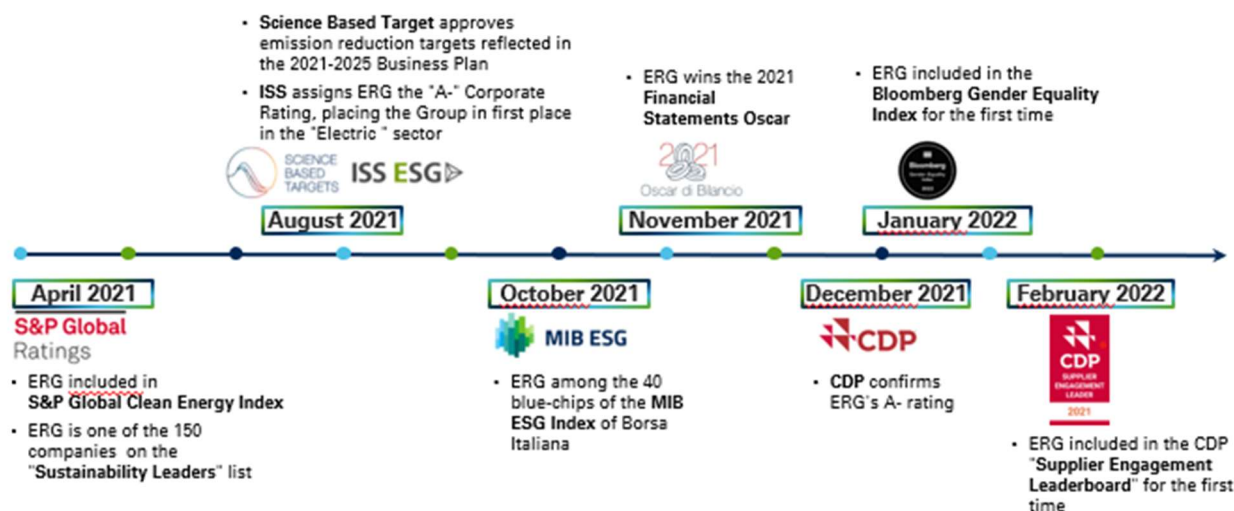




## ESG DATA

# KEY SUSTAINABILITY INDICATORS

	2021	2020	Δ%
<b>PLANET</b>   <b>CO<sub>2</sub> avoided (kt)</b> <b>Carbon Index (gCO<sub>2</sub>/kWh)</b>	 <b>3,033</b>  <b>121</b>	 <b>2,983</b>  <b>150</b>	<b>+2%</b> <b>-19%</b>
<b>ENGAGEMENT</b>   <b>Contribution to local communities</b>	 <b>8,803</b> <b>k EUR</b>	 <b>6,981</b> <b>k EUR</b>	<b>+26%</b>
<b>PEOPLE</b>   <b>Employees at period end</b> <b>Training per employee</b>	 <b>808</b>  <b>6.2 days</b>	 <b>784</b>  <b>4.9 days</b>	<b>+3%</b> <b>+27%</b>
<b>GOVERNANCE</b>   <b>BoD composition</b>	 <b>12</b>	 <b>12</b>	<b>+25%</b>



## Corporate bodies

### BOARD OF DIRECTORS<sup>1</sup>

#### CHAIRMAN

Edoardo Garrone (executive)

#### DEPUTY CHAIRMAN

Alessandro Garrone (executive<sup>2</sup>)

Giovanni Mondini (non-executive)

#### CHIEF EXECUTIVE OFFICER

Paolo Luigi Merli

#### DIRECTORS

Luca Bettonte (non-executive)

Emanuela Bonadiman (independent<sup>3</sup>)

Mara Anna Rita Caverni (independent<sup>3</sup>)

Marco Costaguta (non-executive)

Elena Grifoni Winters (independent<sup>3</sup>)

Federica Lolli (independent<sup>3</sup>)

Elisabetta Oliveri (independent<sup>3</sup>)

Mario Paterlini (independent<sup>3</sup>)

### BOARD OF STATUTORY AUDITORS<sup>4</sup>

#### CHAIRMAN

Elena Spagnol

#### STANDING AUDITORS

Lelio Fornabaio

Fabrizio Cavalli

### MANAGER IN CHARGE OF FINANCIAL REPORTING (ITALIAN LAW NO. 262/05)

Michele Pedemonte<sup>5</sup>

### INDEPENDENT AUDITORS

KPMG S.p.A.<sup>6</sup>

---

<sup>1</sup> Board of Directors appointed on 26 April 2021

<sup>2</sup> Director in charge of the Internal Control and Risk Management System

<sup>3</sup> With reference to the provisions of Article 148, paragraph 3, of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.

<sup>4</sup> Board of Statutory Auditors appointed on 17 April 2019

<sup>5</sup> Appointed on 26 April 2021 at the same time as appointment to the office of Group CFO

<sup>6</sup> Appointed on 23 April 2018 for the period 2018 – 2026.

## Business description

The ERG Group is a major independent operator in the production of electricity from renewable sources such as wind, solar, hydroelectric and high-efficiency, low environmental impact cogenerative thermoelectric power plants.

Management of the industrial and commercial processes of the ERG Group is entrusted to the subsidiary ERG Power Generation S.p.A., which carries out:

- centralised Energy Management & Sales activities for all the generation technologies in which the ERG Group operates with the aim of securing production through long-term contracts and managing the hedging of merchant positions in line with the Group's risk policies;
- the *Operation and Maintenance* activities of its Italian wind farms and solar plants and part of the plants in France and Germany, as well as the Priolo CCGT plant and the Terni Hydroelectric Complex plants<sup>7</sup>. It provides technical and administrative services in France for both group companies and third parties through its foreign investees.

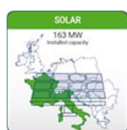
ERG Power Generation S.p.A., with generating facilities comprising roughly 3,425 MW of installed capacity, operates also, directly or through its subsidiaries, in the following Electricity generation sectors:



### Wind

ERG is active in the generation of electricity from wind sources, with 2,198 MW of installed power. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence also abroad (1,105 MW operational), mainly in France (502 MW), Germany (327 MW), Poland (82 MW), Romania (70 MW), Bulgaria (54 MW) and the UK (70 MW).



### Solar

ERG operates in the generation of electricity from solar power with 220 MW of installed capacity, of which 141 MW in Italy, with 33 photovoltaic plants located in 9 regions, and 79 MW in France with 9 plants acquired during the year.



### Hydroelectric

ERG is active in the generation of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 19 power plants, 7 dams, 3 reservoirs and one pumping station, located in the Umbria, Marche and Lazio regions, linked by a network of rivers and canals of over 150 km with a capacity of 527 MW.

It should be noted that on 2 August 2021 the Group reached an agreement with Enel Produzione for the sale of hydroelectric plants.

This transaction was concluded on 3 January 2022.



### Thermoelectric

ERG is active in the generation of electricity from thermoelectric sources through the CCGT plant (480 MW) at the industrial site in Priolo Gargallo (SR), Sicily. This is a high-efficiency, low environmental impact cogenerative power plant (HEC), which uses combined cycle technology fuelled with natural gas. It entered into commercial operation in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities. It should be noted that on 9 February 2022 the Group reached an agreement with Enel Produzione for the sale of hydroelectric plants. The transaction is expected to be concluded in the third quarter of 2022.

<sup>7</sup> Maintenance of the plants of the Terni Hydroelectric Complex is managed by the staff of the subsidiary ERG Hydro.

## Geographical segments at 31 December 2021

### TOTAL: 3,425 MW

Wind: 2,198 MW (1,093 MW Italy and 1,105 MW abroad)

Solar: 220 MW (141 MW Italy and 79 MW abroad)

Hydroelectric: 527 MW

Thermoelectric: 480 MW

In construction/RtB: 474 MW

UK: 179 MW

Poland: 60 MW

France: 20 MW

Italy: 153 MW

Sweden: 62 MW

### FRANCE

Wind: 502 MW

Solar: 79 MW

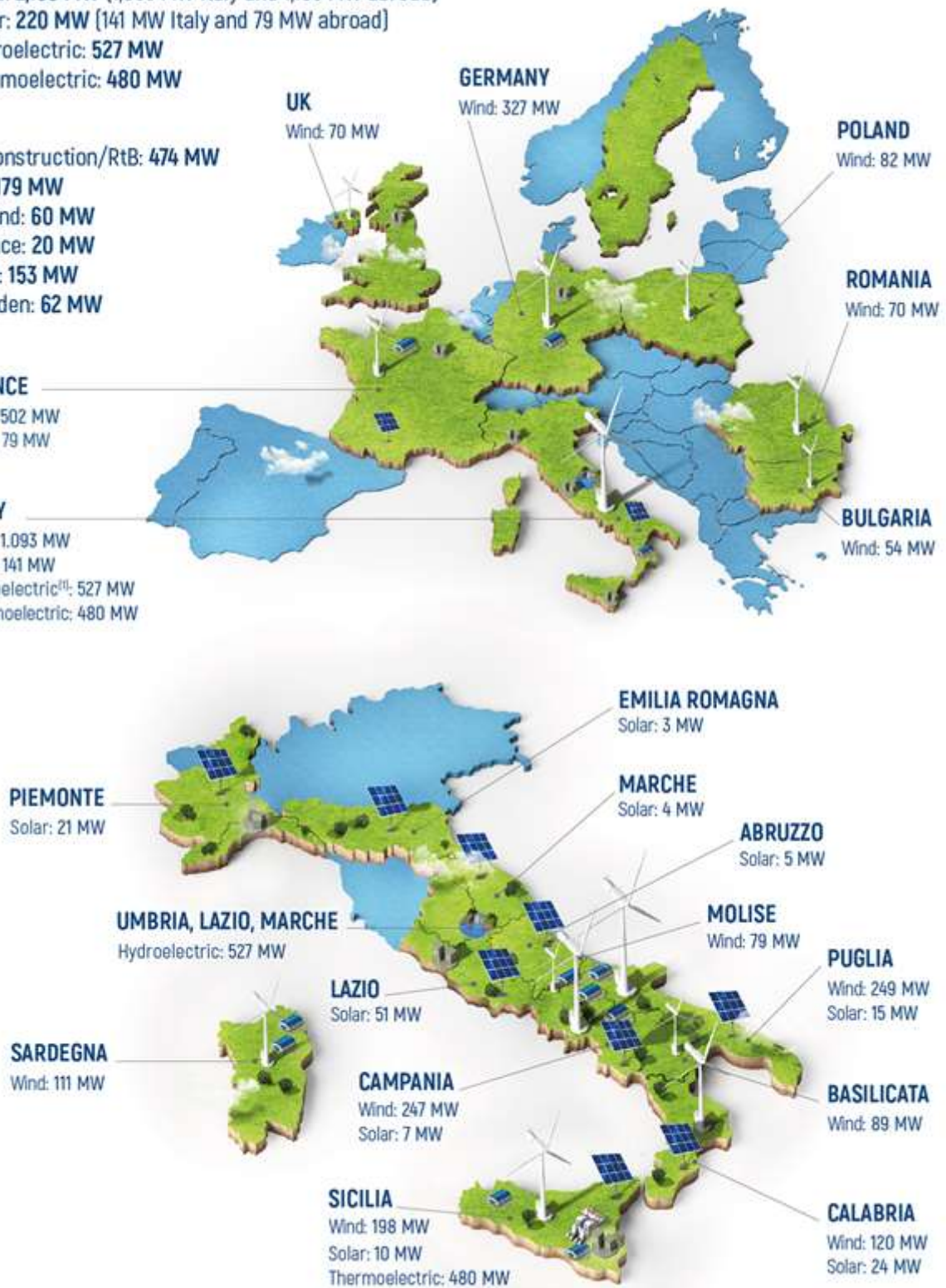
### ITALY

Wind: 1,093 MW

Solar: 141 MW

Hydroelectric<sup>(\*)</sup>: 527 MW

Thermoelectric: 480 MW



Wind farm



Solar farm



Hydroelectric plant



Thermoelectric plant

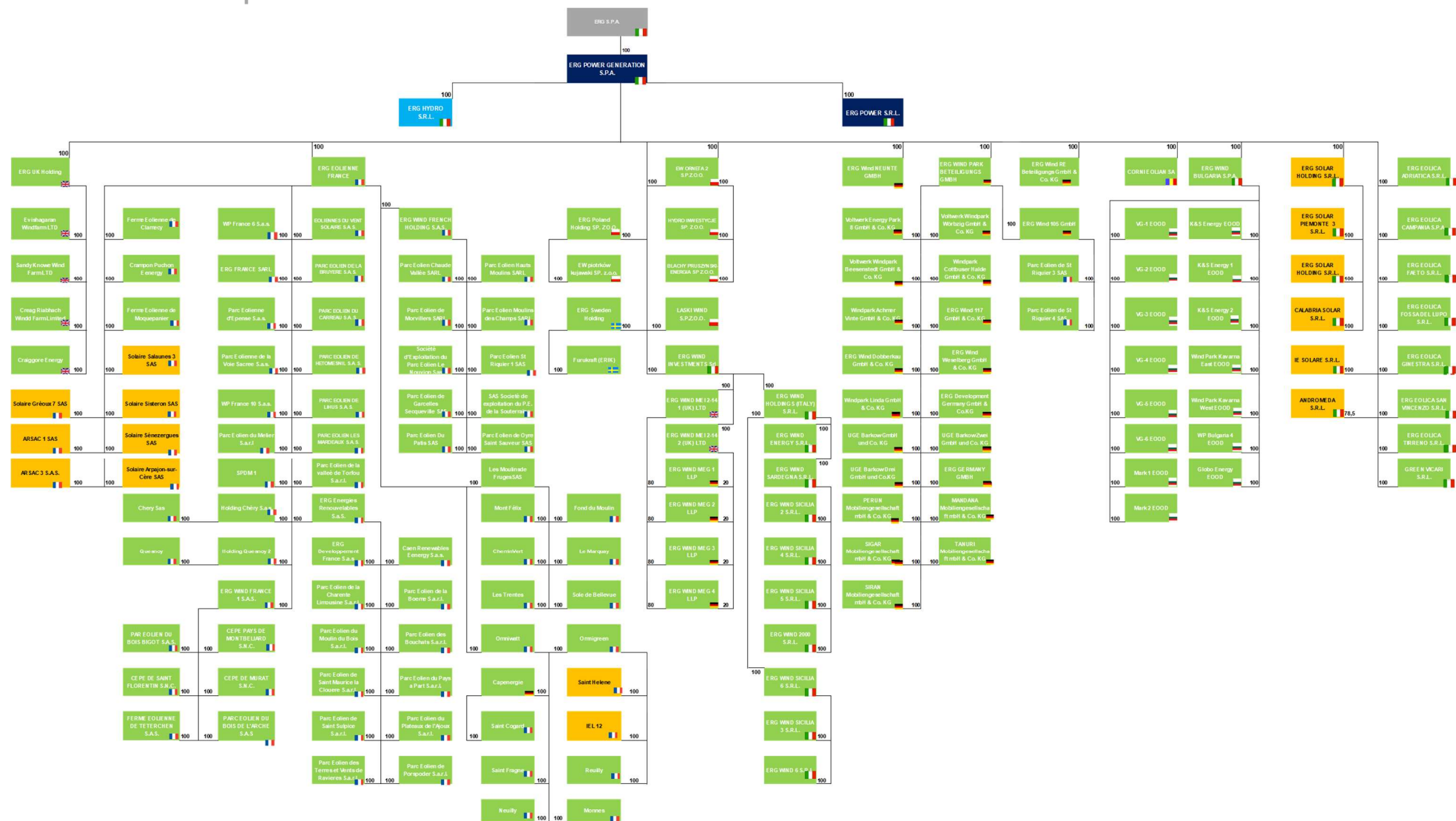


Office



Logistic centre

\* sold on 3 January 2022

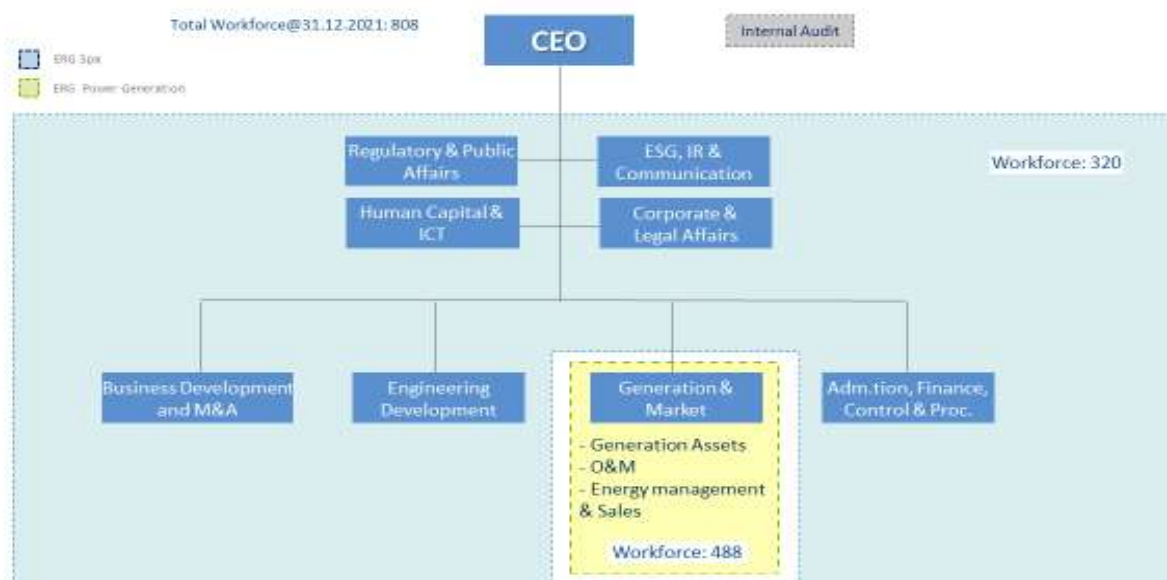


## Organisational model

The Group's organisational structure features a strong focus on process logic and the implementation of strategic business leverages, and provides for the definition of two macro-roles:

- ERG S.p.A. – Corporate – which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. Following the organisational changes that took place in April 2021, the company has been organised into the following areas:
  - Business Development and Mergers & Acquisitions
  - Engineering Development
  - Administration, Finance, Control & Procurement
  - Human Capital & ICT
  - Regulatory & Public Affairs
  - Corporate & Legal Affairs
  - ESG, IR & Communication
- ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes, is organised into:
  - Wind, Solar, Hydro and Thermo generation technologies, which in turn are organised into production units on a geographical basis;<sup>13</sup>
  - Energy Management & Sales, as a single entry point to organised markets and the main clients/counterparties;
  - a centre of process engineering technological excellence;
  - a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

### A NEW ORGANIZATION TO SPEED UP DECISION MAKING PROCESS



<sup>13</sup> Starting from February 2022, in order to continue the path of growth started and achieve the ambitious targets set in the Business Plan, the Group has implemented a business model rooted in the different realities and at the same time flexible, which takes into account both the geographical and the technological diversification, particularly in the solar business. Therefore, within the Business Development and M&A Organisational Unit, two macro areas have been established at European level – Central West Europe & Nordics and Central East Europe – bringing together the Country Business Development and M&A organisational structures. These remain responsible for identifying, coordinating and finalising organic development and M&A initiatives at local level.

## STRATEGY

### Results achieved in 2021

In 2021, in line with but well in advance of the provisions of the **2021-2025 Business Plan** approved by the Board of Directors and presented to the Financial Community in May, ERG achieved important results in its strategic path to decarbonise and grow the RES portfolio.

### Growth and securing of the RES portfolio:

In the course of 2021, the Group's installed capacity in Wind and Solar power increased by 309 MW of which:

- 77 MW in the UK and France from organic developments;
- 232 MW (of which 79 MW solar) through M&A transactions in France and Germany;




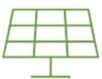



In addition to this, 2021 saw the entry into wind power in Sweden, with the acquisition of a Ready to Build project for 62 MW now under construction, and in Spain, with the signing of an agreement for the acquisition of 92 MW of solar PV, which was then finalised on 1 February 2022.

In 2021, agreements were reached and subsequently finalised for the acquisition of a total of 386 MW, of which 170 MW in Solar, equal to 55% of the Plan's overall M&A target, demonstrating a strong capacity to execute.

In 2021, significant progress was also made in the repowering and green field project in Italy with 240 MW authorised and awarded at auction.

The objective of "securing revenues" was also implemented through the signing of long-term contracts for a total of approximately 0.7 TWh, of which approximately 0.3 TWh in Italy, 0.2 TWh in France and 0.3 TWh in Northern Ireland.

### BP 2021-2025 – Results to date

	-	Objectives of the 2021-2025 BP	Results to date
	RES portfolio growth	<ul style="list-style-type: none"> <li>+1.5 GW through RPW, Greenfield and M&amp;A</li> </ul>	<ul style="list-style-type: none"> <li>+386 MW<sup>1</sup> M&amp;A equal to 55% of the M&amp;A target of BP 21-25</li> <li>+77 MW built in the UK and France</li> <li>+240 MW awarded at auction in Italy</li> </ul>
	Securing of revenue	<ul style="list-style-type: none"> <li>80% regulated</li> </ul>	<ul style="list-style-type: none"> <li>PPAs signed in Northern Ireland, Italy and France</li> </ul>
	Geographical diversification	<ul style="list-style-type: none"> <li>Increased geographical diversification</li> </ul>	<ul style="list-style-type: none"> <li>9 countries reached: Sweden and Spain added, and the first MW installed in the UK</li> </ul>
	Solar as a strategic pillar	<ul style="list-style-type: none"> <li>+0.5 GW of solar</li> </ul>	<ul style="list-style-type: none"> <li>+170 MW<sup>1</sup> in solar</li> </ul>
	Investment innovation in	<ul style="list-style-type: none"> <li>Search for opportunities in the Storage and Hydrogen sectors</li> </ul>	<ul style="list-style-type: none"> <li>Launch of the first Storage projects with capacity market auction award</li> </ul>
	Asset Rotation for Conventional Sources	<ul style="list-style-type: none"> <li>Asset rotation opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Hydro closing on 3.1.22, CCGT signed on 9.2.22</li> </ul>
	Incorporation of ESG matters	<ul style="list-style-type: none"> <li>ESG plan</li> </ul>	<ul style="list-style-type: none"> <li>ESG 21-25 approved and integrated in the ERG strategy, D&amp;I policy issued. ERG included in: S&amp;P Global Clean Energy Index, MIB ESG and Bloomberg Gender Equality Index.</li> </ul>

<sup>(1)</sup> 80 MW Joran (o/w 22 PV) – France; 152 MW Ventoux (o/w 57 MW PV) – France/Germany; 62 MW Erik – Sweden; 92 MW Valencia (100% PV) – Spain

## Transformation to a Pure “Wind & Solar” model

ERG has radically changed its business portfolio, anticipating long-term energy scenarios and reaching a position of leadership in the renewable energy sector, in the Italian as well as in the European market.

Since starting its industrial transformation from Oil to Green in 2008, the Company has become a primary independent producer of electricity from renewable sources.

In line with the third R of the 2021-2025 business plan, the Group has undertaken a major Asset Rotation project in order to complete its transformation towards a pure “Wind & Solar” business model, reaffirming its leading role in the Energy Transition process and in the decarbonisation process, also envisaged in the ESG plan.

On 3 January 2022, ERG finalised the sale of the hydroelectric assets to Enel Produzione, with which it subsequently reached an agreement to sell the CCGT plant in Priolo Gargallo.

On 1 February 2022, the acquisition of 92 MW of Solar PV in Spain was completed.

As a result of these significant transactions, the Group has become a 100% Renewable operator with an installed capacity of 2,510 MW and a portfolio of assets diversified both technologically and geographically, in addition to a pipeline of both Wind and Solar projects in Italy and Europe for approximately 3,400 MW.

The financial resources deriving from the disposal of hydroelectric and thermoelectric assets will give new impetus to growth as will be highlighted in the update to the Business Plan.

## Business Plan

Following the sale of the hydroelectric business and the reaching of an agreement for the sale of the thermoelectric business, which is expected to be finalised in the third quarter of 2022, the Board of Directors of ERG approved a new 2022-2026 Business Plan aimed at reinvesting resources from disposals and confirming the growth strategy in Wind & Solar through a policy of geographic and technological diversification and the gradual securing of revenues.

The objective in the 2022-2026 period is to increase the installed capacity by approximately 2,200 MW, of which approximately 650 MW in Solar, and the first 50 MW in electrochemical storage through three channels:

- 1) **Greenfield and co-Development:** ERG intends to continue its growth strategy through the organic development of proprietary pipelines and co-development agreements in Italy and in the main European reference countries.
- 2) **Repowering of its plants in Italy and abroad:** in view of technological developments in the wind and solar sector, ERG aims to repower assets currently equipped with outdated technologies, with latest generation technologies aimed at significantly increasing production, taking advantage of the quality of the most productive sites. The revenues of the new wind farms will be secured through participation in the auction system or through long-term contracts known as PPAs.
- 3) **M&A:** ERG intends to seize opportunities for growth in renewables in the countries of interest to ERG, leveraging the financial resources deriving from asset rotation, the experience acquired during its transformation process and the synergies resulting from the consolidation with its portfolio.

The 2022-2026 Business Plan incorporates the ESG Plan, aligned with the Sustainable Development Goals of the United Nations, which confirms the Group's mission to “keep growing in RES acting as #SDGsContributor”.

The new plan will involve a new organisation and targeted re-skilling activities, and will also be backed by a solid financial structure.

The action plan for the 2022-2026 period will continue to be based on:



**1. Repositioning Portfolio:** repositioning of the portfolio on a “quasi-regulated” basis with greater installed capacity in pure RES technologies (Wind & Solar), revenues secured through CfD and PPAs and increased geographical and technological diversification.

**2. Reinforcing Organisation:** strengthening of the organisation, particularly in the areas of Business Development, Construction and Sales.

**3. Rotating Invested Capital:** the sale of the hydroelectric business was completed on 3 January 2022. On 9 February, an agreement was reached with ENEL Produzione for the sale of the CCGT plant in Priolo, which is expected to be finalised in the third quarter of 2022. The financial resources deriving from asset rotation will be allocated to growth in RES technologies (Wind & Solar)

The objective at the end of the plan is to achieve an installed capacity of 4.6 GW, with an increase of 2.2 GW, through:

- projects currently under construction in the UK, Poland, France and Sweden and Repowering in Italy: +0.5 GW;
- additional repowering projects in wind in Italy and abroad: +0.2 GW (on a differential basis);
- greenfield projects in wind and solar: +0.5 GW;
- M&A transactions for around 1 GW (of which around 0.1 already finalised at the beginning of 2022).




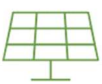



EBITDA is expected to be around EUR 560 million in 2026, 85-90% of which quasi-regulated, thanks to participation in competitive auctions for the award of CfDs or long-term energy sale contracts at pre-established prices, PPAs (Power Purchase Agreements).


The capital expenditure relating to the strategy outlined amounted to approximately EUR 2.9 billion, of which EUR 2.8 billion intended for growth in renewable sources, and debt at the end of 2026 of EUR 2.1 billion, compared to EUR 2.0 billion at the end of 2021.

ERG has a solid financial structure capable of sustaining growth with the objective of maintaining the Investment Grade BBB rating by the Fitch rating agency.

In light of the Group's financial strength, and also as a result of the resources deriving from disposals, as well as the positive growth prospects, the new Business Plan envisages an increase in the dividend from EUR 0.75 to EUR 0.90 per share over the five-year period of the Plan.

### 2022-2026 Strategic Plan Objectives

	-	Objectives of the 2021-2025 BP	New targets for 2026
	RES portfolio growth	<ul style="list-style-type: none"> <li>+1.5 GW through RPW, Greenfield and M&amp;A</li> </ul>	<ul style="list-style-type: none"> <li>+2.2 GW 22-26 (+309 MW in 2021)</li> <li>4.6 GW of installed capacity in 2026 (+2.5 GW 21-26)</li> </ul>
	Securing revenue of	<ul style="list-style-type: none"> <li>80% regulated</li> </ul>	<ul style="list-style-type: none"> <li>85-90% regulated of total EBITDA;</li> <li>2022: PPA/auction in the UK; PPA in Sweden; auctions for RPW in Italy</li> </ul>
	Geographical diversification	<ul style="list-style-type: none"> <li>~10 countries (vs 7 @ 2020)</li> </ul>	<ul style="list-style-type: none"> <li>9-10 countries: EBITDA abroad of ~50% @ 2026</li> </ul>
	Solar as strategic pillar	<ul style="list-style-type: none"> <li>+0.5 GW of solar</li> </ul>	<ul style="list-style-type: none"> <li>~650 MW of solar (out of 2,200 MW)</li> <li>~20% solar out of total capacity @ 2026</li> </ul>
	Investment in innovation	<ul style="list-style-type: none"> <li>Search for opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Launch of the Recharge (Storage) project</li> </ul>
	Asset Rotation for Conventional Sources	<ul style="list-style-type: none"> <li>Asset rotation opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Completion of the sale of the CCGT</li> </ul>
	Incorporation of ESG matters	<ul style="list-style-type: none"> <li>ESG plan</li> </ul>	<ul style="list-style-type: none"> <li>ESG Plan update with more challenging KPIs</li> </ul>

	Dividend policy	<ul style="list-style-type: none"> <li>• EUR 0.75 per share</li> </ul>	<ul style="list-style-type: none"> <li>• EUR 0.90 per share (+20% vs previous)</li> </ul>
---	-----------------	--	---





















## ESG plan

ERG's ESG strategy is based on four "pillars" which are closely related and integrated into our business model:

1. Planet: fight against climate change;
2. Engagement: commitment to the local areas;
3. People: attention on people growth and well-being;
4. Governance: principles and management bodies inspired by the best practices.

The ESG plan sets out 13 well-defined objectives that are measurable through constantly monitored KPIs, with a view to guaranteeing a tangible contribution to the creation of value over time for all our stakeholders and reaching the SDGs established by the United Nations, incorporated in the management's short and long-term incentive system.

As part of the 13 objectives, we have identified 8 strategic projects that will be the distinctive elements of our ESG plan and 5 objectives on projects already under way with a view to continuous improvement.

	Strategic priorities	Projects already launched
 PLANET    	<ul style="list-style-type: none"> <li>• Net Zero</li> <li>• Circular Economy (Wind &amp; Solar)</li> </ul>	<ul style="list-style-type: none"> <li>• Energy Efficiency</li> <li>• Biodiversity;</li> </ul>
 ENGAGEMENT    	<ul style="list-style-type: none"> <li>• ERG Academy for Next Generation</li> <li>• &gt;1% for the Community</li> </ul>	<ul style="list-style-type: none"> <li>• Trust &amp; Reputation</li> </ul>
 PEOPLE    	<ul style="list-style-type: none"> <li>• ERG Academy for ERG People</li> <li>• Inclusion &amp; Diversity</li> </ul>	<ul style="list-style-type: none"> <li>• Health &amp; Safety always</li> <li>• Employees' well-being</li> </ul>
 GOVERNANCE    	<ul style="list-style-type: none"> <li>• ESG objectives into MBO and LTI</li> <li>• ESG Finance</li> </ul>	<ul style="list-style-type: none"> <li>• Tax Control Framework abroad</li> <li>• Sustainable Procurement</li> <li>• Enhancing Governance Model</li> </ul>

In the **Planet Pillar**, ERG has the ambitious goal of becoming Net Zero by 2040, and reiterates its strong commitment to the circular economy with the objective of recovering materials from the dismantling of all our wind and solar plants subject to repowering. This environmental objective will be supported by projects for the re-use of photovoltaic panels in good condition.

In the **Engagement Pillar**, we will continue to be committed to supporting our local areas, with a contribution of at least 1% of turnover to the communities where we operate with our plants.

We will also lay the foundations for the ERG Academy, which will have educational programmes for the Next Generations on Sustainability and Renewable Energy and will also include all training content for our people.

Indeed, in the **People Pillar** we envisage employee growth programmes with objectives for 2026 that focus on both defining individual development plans (for at least 80% of ERG People) and internal training activities (for 100% of our people).

Diversity & Inclusion are central to our strategy because we want to continue to work towards a more international and inclusive ERG, aiming to create the right conditions so that all talents can express themselves.

In the **Governance Pillar**, the commitment to having best-in-class governance continues, with the inclusion of ESG targets in the MBO/LTI remuneration systems. We aim to guarantee increasingly Green financial strategies, with 90% "Green" loans.

In the course of 2021, ERG made significant progress along the path outlined by the ESG plan and the results achieved are in line with the objectives defined in the ESG Plan and also included in the short-term incentive system. The results achieved are summarised below:

    	<h3>PLANET</h3> <p><b>1. Carbon Neutrality:</b> - Carbon Index in riduzione del 20%</p> <p><b>2. &gt;98% Circular Wind:</b> - 100% pale Reblading recuperate</p> <p><b>3. Energy Efficiency :</b> - Rinnovo TEE per 10 anni per modulo 1 CCGT - Solar: 1,8 GWh (+ 0,5 GWh vs Target 2021)</p>
    	<h3>ENGAGEMENT</h3> <p><b>4. Next Generation:</b> - Italia: @2021: 5832 studentraggiunti</p> <p><b>5. 1% for the Community:</b> - Entrata in esercizio dei parchi di COD a Dicembre 2021 dei 2 parchi Evishagaran e Craiggore in UK (in linea con Piano ESG)</p> <p><b>6. Trust &amp; Reputation:</b> - Punteggio 2021 66,7/100 (target 65/100)</p>
    	<h3>PEOPLE</h3> <p><b>8. Diversity &amp; Inclusion:</b> - +60% incremento netto organico femminile - Approvata D&amp;I Policy</p> <p><b>9. Health &amp; Safety, always:</b> - IF=2,39 (target 2,95) - IG=0,09 (target &lt;1)</p>
    	<h3>GOVERNANCE</h3> <p><b>10. Sustainability Incentives:</b> - 100% MBO/LTI con obiettivi ESG</p> <p><b>11. Enhancing Governance Model:</b> - Gender Diversity e indipendenza in BoD &amp; Comitati Consiliari - Lead Independent Director</p> <p><b>13. Sustainable Procurement:</b> - Assessment 2021: +3% (target +2%)</p>

## Change in business scope in 2021

### ▪ Wind – Sweden

On **10 May 2021** ERG, through its Swedish holding, completed the acquisition from the BayWa r.e. Group, active in the development, construction and management of renewable energy plants, of the permits for the construction of a wind farm with a capacity of 62 MW in southern Sweden.

The project envisages the installation of 10 latest generation Siemens Gamesa turbines of 6.2 MW with estimated annual output of approximately 210 GWh, equal to almost 3,400 equivalent hours and roughly 140 kt of CO<sub>2</sub> emissions avoided each year. Construction started on the wind farm in the first half of 2021, and it is expected to enter into operation by the end of 2022. The total capital expenditure amounts to EUR 99 million, including both construction permits and construction costs.

BayWa r.e. will support ERG through the entire phase of construction, until commissioning of the plant.

### ▪ Wind, Solar – France

On **24 June 2021** ERG, through its subsidiary ERG Eolienne France SAS, signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio composed of 5 wind farms, for a total of 58 MW and two photovoltaic installations for a total of 22 MW.

The average entry into operation of the portfolio is 2017; the plants benefit from an incentive tariff regime with average expiry in 2034. Total annual estimated production is 174 GWh, equal to more than 2,400 equivalent hours for wind assets and over 1,200 equivalent hours for photovoltaic assets, and corresponding to 95 kt of avoided CO<sub>2</sub> emissions every year.

The value of the transaction in terms of equity value is EUR 45 million. Average expected EBITDA is roughly EUR 11 million and the net financial position at the end of 2020 is EUR 101 million.

In consideration of the fact that the companies were acquired at the end of June, this Report reflects the full contribution to the income statement of the result of the assets acquired in the second half.

### ▪ Wind, Solar – France

On **1 October 2021**, ERG, through its subsidiaries ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, signed two agreements with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG to acquire 100% of the share capital of 15 companies owning a 152.4-MW renewable portfolio in operation in France and Germany.

The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW.

The plants came into operation between 2013 and 2015. They benefit from an incentivised tariff system with an average expiry date of 2032 and an estimated total annual production of 273 GWh, equal to approximately 2,100 equivalent hours for wind assets and approximately 1,300 equivalent hours for photovoltaic assets, which amount to 150 kt of avoided CO<sub>2</sub> emissions each year. The value of the transaction in terms of enterprise value is EUR 202 million. This Report reflects the full contribution to the income statement of the assets acquired starting from the fourth quarter of 2021.

### ▪ Hydroelectric

Lastly it should be noted that, as described in more detail in the significant events that occurred during the year or after year-end, on 3 January 2022 ERG completed an agreement with Enel Produzione S.p.A. for the sale of the entire capital of ERG Hydro S.r.l. The transaction was concluded in line with what was announced on 2 August 2021.

Therefore, this Report does not reflect the effects of the sale.

## ERG's stock market performance

On 30 December 2021, the reference price of ERG's shares was EUR 28.44, up (+21.5%) from the end of 2020, with a similar trend seen in the same period in the FTSE All Share index (+23.7%), the FTSE Mid Cap index (+30.8%) and the Euro Stoxx Utilities Index (+3.2%) and a drop in the S&P Global Energy Index (-17.2%)

During the year under review, the listed price of ERG's shares ranged between a minimum of EUR 22.32 (14 May 2021) and a maximum of EUR 31.72 (29 October 2021).

Figures relating to the prices and exchange volumes of ERG's shares at 30 December 2021 are set out below:

Share price	EUR
Reference price at 30.12.21	28.44
Maximum price (29.10.21) <sup>(1)</sup>	31.72
Minimum price (14.05.21) <sup>(1)</sup>	22.32
Average price	26.11

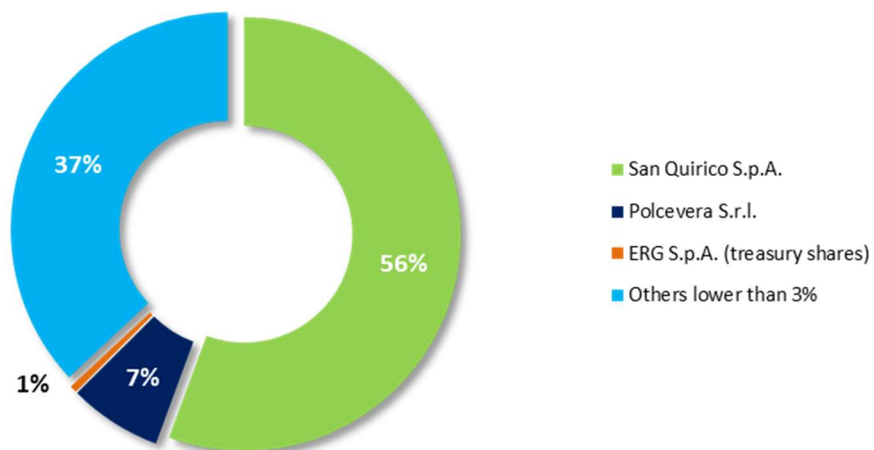
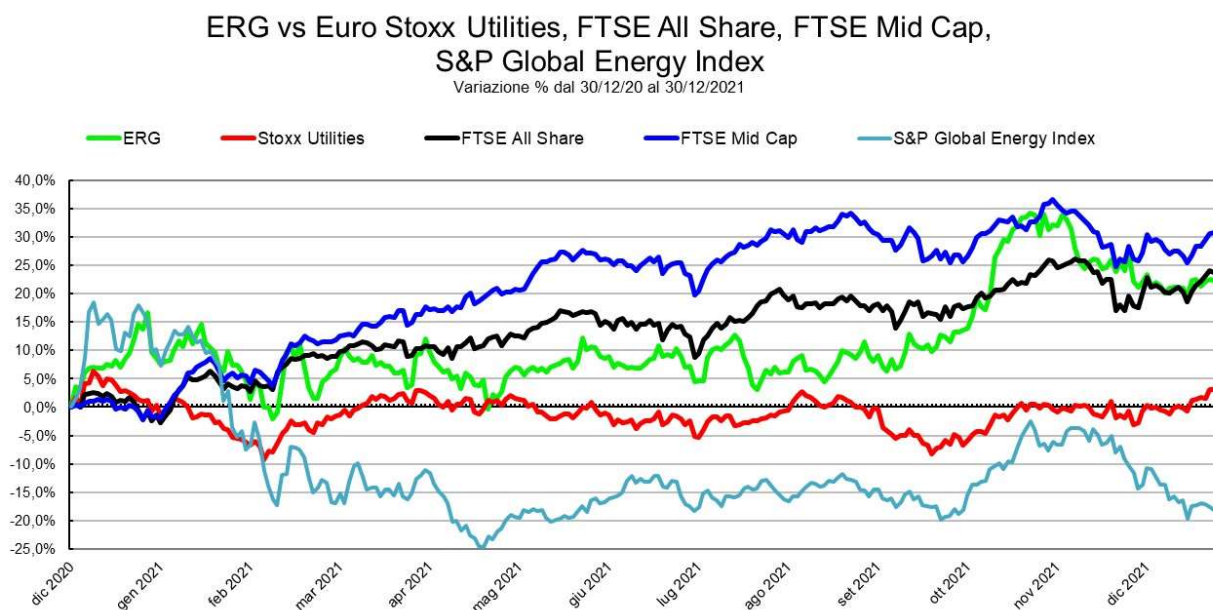
(1) lowest and highest price reached during the day's trading; hence they do not match the official reference prices on the same date.

Volumes traded	No. of shares
Maximum volume (16.04.21)	1,711,009
Minimum volume (28.12.21)	49,944
Average volume	268,310

Market capitalisation at the end of the year was approximately EUR 4,275 million (EUR 3,517 million at the end of 2020).

The average number of shares outstanding in the year was 149,313,514.

## Performance of ERG's Shares and Shareholding Structure at 31 December 2021



## Significant events during the year

### Corporate

Date	Significant event	Press release
<b>28 January 2021</b>	Exercise of the redemption option for all outstanding bonds issued on 19 July 2017, for a total nominal amount of EUR 25,000,000.	<a href="#">Press release of 28/01/2021</a>
<b>21 April 2021</b>	ERG joins the "S&P Global Clean Energy Index", the stock market index of Standard & Poor's, which incorporates 82 companies at international level that are key players in the production of green energy with high ESG standards.	<a href="#">Press release of 21/04/2021</a>
<b>26 April 2021</b>	The Shareholders' Meeting of ERG S.p.A. has approved the 2020 separate financial statements and resolved the payment of EUR 0.75 per share, appointed the new Board of Directors, confirmed Edoardo Garrone as the Chairman and approved the long-term incentive plan (2021-2023 LTI System). The Board of Directors, in its meeting on the same date, confirmed Alessandro Garrone as Executive Deputy Chairman and Giovanni Mondini as Deputy Chairman and appointed Paolo Luigi Merli as the new Chief Executive Officer.	<a href="#">Press release of 26/04/2021</a>
<b>14 May 2021</b>	The Board of Directors of ERG approves the Business Plan and the 2021-2025 ESG Plan. Sustainability-oriented growth in renewables continued, with an increase in installed power of 1.5 GW, investments of approximately EUR 2 billion and EBITDA at the end of the plan of EUR 550 million.	<a href="#">Press release of 14/05/2021</a>
<b>5 August 2021</b>	ISS ESG has upgraded ERG to A- rating (formerly B+), placing the Group in first place in the world ranking in the "Electric Utilities" sector, which includes 125 international companies.	<a href="#">Press release of 05/08/2021</a>
<b>5 August 2021 and 8 September 2021</b>	ERG S.p.A. has completed the placement of a third bond of EUR 500,000,000 with a maturity of 10 years at a fixed rate, issued as part of the EUR 3 billion Euro Medium Term Notes (EMTN) Programme. The issue was in the form of a Green Bond, with approximately 40% intended to be used to refinance wind and solar projects that have recently entered the ERG Group's portfolio and the remaining ca. 60% to finance new wind and solar projects in other European countries in which ERG operates. The notes, which have a minimum unit value of EUR 100,000, pay an annual gross coupon at a fixed rate of 0.875% and were placed at an issuing price of 99.752% of their nominal amount.	<a href="#">Press releases of 05/08/2021 and 08/09/2021</a>
<b>14 October 2021</b>	ERG and the Italian Institute of Technology (Istituto Italiano di Tecnologia, IIT) have signed a multi-year collaboration agreement aimed at accelerating the digitalisation process in the renewable energy sector.	<a href="#">Press release of 14/10/2021</a>
<b>19 October 2021</b>	ERG enters the new MIB ESG Index of Borsa Italiana, the first ESG index dedicated to the 40 leading listed Italian issuers that stand out for their best practices in sustainability.	<a href="#">Press release of 19/10/2021</a>
<b>26 November 2021</b>	ERG has won the 2021 Financial Statements Oscar in the 'Medium and small listed companies' category. The award, sponsored by FERPI (the Italian Federation of Public Relations), Borsa Italiana and Bocconi University, rewards organisations that through their financial statements show their willingness to share their results and goals with their stakeholders through timely and transparent communication.	<a href="#">Press release of 26/11/2021</a>
<b>9 December 2021</b>	CDP confirms ERG's "A-" rating in the Climate Change programme promoted by Carbon Disclosure Project (CDP), the global non-profit organisation that, by monitoring company performance in the fight against climate change, guides companies and governments towards the reduction of greenhouse gas emissions.	<a href="#">Press release of 09/12/2021</a>

## Wind - Solar

Date	Country	Significant event	Press release
28 January 2021	UK	ERG has signed a framework agreement with ENERCON GmbH to supply wind-power generators with a potential capacity of approximately 190 MW, earmarked for repowering projects in Italy and a greenfield project in the United Kingdom.	<a href="#">Press release of 28/01/2021</a>
14 April 2021	Italy	ERG has obtained Single Authorisations as part of the Repowering project for the wind farms of Mineo - Militello - Vizzini and Monreale/Partinico, located in the Sicily region, for a total capacity of 143 MW.	
27 April 2021	Spain	ERG and Renenergetica, a company that develops renewable energy source projects on the international market and listed on the AIM Italia market managed by Borsa Italiana, have signed a co-development agreement in the Spanish market for greenfield projects in the photovoltaic and wind power sectors, with an objective of roughly 100 MW per year, when at operating at full capacity.	<a href="#">Press release of 27/04/2021</a>
10 May 2021	Sweden	ERG, through its Swedish holding, has completed the acquisition from the BayWa r.e. Group, of the construction permits for a wind farm with a capacity of 62 MW in southern Sweden. Entry into operation is expected by the end of 2022. The total capital expenditure amounts to EUR 99 million, including both construction permits and construction costs.	<a href="#">Press release of 10/05/2021</a>
14 May 2021	Italy	ERG and TIM have signed a ten-year corporate PPA (Power Purchase Agreement) for the supply of 3.4 TWh of green energy for the period 2022-2031.	<a href="#">Press release of 14/05/2021</a>
24 June 2021	Wind France Solar France	ERG has today signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio composed of five wind farms, for a total of 58 MW and two photovoltaic installations for a total of 22 MW.	<a href="#">Press Releases of 21/05/2021 and 24/06/2021</a>
21 July 2021	UK	ERG has signed a long-term agreement with ElectroRoute Energy Supply Ltd. for two Power Purchase Agreements (PPAs) for the supply of renewable energy produced by the onshore wind farms of Evishagaran and Craiggorr in Northern Ireland. Energy will be supplied in "pay as produced" mode, with remuneration at a fixed price on all energy produced. ElectroRoute will also guarantee the "Route to Market" service to allow the injection of energy to the country's electricity grid.	<a href="#">Press release of 21/07/2021</a>
28 September 2021	Italy	ERG has been awarded a tariff for 20 years on 143 MW of new wind capacity as part of the sixth auction called by GSE (Gestore dei Servizi Elettrici). This refers, specifically, to three repowering projects, Partinico-Monreale, Mineo-Militello and Vizzini, all located in Sicily, for which ERG obtained the Single Authorisations on 14 April 2021. ERG's projects were awarded at a minimum discount of 2%. The entry into operation of the new wind farms, the construction of which is in the start-up phase and the output of which is estimated to be approximately 330 GWh per year, equal to approximately 166 kt of CO2 emissions avoided each year, is expected between the end of 2022 and the third quarter of 2023. The total capital expenditure in the three projects amounts to approximately EUR 150 million.	<a href="#">Press release of 28/09/2021</a>
1 October 2021 and 28 October 2021	Wind France Solar France Wind Germany	ERG, through its subsidiary ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, has signed with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG two agreements for the acquisition of the entire share capital of 15 companies owning a 152.4 MW renewable portfolio in operation in France and Germany. The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a	<a href="#">Press releases of 01/10/2021 and 28/10/2021</a>

		total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW.	
<b>1 October 2021</b>	<b>France</b>	<p>ERG has signed an agreement with ENGIE SA for a five-year Power Purchase Agreement (PPA) for the withdrawal of renewable energy produced by five ERG wind farms located in France.</p> <p>The five plants, which have a total installed capacity of 55 MW and an annual energy output of over 100 GWh, will exit the FIT (Feed-in Tariff) incentive scheme at the end of 2021.</p> <p>Energy will be supplied in "pay as produced" mode, with remuneration at a fixed price on all energy produced.</p>	<a href="#">Press release of 01/10/2021</a>
<b>9 December 2021</b>	<b>Spain</b>	<p>ERG has signed an agreement with GEI Subasta 1 SA for the acquisition of 100% of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively for a total of 91.6 MW.</p> <p>The plants were commissioned in early 2020, having participated in the auctions regulated by Italian Royal Decree no. 359 of 2017 and have an estimated total annual production of 188 GWh, equal to over 2,050 equivalent hours/year, one of Europe's highest, corresponding to 110 kt of CO2 emissions avoided every year.</p> <p>The consideration for the transaction amounts to EUR 96.2 million (asset value). This transaction was concluded on 31 January 2022.</p>	<a href="#">Press release of 09/12/2021</a>
<b>29 December 2021</b>	<b>UK France</b>	<p>The first two wind farms in the UK, in Craiggore and Evishagaran, County Londonderry, Northern Ireland, with a capacity of 23.5 MW and 46.8 MW, respectively, for a total of 70.3 MW, have started production.</p> <p>In addition, to be noted is the commissioning of the Vallée de l'Aa wind farm at Pas-de-Calais, in Hauts-de-France for 7 MW. The project is the extension of the 13.2 MW Parc Eolien Vallée de l'Aa2 launched by the Group at the end of 2018.</p>	<a href="#">Press release of 29/12/2021</a>

## Hydroelectric

Date	Significant event	Press release
<b>2 August 2021</b>	<p>ERG, through its subsidiary ERG Power Generation S.p.A., has completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l.</p> <p>The operation of the hydroelectric complex is ensured by 114 people, included within the scope, including technicians highly specialised in the operational management of the plants, energy management specialists and dedicated staff. Thanks to a successful collaboration with the trade unions and the serious willingness of the buyer, the company has reached an innovative agreement for the electricity sector that guarantees important protections for the ERG employees who are part of the company being sold.</p> <p>The transaction was concluded on 3 January 2022 for EUR 1.265 billion.</p>	<a href="#">Press release of 02/08/2021</a>

## Thermoelectric

Date	Significant event	Press release
<b>6 August 2021</b>	<p>Through its investee ERG Power Generation S.p.A., ERG has concluded an agreement with ISAB (Lukoil Group) for the amendment and extension to 2032 of the current contract for the supply of the entire energy requirements of the ISAB refinery in Priolo Gargallo, for which the term had been envisaged at 31 March 2025. ERG's CCGT plant will supply approximately 150 GWh of electricity and approximately one million tonnes of steam to ISAB, the main consumer of the Priolo site, on an annual basis.</p>	<a href="#">Press release of 06/08/2021</a>

## COVID-19 emergency

2021 saw a continuation of the international public-health COVID-19 emergency. In said context, ERG continued to implement all the necessary measures to ensure both the health of its employees and the operational continuity of its assets in safe conditions.

The main measure used by the organisation, as also recommended by the competent Authorities, was remote working, which was extended to all the Group's offices across Italy and abroad, involving over 70% of the corporate workforce, corresponding to all "white collar" staff, and excluding only personnel responsible for plant operation and maintenance in order to safeguard operational and management continuity and ensure the safety of company assets.

In 2021, staff initially worked remotely for five days a week; subsequently, as from July, remote working was confirmed for two working days a week. This option, as stated previously, has been extended to all the Group's offices in Italy and abroad where the remote working option is compatible with the effective performance of the duties assigned, ensuring that the utmost attention is given to guaranteeing full business continuity.

ERG continues to manage the staff employed across its production sites very carefully, through the adoption of appropriate organisational safety measures (aimed at ensuring social distancing and the reconfiguration of operational and logistical activities) and prevention and protection measures (training and information, personal protective equipment, personal hygiene measures and cleaning/sanitisation of workplaces), in observance of the anti-COVID protocol in work environments, the guidelines of the competent authorities, and in agreement with trade union organisations. The corporate documents that regulate the actions taken are provided to all personnel in an appropriate section of the company intranet and periodically updated.

As part of the broader framework of the national vaccination campaign in progress and in an attempt to make a proactive contribution to it, ERG has launched a vaccine information campaign, to ensure people can participate in a fully informed manner. The initiative was entrusted to the Internal Managers of the Prevention and Protection Services and to the company doctors in the various offices.

No staff reductions have been planned or carried out since the start of the pandemic. Moreover, the company has not had to make use of so-called "social shock absorbers" nor has it had to implement the forced reduction of working hours. By contrast, the Group welcomed 50 new hires in 2020 and a further 74 in 2021, in order to support the company's growth process. Engagement and partnership activities with the areas in which ERG is present have continued and financial resources have been allocated by group companies and employees themselves to meet the most urgent needs of healthcare facilities.

Starting from 15 October, as required by Italian Decree Law no. 127 of 21 September 2021, in order to access the workplace it is mandatory to possess and exhibit, upon request, the COVID-19 Green Pass, except for those who are exempted from the vaccination campaign on the basis of appropriate medical certification. Green Pass possession will be verified by means of spot checking; specific operating procedures have been defined for each site, taking into consideration the variability of the activities carried out and the number of people present; the INPS portal is also used for the aforementioned controls, allowing for the automatic verification of the possession of COVID-19 green certifications for access to the workplace.

# PROFIT FOR THE YEAR AND SCENARIO

## Performance highlights

Performance highlights

(EUR million)	Reported <sup>(2)</sup> Year		Adjusted <sup>(1)</sup> Year	
	2021	2020	2021	2020
Main Income Statement data				
Revenue	1,038	856	1,232	974
Gross operating profit (EBITDA)	426	401	580	481
Operating profit (EBIT)	163	145	304	183
Net profit (loss)	174	110	203	107
of which profit attributable to owners of the parent	173	108	202	106
Main financial data				
Net invested capital <sup>(3)</sup>	3,749	3,308	3,608	3,209
Equity	1,569	1,768	1,556	1,770
Total net financial indebtedness <sup>(3)</sup>	2,181	1,540	2,051	1,439
of which <i>non recourse Project Financing</i> <sup>(4)</sup>	237	417	237	417
Financial leverage	58%	47%	57%	45%
EBITDA Margin %	41%	47%	47%	49%

(1)

Adjusted economic indicators do not include special items and related theoretical taxes.

(2)

Reported economic indicators are calculated on the basis of the financial statements and include special items and related applicable theoretical taxes. The reported values for the year 2020 are restated in application of IFRS 5.

(3)

Adjusted net financial indebtedness and the Adjusted net invested capital are presented net of the effects deriving from the application of IFRS 16 and IFRS 5.

(4)

Including cash and cash equivalents and excluding the fair value of the derivatives hedging interest rates.

		Year	
		2021	2020
Operating data			
Installed capacity of wind farms at year end	MW	2,198	1,967
Electric power output from wind farms	KWh million	3,917	3,911
Installed capacity of thermoelectric plants	MW	480	480
Electricity output from thermoelectric plants	KWh million	1,869	2,441
Installed capacity at year end – hydroelectric plants	MW	527	527
Electricity output from hydroelectric plants	KWh million	1,637	1,097
Installed capacity at year end – solar plants	MW	220	141
Electricity output from solar plants	KWh million	240	228
Total sales of electric power	KWh million	14,160	14,897
Capital expenditure <sup>(5)</sup>	EUR million	648	156
Employees at year end	Units	808	784
Net unit revenue <sup>(6)</sup>			
Wind Italy	EUR/MWh	149	119
Wind Germany	EUR/MWh	112	96
Wind France	EUR/MWh	88	89
Wind Poland	EUR/MWh	101	78
Wind Bulgaria	EUR/MWh	128	66
Wind Romania	EUR/MWh	135	56
Wind UK	EUR/MWh	n.a.	n.a.
Solar Italy	EUR/MWh	335	315
Solar France	EUR/MWh	90	0
Hydroelectric	EUR/MWh	118	109
Thermoelectric <sup>(7)</sup>	EUR/MWh	30	35

<sup>(5)</sup> In property, plant and equipment and intangible assets. They include also M&A investments of EUR 389 million.

<sup>(6)</sup> Net unit revenue is expressed in EUR/MWh and is calculated by dividing the technology output by the revenue achieved on energy markets, inclusive of the impact of hedges, of any incentives due and the relative variable costs associated with generation/sale including, for example, the cost of fuel and imbalance costs.

<sup>(7)</sup> In relation to thermoelectric sector, the contribution margin is calculated net of related variable costs (the main ones including CO<sub>2</sub>, gas).

## Performance by sector

(EUR million)	Year		Δ
	2021	2020	
<b>Adjusted revenue</b>			
Wind	515	402	113
Solar	75	73	3
Hydroelectric	194	118	76
Thermoelectric <sup>(1)</sup>	448	381	66
Corporate	38	36	3
<i>Intra-segment revenue</i>	(38)	(36)	(3)
<b>Adjusted revenue</b>	<b>1.232</b>	<b>974</b>	<b>258</b>
<b>Adjusted EBITDA</b>			
Wind	358	282	76
Solar	66	66	0
Hydroelectric	151	81	70
Thermoelectric <sup>(1)</sup>	21	67	(46)
Corporate	(17)	(15)	(2)
<b>Adjusted EBITDA</b>	<b>580</b>	<b>481</b>	<b>99</b>
<b>Amortisation, depreciation and impairment losses</b>			
Wind	(155)	(165)	8
Solar	(42)	(42)	1
Hydroelectric	(44)	(57)	14
Thermoelectric	(31)	(30)	(2)
Corporate	(4)	(4)	(0)
<b>Adjusted amortisation, depreciation and impairment losses</b>	<b>(276)</b>	<b>(298)</b>	<b>22</b>
<b>Adjusted EBIT</b>			
Wind	203	118	85
Solar	24	23	0
Hydroelectric	108	24	84
Thermoelectric <sup>(1)</sup>	(10)	37	(48)
Corporate	(20)	(19)	(2)
<b>Adjusted EBIT</b>	<b>304</b>	<b>183</b>	<b>121</b>
<b>Capital expenditure <sup>(2)</sup></b>			
Wind	538	127	411
Solar	76	2	73
Hydroelectric	7	6	0
Thermoelectric	25	18	7
Corporate	2	2	(0)
<b>Total capital expenditure</b>	<b>648</b>	<b>156</b>	<b>492</b>

<sup>(1)</sup> Includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units. With regard to revenue, the share for the resale of electricity purchased from the market was approximately EUR 173 million (EUR 50 million in 2020).

<sup>(2)</sup> Includes investments in property, plant and equipment and intangible assets and M&A investments.

## Comments on the performance for the year

In 2021, **adjusted revenue** totalled EUR 1,232 million, an increase of EUR 258 million compared to 2020 (EUR 974 million), mainly due to greater hydroelectric and wind production in Italy, the increase in the unit value of the incentive in Italy (from 99.0 to 109.4 EUR/MWh) and the increase in energy sale prices. These effects were only partly offset by the reduction in wind generation abroad and the end of the first decade of high cogeneration of the CCGT plant.

Adjusted **EBITDA**, net of special items, amounted to EUR 580 million, up by EUR 99 million compared with the EUR 481 million recorded in 2020.<sup>14</sup> The change is a result of the following factors:

- **Wind (EUR +76 million):** EBITDA of EUR 358 million, up compared to 2020 (EUR 282 million) due to the improved result in Italy of EUR 243 million (EUR 165 million in 2020), primarily due to the increased wind speeds, the higher value of the GRIN incentive and the better market scenario compared with the particularly depressed market of 2020. The margin abroad was down slightly at EUR 115 million (EUR 117 million in 2020), despite the contribution resulting from the consolidation of the new wind farms in

<sup>14</sup> The adjusted EBITDA is shown net of the positive effects arising from the application of IFRS 16, equal to approximately EUR 10 million, as well as other special items for EUR 12 million and the IFRS 5 reclassification.

France and Germany, due to worse wind conditions compared to the particularly high values of 2020 (1,838 GWh in 2021 compared to 2,009 GWh in 2020).

- **Solar:** EBITDA, equal to EUR 66 million, is substantially in line with 2020 thanks also to the contribution of EUR 1 million deriving from the two new solar farms in France.
- **Hydroelectric (EUR +70 million):** EBITDA of EUR 151 million (EUR 81 million in 2020), up considerably compared with the previous year. The result benefits from notably higher outputs (1,637 GWh in 2021 compared to 1,097 GWh in 2020), thanks to the high resource availability in the early months of the year, particularly when compared to 2020, which was well below the average historical levels.
- **Thermoelectric (EUR -46 million):** thermoelectric EBITDA, amounting to EUR 21 million, is below the EUR 67 million in 2020, mainly as a result of the end of the high yield cogeneration period on both modules of the CCGT plant for approximately EUR 22 million. The scenario effect, with the reduction in generation margins due mainly to the significant increase in gas and CO2 prices, was only partly mitigated by hedging transactions. The results are affected by the general shutdown of Module 1 aimed at guaranteeing the CAR qualification, started at the beginning of September and concluded in early December. It should be noted that 2020 benefited from insurance reimbursements and adjustments relating to site contracts.

It should be noted that the overall gross operating profit (loss) is impacted by the electricity price hedging policies implemented in line with the Group's risk policies.

**Adjusted EBIT** amounted to EUR 304 million (EUR 183 million in 2020), after depreciation and amortisation of EUR 276 million, down significantly compared to 2020 (EUR 298 million), mainly as a result of the review of the useful life of some assets relating to hydroelectric and wind plants, only partially offset by the contribution of wind and solar assets acquired during the year.

**EBIT** was EUR 163 million (EUR 145 million in 2020) after depreciation, amortisation and impairment losses of EUR 263 million (EUR 256 million in 2020), which includes the application of IFRS 5 with the reversal of the economic results relating to the hydroelectric business sold and the effects of the write-down of the wind power assets subject to repowering.

**Adjusted profit attributable to the owners of the parent** was EUR 202 million, including approximately EUR 2 million attributable to minority interests, up significantly compared to 2020 (EUR 106 million), in view of the above-mentioned improved operating results and lower financial expense. Net financial expense (EUR 29 million) was lower than the same period of 2020 (EUR 47 million) due to the reduction in the cost of gross debt thanks to the full contribution of liability management transactions that took place over the last two years.

**Profit attributable to the owners of the parent** was EUR 173 million, an increase compared to EUR 108 million in 2020 for the same reasons as outlined above. The result also includes the effects of the application of IFRS 5 for ERG Hydro and the write-down of the wind assets subject to repowering and the costs related to the liability management transactions carried out in 2021.

In 2021, **capital expenditure** totalled EUR 648 million (EUR 156 million in 2020), and refer primarily to the acquisition of wind farms and solar plants in France (EUR 147 million) in June, of a project for the construction of a wind farm in Sweden (EUR 41 million) and of wind farms and solar plants in France and Germany (for EUR 202 million) in October. During the year under review, **investments in property, plant and equipment and intangible assets** were also made in the amount of approximately EUR 258 million, of which 86% in the Wind sector (74% in 2020), mainly in relation to the continuation of the construction of the wind farms in the UK for roughly 250 MW (70 MW of which became operational in December), Poland for 60 MW, France for 27 MW (7 MW of which became operational in December) and Sweden for 62 MW, and to the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini wind farms for 143 MW of new wind capacity; 10% refers to the Thermoelectric sector (17% in 2020) as a result of capital expenditure to modernise and boost the efficiency of the combined cycle, which guaranteed the CAR (High Yield Cogeneration) qualification for Module 1 of the CCGT for an additional ten years, 3% refers to the Hydroelectric sector (6% in 2020), 1% to the Solar sector (3% in 2020) and 1% to the Corporate sector (2% in 2020), mostly for ICT and minor maintenance and development projects.

**Adjusted net financial indebtedness** totalled EUR 2,051 million, up (EUR 612 million) compared to 31 December 2020 (EUR 1,439 million). The change reflects mainly the impact of the recent acquisitions in

France, Germany and Sweden (EUR 389 million), the capital expenditure in the year (EUR 258 million) connected mainly with the development of the wind farms in the United Kingdom, Poland, France and Sweden, as well as the developments on Repowering and Reblading projects, the distribution of dividends to shareholders (EUR 114 million), the payment of taxes (EUR 42 million), the impact on liquidity of daily settlement of the fair value change in commodity future hedging instruments (EUR 321 million), partly offset by the positive cash flow (EUR 498 million<sup>15</sup>) and other positive items (EUR 14 million).

It should also be noted that the indebtedness at the end of the year reflects the negative fair value of commodity futures of roughly EUR 344 million (EUR 277 million at 30 September 2021 and EUR 23 million at 31 December 2020).

Adjusted net financial indebtedness is presented net of the effects deriving from the application of IFRS 16, therefore excluding the discounting of future lease payments of approximately EUR 129 million at 31 December 2021.

---

<sup>15</sup> It includes the adjusted EBITDA, the change in working capital and net financial expense.

## Profit for the year – Business

### Reference market

#### Price scenario

Price scenario (EUR/MWh)	Year	
	2021	2020
<b>Italy</b>		
National single price - Electricity reference price in Italy (baseload) <sup>(1)</sup>	125.5	38.9
Electricity price - North area	125.2	37.8
Electricity price - Central-North area	125.4	38.7
Electricity price - Central-South area	125.3	39.7
Electricity price - South area	123.6	39.0
Electricity price - Sardinia	123.6	39.0
Electricity price - Sicily	129.0	46.2
Electricity price - Calabria	123.3	n.a.
Zonal price - Central-North area (peak)	143.1	45.3
Zonal price - Central-South area (peak)	139.3	45.0
Feed-In Premium (FIP) (former Green Certificates) - Italy	109.4	99.1
<b>Abroad</b>		
France (baseload electricity)	109.2	32.2
Germany (baseload electricity)	96.8	30.7
Poland	128.9	77.8
<i>of which (baseload electricity)</i>	87.0	46.8
<i>of which Certificates of Origin</i>	41.9	31.0
Bulgaria (baseload electricity)	108.7	39.3
Romania (baseload electricity + 1 Green Certificate)	140.8	68.8
<i>of which baseload electricity</i>	111.4	39.4
<i>of which Green Certificate</i>	29.4	29.4
Northern Ireland (baseload electricity)	136.1	37.6
Great Britain (baseload electricity)	137.6	39.6

<sup>(1)</sup> Single National Price

#### Italian Market – Demand and output

Italian market (GWh) <sup>(1)</sup>	Year	
	2021	2020
Demand	318,075	301,180
Pumping consumption	2,827	2,668
Import/Export	42,793	32,200
Internal generation <sup>(2)</sup>	278,109	271,648
of which		
<i>Thermoelectric</i>	180,579	173,888
<i>Hydroelectric</i>	46,317	48,952
<i>Geothermal</i>	5,526	5,647
<i>Wind</i>	20,619	18,609
<i>Photovoltaic</i>	25,068	24,552

<sup>(1)</sup> Source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction

<sup>(2)</sup> Output net of consumption for auxiliary services

In 2021, the electricity demand of the national electricity system amounted to 318 TWh, up by 5.6% compared with the values recorded in 2020. With regard to Sicily, a region in which ERG is present with its CCGT plant and with wind farms and photovoltaic installations, demand of approximately 19.0 TWh was recorded during the year, up (+3.5%) compared to 2020. Furthermore, in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active in 2021 with its hydroelectric plants, the demand for electricity came to 44.8 TWh (+7.5%).

In the same period, (net) domestic electricity production was 278.1 TWh, up compared to the same period in 2020, while the net balance of foreign trade recorded net imports of 42.7 TWh (+33% compared to 2020).

A total of 65% of (net) domestic output was covered by thermoelectric power plants and the remaining 35% by renewable sources; specifically, 17% of output was from hydroelectric power, 9% from photovoltaic plants, 7% from wind farms and 2% from geothermal sources. Compared to 2020, production from all renewable sources increased, with the exception of hydroelectric production, which recorded a 5% reduction.

## Group sales

The ERG Group's electricity sales, made in Italy through the ERG Power Generation S.p.A.'s Energy Management & Sales Operating Unit, refer to the electric power generated by its wind, thermoelectric, hydroelectric and solar plants, as well as purchases on organised markets and through physical bilateral agreements.

During 2021, total sales of electricity came to 14.2 TWh (14.9 TWh in 2020), against overall production for the Group plants of around 7.7 TWh (7.7 TWh in 2020), of which roughly 1.9 TWh abroad and 5.8 TWh in Italy. The latter figure corresponds to approximately 1.8% of electricity demand in Italy (1.9% in 2020).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following<sup>16</sup> table:

Sources of electric power (GWh)			Sales of electric power (GWh)		
	FY			FY	
	2021	2020		2021	2020
Wind - wind power generation Italy	2,078	1,902	Electricity sold to captive customers	513	441
Wind - wind power generation Abroad	1,838	2,009			
Solar - photovoltaic power generation	216	228			
Solar - photovoltaic power generation Abroad	24	-			
CCGT - thermoelectric power generation	1,869	2,441	Electricity sold wholesale (Italy)	11,784	12,447
Hydro - hydroelectric power generation	1,637	1,097	Electricity sold abroad	1,863	2,009
ERG Power Generation - purchases	6,497	7,219			
<b>Total</b>	<b>14,160</b>	<b>14,897</b>	<b>Total</b>	<b>14,160</b>	<b>14,897</b>

Wholesale sales of energy include sales on the IPEX electricity stock exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), as well as the "dispatching services market" (MSD), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform. The latter are carried out by the Energy Management & Sales Operating Unit, with a view to developing the forward contracting activities and also hedging output, in line with Group risk policies, also through the use of the Power Purchase Agreements (PPAs).

<sup>16</sup> Electric power sources refer to the output of the Group's plants and to the purchases made on wholesale markets; uses include sales made through physical bilateral agreements and on the spot and forward markets.

## WIND

The ERG Group operates in the wind sector through its companies that own wind farms in Italy and abroad. Wind farms consist of wind-power generators that transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.

Business performance is also influenced by the sale price of electricity, which can vary in relation to the geographical areas where the plants are located, and by the incentive systems for renewable energy sources, which differ from country to country, and the regulations of organised energy markets.

Installed power (MW)	Year		Δ	Δ%
	2021	2020		
<b>- Italy</b>	<b>1,093</b>	<b>1,093</b>	<b>0</b>	<b>0%</b>
of which				
<i>Campania</i>	247	247	0	0%
<i>Calabria</i>	120	120	0	0%
<i>Puglia</i>	249	249	0	0%
<i>Molise</i>	79	79	0	0%
<i>Basilicata</i>	89	89	0	0%
<i>Sicily</i>	198	198	0	0%
<i>Sardinia</i>	111	111	0	0%
<b>- Abroad</b>	<b>1,105</b>	<b>874</b>	<b>230</b>	<b>26%</b>
of which				
<i>Germany</i>	327	272	55	20%
<i>France</i>	502	397	105	27%
<i>Poland</i>	82	82	0	0%
<i>Bulgaria</i>	54	54	0	0%
<i>Romania</i>	70	70	0	0%
<i>UK</i>	70	0	70	n.a.
<b>Total installed capacity at the end of the year <sup>(1)</sup></b>	<b>2,198</b>	<b>1,967</b>	<b>230</b>	<b>12%</b>

<sup>(1)</sup> power of plants in operation at year end.

Installed capacity at 31 December 2021, amounting to 2,198 MW, refers for 1,093 MW to Italian wind farms (of which 750 MW incentivised) and for 1,105 MW to foreign wind farms (of which 946 MW incentivised). During the year, capacity increased in France to 105 MW, in Germany to 55 MW and in the UK to 70 MW following the recent acquisitions of 13 wind farms in France and Germany and the entry into operation of one wind farm in France and two in the UK.

### Highlights of adjusted performance items during the year

Operating results (EUR million)	Year	
	2021	2020
<b>Adjusted revenue</b>	<b>515</b>	<b>402</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>358</b>	<b>282</b>
Amortisation, depreciation and impairment losses <sup>(1)</sup>	(155)	(165)
<b>Adjusted EBIT <sup>(1)</sup></b>	<b>203</b>	<b>118</b>
Investments in property, plant and equipment and intangible assets	538	127
<b>EBITDA Margin % <sup>(2)</sup></b>	<b>70%</b>	<b>70%</b>
Total wind farm generation (GWh)	3,917	3,911

<sup>(1)</sup> not including special items as indicated in the "Alternative performance indicators" section, to which reference should be made for further details.

<sup>(2)</sup> ratio of adjusted EBITDA to revenue from sales and services.

Consolidated **revenue** recorded in **2021** increased mainly as a result of the increased output in Italy, the growing market scenario and the increase deriving from the higher unit value of the GRIN incentive (from 99.0 to 109.4 EUR/MWh) in Italy, only partly offset by the lower output Abroad compared with the particularly high output in 2020.

Net unit revenue in Italy in 2021, taking into consideration the sale price of electricity, including the value of incentives (former green certificates) and the effects net of hedges, as well as other minor components, was equal to 149 EUR/MWh for ERG, up compared to 119 EUR/MWh in 2020, mainly as a result of the higher unit revenue obtained on the energy markets net of hedges and the higher value of the GRIN incentive.

Finally, starting from 2016, the reference value for the incentives (former green certificates) is calculated on the basis of energy market prices for the previous year. Consequently, unlike what took place in the past, changes in energy prices are no longer partially offset (78%) by the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year. The higher market prices for the year will therefore have a significant impact on the value of the GRIN incentive in 2022, which will increase from 109.4 EUR/MWh to 42.9 EUR/MWh

The following table reports revenue by country:

<b>Adjusted EBITDA</b> (EUR million)	<b>Year</b>		<b>Δ</b>	<b>Δ%</b>
	<b>2021</b>	<b>2020</b>		
<b>Italy</b>	<b>317</b>	<b>227</b>	<b>90</b>	<b>40%</b>
<b>Abroad</b>	<b>198</b>	<b>175</b>	<b>23</b>	<b>13%</b>
of which				
Germany	48	45	3	6%
France	76	85	(9)	-11%
Poland	22	19	3	15%
Bulgaria	23	12	11	87%
Romania	29	13	16	124%
UK	-	-	-	n.a.
<b>Total</b>	<b>515</b>	<b>402</b>	<b>113</b>	<b>28%</b>

<b>Net unit revenue</b> EUR/MWh	<b>Year</b>		<b>Δ</b>	<b>Δ%</b>
	<b>2021</b>	<b>2020</b>		
Wind Italy	149	119	30	25%
Wind Germany	112	96	16	17%
Wind France	88	89	(1)	-2%
Wind Poland	101	78	23	30%
Wind Bulgaria	128	66	61	92%
Wind Romania	135	56	79	140%
Wind UK	n.a.	n.a.	n.a.	n.a.

In **2021**, net unit revenues in France and Germany were 88 EUR/MWh and 112 EUR/MWh respectively (including reimbursements for limitations in Germany), with France in line with 2020 and Germany up due to the improved market scenario. The main changes in net unit revenues in Eastern Europe occurred in Romania (+140%), Poland (+30%) and Bulgaria (+92%) following the sharp increase in energy sale prices.

<b>Generation (GWh)</b>	<b>Year</b>		<b>Δ</b>	<b>Δ%</b>
	<b>2021</b>	<b>2020</b>		
<b>- Italy</b>	<b>2,078</b>	<b>1,902</b>	<b>176</b>	<b>9%</b>
of which				
Campania	475	430	45	10%
Calabria	227	239	(12)	-5%
Puglia	516	461	54	12%
Molise	165	151	13	9%
Basilicata	180	166	13	8%
Sicily	320	262	58	22%
Sardinia	196	191	5	2%
<b>- Abroad</b>	<b>1,838</b>	<b>2,009</b>	<b>-171</b>	<b>-9%</b>
of which				
Germany	428	470	(42)	-9%
France	865	952	(88)	-9%
Poland	216	244	(28)	-11%
Bulgaria	148	150	(2)	-1%
Romania	181	193	(11)	-6%
UK	0	0	0	n.a.
<b>Total wind farm output</b>	<b>3,917</b>	<b>3,911</b>	<b>5</b>	<b>0%</b>

In **2021**, the **electricity output** from wind power amounted to 3,917 GWh, in line with 2020 (3,911 GWh), due to increased volumes in Italy (+9%) offset by less favourable wind conditions abroad (-9%) compared to

the particularly high wind levels in 2020.

The increased output in Italy (+176 GWh) is linked to better wind conditions than those recorded in 2020, with higher volumes across all regions with the exception of Calabria (-5%). In particular, Sicily recorded significantly higher volumes (+22%).

The reduction of 171 GWh in output abroad due to the low wind speeds recorded with respect to the same period of 2020 is attributable to all countries and is more pronounced in France (-88 GWh) despite the consolidation of five wind farms as from 30 June 2021 (+61 GWh) and three wind farms as from 1 October 2021 (+30 GWh), Germany (-42 GWh) despite the consolidation of five wind farms in the fourth quarter (+28 GWh) and Poland (-28 GWh).

The following table shows wind farm load factors by main geographical segment; the figure, estimated taking into account the actual start of operations of the wind farms in individual years, provides a measure of the level of output of the various farms in relative terms, and is influenced not only by the characteristics of the wind farms and the wind conditions in the period considered, but also by the level of availability of the plants and any limitations on the energy transport networks.

Load Factor %	Year		Δ
	2021	2020	
<b>- Italy</b>	<b>22%</b>	<b>20%</b>	<b>2%</b>
of which			
<i>Campania</i>	22%	20%	2%
<i>Calabria</i>	22%	23%	-1%
<i>Puglia</i>	24%	21%	3%
<i>Molise</i>	24%	22%	2%
<i>Basilicata</i>	23%	21%	2%
<i>Sicily</i>	18%	15%	3%
<i>Sardinia</i>	20%	20%	1%
<b>- Abroad</b>	<b>23%</b>	<b>26%</b>	<b>-4%</b>
of which			
<i>Germany</i>	17%	20%	-3%
<i>France</i>	23%	27%	-5%
<i>Poland</i>	30%	34%	-4%
<i>Bulgaria</i>	31%	32%	0%
<i>Romania</i>	30%	31%	-2%
<b>Load Factor <sup>(1)</sup></b>	<b>22%</b>	<b>23%</b>	<b>-1%</b>

<sup>(1)</sup> actual output in relation to maximum theoretical output (calculated taking into account the actual date of entry into operation of each individual wind farm)

In **2021**, the overall load factor of 22% was slightly lower than in the same period of 2020 (23%).

Abroad, the decrease in the load factor from 26% to 23% is affected by the low wind speeds recorded in 2021, compared with the exceptional wind speeds recorded in 2020.

The load factor in Italy is 22% and is up compared to the same period of 2020 due to the better wind conditions recorded.

The breakdown of adjusted EBITDA between the various geographical segments of the Wind business is as follows:

Adjusted EBITDA (EUR million)	Year		Δ	Δ%
	2021	2020		
<b>Italy</b>	<b>243</b>	<b>165</b>	<b>78</b>	<b>47%</b>
<b>Abroad</b>	<b>115</b>	<b>117</b>	<b>(2)</b>	<b>-2%</b>
of which				
<i>Germany</i>	28	28	(0)	-1%
<i>France</i>	44	58	(14)	-24%
<i>Poland</i>	16	15	1	8%
<i>Bulgaria</i>	8	9	(1)	-10%
<i>Romania</i>	21	8	13	164%
<i>UK</i>	(2)	(1)	(1)	n.a.
<i>Sweden</i>	(0)	(0)	(0)	n.a.
<b>Total</b>	<b>358</b>	<b>282</b>	<b>76</b>	<b>27%</b>

**Adjusted EBITDA** in **2021** totalled EUR 358 million, up compared to 2020 (EUR 282 million), due to the greater wind speeds in Italy in a general context of increased energy sale prices throughout Europe, compared with the particularly depressed prices in 2020, which were significantly affected by the health

emergency.

The increased contribution in Italy compared to the first nine months of 2020, reflects mainly the significant increase in sale prices in the energy market, plus the increase in the value of the price of the GRIN incentive. The lower results abroad (EUR -2 million) reflect the lower volumes due to the already commented on lower wind speeds recorded, largely mitigated by the better scenario in Germany and Eastern Europe and the scope effect relating to the consolidation of the wind farms acquired in France and Germany.

**The EBITDA margin for 2021** totalled 70%, confirming its particularly high absolute value, in line with the same period of the previous year (70%).

Amortisation/depreciation in the year decreased with respect to the corresponding period in 2020, mainly as a result of the review of the useful life of some assets and the end of the useful life of some components of the wind farms.

### **Capital expenditure**

Capital expenditure in **2021 (EUR 538 million)** refers primarily to the acquisition of wind farms in France and Germany (154 MW), a project for the construction of a wind farm in Sweden (62 MW) and the development and construction of new wind farms in the UK (EUR 123 million), Poland (EUR 47 million), France (EUR 20 million) and Sweden (EUR 16 million), the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini plants (EUR 5 million) and the completion of Reblading activities on the Lacedonia-Monteverde plant (EUR 6 million), in addition to the usual maintenance targeted at further boosting plant efficiency.

With regard to the wind farms under construction, the two projects in the UK (in Northern Ireland), Evishagaran for 47 MW and Craiggore for 24 MW and the project in France Valle dell'Aa Ext. for 7 MW were launched at the end of 2021. For the remaining wind farms under construction in the UK (Scotland), Poland and France, whose CODs are expected in 2022, the construction timelines are confirmed.

### **Relevant legislative and regulatory updates during the year**

See also the "Significant regulatory and institutional updates" chapter.

#### **Italy**

- **ARERA – average annual value of electricity for incentive calculation**

On 26 January 2021, ARERA published resolution no. 22 on the determination of the average electricity sale price for 2020, for the purpose of quantifying the value of the Green Certificate replacement incentives for 2021. This average value is 39.80 EUR/MWh; as a result, the incentive value for 2021 is 109.36 EUR/MWh.

For incentives relating to 2022, the average sale price for 2021, equal to 125.06 EUR/MWh, was published in resolution no. 26/2022. The incentive for 2022 is therefore reduced to 42.85 EUR/MWh.

- **Onshore wind power auctions – photovoltaic: publication of the rankings of the sixth and seventh auction sessions. Calendar of new calls for 2022**

On 27 September 2021, the GSE published the ranking of the sixth call for FER auctions of June 2021 envisaged by the Italian Ministerial Decree of 4 July 2019.

The 3 ERG Repowering ERG projects for a total of 143 MW are included in the ranking. ERG projects are the only repowering initiatives in the ranking.

Against a quota available for the auctions of Group A (wind plus photovoltaic) of 2,308 MW, the awarded capacity stopped at 595 MW - divided into 23 photovoltaic and 12 wind projects - with 74% unused.

The reference tariff was 66.5 EUR/MWh, while the maximum discount offered by the successful bidders amounts to 2.06%, a value practically coinciding with the minimum allowable reduction of 2%. ERG's

projects were awarded at a minimum discount of 2%.

The seventh and last auction scheduled to date by the Italian Ministerial Decree of 4 July 2019 was held in the period between 30 September and 30 October 2021; the auction quota for Group A, which takes also into account the capacity not assigned in the previous tenders, amounts to 3,312 MW.

On 28 January 2022, the GSE published the results of the seventh RES auction envisaged by the Decree.

In the ranking, 2 ERG projects were awarded, one for repowering and one for new construction, for a total of 97.2 MW.

Out of a quota of 3,312.5 MW available for the auctions in Group A (wind plus photovoltaic), 975 MW of capacity was awarded – divided into 59 photovoltaic projects for 582.5 MW and 18 wind projects for 392.5 MW – with 70% unused.

The reference tariff was 66.5 EUR/MWh, while the maximum discount offered by awarded was 3.5%, with an average discount of 2.1%. ERG's projects were awarded at a minimum discount of 2%.

In implementation of Italian Legislative Decree no. 199/2021 transposing the RED II Directive, the GSE published the new 2022 calendar of auctions that make available the power not assigned in the previous tenders envisaged by the Italian Ministerial Decree of 04 July 2019 (the FER 1 Decree). An eighth call is therefore envisaged, which opened on 31 January 2022, for the assignment of the residual quota of the previous auctions.

If, even with the eighth call, all the power available is not assigned, the GSE will open a new tender procedure on 31 May 2022.

- **Implementation of the Circular Economy Strategy**

On 28 September 2021, the Ministry of Ecological Transition published the decrees implementing the circular economy strategy defined in the National Recovery and Resilience Plan (NRRP).

The Ministerial Decrees set out the selection criteria for projects relating to separate waste collection, recycling plants and “flagship” initiatives for the paper and cardboard, plastics, WEEE and textile chains.

In particular, through special tenders, it will be possible to finance “flagship” circular economy projects that promote the use of innovative technologies and processes in certain production sectors, including plants for the recycling of waste electrical and electronic equipment (WEEE), including wind turbine blades and photovoltaic panels.

## France

- **Amendment of the onshore wind auction procedures relating to the eighth session of 2021**

On 19 February 2021, the French Energy Regulatory Authority (CRE) updated the procedures for onshore wind auctions. Specifically, the capacity quota established for the eighth and final auction, concluded on 16 April 2021, was increased to 700 MW. It was also specified that, in the event of compliant bids exceeding the available quota, the quota could be increased up to 925 MW.

- **Criteria for the installation of wind turbines in radar controlled areas**

Last June saw criteria published for the installation of wind turbines in areas subject to radar control, based on the intervisibility principle, maintaining a maximum visual impact distance of 70 km.

The application of these new criteria and their impact on the wind power sector will be monitored by the Ministries of Ecological Transition and Defence on a quarterly basis, for a duration of two years.

- **Amendments to the regulations for onshore wind auctions for the period 2021-2026**

Following approval by the European Commission at the end of July, on 6 August 2021 the Energy Regulatory Commission published the new regulations for onshore wind auctions for the period 2021-2026. Ten auction sessions are scheduled starting from November 2021 until 2026 for a total of 9,025 MW, for the assignment of a two-way CfD contract with a twenty-year duration, with a base price (cap) unchanged at 70 EUR/MWh. The criterion for forming the rankings has changed, no longer being based solely on the discount offered but also on whether or not there is local participation in the project (*Financement collectif or Gouvernance partagé*). Projects for the renovation of wind farms are admitted to auctions if certain conditions on the start of works and on the components used are met. A clause on the carbon footprint along the life cycle of the turbine was also introduced.

The first auction session according to the new procedures was set for November 2021 with a quota of 700 MW, which can be increased up to 925 MW in case of subscriptions exceeding these quotas. Provision is also made for a quota modulation mechanism to promote the competitiveness of the prices awarded in the event that applications do not

cover the available total.

## Romania

- **Definition of the mandatory quota for the purchase of GCs for 2022**

With its Order no. 131/2021, the Regulatory Agency for the Energy Sector (ANRE) defined the 2022 mandatory quota, equal to 0.5014313 GC/MWh.

- **Approval of the new method for settling imbalances**

Through Resolution no. 63/2020, ANRE approved the programme to transition the relevant period for the calculation of imbalances from 1 hour to 15 minutes. The implementation of the measure is effective from 1 February 2021.

## Bulgaria

- **Definition of the value of incentives for the regulatory period 1 July 2021 - 30 June 2022**

The incentive quota is calculated as the difference between the reference tariff for the individual plant and the estimate of the adjusted baseload market price (Forecasted Market Price for Wind Producers - FMP) on the national wind profile. On 30 June 2021, for the regulatory period 1 July 2021 - 30 June 2022, the Bulgarian national authority made provision for an increase of more than 35% in the values of the FMP market prices, which translated to a reduction of almost 30% in the value of the incentive for the onshore wind plants of the ERG Group. In light of the increase in energy prices (which deviated by more than 15% compared to the June estimate), the Bulgarian national authority decided to redetermine the estimate of the FMP market price with decision №Л-2. of 1 January 2022, thus eliminating the value of the incentive for the remaining 6 months of the year (January - June 2022).

## UK

- **CfD**

On 25 November 2021, the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) published the draft economic budget and allocation framework for the fourth cycle of CfD auctions (AR4). For the consolidated technologies grouping (Pot 1) – which also includes onshore wind, solar and hydroelectric power – a spending budget of 10 million GBP/year (from 2023/24 to 2026/27) in real 2012 values is envisaged, for a total target capacity of 5 GW; the maximum allocation capacity for onshore wind and photovoltaic power is 3.5 GW for each source (without prejudice to the overall maximum capacity of 5 GW). The plants under construction – such as the ERG wind projects in Creag Riabhach and Sandy Knowe – are entitled to participate in the auction.

The tenders remained open from 13 December 2021 to 14 January 2022. The projects selected at the auction called for POT1 may start the CfDs from April 2023 until the end of March 2025 (Delivery Year 2023/24 and 2024/25).

## SOLAR

ERG is active in the generation of electricity from solar sources, with an installed capacity of 220 MW, of which 141 MW in Italy, with 33 photovoltaic plants located in 9 regions, and 79 MW in France with a further two plants fully consolidated from 30 June 2021 and seven plants consolidated from the fourth quarter of 2021.

### Highlights of adjusted performance items during the year

	Year	
	2021	2020
<b>Operating results</b>		
(EUR million)		
<b>Adjusted revenue</b>	<b>75</b>	<b>73</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>66</b>	<b>66</b>
Amortisation, depreciation and impairment losses <sup>(1)</sup>	(42)	(42)
<b>Adjusted EBIT <sup>(1)</sup></b>	<b>24</b>	<b>23</b>
Investments in property, plant and equipment and intangible assets	76	2
<b>EBITDA Margin % <sup>(2)</sup></b>	<b>88%</b>	<b>90%</b>
<b>Total solar plant generation (GWh)</b>	<b>240</b>	<b>228</b>

<sup>(1)</sup> not including special items as indicated in the "Alternative Performance Indicators" section, to which reference should be made for further details

<sup>(2)</sup> ratio of adjusted EBITDA to adjusted revenue from sales and services

In **2021**, output amounted to approximately 240 GWh, up compared to 228 GWh in 2020 due to the new acquisitions in France (+24 GWh). The load factor was 14%, down compared to 2020 due to the lower irradiation recorded in the year; this value is estimated taking into account the actual entry into operation of the plants within the individual periods.

**Revenues** in 2021 totalled EUR 75 million, of which EUR 59 million relating to revenue from the feed-in premium and EUR 16 million to revenue from the sale of energy.

In 2021, the relative **net unit revenue** in Italy totalled 335 EUR/MWh compared to 315 EUR/MWh in 2020, of which 273 EUR/MWh relating to feed-in premiums and approximately 63 EUR/MWh to revenues from energy sales. The increase is mainly due to higher unit revenues relating to the sale of energy due to the upward scenario and to revenues deriving from plants with various incentive schemes (so-called "Feed-In Premium"). Abroad, net unit revenue of 90 EUR/MWh was recorded.

**Adjusted EBITDA** for 2021, amounting to EUR 66 million, is in line with the previous year and presents a scope effect of EUR 1 million relating to the acquisition in France of two photovoltaic installations consolidated as from 30 June 2021 and an additional seven photovoltaic farms consolidated as from the fourth quarter. The total **EBITDA margin** for **2021** was 88% (90% in 2020).

### Capital expenditure

Capital expenditure in **2021 (EUR 76 million)** refers mainly to the acquisition of photovoltaic plants in France (79 MW) and contracts aimed at further improving the efficiency of plants.

### Relevant legislative and regulatory updates during the year

See the paragraph of the chapter dedicated to wind power and the "Significant regulatory and institutional updates" chapter.

### France

- Amendment of the photovoltaic auction procedures relating to the tenth session of 2021**

On 15 June 2021, the French Energy Authority (CRE) updated the procedures for auctions dedicated to ground-mounted photovoltaic installations. The tenth session was held from 14 June until 26 July 2021, for a volume of 700 MW (of which 450 MW for ground-mounted systems exceeding 5 MW, 180 MW for ground-mounted systems between 500 kW and 5 MW and the remainder for smaller capacity systems), which can be increased up to 1 GW if applications exceed the quota. Provision is also made for a quota modulation mechanism to promote the competitiveness of the prices awarded in the event that applications do not cover the available total.

- Amendments to the regulations for PV auctions for**

### the period 2021-2026

Following approval by the European Commission at the end of July, on 6 August 2021 the CRE published the new regulations for PV auctions for the period 2021-2026. Ten auction sessions are scheduled starting from November 2021 until 2026 for a total of 9,025 MW, for the assignment of a two-way CfD contract with a twenty-year duration, with a base price (cap) of 90 EUR/MWh for all types of PV plant. The first auction session according to the new procedures was set for December 2021 with a quota of 700 MW, which can be increased up to 925 MW should participating projects exceed these quotas. Provision is also made for a quota modulation mechanism to promote the competitiveness of the prices awarded in the event that applications do not cover the available total.

## HYDROELECTRIC

On 3 January 2022, ERG concluded the transaction with Enel Produzione S.p.A. for the sale of the hydroelectric assets owned by the subsidiary ERG Hydro S.r.l. The consideration in terms of enterprise value totalled approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.

For clearer disclosure, the results of the ordinary operations of the assets being sold are shown and commented on in the adjusted values of this Report.

Hydroelectric assets refer to the Terni Hydroelectric Complex (527 MW), including a system of programmable and flexible plants located in central Italy; these plants are operated as part of the related hydroelectric concessions that will expire at the end of 2029.

The total capacity of the plants at the Terni complex came to 527 MW, of which 512 MW relating to large diversions and 15 MW relating to small diversions and minimum vital outflows.

### Highlights of adjusted performance items during the year

The contribution of the hydroelectric assets to the Group's results is shown below:

	Year	
Operating results	2021	2020
(EUR million)		
<b>Adjusted revenue</b>	<b>194</b>	<b>118</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>151</b>	<b>81</b>
Amortisation, depreciation and impairment losses <sup>(1)</sup>	(44)	(57)
<b>Adjusted EBIT <sup>(1)</sup></b>	<b>108</b>	<b>24</b>
Investments in property, plant and equipment and intangible assets	7	6
<b>EBITDA Margin % <sup>(2)</sup></b>	<b>78%</b>	<b>69%</b>
<b>Total hydroelectric plant generation (GWh)</b>	<b>1,637</b>	<b>1,097</b>

<sup>(1)</sup> not including special items as indicated in the "Alternative Performance Indicators" section, to which reference should be made for further details

<sup>(2)</sup> ratio of adjusted EBITDA to adjusted revenue from sales and services

In **2021, revenue**, amounting to EUR 194 million, related mainly to electricity sales (mostly on the spot market) for EUR 113 million and revenue from the feed-in premium (former Green Certificates) recognised in the amount EUR 80 million in view of the greater incentivised output accrued vis-à-vis GSE.

The costs are essentially attributable to the concession fees, personnel expenses, operation and maintenance costs, insurance payments and costs for services.

**EBITDA** for 2021 was EUR 151 million (EUR 81 million in 2020), an increase, mainly due to the high level of water resources recorded in the early months of the year, in particular when compared to the especially low levels recorded in 2020 and the higher value of the incentive.

The total **output** of ERG Hydro in **2021**, equal to 1,637 GWh, benefitted from a net unit revenue, considering the energy sale value on the markets and incentives in the year and other minor components, amounting to approximately 118 EUR/MWh, up slightly compared to 109 EUR/MWh in the same period of 2020.

It should be noted that the average sale prices reflect both the sale price of electricity net of hedges and the feed-in premium (former Green Certificate), recognised on a portion of more than 40% of output for a unit value greater than that of 2020 of 99.0 EUR/MWh and equal to approximately 109.4 EUR/MWh.

**The EBITDA margin** for **2021** was 78%, up compared to 69% in 2020.

The final load factor in the year, equal to 35% (compared to 24% in 2020), reflects the good availability of water resources recorded in the early months of the year, with levels above the historical average.

The levels of the reservoirs of the Turano, Salto and Corbara lakes at the end of the year were respectively approximately 523, 519 and 128 meters above sea level, compared to 533, 529 and 137 meters above sea level at 31 December 2020. Overall, the energy stored was down as a result of the uses in the year and the low availability of water in the last few months of the year.

Amortisation and depreciation in the year decreased with respect to the corresponding period in 2020, mainly as a result of the lengthening of the useful life of some assets of the Terni Hydroelectric Complex.

## Capital expenditure

Capital expenditure in 2021 (**EUR 7 million**) relates mainly to mini hydro plant development contracts, maintenance contracts and planned projects in the fields of seismic improvement of infrastructures and Health, Safety and the Environment.

## Relevant legislative and regulatory updates during the year

See the paragraph of the chapter dedicated to wind power and the “Significant regulatory and institutional updates” chapter.

- **European Commission - dismissal of infringement proceedings 2011/2026 against Italy.**

In September, the European Commission closed infringement proceedings 2011/2026 against Italy for the regulation on hydroelectric concessions.

At the same time, all the proceedings opened in recent years on hydroelectric power against other EU Member States were closed.

The proceedings against Italy were formally open from the beginning of March 2011, with simultaneous formal notice. A second additional formal notice was resolved in March 2019.

- **BIM surcharge update**

After updating the surcharges for coastal entities at the end of 2019, the Italian Ministry for the Environment published the Directorial Decree for the determination of the BIM surcharge – owed by concession holders for the diversion of water for hydroelectric use, with capacity exceeding 220 kW – for the period 1 January 2020 to 31 December 2021 (included) within a mountain catchment area (BIM).

This figure was increased for the years 2020-21 to 31.13 EUR/kW.

- **Update of the Umbria Region State fee**

At the start of 2021, the Umbria Region published an update to the value of the state property rent due for the concessions for large-scale diversion of water for hydroelectric use, determined by adjusting the 2020 fee to the planned rate of inflation of 0.5%; the 2021 fee is therefore 32.63

EUR/kW.

- **Update of the Lazio Region State fee**

On 9 March 2021, the Lazio Region published the state property rent due for the concessions for large-scale diversion of water for hydroelectric use, determined by adjusting the 2020 fee to the planned rate of inflation of 0.5%; the 2021 fee is therefore 31.88 EUR/kW.

- **Incentive system for the upgrading of production plants included in the restart plan (Regulation no. 2017/2196 on electricity emergency and restoration).**

By means of resolution no. 324/2020, ARERA established an incentive system for the upgrading of the new restart units, identified by Terna, included in the electricity restoration plan (PdRR). Requirements include the installation of a system and the provision of black start capacity – where not already present – as well as the availability of backup power systems. With respect to these measures, the resolution (i) sets the end date for the upgrading of the plants on 18 December 2022 and (ii) provides for an incentive system for plant owners to promptly update the plants. By means of subsequent resolution no. 44/2021, ARERA introduced a similar mechanism for the installation of Power System Stabiliser devices, to offset the expenses incurred to update the plants to the PdRR. The resolution sets the end date for intervention on 30 June 2022 and provides for a incentive mechanism for software/hardware operations related to the promptness of updating.

## THERMOELECTRIC

ERG is active in the generation of electricity from thermoelectric sources through the equity investment in ERG Power S.r.l., owner of the high output, high efficiency, low emission, highly modulable and flexible combined cycle gas turbine (CCGT) cogeneration plant (480 MW). On 9 February, an agreement was signed with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l., which owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant powered by natural gas located at Priolo Gargallo, in the province of Syracuse.

The fee in terms of Enterprise Value, as of 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

### Highlights of adjusted performance items during the year

	Year	
	2021	2020
<b>Operating results</b>		
<i>(EUR million)</i>		
<b>Adjusted revenue from sales and services <sup>(1)</sup></b>	<b>448</b>	<b>381</b>
<b>Adjusted EBITDA <sup>(2)</sup></b>	<b>21</b>	<b>67</b>
Amortisation, depreciation and impairment losses <sup>(2)</sup>	(31)	(30)
<b>Adjusted EBIT <sup>(2)</sup></b>	<b>(10)</b>	<b>37</b>
Investments in property, plant and equipment and intangible assets	25	18
<b>EBITDA Margin % <sup>(3)</sup></b>	<b>5%</b>	<b>18%</b>
<b>Total thermoelectric plant generation (GWh)</b>	<b>1,869</b>	<b>2,441</b>

<sup>(1)</sup> It includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units. The share for the resale of electricity purchased from the market was approximately EUR 173 million (EUR 50 million in 2020).

<sup>(2)</sup> not including special items as indicated in the "Alternative performance indicators" section, to which reference should be made for further details

<sup>(3)</sup> ratio of adjusted EBITDA to adjusted revenue from sales and services

Following the entry into force from 1 January 2018 of the legislation on Internal User Networks (IUNs), all of the electricity output of ERG Power is allocated to the market at the Sicily area price, while electricity intended to cover the needs of the Priolo industrial site, which falls within the scope of the legislation on Internal User Networks from 2018, is purchased on the wholesale market at the Single National Price.

In **2021**, ERG Power's net electricity power generation was 1,869 GWh, down on the same period of 2020 (2,441 GWh) due to a market environment with generation margins strongly affected by the significant increase in the price of gas and CO<sub>2</sub>, partially offset by the clean spark spread hedging policies implemented in line with the Group's risk policies and the greater use of the dispatching services market. The results are also affected by the general shutdown of Module 1 aimed at guaranteeing the CAR qualification, started at the beginning of September and concluded in early December.

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 1,024 thousand tonnes, down slightly compared with 1,067 thousand tonnes in the same period of 2020.

Adjusted EBITDA in **2021** amounted to EUR 21 million (EUR 67 million in 2020), with results down mainly due to the termination of the high-yield cogeneration period on Module 2 of the CCGT plant as from 1 January 2021 and the decrease in margins due to higher gas and CO<sub>2</sub> costs, only partly mitigated by the positive effect of hedging and the higher revenues from dispatching services (MSD). 2020 benefited from insurance reimbursements and adjustments relating to site contracts for approximately EUR 10 million.

### Capital expenditure

Capital expenditure in 2021 (**EUR 25 million**) relates mainly to the project to revamp the steam turbine, the electric generator and the steam generation plants of Module 1 of the CCGT plant, geared towards greater plant efficiency, which will make it possible to renew the right to accrual of energy efficiency certificates from the parallel connection of new components, expected by the end of 2021, for a further ten years.

The targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants continued. Progress was also made on the planned Health, Safety and Environment projects.

### **Relevant legislative and regulatory updates during the year**

See also the “Significant regulatory and institutional updates in the quarter” chapter.

- **Operating Regulations for the return of Retee element.**

On 15 December 2020, by means of resolution 548/2020, ARERA approved and supplemented the Operating Regulations, prepared by the GSE pursuant to resolution 96/2020, concerning the methods by which producers who draw natural gas for the generation of electricity may submit a request to return the portion of the RE and REt tariff components intended to cover the costs deriving from the EEC mechanism (so-called “REtee” element). The Regulation was published by GSE on 23 February 2021. The right to repayment of the REtee element will take effect from the first day of the second month after the one in which the request is submitted to GSE (in any case, not before 1 July 2021).

- **Determination of the national quantitative energy saving targets for electricity and gas distribution companies for the years 2021-2024.**

With Italian Ministerial Decree of 21 May 2021 identifies, through the reference to the INECP (Integrated National Energy and Climate Plan), the national quantitative energy saving targets for the years 2021-2024, the savings obligations for electricity and natural gas distributors and the regulation for the implementation of energy efficiency projects for access to energy efficiency certificates (EEC).

The decree makes provision for the reduction of the national quantitative targets and the associated obligations for the year 2020 and for the 2021-2024 period, the admission of temporary associations of companies among the possible holders of an energy efficiency project and the introduction of a new savings incentive system through Dutch auction procedures to be issued by means of the decree of the Italian Ministry of Ecological Transition by 31 December 2021. Provision is also made, among other things, for the revision of the procedure of evaluation of projects by GSE and the restoration of the cumulability with tax credits for all projects presented as from 1 January 2020.

## Regulatory Framework – Incentives

### Wind sector incentives

<b>Italy</b>	<ul style="list-style-type: none"> <li>Plants that entered into operation before 2013: feed-in premium (FIP) equal to <math>(180 \text{ EUR/MWh} - P_{-1}) \times 0.78</math> where <math>P_{-1}</math> is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years</li> <li>Plants that entered into operation from 2013: FIP against a reference rate awarded through participation in Dutch auctions. With the Italian Ministerial Decree of 4 July 2019, wind power and photovoltaic compete for the same quota both for the registries and for the auctions and the FIP is a "two-way CfD". Duration of the incentive: 20 years</li> <li>Plants undergoing full reconstruction (Repowering) that have not adhered to the so-called "Spalmaincentivi" incentive allocation may participate in auctions provided that there is a residual quota volume after allocation to greenfield plants and with a further reduction of the tariff of 5% with respect to the auction reference price.</li> </ul>
<b>Germany</b>	<ul style="list-style-type: none"> <li>Plants that entered into operation by July 2014: feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012).</li> <li>Plants that entered into operation from August 2014 to December 2016: FIP (EEG 2014).</li> <li>Plants authorised by the end of 2016 and in operation by the end of 2018: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed capacity in the period.</li> <li>Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017 and EEG 2021).</li> </ul>
<b>France</b>	<ul style="list-style-type: none"> <li>Plants that stipulated the application to purchase electricity generation by December 2015: a feed-in tariff (FIT) for 15 years, defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. After 10 years of operation, it will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400.</li> <li>Plants that stipulated the application to purchase electricity generation in 2016: feed-in premium (FIP). The FIP is divided into several components: the incentive component (<i>complément de rémunération</i>), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy.</li> <li>New plants that do not fall into the above categories: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.</li> </ul>
<b>Bulgaria</b>	<ul style="list-style-type: none"> <li>A feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years or 15 years. From 1 January 2019, for existing plants with capacity of over 4 MW, the incentive scheme moved from a FIT structure to a FIP structure. The incentive is calculated as the difference between the value of the FIT, as previously recognised, and a Reference Price calculated on the estimate of the future price of electricity adjusted on the wind profile. From 1 October 2019, existing plants with capacity between 1 MW and 4 MW also moved to the FIP.</li> </ul>
<b>Poland</b>	<ul style="list-style-type: none"> <li>Plants in operation by July 2016: Certificates of Origin (CO). The Substitution Fee (the penalty applied in the event of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded the previous year, plus 25%.</li> <li>From 2018 onwards, a multi-technology Dutch auction system was reintroduced, i.e. wind – photovoltaic. The quotas and the starting auction prices are defined by the Government. The incentive is calculated as the difference between the awarded price, inflated on a yearly basis, and the average daily price of electricity (two-way CfD).</li> </ul>
<b>Romania</b>	<ul style="list-style-type: none"> <li>Green certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. Specifically:             <ol style="list-style-type: none"> <li>recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (it takes place at constant instalments through the years 2018-2025);</li> <li>period of validity of the GCs, which is planned until 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months).</li> </ol> </li> <li>The cap and the floor between which the price of the GCs may fluctuate were set respectively at 35 EUR/MWh and 29.4 EUR/MWh.</li> <li>From 2018 onwards, the mandatory quota for the electricity consumers shall be determined according to a pre-set fixed volume of GCs on the market and a maximum average expense on the end consumer.</li> </ul>

## Solar sector incentives

Italy	<ul style="list-style-type: none"><li>• Incentives for photovoltaic systems are paid through a FIP tariff on energy fed into the network for the duration of 20 years.</li><li>• The feed-in tariff was introduced in Italy with Interministerial Decrees of 28 July 2005 and of 06 February 2006 (1st Feed-in Premium), which provided for a financing system for electric power generation operating expenses.</li><li>• New measures were introduced with Italian Ministerial Decree of 19 February 2007 (2nd Feed-in Premium) such as the application of the incentive tariff on all energy produced by the plant and differentiation of tariffs also based on the type of architectural integration and the size of the plant.</li><li>• In 2010, the 3rd Feed-in Premium came into effect with Italian Ministerial Decree of 06 August 2010, applicable to plants that came into operation from 1 January 2011 to 31 May 2011, which introduced specific tariffs for integrated photovoltaic plants with innovative characteristics. Italian Law no. 129/2010 (so-called "save Alcoa law") then confirmed the 2010 tariffs of the 2nd Feed-in Premium for all plants able to certify the conclusion of works by 31 December 2010 and become operational by 30 June 2011.</li><li>• The Italian Ministerial Decree of 05 May 2011 (4th Feed-in Premium) defined the incentive mechanism relating to plants coming into operation after 31 May 2011 and introduced an annual cumulative cost limit for incentives, set at EUR 6 billion.</li><li>• The Italian Ministerial Decree of 05 July 2012 (5th Feed-in Premium) partly confirmed the provisions of Italian Ministerial Decree of 05 May 2011 and fixed the cumulative cost of incentives at EUR 6.7 billion. The incentive provisions of the Feed-in Premium were no longer applied after 6 July 2013 when the ceiling of EUR 6.7 billion was reached.</li><li>• The Italian Ministerial Decree of 17 October 2014 (so-called "Spalmaincentivi" decree) made it mandatory for producers to choose, by November 2014, a method for remodulating incentive:<ul style="list-style-type: none"><li>a) extension of the incentive period by a further 4 years with simultaneous reduction of the unit incentive by a value of between 17% and 25%, depending on the residual life of the right to incentives;</li><li>b) an initial period of incentive reduction followed by a subsequent period of increase thereof for an equivalent amount;</li><li>c) flat reduction applied for the remaining incentive period, variable between 6% and 8% depending on the size of the plant.</li></ul></li><li>• The Italian Ministerial Decree of 4 July 2019 allows photovoltaic plants to access the incentives, for 20 years, through auctions and registries together with the wind power quota provided that:<ul style="list-style-type: none"><li>a) they are authorised;</li><li>b) they use new components;</li><li>c) they comply with the prohibition to install ground-located modules in a farming area.</li></ul></li></ul>
Germany	<ul style="list-style-type: none"><li>• Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017).</li><li>• The value of the incentive is determined on the basis of a one-way Contract for Difference (CfD). Ground-mounted photovoltaic systems up to a capacity of 20 MW can access the incentive.</li></ul>
France	<ul style="list-style-type: none"><li>• A FIT system introduced in 2000 and from 2011 auctions for photovoltaic plants with a capacity of between 250 kW and 17 MW.</li><li>• From 2018, auctions for photovoltaic plants with a capacity exceeding 500 kW for the assignment of a two-way CfD.</li></ul>
Spain	<ul style="list-style-type: none"><li>• <i>Regimen Especifico</i>, where the main element of integration of revenue is the "<i>Retribución a la Inversión</i>" (Return on Investment), expressed in EUR/MW, calculated on an annual basis and paid for the entire duration of the incentive period of 30 years, based on the plant's capacity.</li><li>• From 2016: the introduction of the auction mechanism for the recognition of "<i>Retribución a la Inversión</i>", calculated on an annual basis and paid for the entire duration of the incentive period of 25 years, based on the plant's capacity and the winning bid. Discount offered on the standard value of the initial investment (EUR/MW), which represents the main remuneration parameter for calculation of the Return on Investment.</li><li>• From 2020, abandonment of the previous incentive system, based on a Return Asset Base system, in favour of the adoption of a system based on remuneration of the electricity produced. The incentive is calculated as the difference between the price awarded and the average daily price of electricity (two-way CfD). The remuneration period is not fixed but lasts for a period no less than 12 years and up to the attainment of the maximum volume of energy subject to incentives.</li></ul>

## Hydroelectric sector incentives

Italy	<ul style="list-style-type: none"><li>• Plants that entered into operation before 2013: feed-in premium (FIP) equal to <math>(180 \text{ EUR/MWh} - P_{-1}) \times 0.78</math> where <math>P_{-1}</math> is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years.</li><li>• Plants that entered in operation from 2013 onwards, which requested the incentive in accordance with the Italian Ministerial Decree of 6 July 2012 and the Italian Ministerial Decree of 23 June 2016:</li></ul>
-------	---

---

- if their power is less than 250 kW, all-inclusive tariff for 20 years through direct access;

- Plants requesting the incentives in accordance with the Italian Ministerial Decree of 4 July 2019:
  - if their power is less than 250 kW and they are included among certain cases, access to all-inclusive tariff through Registry for 20 years;

Most of the hydroelectric plants of the ERG Group are incentivised through FIP tariff for 15 years as a result of partial hydroelectric revamping.

Additional mini-hydroelectric plants are incentivised through fixed all-inclusive tariff assigned with direct access (in accordance with the Italian Ministerial Decree of 23 June 2016) or as a result of successful participation in the selection through registries in accordance with the Italian Ministerial Decree of 4 July 2019.

## Thermoelectric sector incentives (Cogeneration)

### Italy

- High-Efficiency Cogeneration - HEC (cogeneration of electricity and useful heat) is incentivised through the recognition of Energy Efficiency Certificates - EECs (White Certificates), issued for ten years on the basis of the primary energy savings that cogeneration makes it possible to achieve when compared to the separate production of the same amount of electricity and heat. Energy Efficiency Certificates are exchanged in a regulated market managed by GME (Gestore dei Mercati Energetici) or through bilateral negotiations between operators.

ERG owns a high-efficiency cogeneration (HEC) plant, based on combined-cycle, natural gas fuelled technology, which has Energy Efficiency Certificates on the basis of the energy savings achieved annually. It should be noted in particular that Module 1, which benefited from them until 2019, has been revamped and therefore has the right to recognise EECs for a further ten years from the date of entry into service following the revamp, which took place in December. On the other hand, Module 2 ended the period for the recognition of EECs on 31 December 2020.

## Relevant legislative and institutional updates

### EUROPEAN UNION

- **Funds for the post-pandemic recovery: EMS-COVID and Next Generation EU**

The financing package prepared by the European Union to deal with the crisis triggered by the COVID-19 pandemic involves an increase in the EU Budget for the period 2021-2027 to approximately EUR 1,100 billion and the creation of an extraordinary fund of EUR 750 billion - called Next Generation EU (NGEU) - consisting partly of grants and partly of loans with long repayment times (by 2058).

A large portion of the EUR 750 billion fund (EUR 380 billion of which is non-repayable) will be allocated to the Recovery and Resilience Fund, the use of which by the Member States is exclusively for investments aimed at the Green Deal (at least 37%) and digitisation.

In order to access the funds, the Member States have submitted National Recovery and Resilience Plans (NRRPs) with evidence of projects in support of the Green Deal, in line with the Integrated National Energy and Climate Plans (INECPs) already submitted to the Commission. In June 2021, the European Commission evaluated the majority of the plans presented positively, including those of Italy, Germany, France and Spain. Italy will be the first beneficiary of NGEU, with roughly EUR 192 billion in loans and grants, that rises to EUR 235 billion, if we also consider the other funds allocated in the European domain.

- **Taxonomy of sustainable activities and investments. Publication of delegated acts.**

On 21 April, the European Commission adopted the package of measures aimed at improving capital flows to sustainable activities throughout the entire

European Union (known as the Taxonomy Regulation).

A first delegated act on "sustainable activities for climate change adaptation and mitigation objectives" The list includes wind and photovoltaic installations.

A second delegated act for the remaining objectives, which must clarify the classification of investments in gas or nuclear powered plants, will be published in 2022.

- **European Green Deal - Fit for 55package.**

On 14 July, in accordance with the European Green Deal roadmap, the European Commission published its "Fit for 55" package, consisting of a series of new measures and adaptations of existing regulations necessary to achieve the objectives of reducing greenhouse gas emissions by 2030.

Among the most interesting measures, which will be finalised no earlier than 2023, are the Directives for the Emissions Trading System (ETS) - the CO2 emission trading scheme -, the new Carbon Border Adjustment Mechanism (CBAM), the Renewable Energy Directive (RED III), the Energy Taxation Directive (ETD) and the Effort Sharing Regulation (ESR) – the sharing of targets among the EU Member States.

- **European Commission - new Climate, Energy and Environmental Aid Guidelines.**

In December 2021, the European Commission approved its new Climate, Energy and Environmental Aid Guidelines (CEEAG).

The changes introduced with respect to the previous version, which expired at the end of 2021 having been extended for one year, aim to align the guidelines with the policies adopted with the

European Green Deal, in particular with the objectives of net carbon neutrality by 2050 and the reduction of greenhouse gases by at least 55% by 2030.

## ITALY

- **Italian "Semplificazioni 2020" Decree Law and Conversion Law no. 120/2020**

The "Semplificazioni 2020" Decree Law, converted into Italian Law no. 120/2020 on 14 September 2020, provides for participation in the auctions organised by the GSE – under certain conditions – also for renewal works (complete reconstruction/repowering) on existing plants that have not adhered to the Italian Law of 21 February 2014 (regarding the so-called "Spalmaincentivi volontario" [voluntary incentive allocation]). These initiatives are also granted participation in any additional support instrument for the implementation of the Integrated National Energy and Climate Plan.

As regards authorisations, for minor works, where modification involves changes to the size of wind turbines within the limits of 15%, a work commencement declaration is sufficient.

The provision defines also the authorisation procedures for energy storage plants and specific simplifications based on their capacity.

- **Italian "Semplificazioni 2021" Decree Law and Conversion Law no. 108/2021**

At the end of May 2021, Italian Decree Law no. 77/2021 was published containing "Governance of the national recovery and resilience plan and the first measures for strengthening of the administrative structures and streamlining of procedures", so-called "Semplificazioni 2021" Decree (2021 simplifications decree).

The decree's conversion into law with Law no. 108/2021 was published on 30 July.

The main provisions introduced include the definition of non-substantial modifications to existing RES plants. For wind farms, where certain conditions are met, modification interventions can be carried out by simply providing notice of commencement, without prejudice to environmental obligations. For photovoltaic and hydroelectric plants, unlimited interventions on post-construction electrical power are included, provided that certain dimensional and grid connection conditions are met.

Various provisions were also introduced on the authorisation procedures side, first and foremost the redefinition of the powers of the Italian Ministry of Culture in the authorisation procedure of RES plants, related interconnections and infrastructures.

- **Decree Law implementing the NRRP and conversion law no. 233/2021**

In December 2021, Italian Law no. 233/2021, converting into law Italian Decree Law no. 152/2021 for the implementation of the NRRP, was published.

The main provision envisages enabling both full reconstruction projects (i.e. repowering) and greenfield projects to participate in future GSE auctions within the same quota.

The new guidelines will apply to all economic aid decisions taken by Member States starting from January 2022; however, the support instruments adopted must be adapted to the new guidelines, where materially applicable, by 31 December 2023.

This therefore brings to an end the limitation introduced by the Italian "Semplificazioni 2020" Decree Law, which stipulated that repowering projects could participate in RES auctions after new projects only in the event of there being remaining capacity within the quota.

- **Roadmap for the Ministry of Ecological Transition's Renewable Electricity Strategy**

In October 2021, the Ministry of Ecological Transition published the Government Roadmap for the implementation of the renewable electricity growth strategy, aligned with the objectives of the European Commission's "Fit for 55" package.

The Roadmap envisages new installations of renewable energy for approximately 60 GW by 2030, of which 43 GW for the photovoltaic sector and 12 GW for wind power.

RES auctions are confirmed as the main planning tool for "wind & solar" installations to achieve objectives.

Auctions are expected to be used long term, for at least a further 5 years, with a minimum of 3 sessions per year, for the awarding of (two-way) Contracts for Differences.

- **Italian Legislative Decree no. 199/2021 transposing Directive no. 2018/2001 (RED II)**

In November 2021, Italian Legislative Decree no. 199/2021, for the implementation of European Directive no. 2018/2001 on the promotion of the use of energy from renewable sources (RED II), was published.

Included in the main provisions is the possibility of support for the production of electricity from renewable sources, which, for plants with a capacity of more than 1 MW, is achieved through auctions for specific power quotas. In accordance with the Roadmap, the auctions are aimed at the awarding of two-way contracts for differences and are planned for at least five years.

For quotas not awarded through the tenders envisaged by the Italian Ministerial Decree of 4 July 2019 (Ministerial Decree FER 1), other auction sessions will be held after 2021, until all available capacity has been used.

The concept of "Suitable areas" for the installation of renewable energy plants is introduced, understood as areas with "high renewable potential", identified by the Regions through regional law on the basis of implementation criteria defined by the Government.

Pending definition by the Regions, areas for repowering projects qualified as "non-substantial" according to the "Semplificazioni 2021" Decree Law are considered suitable.

Impetus is given to simplifying the authorisation process for renewable energy projects, through the establishment of a new Single Digital Platform for Renewable Energy and Single Digital Models for authorisation procedures. In the case of plant projects in suitable areas, the standard authorisation times are reduced by 1/3, while Superintendencies and the

Ministry of Culture must express a non-binding opinion for the environmental impact assessment.

To encourage long-term supply contracts between private parties (PPAs) GSE provides for a market platform with voluntary participation.

GME is tasked with creating a digital notice board aimed at matching up parties interested in PPAs, while Consip, the central purchasing body of the Italian public administration, will provide public entities with tender tools for the long-term supply of electricity from renewable sources.

- **Italian Legislative Decree no. 210/2021 transposing Directive no. 2019/944 on the internal market for electricity**

December 2021 saw the publication of Italian Legislative Decree no. 210/2021 transposing EU Directive no. 2019/944 on the internal market for electricity, and adapting national legislation to EU regulations no. 943/2019 on the internal market for electricity and no. 941/2019 on risk preparedness in the electricity sector.

Among the provisions of greatest interest are the project to replace the national single price (PUN) for electricity with zonal prices after verification of feasibility, as well as some regulations on energy communities and on the development of storage capacity.

In particular, auctions organised by Terna are envisaged for the long-term procurement of storage capacity, according to criteria and regulations defined by ARERA. GME is responsible for creating a centralised platform for the allocation of this capacity.

- **Extension of GSE obligation deadlines – COVID-19 emergency**

In view of the extension of the national state of emergency, on 15 October 2021 GSE again updated the obligation deadlines for access to RES incentives and White Certificates for new projects.

In relation to the sixth RES auction procedure closed in June 2021, the following deadlines were extended by a total of 95 days:

- the deadline of 31 months from the date of awarding at auction for the entry into operation of onshore wind farms;
- the deadline of 15 months for the application of the 1% reduction of the tariff offered, in the event that the awardee wind farms have not yet entered into operation.

- **2022 Budget Law**

In December 2021, Italian Law no. 234/2021 relating to the state budget for financial year 2022 and the multi-year budget for the three-year period 2022-2024 was published.

Starting from 2022, further measures are envisaged to support companies with cash flow and access to credit; the entry into force of the sugar tax and plastic tax was postponed to 1 January 2023; funds were allocated to contain the increase in energy costs.

- **New configuration of the electricity market areas in effect from 1 January 2021**

From 1 January 2021, the changes to the structure of the market areas envisaged by Resolution no.

103/2019 came into force. The subdivision described in the new version of Annex 24 to the Network Code provides for moving the Umbria region from the Centre-North area to the Centre-South area, removing the limited production hub of Rossano and creating the geographical area of Calabria (corresponding to the same region).

- **Provisions for the implementation of single coupling in the intra-day electricity market**

Through resolution no. 218/2021, ARERA completed the process to amend the Italian intra-day market so as to allow the start of continuous trading and gate closure one hour before the delivery of energy. These provisions also enable Italy to participate in the European intra-day electricity market, integrating its system with the *Single Intra-Day Coupling platform (SIDC)* and the *Complementary Regional Intra-Day Auctions (CRIDA)*.

Italy's integration went live on 21 September 2021.

- **Capacity Market Auctions 2024 – implementing provisions**

Over the course of 2021, provisions for the implementation of the new auctions for the Italian Capacity Market (CM) relating to the delivery years 2024 and 2025 were published.

ARERA published resolution no. 370/2021 relating to the parameters for determining the reliability standard (RS) of the Italian electricity system.

Through the subsequent resolution no. 399/2021, subsequently amended with resolution no. 578/2021, it established the economic parameters for both the 2024 auction and the 2025 auction.

Specifically, the maximum premium established for participation in the CM auction for existing capacity was confirmed as 33,000 EUR/MW/year, while the maximum premium established for new unauthorised capacity was set at 70,000 EUR/MW/year.

The Ministry of Ecological Transition then published the decree approving the regulations, instructing Terna to start the auction procedures for the year 2024 only; only at the end of this procedure will the conditions for a possible further auction for 2025 be assessed.

The main auction for 2024 was held on 21 February 2022.

- **Capacity Market 2019 – 2022 delivery period**

On 1 January 2022, the delivery period concerning the Capacity Market auction held on 6 November 2019 began.

On that occasion, the ERG Group was assigned 340 MW of capacity referring to the Priolo CCGT plant for an economic value of EUR 11,200,000/year.

- **Determination of the adjustment value, for 2008, of the avoided fuel cost, for electricity withdrawn by the Gestore dei Servizi Energetici (Energy Services Operator) pursuant to measure Cip 6/92, in compliance with ruling 4778/20 of the Council of State.**

ARERA, by means of resolution no. 233/2021, concludes the procedure launched under resolution no. 354/2020, confirming for 2008, in compliance with ruling no. 4778/20 of the Council of State, the adjustment value, already defined under resolution no. 553/2013, of the avoided fuel cost, for electricity

withdrawn by the GSE pursuant to measure Cip 6/92.

- **Provision for the supply of the service for the transmission, distribution and dispatching of electricity withdrawn to allow subsequent injection into the grid.**

ARERA, by means of resolution no. 109/2021, defines and standardises the conditions for the supply of the service for the transmission, distribution and dispatching of energy withdrawn and injected into the grid by stock-piling systems and auxiliary services, regardless of the plant configuration. Withdrawals of electricity from the grid, both for the powering of auxiliary services, and for stock-piling systems (without any difference), for the purposes of the subsequent re-injection into the grid, will be treated as negative electricity injected from 1 January 2023, i.e. upon cessation of the validity of Article 16 of the Integrated Law on Transport. The application of the new regulation is voluntary; operators must choose whether to adhere to the new regulation by 30 June 2022.

- **Approval of the regulations on imbalances.**

With resolution no. 523/2021, ARERA approved the regulations on imbalances in implementation of the European regulatory framework. The reform came into force on 1 April 2022.

Among the most significant decisions, the imbalance price areas continue to coincide with the market area, postponing the determination of "dynamic" areas to a later date.

For the identification of the imbalance price, the single pricing model is extended to all units, replacing (i) the dual pricing currently applied to Enabled Units (such as the ERG CCGT) and (ii) the equalisation regime available for non-programmable RES.

A macro-zonal non-arbitrage fee is established for Enabled Units, to neutralise any economic benefits deriving from opportunistic trading, as well as a fee for non-compliance with dispatching orders or for deviations in certain circumstances.

- **Introduction of a new market session prior to the DAM**

With resolution no. 517/2021, ARERA approved Terna's proposal to add a new market session, prior to the Day-Ahead Market, regarding tertiary replacement reserve exchange.

This is an instrument of last resort in force since 1 January 2022, to be used in situations of lack of supply and, in particular, when in adverse weather situations the contribution of imports or the tertiary replacement reserve is insufficient.

All Dispatching Users authorised to participate in the DSM must submit – every day of the year – offers for this market session:

In the event of participation in the Capacity Market, the quantities offered contribute towards the obligation to offer on the market.

- **Data exchange between TSOs-DSOs-Significant Grid Users.**

With resolution no. 540/2021/R/eel, ARERA established the reference regulation for data exchange between Terna-DSOs-Significant Grid Users, aimed at ensuring greater observability of generation on the MV grid.

The measure confirms the need to (I) adjust existing plants on the MV grid to make them visible to Terna; (II) ensure that new plants are equipped with observability functions from the date of entry into operation; (III) provide for the disbursement of a grant to cover the adjustment costs proportionate to the time required for the work.

- **"Sostegni-ter" decree containing measures to limit the effects of price increases in the electricity sector.**

On 27 January, Italian Decree Law no. 4/2022 was published, introducing urgent measures to support businesses and economic operators, employment, health and local services, in connection with the COVID-19 emergency, as well as to contain the effects of price increases in the electricity sector.

The provisions targeted at the energy sector envisage the elimination from bills – for the first quarter of 2022 – of the general system charges applied to users with available power equal to or greater than 16.5 kW. The related charges are met through the corresponding use of a portion of the proceeds from the auctions of CO2 emission quotas.

Another specific provision aims to guarantee energy-intensive companies partial compensation of the extra costs resulting from the exceptional increase in energy costs.

In the same period, companies experiencing an energy bill increase of more than 30% compared to 2019, are given an extraordinary contribution in the form of a tax credit.

A specific article of the Decree, subsequently replaced by a similar provision in Decree no. 13/2022, the "Anti-Fraud Decree", provides that from 1 February 2022 to 31 December 2022, a two-way energy price compensation mechanism shall apply to the electricity produced by some renewable sources plants that do not have access to tariff incentive mechanisms, which essentially provides for the partial repayment of the incentive.

These provisions apply exclusively to photovoltaic production incentivised up to the fourth Feed-In Premium, as well as all non-incentivised production of RES plants (solar, hydroelectric, geothermal and wind power), provided that entered into operation prior to 01.01.2010. However these productions also remain excluded from the scope of the regulation if they are subject of energy sales contracts (supply contracts) concluded before January 27, 2022, at a fixed price, not dependent on market fluctuations and to extend that the price is not 10% higher than the reference price indicated in Anti-Fraud Decree, limited to the duration of this contract.

- **"Energy" Decree containing further measures to contain the electricity and natural gas costs and develop renewable energy.**

Italian Decree Law no. 17/2022, dedicated to containing the costs of electricity and natural gas, was published on 1 March as a result of the repercussions of the conflict between Russia and Ukraine.

Some of the measures envisaged are aimed at speeding up the development of renewable energies by simplifying, including from a procedural point of view, the installation of such plants.

For renewable plants installed on "suitable" areas, the opinion of the Ministry of Culture, although

mandatory, is no longer considered binding for the assessment of environmental impact.  
It also regulates the development of photovoltaics in agricultural areas, granting access to support mechanisms in relation to the degree of occupation of

the agricultural area.

Finally, measures are envisaged to streamline and simplify the authorisation procedures for off-shore renewable plants.

## GERMANY

- **EEG Reform**

The German parliament approved the reform of the Renewable Energy Sources Act called Erneuerbare-Energien-Gesetz (EEG), which entered into force on 1 January 2021.

The new version of the EEG outlines the growth process of the various renewable technologies up to 2028 and establishes climate neutrality by 2050.

From 2021, the base price for photovoltaic auctions will fall to 59 EUR/MWh. Starting from 2022, it will be the average of the highest bids from the last three auctions, plus an 8% markup.

For onshore wind, the auction base price will be

reduced to 60 EUR/MWh, while from 2022 it will be reduced by 2% per year.

EEG 2021 provides also for an increase from 10 to 20 MW in the capacity limit for ground-mounted plants, which participate in photovoltaic auctions.

In June 2021, the federal Government reached an agreement to increase the auction-based volumes for 2022 both for onshore wind and photovoltaic power.

More specifically, the onshore wind quota is increased from 2.9 GW to 4 GW; the photovoltaic quota is more than tripled, going from 1.9 GW to 6 GW, equally distributed between ground-mounted plants and roof-top installations.

## UK

- **Ireland: electricity market**

SEM Committee, the authority that supervises the functioning of Ireland's Electricity Market, called the I-SEM (Integrated Single Electricity Market), confirmed the continuation of operations of the single electricity market between the Republic of Ireland and Northern Ireland following the entry into force of BREXIT.

- **Measures to mitigate the increase in the price of electricity and gas.**

On 14 January 2022, Ofgem, the British energy authority, approved the introduction of a cap of 20 GBP/MWh on Balancing Services Use of System (BSUoS) charges to contain the increase resulting from high energy costs. The cap applies from 17 January to 31 March 2022 and any excess costs are carried forward to the year 2022/23 up to a maximum of GBP 200 million. If the maximum of GBP 200 million is reached before the end of the year of application of the measure, the latter will cease to be applied early.

## FRANCE

- **Climate and Resilience Law**

On 24 August 2021, the "Climate and Resilience" Law was published.

The main provisions regarding the onshore wind and photovoltaic solar sectors include the regionalisation of renewable energy objectives, to be defined with a specific decree, to contribute to the national objectives of the multi-year energy plan (PPE).

Through the decree, common methods and indicators will be established to monitor the implementation of regional objectives.

With another specific decree, a regional energy commission was established, responsible for the preparation of regionalisation proposals and monitoring.

For the photovoltaic sector, the obligation for some buildings to integrate renewable energy production or planting systems on at least 30% of their surface is

extended.

- **Measures to mitigate the increase in the price of electricity and gas.**

On 19 January 2022, the French Energy Regulatory Authority (CRE) approved the resolution on the determination of regulated tariffs for the sale of electricity containing all temporary measures aimed at mitigating the impact of the increase in energy prices on electricity bills in 2022. In short, these measures involve substantially reducing the national tax on final electricity consumption (TICFE), the possibility for the French government to limit the increase in energy sales tariffs to 4% for the whole of 2022, and the obligation for EDF to increase the volume of nuclear energy sold at a reduced price by 20 TWh, from 100 TWh in 2022.

## ROMANIA

- **Measures to mitigate the increase in the price of electricity and gas.**

To mitigate the effects linked to the increase in the price of energy, temporary amendments were published to Ordinance no. 118/2021, which

governs the electricity market. For the period 1 November 2021 - 31 March 2022, the Green Certificates paid on the first 200 MWh of electricity consumed each month are cancelled and a new tax on energy producers of 80% is applied on revenues exceeding a pre-established threshold (450 RON/MWh). This surtax does not apply to

producers of electricity from fossil fuels.

- **Transposition of European Directive no. 2019/944 for the internal market for electricity**

At the end of 2021, by means of emergency ordinance no. 143/2021 (GEO 143), the government approved a series of amendments to Electricity and Natural Gas Law no. 123/2012. These amendments

#### **BULGARIA**

- **Introduction of changes pertaining to the balancing market**

With decision № Л-44 of 30 December 2021, the Bulgarian Energy Authority (EWRC) set certain limits for the conclusion of transactions on the energy balancing market in force from 1 January

#### **POLAND**

- **State aid: approval by the EU Commission of the extension of incentives for the production of electricity from renewable sources from 2022 to 2027**

On 30 November 2021, the European Commission

will take effect from 1 January 2022. The ordinance introduces (i) the possibility of stipulating long-term supply contracts (PPAs) outside the OPCOM centralised market, (ii) the partial abolition of the obligation for private producers of electricity to sell energy on OPCOM and (iii) the possibility for other markets, market platforms and brokers to offer their services on the Romanian market.

2022.

It also introduced an amendment to the Electricity Exchange Regulation, aimed at eliminating the possibility for balancing groups to calculate imbalances on the basis of the entire portfolio.

approved the extension to the period 2022-2027 of the auction mechanism for the assignment of two-way CfDs for a total renewable power quota of 9 GW, within the limits of a spending budget of PLN 43.85 billion.

# FINANCIAL STATEMENTS AND OTHER INFORMATION

## FINANCIAL STATEMENTS

### Income Statement

As already specified in the Introduction, this section contains both the reported operating results, calculated on the basis of the data presented in the Notes to the Consolidated Financial Statements, and the adjusted operating results, presented to exclude the impacts relating to the adoption of IFRS 9 and of special items, and with the reclassification for IFRS 16, in order to facilitate an understanding of the Group's operating performance.

The adjusted operating results also include in ordinary operations the results of the hydroelectric assets being sold, including among other things the full contribution of amortisation and depreciation for 2021.

Lastly, this Report reflects the economic impacts of the consolidation of the companies acquired during the year as from:

- 1 July 2021 for the French wind companies acquired in June 2021;
- 1 October 2021 for the wind and solar companies in France and Germany acquired in October 2021.

For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, reference is made to that indicated in the Alternative Performance Indicators section below.

(EUR million)		Reported Year			Adjusted Year		
Income Statement		2021	2020	Δ	2021	2020	Δ
Revenue	1	1,038	856	182	1,232	974	258
Other income	2	8	19	(10)	11	22	(11)
<b>Total revenue</b>		<b>1,047</b>	<b>875</b>	<b>172</b>	<b>1,243</b>	<b>996</b>	<b>247</b>
Purchases and change in inventories	3	(393)	(282)	(111)	(395)	(282)	(113)
Services and other operating costs	4	(164)	(134)	(30)	(197)	(168)	(29)
Personnel expense		(63)	(58)	(6)	(71)	(65)	(6)
<b>Gross operating profit (EBITDA)</b>		<b>426</b>	<b>401</b>	<b>25</b>	<b>580</b>	<b>481</b>	<b>99</b>
Amortisation, depreciation and impairment of non-current assets	5	(263)	(256)	(7)	(276)	(298)	22
<b>Operating profit (EBIT)</b>		<b>163</b>	<b>145</b>	<b>18</b>	<b>304</b>	<b>183</b>	<b>121</b>
Net financial income (expense)	6	(51)	(89)	38	(29)	(47)	18
Net gains (losses) on equity investments		1	0	0	0	0	(0)
<b>Profit before taxes</b>		<b>112</b>	<b>56</b>	<b>56</b>	<b>275</b>	<b>136</b>	<b>138</b>
Income taxes	7	(30)	(8)	(22)	(72)	(29)	(43)
<b>Net profit (loss) from continuing operations</b>		<b>82</b>	<b>48</b>	<b>34</b>	<b>203</b>	<b>107</b>	<b>96</b>
Net profit (loss) from discontinued operations		93	61	31	0	0	0
<b>Profit (loss) for the year</b>		<b>174</b>	<b>110</b>	<b>65</b>	<b>203</b>	<b>107</b>	<b>96</b>
<b>Non-controlling interests</b>		<b>(2)</b>	<b>(2)</b>	<b>0</b>	<b>(2)</b>	<b>(2)</b>	<b>0</b>
<b>Profit attributable to owners of the parent</b>		<b>173</b>	<b>108</b>	<b>65</b>	<b>202</b>	<b>106</b>	<b>96</b>

### 1 – Revenue

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms and solar and thermoelectric plants. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. In particular, the energy sold wholesale includes sales on the IPEX electricity stock exchange, both in the "day-ahead market" (MGP) and in the "intra-day market" (MI) and in the "dispatching services market" (MSD), in addition to sales to the main sector operators on the "over the counter" (OTC) platform and Power Purchase Agreements (PPAs), long-term energy sale contracts at pre-established prices, currently active in the French wind sector. And lastly, sales of steam and other utilities supplied to industrial operators at the Priolo site.
- incentives related to the output of wind farms in operation, hydroelectric plants and solar installations.

**2021 reported revenue** was EUR 1,038 million, up compared with EUR 856 million in 2020.

The change is a result of the following factors:

- the increase (EUR +113 million) in the **Wind sector** mainly as a result of the strongly growing market scenario and the increase deriving from the higher unit value of the GRIN incentive in Italy, partly offset by lower output on the foreign portfolio (totalling EUR 515 million compared to EUR 402 million);
- the **Solar sector**, up slightly compared to 2020, thanks also to the full contribution of the newly

- acquired companies in France last June (EUR 75 million compared to EUR 73 million);
- the **Thermoelectric sector**, up compared to 2020 (EUR 448 million versus EUR 381 million), as a result of the improvement in the scenario, partly offset by the end of the year of high-efficiency cogeneration on both modules of the CCGT plant, the first of which returned to operation in December 2021. It should also be noted that in 2020 the item included positive adjustments relating to site contracts for approximately EUR 5 million;

The adjusted revenues include revenues deriving from the **Hydroelectric sector**, which increased sharply in 2021 (EUR +76 million) due to the extraordinary availability of water and the higher output recorded during the year, and the higher value of the incentive (EUR 194 million compared to EUR 118 million).

## 2 – Other income

Other income includes mainly insurance reimbursements, compensation and expense repayments and grants related to income.

In 2020, the item included the insurance reimbursement (equal to EUR 4.7 million) in compensation for accidents that occurred in previous years in relation to the CCGT plant.

Other adjusted income includes the other income deriving from the Hydroelectric sector of approximately EUR 3 million.

## 3 – Purchases and changes in inventories

Costs for purchases include costs for the purchase of gas and CO<sub>2</sub>, utilities and steam intended to fuel the ERG Power S.r.l. CCGT plant and costs for electricity intended for resale on the market within the sphere of the Energy Management activities.

## 4 – Services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, for hydroelectric concessions, for agreements with local authorities, for consulting services, insurance, and for services rendered by third parties.

Other operating costs relate mainly to rent, provisions for risks and charges and taxes other than income taxes.

The adjusted values include the full contribution of hydroelectric assets and in 2021 do not include:

- the ancillary costs relating to non-recurring transactions equal to EUR 7 million;
- the termination indemnity related to the end of office and succession of the Chief Executive Officer on 26 April 2021, amounting to EUR 2.8 million;
- allocations to the provision for Disposed Businesses of approximately EUR 2 million.

Furthermore, for the purposes of the adjusted values, lease charges (lease costs for IFRS 16 purposes) of EUR 10 million (EUR 10 million in 2020) are classified under this item of the reclassified income statement. For a more detailed explanation of this classification, please refer to the “IFRS 16” paragraph, available under “Definitions” in the “Alternative Performance Indicators” section.

## 5 – Amortisation, depreciation and impairment

Amortisation, depreciation and impairment refer to wind farms, the CCGT plant and solar installations. The increase in the year is mainly linked to the contribution made by the wind and solar assets acquired during the year and to the write-downs carried out in the Repowering area in Italy, partially offset by the review of the useful life of some assets relating to the wind farms and the end of the useful life of some components of the wind farms.

It should be noted that the adjusted values for 2021 do not include:

- the write-down of the net residual value of the tangible and intangible fixed assets of wind farms in the Italian portfolio, following the authorisation of three Repowering projects obtained during the year, amounting to approximately EUR 22 million.
- impairment losses recognised on the CCGT plant in Sicily following impairment testing, for approximately EUR 3 million;
- the depreciation related to the application of IFRS 16, as discussed previously in item 4.

The item also includes the full contribution of the amortisation and depreciation of the hydroelectric complex to be sold. To this end, it should be noted that the amortisation and depreciation reported include the amortisation and depreciation of the above-mentioned hydroelectric assets calculated only for the first six months of 2021, up to the date of IFRS 5 first application on ERG Hydro.

## 6 – Net financial income (expense)

**Reported net financial expense** in 2021 amounted to EUR 51 million, a significant decrease compared to 2020 (EUR 89 million), thanks to the effects deriving from the aforementioned significant liability management transactions.

The average cost of non-current debt in 2021 stood at 1.7% compared to 2.3% in 2020, due to the same effects described above. The return on liquidity is higher than that recorded in 2020 thanks to the optimisation of the mix of liquidity on demand and invested liquidity.

The item includes also the effects of the derivatives hedging against the risk of fluctuations in interest rates.

Lastly, it is specified that the adjusted values do not include the following exceptional components (special items) linked to liability management transactions:

- expense (EUR -16 million) relating to reimbursement of project financing by operational wind companies and the related IRS derivatives, and the reimbursement of the remaining EUR 25 million of liabilities deriving from the issue of the non-convertible bond in 2017;
- financial expense (EUR -2.4 million), tied to the reversal effect relating to refinancing operations carried out in previous years, in application of IFRS 9;
- financial expense related to the application of IFRS 16 (EUR -4 million), as already commented on in item 4.

## 7 - Income taxes

**Reported income taxes** in 2021 stood at EUR 30 million, an increase compared to EUR 8 million in 2020, mainly due to higher taxable income due to the already discussed results in the year.

**Adjusted income taxes** stood at EUR 72 million, up significantly compared to EUR 29 million in 2020, mainly as a consequence of the higher taxable income due to the already discussed results in the year.

The taxes for 2021 include the effects (approximately EUR 5 million) of the Wind Fall Tax introduced in Romania in view of the high energy sale prices.

The adjusted tax rate for 2021, obtained from the ratio between taxes and pre-tax profit, was 26% (21% in 2020).

## Statement of Financial Position

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, used in the preparation of the annual financial report, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**. For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the “Alternative Performance Indicators” section below.

Both the reported values and the adjusted values are shown below. The adjusted values at 31 December 2021 do not include:

- the impact deriving from the application of IFRS 16 of increased net financial indebtedness of approximately EUR 129 million with a balancing entry in net invested capital amounting to approximately EUR 126 million.
- the impact related to the application of IFRS 5 on the hydroelectric scope.

Reclassified Statement of Financial Position (EUR million)		Reported		Adjusted	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current assets	1	3,089	3,361	3,624	3,262
Net operating working capital	2	97	152	177	152
Employee benefits		(4)	(5)	(5)	(5)
Other assets	3	434	211	434	213
Other liabilities	4	(549)	(412)	(623)	(412)
<b>Net invested capital of continuing operations</b>		<b>3,066</b>	<b>3,308</b>	<b>3,608</b>	<b>3,209</b>
<b>Net invested capital of assets held for sale</b>		<b>683</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net invested capital</b>		<b>3,749</b>	<b>3,308</b>	<b>3,608</b>	<b>3,209</b>
Equity att. to the owners of the parent		1,559	1,758	1,547	1,760
Non-controlling interests	5	10	10	10	10
Net financial indebtedness	6	2,250	1,540	2,051	1,439
Financial indebtedness of discontinued operations	6	(69)	-	-	-
<b>Equity and financial indebtedness</b>		<b>3,749</b>	<b>3,308</b>	<b>3,608</b>	<b>3,209</b>

## 1 – Non-current assets

<i>(EUR million)</i>	Intangible assets	Property, plant and equipment	Financial assets	Total
<b>Non-current assets at 31/12/2020</b>	<b>1,050</b>	<b>2,259</b>	<b>52</b>	<b>3,361</b>
Capital expenditure	4	255	0	259
Change in the consolidation scope	144	249	2	396
Divestments and other changes	(5)	21	(9)	8
Amortisation, depreciation and impairment losses	(69)	(208)	-	(278)
IFRS 5 Reclassification	(129)	(555)	(0)	(684)
IFRS 16 change	-	27	-	27
<b>Non-current assets at 31/12/2021</b>	<b>995</b>	<b>2,048</b>	<b>45</b>	<b>3,089</b>
Adjustment for impact of IFRS 5	120	542	0	662
Adjustment for impact of IFRS 16	0	(127)	0	(127)
<b>Adjusted non-current assets at 31/12/2021</b>	<b>1,116</b>	<b>2,463</b>	<b>45</b>	<b>3,624</b>

The change in the consolidation scope relates to:

- wind and solar farms in France, consolidated on a line-by-line basis in the second half of 2021;
- the acquisition of a project for the development of a wind farm in Sweden;
- wind and solar farms in France and Germany, consolidated on a line-by-line basis in the fourth quarter of 2021;

The “Divestment and other changes” line comprises disposals of non-current assets, the use of main component spare parts and reclassifications.

## 2 – Net operating working capital

This item includes spare parts, amounts due for incentives, amounts due for the sale of electricity, and trade payables mainly concerning the purchase of electricity and gas, the maintenance of wind power plants and other trade payables.

The change in the year is mainly linked to the increase in the sale price of energy in the second half of 2021.

## 3 – Other assets

These comprise mainly deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services.

The change in the year is tied mainly to the positive effect of the fair value of derivatives hedging gas due to the trend in commodity prices, to the related change in deferred tax assets and to the higher VAT receivables linked to the investments in installations under construction abroad.

## 4 – Other liabilities

These concern mainly the negative effect of the fair value of derivatives hedging electricity due to the trend in commodity prices, to the deferred tax liabilities calculated on the differences between carrying amounts and the related tax basis (mainly concessions and non-current assets), the estimate of income taxes due for the year, and the provisions for risks and charges.

## 5 – Non-controlling interests

Non-controlling interests relate to the non-controlling interest (78.5%) in Andromeda PV S.r.l., acquired in 2019.

## 6 – Net financial indebtedness

Adjusted indebtedness does not include the loans and borrowings related to the application of IFRS 16 of approximately EUR 129 million (EUR 101 million at 31 December 2020).

Summary of the Group's indebtedness <i>(EUR million)</i>	Reported		Adjusted	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current financial indebtedness	2,196	2,106	2,073	2,015
Current financial indebtedness (cash and cash equivalents)	(16)	(566)	(22)	(575)
<b>TOTAL</b>	<b>2,181</b>	<b>1,540</b>	<b>2,051</b>	<b>1,439</b>

### Financial Strategy and Sustainable Finance

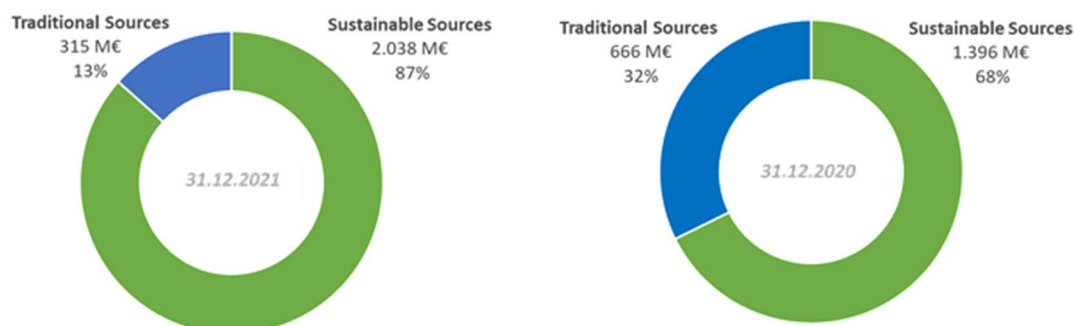
The ERG Group's financing strategy is increasingly oriented towards green and sustainable instruments, in line with its development model.

In the last two years, ERG has implemented a strategy to gradually evolve the financial structure from Project to Corporate Financing, through significant liability management transactions and the simultaneous issue of two bond loans in April 2019 and September 2020 respectively; this made it possible to re-balance the group financial structure in favour of corporate financing and to transform the debt structure from traditional sources of financing towards sustainable sources of financing.

Confirming ERG's strong commitment to sustainable development, the three green issues for a total of EUR 1,600 million were structured as Green Bonds on the basis of the ERG Green Bond Framework, assessed by the independent advisor Vigeo Eiris as compliant with Green Bond Principles 2021 and in line with best market practices.

At 31 December 2021, the sources of Sustainable Finance, equal to EUR 2,038 million out of a total of financial sources equal to a nominal amount of EUR 2,352 million (EUR 1,396 million at 31 December 2020 out of a total of financial sources equal to a nominal amount of EUR 2,062 million), include:

- *Green Bonds*, for a total of EUR 1,600 million (EUR 1,100 million at 31 December 2020), intended for the financing and refinancing of the construction and/or acquisition of wind and solar projects that have recently become part of the ERG Group portfolio;
- *Medium/long-term senior unsecured Environmental, Social and Governance-linked loans* ("ESG Loans"), for a total of EUR 350 million (EUR 200 million at 31 December 2020), which provide for a reward mechanism linked to the achievement of a CO2 emissions savings target;
- *ESG Linked Project Green Financing*, for a total of EUR 88 million, equal to EUR 96 at 31 December 2020, subscribed for three wind farms in Italy with a total capacity of 154 MW and structured in compliance with the "Sustainability Linked Loan Principles" issued by the Loan Market Association. This loan provides for the periodic evaluation of sustainability parameters, and reward mechanisms linked to the achievement of objectives in terms of plant availability and green energy output.



The following table illustrates the **non-current financial indebtedness** of the ERG Group:

Non-current financial indebtedness	31/12/2021	31/12/2020
(EUR million)		
Non-current loans and borrowings	249	506
Current portion of bank loans and borrowings	0	0
Non-current financial liabilities	1,614	1,139
<b>Total</b>	<b>1,863</b>	<b>1,645</b>
Project Financing	237	417
Current portion of Project Financing	(27)	(48)
<b>Non-current Project Financing</b>	<b>210</b>	<b>369</b>
<b>Long-term loan assets</b>	<b>0</b>	<b>0</b>
<b>IFRS 16 financial liabilities (non-current)</b>	<b>123</b>	<b>92</b>
<b>Net financial indebtedness</b>	<b>2,196</b>	<b>2,106</b>
<b>Financial indebtedness of discontinued operations</b>	<b>0</b>	<b>0</b>
<b>Adjustment for impact of IFRS 16</b>	<b>(123)</b>	<b>(92)</b>
<b>Total adjusted financial indebtedness</b>	<b>2,073</b>	<b>2,015</b>

- The “**Non-current loans and borrowings**” item at 31 December 2021 totalled EUR 249 million and refers to:
  - one bilateral corporate loan UBI Banca S.p.A. (now Intesasanpaolo Group) (EUR 100 million) entered into in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l. and the project financing for the wind farm in Corni (Romania).
  - a senior *Environmental, Social and Governance loan* (“ESG Loan”) with Mediobanca S.p.A. (EUR 150 million) taken out in the first half of 2016 and refinanced in the fourth quarter of 2021 (first *bilateral corporate loan*).

The loans indicated above are recognised net of medium/long-term ancillary costs, recognised with the amortised cost method (EUR 0.2 million) and the effect of the renegotiation of loans (EUR 0.8 million) following the application of IFRS 9.

- “**Non-current financial liabilities**”, amounting to EUR 1,614 million, refer mainly to:
  - liability deriving from placement of three bond loans amounting to EUR 500 million (with a 6-year duration at a fixed rate), EUR 600 million (with a 7-year duration at a fixed rate) and EUR 500 million (with a 10-year duration at a fixed rate) respectively, issued as part of the Euro Medium Term Notes (EMTN) Programme. Liabilities are recognised net of medium/long-term accessory costs recognised for accounting purposes using the amortised cost method (EUR 9 million);
  - liabilities relating to deferred components of considerations for the purchase of assets and authorisations (EUR 14 million).
  - net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 9 million;
- The liabilities for “**Project Financing**” equal to EUR 237 million at 31 December 2021 are for:
  - EUR 108 million in loans relating to the company acquired by Soles Montalto in 2019;
  - EUR 136 in loans disbursed for the construction of wind farms, recognised for a total net of ancillary costs, recorded for accounting purposes with the amortised cost method (EUR 3 million) and the effect of the renegotiation of loans (EUR 3 million) following the application of IFRS 9.

**Current net financial indebtedness** is broken down as follows:

<b>Current financial indebtedness (cash and cash equivalents)</b>	<b>31/12/2021</b>	<b>31/12/2020</b>
<i>(EUR million)</i>		
Current bank loans and borrowings	1,305	71
Current portion of bank loans and borrowings	0	0
Other current financial liabilities	67	32
<b>Current financial liabilities</b>	<b>1,372</b>	<b>103</b>
Cash and cash equivalents	(811)	(603)
Securities and other current financial assets	(491)	(71)
<b>Current financial assets</b>	<b>(1,302)</b>	<b>(674)</b>
Current Project Financing	27	48
Cash and cash equivalents	(50)	(52)
<b>Project Financing</b>	<b>(23)</b>	<b>(4)</b>
<b>IFRS 16 financial liabilities (current)</b>	<b>6</b>	<b>9</b>
<b>Net financial indebtedness</b>	<b>53</b>	<b>(566)</b>
<b>Financial indebtedness of discontinued operations</b>	<b>(69)</b>	<b>0</b>
<b>Adjustment for impact of IFRS 16</b>	<b>(6)</b>	<b>(9)</b>
<b>Total current adjusted financial indebtedness</b>	<b>(22)</b>	<b>(575)</b>

**Current bank loans and borrowings** include:

- two Environmental, Social and Governance senior loans (“ESG Loans”) with BNL (EUR 100 million) entered into in the second half of 2018, and with Credit Agricole (EUR 100 million), entered into in the first half of 2019, to support the substantial investment plan of the Group and to refinance certain corporate credit lines, thus allowing a significant extension of the duration of the debt while improving its financial terms.
- a corporate loan with Commerzbank (EUR 60 million) entered into the second half of 2019 as part of the Liability Management activities.
- short-term positions referring to short-term credit facilities. These disbursements were used to manage the impact on liquidity of daily settlement of the fair value change in commodity future hedging instruments.

It should be noted that the aforementioned short-term bank loans were fully repaid in January 2022.

**Other short-term financial payables** mainly include financial payables on non-hedging physical derivatives (EUR 67 million).

**Current financial assets** include investments in securities and cash collateral on the trading operation on futures derivative instruments.

## Cash flows

The statement of cash flows is presented based on adjusted values (including, among others, cash flows generated by ERG Hydro S.r.l., now ENEL Hydro Appennino Centrale S.r.l.), in order to facilitate understanding of the cash flow dynamics of the period. The breakdown of changes in net financial indebtedness is as follows:

(EUR million) Cash Flows	Year	
	2021	2020
Adjusted gross operating profit (loss)	580	481
Change in net working capital	(53)	(41)
<b>Cash flows from operations</b>	<b>527</b>	<b>440</b>
Investments in property, plant and equipment and intangible assets	(258)	(111)
Company acquisitions (business combinations)	(389)	(44)
Capital expenditure on non-current financial assets	(0)	(0)
Divestments and other changes	(3)	(0)
<b>Cash flows from (used in) investments/divestments</b>	<b>(651)</b>	<b>(156)</b>
Net financial expense	(29)	(47)
Closure fair value of loans	(16)	(24)
Net gains (losses) on equity investments	0	0
<b>Cash flows from (used in) financing activities</b>	<b>(45)</b>	<b>(71)</b>
<b>Cash flows from (used in) tax management</b>	<b>(42)</b>	<b>(25)</b>
Distribution of dividends	(114)	(115)
Other changes in equity	(288)	(35)
<b>Cash flows from (used in) Equity</b>	<b>(402)</b>	<b>(150)</b>
<b>Opening net financial indebtedness</b>	<b>1,439</b>	<b>1,476</b>
<i>Net change</i>	612	(37)
<b>Closing net financial indebtedness</b>	<b>2,051</b>	<b>1,439</b>

**Cash Flows from operations** in 2021 are positive for EUR 527 million, up by EUR 87 million compared to the corresponding period of 2020, mainly due to the changes in working capital.

**Cash Flows from investments** in 2021 are tied mainly to the M&A activity and in particular to the acquisition of operational wind farms and solar installations in France and Germany (EUR 348 million) and a project for the construction of a wind farm in Sweden (EUR 41 million), and to the capital expenditure in the year (EUR 258 million) for the development of wind farms in the United Kingdom, Poland, France and Sweden, as well as developments on the Repowering and Reblading projects.

**Cash flows from financing activities** refer to the interest accrued in the year and to the financial expense as part of the Liability Management transactions. It should be noted that in the second half of 2021 some Project Financing were repaid in advance, incurring early termination charges of approximately EUR 16 million.

**Cash flows from Tax Management** refer to the payment of direct taxes during the year.

**Cash flows from Equity** refer to the changes in the hedging reserve tied to derivative financial instruments, to the translation reserve and to the dividends distributed.

## ALTERNATIVE PERFORMANCE INDICATORS

### Definitions

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and presentation of Alternative Performance Indicators (APIs) in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Indicators (CESR/05 – 178b), aim to promote the usefulness and transparency of alternative performance indicators so as to improve their comparability, reliability and comprehensibility. Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.

Finally, in order to facilitate an understanding of the business segments' performance, the operating results are shown with the exclusion of significant special income components of an exceptional nature (special items): these results are indicated with the term "Adjusted results".

Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these indicators may not be consistent with the method used by other operators and so these might not be fully comparable.

Definitions of the APIs used by the Group and a reconciliation with the items of the interim financial statements adopted are as follows:

- **Adjusted revenue** <sup>17</sup> is revenue, as indicated in the Interim Financial Statements, with the exclusion of significant special income components of an exceptional nature (special items);
- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment losses" to the Net Operating Profit. EBITDA is explicitly indicated as a subtotal in the Financial Statements;
- **Adjusted EBITDA** <sup>17</sup> is the gross operating profit (loss), as defined above, with the exclusion of significant special income statement components of an exceptional nature (special items) and with the reclassification of the impact tied to the IFRS 16 application;
- **Adjusted EBIT** <sup>17</sup> is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income statement components of an exceptional nature (special items) and with the reclassification of the impact tied to the IFRS 16 application;
- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **adjusted tax rate** <sup>17</sup> is calculated by comparing the adjusted amounts of taxes and pre-tax profit;
- **Adjusted profit attributable to the owners of the parent** <sup>17</sup> is the Profit attributable to the owners of the parent, with the exclusion of significant special income statement components of an exceptional nature (special items), and with the reclassification of the impact tied to the IFRS 16 application, net of the related tax effects;
- **Investments** are the sum of Investments in property, plant and equipment and intangible assets;
- **Net operating working capital** is the sum of Inventories, Trade Receivables and Trade Payables;
- **Net invested capital** is the sum of Non-current assets, Net operating working capital, Liabilities related to Post-employment benefits, Other assets and Other liabilities;
- **Adjusted net invested capital** is Net invested capital, as defined above, with the exclusion of the impact relative to the application of IFRS 16 mainly linked to the increase in right-of-use assets;
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with ESMA Guidelines 32-382-1138 (Guidelines on Prospectus disclosures) and CONSOB Warning Notice no. 5/2021, also including the portion of non-current assets relative to derivative financial instruments.
- **Adjusted net financial indebtedness** is the Net financial indebtedness, as defined above, net of the liability linked to the discounting of future lease payments, following the application of IFRS 16;

---

<sup>17</sup> Moreover, the adjusted results do not reflect the effects of the application of IFRS 5 to the hydroelectric assets being sold.

- **Financial leverage** is calculated by comparing the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital;
- **Special items** include significant special income components of an exceptional nature. These include:
  - income and expense connected to events whose occurrence is non-recurring, i.e. those transactions or events that do not frequently re-occur over the normal course of business;
  - income and expense related to events that are not typical of normal business activities, such as restructuring and environmental costs;
  - capital gains and losses linked to the disposal of assets;
  - significant impairment losses recognised on assets following impairment tests;
  - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

### COVID-19 emergency

In 2021, no items related to the COVID-19 emergency were recorded; note that, in 2020, the charitable donation of EUR 2 million approved by the Group was isolated as a special item.

### IFRS 16

The Group, as lessee, has recognised new liabilities for leases and higher right-of-use assets related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory.

The application of the standard has changed the presentation in the income statement of costs for operating leases: these costs are now recognised as depreciation of the right-of-use assets and as financial expense correlated to the liability linked to the discounting of future lease payments.

Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially when the relative lease payments were made.

The application of IFRS 16 in 2021 therefore led to:

- an improvement in gross operating profit (EBITDA) in respect of the lease payments that fall within the scope of IFRS 16, of approximately EUR 10 million;
- an increase (approximately EUR 129 million) in the net financial indebtedness and the net invested capital (approximately EUR 126 million) in relation to the application of the equity method indicated by the standard;
- greater depreciation and amortisation (EUR 6 million) and greater financial expense (EUR 4 million) linked to the application of the above-mentioned method.

Based on the above, and given the typical nature of the item, in order to best present the business profitability, it has been deemed opportune to recognise, in the adjusted Income Statement, the depreciation of the right-of-use assets during the year and the financial expense on the IFRS 16 liability within the adjusted EBITDA, by way of a reasonable estimate of the lease costs in accordance with the financial expression (periodic instalment) of the same. Similarly, the adjusted net financial indebtedness and the adjusted net invested capital are presented net of the liability linked to the discounting of future lease payments.

### ERG Hydro Asset Rotation

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the hydroelectric plants to aid in further accelerating the growth and development of its business model.

Following the close of the first half of 2021, the bids were received in early July 2021 from the interested operators.

The Group, having read the market assessments, therefore decided, starting from 20 July, to launch a program for the potential disposal of the hydroelectric plants, entrusting its management with the start of negotiations and the related analyses for the potential disposal of the aforementioned assets.

On 2 August 2021, ERG concluded this programme by signing an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The transaction's closing took place on 3 January 2022 and the consideration totals approximately 1.265 billion euros, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.

The operation scope involves the assets portfolio owned by ERG Hydro S.r.l., which consists of an integrated system for the generation of hydroelectric energy that extends across Umbria, Lazio and Marche. It consists of 19 hydroelectric plants, 7 mini-hydro plants, 7 dams, 4 water basins (corresponding to Salto, Turano, Corbara and Piediluco) and a pumping station, for an effective capacity of 527 MW. The operation of the hydroelectric complex is ensured by 114 people, included within the scope, including technicians highly specialised in the operational management of the plants, energy management specialists and dedicated staff.

In consideration of the above, for the purposes of the application of the IFRS 5 provisions, the Net Assets and the results relating to the hydroelectric scope described above were recorded under assets/liabilities held for sale in the reported financial statements at 31 December 2021.

For clearer disclosure, the results of the ordinary operations of the assets being sold are shown and commented on in the adjusted values of this Report.

Furthermore, it should be noted that in application of IFRS 5, the depreciation of hydroelectric assets was calculated up to the IFRS 5 classification date (beginning of July 2021, corresponding to the date on which Group management was

tasked with opening negotiations for the sale of the assets); for the purposes of the adjusted results, the full contribution of depreciation in 2021 was instead taken into consideration.

### **ERG Power Asset Rotation**

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the thermoelectric plants to aid in further accelerating the growth and development of its business model.

Following the close of the first half of 2021, the bids were received in early July 2021 from the interested operators.

Having read the market indications, the Group proceeded to assess the potential sale of the thermoelectric plant, a process which was still underway at 31 December 2021 (Reporting Date of this Report). Furthermore, at the Reporting Date, the thermoelectric plant was not yet available for immediate sale in its current conditions.

In consideration of the above and in application of the provisions of paragraph 12 of IFRS 5, in this Report the Net Assets were not classified as assets/liabilities held for sale at 31 December 2021.

In 2022, having successfully completed the checks, Group management opened negotiations for the sale of the thermoelectric plant, signing an agreement with Enel Produzione S.p.A. on 9 February 2022 for the sale of the entire share capital of ERG Power S.r.l. The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

Subject to the approval of the relevant antitrust authorities and the successful completion of the Golden Power procedure at the Italian Presidency of the Council of Ministers, the transaction is expected to be concluded in the third quarter of 2022.

## Reconciliation with adjusted operating results

### GROSS OPERATING PROFIT (EBITDA)

(amounts in millions)

	Notes	Year	
		2021	2020
<b>EBITDA for continuing operations</b>		<b>426</b>	<b>401</b>
Assets held for sale contribution		152	67
<b>EBITDA</b>		<b>577</b>	<b>468</b>
<b>Special items exclusion:</b>			
<i>Corporate</i>			
- Reversal of ancillary charges on non-recurring operations (Special Projects)	1	7	2
- IFRS 16 reclassification	2	(1)	(1)
- Reversal of COVID-19 donation	3	-	2
- Reversal termination indemnity CEO	4	3	-
- Reversal for allocation for provision for disposed businesses	5	2	1
<i>Thermoelectric</i>			
- IFRS 16 reclassification	2	(1)	(1)
- Reversal for allocation for provision for disposed businesses	5	1	-
<i>Hydroelectric</i>			
- IFRS 16 reclassification	2	(0)	(0)
- Reversal of allocation to provision for Local Entities	6	-	16
<i>Solar</i>			
- IFRS 16 reclassification	2	(0)	(0)
- Reversal of allocation to provision for Local Entities	6	-	0
<i>Wind</i>			
- Reversal of ancillary charges on non-recurring operations (Special Projects)	1	0	-
- IFRS 16 reclassification	2	(8)	(7)
- Reversal of allocation to provision for Local Entities	6	-	1
<b>Adjusted gross operating profit (loss)</b>		<b>580</b>	<b>481</b>

### AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(amounts in millions)

		Year	
		2021	2020
<b>Amortisation and depreciation expense for continuing operations</b>		<b>(263)</b>	<b>(256)</b>
Assets held for sale contribution		(22)	(57)
<b>Amortisation, depreciation and impairment losses</b>		<b>(285)</b>	<b>(313)</b>
<b>Special items exclusion:</b>			
Exclusion of IFRS 5 adjustment on amortisation of ERG Hydro	7	(22)	-
- IFRS 16 reclassification	2	6	6
- Reversal write-down Repowering Wind Italy	8	22	-
- Reversal of impairment losses on plant I-Test	9	3	9
<b>Adjusted depreciation and amortisation</b>		<b>(276)</b>	<b>(298)</b>

### PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(amounts in millions)

		Year	
		2021	2020
<b>Profit attributable to owners of the parent</b>		<b>173</b>	<b>108</b>
<b>Special items exclusion:</b>			
Exclusion of IFRS 5 adjustment on amortisation of ERG Hydro	7	(16)	-
- IFRS 16 reclassification	2	(0)	0
Exclusion of impact of COVID-19 donation	3	-	2
Exclusion of ancillary charges on loan prepayments	10	14	30
Exclusion of ancillary charges on non-recurring transactions	1	6	2
Exclusion termination indemnity CEO	4	2	-
Exclusion balance IRAP 2019 - "Rilancio" Decree	11	-	(1)
Exclusion of deferred taxes on goodwill exemption Solar and alignment Hydro plants	12	-	(57)
Exclusion of expenses related to disposed Businesses	13	2	1
Exclusion of expenses related to allocations to Local Entities provisions	6	-	14
Exclusion of expenses related to impairment losses on Impairment Test plant	9	3	-
Exclusion write-down Repowering Wind Italia	8	16	7
Exclusion of impact of gains/losses (IFRS 9)	14	2	(1)
<b>Adjusted profit attributable to owners of the parent</b>		<b>202</b>	<b>106</b>

1. Accessory charges relating to other non-recurring transactions and the acquisitions in 2021 relating to operational wind farms and solar installations in France, the acquisition of a project for the development of a wind farm in Sweden, as well as the unsuccessful acquisitions.
2. Reclassification for impact of IFRS 16. Reference is made to the comments made in the previous paragraph.
3. Donation approved in the first half of 2020.
4. Termination indemnity related to the end of office and succession of the Chief Executive Officer, which took place on 26 April 2021.
5. Provisions relating to exceptional items on businesses disposed of by the Group.
6. Allocations to provisions for risks vis-à-vis institutional counterparties in respect of charges related to fees to be paid to Local Entities for public concessions.
7. Exclusion of the amortisation adjustment of ERG Hydro, in application of IFRS 5 following the classification as Assets held for sale.
8. Write-down of the net residual value of the property, plant and equipment and intangible assets of wind farms in the Italian portfolio, following the authorisation of four Repowering projects obtained during the year.
9. Impairment losses recognised on the CCGT plant in Sicily following the Impairment Test procedure in the 2021 Financial Statements and on some wind farms in Germany following the Impairment Test procedure in the 2020 Financial Statements.
10. Financial expense related to the early closure of Corporate loans and project financing as part of liability management transactions.
11. Reversal of the IRAP benefit deriving from the Italian "Rilancio" Decree, which introduced the cancellation of the payment of the IRAP balance for the 2019 tax year.
12. Exclusion of the positive effect related to the release of deferred taxation on the revaluation of hydroelectric plants and the substitute tax on capital gains related to the Andromeda (Solar) Business Combination in 2019.
13. Provisions relating to exceptional items on businesses disposed of by the Group
14. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability; this resulted in net gains of approximately EUR 2 million being accounted for in the first half of 2021. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Below is the reconciliation between the Financial Statements and the adjusted statements shown and commented upon in this Report:

## Income Statement 2021

(EUR million)	Financial Statements	Reversal of IFRS 5 adjustment ERG Hydro	Reversal of IFRS 5 reclassifications ERG Hydro	Reclassification of IFRS 16 impact	Adjustment for impact of IFRS 9	Reversal of special items	Adjusted income statement
Revenue	1,038	-	194	-	-	-	1,232
Other income	8	-	3	-	-	-	11
<b>Total revenue</b>	<b>1,047</b>	-	<b>196</b>	-	-	-	<b>1,243</b>
Purchases and change in inventories	(393)	-	(2)	-	-	-	(395)
Services and other operating costs	(164)	-	(35)	(10)	-	13	(197)
Personnel expense	(63)	-	(8)	-	-	-	(71)
<b>EBITDA</b>	<b>426</b>	-	<b>152</b>	<b>(10)</b>	-	<b>13</b>	<b>580</b>
Amortisation, depreciation and impairment of non-current assets	(263)	(22)	(22)	6	-	25	(276)
<b>Operating profit (EBIT)</b>	<b>163</b>	<b>(22)</b>	<b>130</b>	<b>(4)</b>	-	<b>37</b>	<b>304</b>
Net financial income (expense)	(51)	-	0	4	2	16	(29)
Net gains (losses) on equity investments	1	-	-	-	-	(1)	0
<b>Profit before taxes</b>	<b>112</b>	<b>(22)</b>	<b>130</b>	<b>(0)</b>	<b>2</b>	<b>53</b>	<b>275</b>
Income taxes	(30)	6	(37)	-	(1)	(10)	(72)
<b>Net profit (loss) from continuing operations</b>	<b>82</b>	<b>(16)</b>	<b>93</b>	<b>(0)</b>	<b>2</b>	<b>43</b>	<b>203</b>
Net profit (loss) of assets held for sale	93	-	(93)	-	-	-	0
<b>Profit (loss) for the year</b>	<b>174</b>	<b>(16)</b>	-	<b>(0)</b>	<b>2</b>	<b>43</b>	<b>203</b>
Non-controlling interests	(2)	-	-	-	-	-	(2)
<b>Profit (loss) attributable to the owners of the parent</b>	<b>173</b>	<b>(16)</b>	-	<b>(0)</b>	<b>2</b>	<b>43</b>	<b>202</b>

## Reclassified statement of financial position at 31 December 2021

(EUR million)	Reported Statement of Financial Position	IC eliminations ERG Hydro	Reversal of IFRS 5 adjustments ERG Hydro	Reversal of IFRS 5 reclassifications ERG Hydro	Adjustment for impact of IFRS 16	Adjusted Statement of Financial Position
Intangible assets	995	-	(8)	129	-	1,116
Property, plant and equipment	2,048	-	(13)	555	(127)	2,466
Equity investments and other non-current financial assets	45	-	-	0	-	45
<b>Non-current assets</b>	<b>3,089</b>	-	<b>(22)</b>	<b>684</b>	<b>(127)</b>	<b>3,624</b>
Inventories	32	-	-	0	-	33
Trade receivables	320	(62)	-	85	-	344
Trade payables	(254)	62	-	(5)	-	(198)
Excise duties payable to tax authorities	(1)	-	-	-	-	(1)
<b>Net operating working capital</b>	<b>97</b>	-	-	<b>80</b>	-	<b>177</b>
Employee benefits	(4)	-	-	(1)	-	(5)
Other assets	434	(46)	-	45	1	434
Other liabilities	(549)	46	6	(125)	-	(623)
<b>Net invested capital of continuing operations</b>	<b>3,066</b>	-	<b>(16)</b>	<b>683</b>	<b>(126)</b>	<b>3,608</b>
<b>Net invested capital of assets held for sale</b>	<b>683</b>	-	-	<b>(683)</b>	-	-
<b>Net invested capital</b>	<b>3,749</b>	-	<b>(16)</b>	-	<b>(126)</b>	<b>3,608</b>
Equity attributable to the owners of the parent	1,559	-	(16)	-	3	1,547
Non-controlling interests	10	-	-	-	-	10
Net financial indebtedness	2,250	-	-	(69)	(129)	2,051
Financial indebtedness of discontinued operations	(69)	-	-	69	-	-
<b>Equity and financial indebtedness</b>	<b>3,749</b>	-	<b>(16)</b>	-	<b>(126)</b>	<b>3,608</b>

## Significant events after the reporting date

Date	Sector	Significant event	Press release
<b>3 January 2022</b>	<a href="#">Hydroelectric</a>	ERG, through its subsidiary ERG Power Generation S.p.A., has completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The consideration totals approximately 1.265 billion euros, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro plants.	<a href="#">Press release of 3 January 2022</a>
<b>26 January 2022</b>	Corporate	ERG entered Bloomberg's Gender Equality Index (GEI), which includes more than 400 companies in 45 countries worldwide – measures companies' commitment to supporting gender equality by promoting a more inclusive environment, ensuring the transparent and comprehensive representation of information. In particular, Bloomberg acknowledged the effectiveness of ERG's initiatives to promote gender equality among its staff in all countries, through clear guidelines in recruitment processes, development plans in line with best practices, equal pay, inclusive culture and maximum clarity and quality in data reporting.	<a href="#">Press release of 26 January 2022</a>
<b>31 January 2022</b>	<a href="#">Wind</a>	ERG has been awarded a tariff for 20 years on 97.2 MW of new wind capacity as part of the sixth auction called by GSE (Gestore dei Servizi Elettrici). These are, in particular, the repowering project in Camporeale (50.4 MW) and the greenfield project in Roccapalumba (46.8 MW), both located in Sicily, for which ERG obtained the Single Authorisations, respectively, on 22 September and 4 October 2021.	<a href="#">Press release of 31 January 2022</a>
<b>31 January 2022</b>	<a href="#">Solar</a>	ERG has acquired from GEI Subasta 1 SA 100% of the capital of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively.	<a href="#">Press release of 31 January 2022</a>
<b>9 February 2022</b>	<a href="#">Thermoelectric</a>	ERG, through its subsidiary ERG Power Generation S.p.A., agreed with Enel Produzione S.p.A. to sell the entire share capital of ERG Power S.r.l.. The latter owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant, powered by natural gas located at Priolo Gargallo, in the province of Syracuse. With an installed capacity of 480 MW, the average annual production is around 2.4 TWh. The consideration in terms of Enterprise Value, at 31 December 2021, is equal to EUR 188 million and will be subject to price adjustment at closing. The transaction is expected to be concluded in the third quarter of 2022.	<a href="#">Press release of 9 February 2022</a>
<b>10 February 2022</b>	Corporate	ERG has entered the CDP (Carbon Disclosure Project) "Suppliers Engagement Leaderboard", which brings together the best-performing companies globally in the creation of a sustainable supply chain. Amongst more than 13,000 companies assessed in 2021, ERG is among the 8% of companies who have received an 'A' rating - the highest on the scale created based on CDP's 'Climate Change' questionnaire.	<a href="#">Press release of 10 February 2022</a>
<b>23 February 2022</b>	Corporate	ERG enters the storage market with two projects for a total of 22 MW of installed capacity in the Centre-South and Sicily. The two projects are currently in the authorisation phase and the construction is planned near two ERG wind farms in operation in Ginestra degli Schiavoni in Campania and in Vicari in Sicily.	<a href="#">Press release of 23 February 2022</a>

As already commented in the “Significant regulatory updates” in the first part of 2022, urgent measures were introduced to contain the effects of prices increases in the electricity sector. The implementation methods by ARERA are still in process of being issued, on the basis of which the impacts for the Group can be better defined.

In view of the war that broke in **Ukraine** at the end of February 2022, management is monitoring any critical issues and impacts that the conflict could have on the ERG Group, in particular with reference to credit risk, security and business continuity.

The geopolitical tensions are significantly impacting the financial and commodities markets, with a sharp increase in gas and electricity prices, in respect of which further regulatory measures in the energy sector cannot be ruled out.

## BUSINESS OUTLOOK

In a context of high market prices due to the energy crisis and high natural gas prices, it should be noted that ERG, in line with the best practices in the sector and its consolidated risk policy which reflects a non-speculative approach to business, has in recent years made forward sales, mainly through long-term supply contracts at fixed prices (so-called PPAs) and forward contracts also through derivative financial instruments, at prices considerably lower than current prices. These hedges, carried out with a portfolio approach by the Group's Energy Management through ERG Power Generation S.p.A., are then allocated by agreement to the various project companies, which own the Production Units (PUs).

The hedge allocation criterion follows a cascade mechanism which, with the idea of mitigating the associated risks, has the following order of priority:

- 1) electricity produced by PUs that do not have an incentive mechanism and are therefore fully exposed to the risk of market price volatility;
- 2) electricity produced by PUs that are subject to "Feed in Premium" tariffs, or mechanisms that provide for an incentive that is added to the market price;
- 3) any residual hedges are finally attributed to the quantities of electricity subject to for-difference incentive mechanisms, such as the former green certificate incentive tariffs (GRIN).

However, no hedges are envisaged for production subject to two-way for-difference incentive mechanisms.

In line with changes to the group's business model, starting from 2022 the economic and financial results will be represented by geographical area.

The expected outlook for the main operating and performance indicators in 2022 is as follows:

### Italy

**Wind:** EBITDA is expected to decrease compared to 2021 as a result of the substantial decrease in the value of the incentive, determined by difference taking into account the average energy prices for the year 2021.

**Solar:** the stable performance over time is confirmed and there will be continued benefit from certain synergies deriving from the optimisation of the Energy Management portfolio.

On the basis of the hedge allocation criteria referred to in the introduction and production estimates based on historical averages, it is expected that a large majority of wind and solar production in Italy exposed in any way to market risk will be forward valued at an average price of approximately EUR 65/Mwh.

**Wind & Solar Italy EBITDA for the year 2022 is expected to decrease compared to 2021.**

### Abroad

The **Wind Abroad** result is expected to increase in comparison to 2021 due to more favourable statistical wind forecasts compared to the particularly low forecasts for 2021, in a context of rising market prices in Europe. Furthermore, the results will benefit from the full contribution of the Wind and Solar farms acquired during 2021 as well as the two plants in Northern Ireland (70 MW) and one in France (7MW) developed organically and entered into operation at the end of 2021. The results will also reflect the contribution of the new plants in France (20 MW), the UK (142 MW) and Poland (61 MW) which are expected to come into operation in 2022. **Solar Abroad**, in particular, will benefit from the contribution for the entire year of the plants consolidated in France (79 MW) between June and October 2021 and the new plants acquired in Spain (92 MW) in January 2022.

The result in **France** is expected to improve, not only due to more favourable wind forecasts compared to those in 2021, but mainly due to the contribution over the entire year of the wind farms (98 MW) and photovoltaic plants (79 MW) acquired between June and October 2021, and the commissioning of a wind farm at the end of 2021 (7 MW) and, in the course of 2022, of a wind farm currently under construction (20 MW).

The result in **Germany** is expected to improve mainly due to the effect of higher statistically estimated volumes than the particularly low volumes for 2021, in addition to the contribution for the entire year of the scope deriving from the wind farms acquired in October 2021 (55 MW).

The result in **Eastern Europe** was mainly influenced by the favourable price scenario and by the entry into operation of two wind farms in Poland (61 MW).

The plants in two new countries, the **United Kingdom** and **Spain**, will contribute to the 2022 results.

**EBITDA for Wind & Solar Abroad is therefore expected to increase significantly compared to 2021.**

Total EBITDA for 2022 is forecast within a range of between **EUR 400 million** and **EUR 430 million**. The reference figure for 2021, assuming the same wind & solar scope, and net of the full allocation of the residual plant costs, is equal to **EUR 399 million** (EUR 580 million also including Hydro and CCGT).

Capital expenditure for 2022, forecast in the range between **EUR 420 million** and **EUR 480 million** (EUR 617 million in 2021 assuming the same wind & solar scope and EUR 648 million including Hydro and CCGT), includes the acquisition of two solar farms in Spain (92 MW) in January 2022, the repowering activities of the Italian farms and the development of greenfield investments through the construction of wind farms in the United Kingdom for approximately 142 MW, in Poland for 61 MW and in France for 20 MW, in addition to the usual capital expenditure for fleet maintenance.

Net financial indebtedness at the end of 2022 is expected to be in the range between **EUR 750 million** and **EUR 850 million** (EUR 2,051 million at the end of 2021), including the distribution of the ordinary dividend of EUR 0.90 per share.

As regards the thermoelectric business, the sale of the assets is expected by the third quarter of 2022. For this reason, the relative results are not included in the continuing operations commented on above, and will be classified in the financial statements under discontinued operations.