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**HOW ESG INDICATORS INFLUENCE THE VALUATION OF A
LISTED COMPANY: THE AUDAX RENOVABLES CASE**

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ABSTRACT

This thesis analyses the influence of Environmental, Social, and Governance (ESG) indicators in the valuation of listed companies, with a focus on Audax Renovables, a Spanish company that operates in the energy sector. Through an analysis of the financial and ESG performances of the company in 2023 and 2024, the study integrates traditional valuation methods, such as Discounted Cash Flow and relative multiples, with ESG considerations. While the literature suggests a positive correlation between ESG and financial value, the case of Audax reveals a more complex relationship. Even with an increase in profitability in 2024, the company's ESG rating declined. These results evidenced the necessity for a deeper understanding of how ESG factors interact with market valuation, especially in sectors like energy, in which Audax operates.

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Introduction

Research Objectives

This thesis aims to evaluate the influence of Environmental, Social, and Governance (ESG) factors on the valuation of a listed company. The thesis, for the study of the relationship between ESG factors and corporate valuation, is structured as a case study of a multinational listed company that operates in the energy sector, Audax Renovables. In recent years, researchers have been increasingly studying the interactions between ESG factors and investment decisions as well as the influence of these non-financial factors on financial performance, investor behaviour, and valuation metrics. Through the analysis of Audax, the intent of the paper is the identification of ESG factors and the advantages that derive from ESG adoption. Ultimately, the purpose of the paper is the evaluation of possible discrepancies between the paper related to this argument and the Audax case.

Applicability of ESG to Corporate Finance

Over the last decades, ESG factors have moved from representing just a secondary component of the company to being considered as key factors in the financial decision-making process. Nowadays, several academic papers recognise their applicability in the valuation of a company and the analysis of financial performance. ESG issues have become material to firm operations, meaning that their omission or distortion could influence the decisions, impacting the performance and long-term value creation. An active management of ESG factors is increasingly considered by investors and allows companies to benefit from lower cost of capital and access to ESG-related financial instruments, such as green bonds and sustainability-linked bonds. Moreover, several studies evidence that ESG factors affect diverse key financial metrics, such as capital expenditures and discount rates. The implementation of ESG into financial analysis allows a more general understanding of the growth potential of the company as well as of the risk profile. On this basis, the study of Audax Renovables allows an analysis of how this energy company integrates ESG factors in its strategic and financial operations and offers the possibility to analyse if and how these efforts are offset in the valuation.

Methodology and Data Collection

This thesis has been developed through the support of several academic papers, qualitative ESG analysis, and quantitative financial valuations. The 2023 and 2024 Consolidated Annual Accounts, Non-Financial Information Statements, and sustainability disclosures have been used to analyse Audax Renovables. ESG performance analysis has been conducted by taking into account third-party ratings from Sustainalytics and globally recognised ESG frameworks, such as the Global Reporting Initiative (GRI) and the Sustainable Development Goals (SDGs) established by the United Nations. Financial valuation is based on traditional models such as the Discounted Cash Flow (DCF) approach, relative valuation through the use of several market multiples, and asset-based valuation. These approaches are evaluated to understand in which way their adjustment can reflect ESG factors. A comparative analysis with peers, such as Iberdrola, is included and structured through the use of data collected from sources such as the financial reports of the companies. Additionally, an analysis of the market is present in the thesis, completed through a collection of data from the International Energy Agency (IEA) and the European Commission.

Structure of the Thesis

The thesis is structured to offer a comprehensive understanding of the effects of ESG factors on corporate valuation and an overall view of Audax and the energy sector. The first chapter introduces the concept of ESG, defining its three pillars and explaining the financial implications of the integration of ESG into corporate strategy. Moreover, it explores the role of ESG ratings and investor perspectives on ESG integration. The second chapter reports the company profile of Audax and offers an overview of the industry, evidencing the competitive landscape and the regulations to which the sector underlies. It also provides the ESG strategy of the Group and reporting practices. Chapter three provides a comparative financial analysis of the performance of the Group in 2023 and 2024, and examines the financial metrics and the ESG-related initiatives of the company. The fourth chapter offers an explanation of the fundamental traditional methods of evaluation of a company, and evaluates the influence of ESG factors on valuation models, also in the case of Audax. Complementary, it presents adjustments to traditional

methods for the incorporation of ESG-related variables. Chapter five's main focus is on the bond market, analysing how ESG affects debt issuance, credit ratings, and investor sentiments, with attention to the role of green bonds and sustainability-linked financing instruments. In conclusion, the last chapter reports the main findings of the thesis, as well as the limitations and the possible implications for investors and policymakers.

Chapter 1: ESG Principles and Financial Implications

1.1 – Definition of ESG

ESG, a set of criteria used in the evaluation of a company's activities and performance, analyses three key areas: environmental impact, social responsibility, and governance practices. The analysis of these three fundamental factors provides an overall framework for the assessment of sustainability and ethical implications of a company's operations that influence investment decisions and the company's strategies.

Precisely, “Environmental, social and governance (ESG) refers to a collection of corporate performance evaluation criteria that assess the robustness of a company's governance mechanisms and its ability to effectively manage its environmental and social impacts.”¹

It “refers to a set of standards used to measure an organization's environmental and social impact.”²

1.1.1 Environmental Criteria

This component examines how the company interacts with the environment. The evaluation of this section is based on the initiatives to reduce carbon emissions, implement energy efficiency, and adoption of sustainable resources. It “captures energy efficiencies, carbon footprints, greenhouse gas emissions, deforestation, biodiversity, climate change and pollution mitigation, waste management and water usage.”³

1.1.2 Social Criteria

Overall, the social dimension “refers to the impact the organization has on people, culture, and communities and looks at the social impact of diversity, inclusivity, human rights and

¹ Environmental, Social and Governance (ESG), Gartner.

<https://www.gartner.com/en/finance/glossary/environmental-social-and-governance-esg->

² Krantz, T., *What is environmental, social and governance (ESG)?*, IBM (January 24, 2024).

<https://www.ibm.com/think/topics/environmental-social-and-governance>

³ Bergman, M. S., Deckelbaum, A. J., and Kurp, B. S., Paul, Weiss, Rifkind, Wharton & Garrison LLP, *Introduction to ESG*, Harvard Law School Forum on Corporate Governance (August 1, 2020).

<https://corpgov.law.harvard.edu/2020/08/01/introduction-to-esg/>

supply chains.”⁴ The social aspect evaluates the company’s relationships with employees, suppliers, customers, and the communities interrelated with the organization. It implies verification of labour practices, employee health and safety, diversity and inclusion, human rights adherence, and community engagement. Companies with social responsibility as a priority experience benefits such as higher employee satisfaction and retention, and stronger customer loyalty.

Namely, it “covers labour standards, wages and benefits, workplace and board diversity, racial justice, pay equity, human rights, talent management, community relations, privacy and data protection, health and safety, supply-chain management and other human capital and social justice issues.”⁵

1.1.3 Governance Criteria

The third component, namely governance, concerns internal systems, controls, and procedures that define how a company is directed and managed. It includes several aspects, such as board composition and diversity, executive compensation, shareholder rights, transparency, and ethical business practices. Powerful governance structures are crucial for ensuring accountability, mitigating risks, and promoting long-term shareholder value.

Specifically, it “covers the governing of the” environmental and social “categories – corporate board composition and structure, strategic sustainability oversight and compliance, executive compensation, political contributions and lobbying, and bribery and corruption.”⁶

⁴ *Supra* note 2.

⁵ *Supra* note 3.

⁶ Harvard Law School Forum on Corporate Governance (August 1, 2020), *Id.*

1.1.4 The Evolution and Importance of ESG

The concept of ESG, so familiar nowadays, developed the most in the mid-2000s. But the ideas behind ESG are older. In theory, we could consider the improvement of labour conditions of the 20th century as a step in the Social and Governance criteria.⁷

The 20th century was characterized by campaigns directed at the companies to sustain “fairer business practices.” An example can be considered the introduction of a “rulebook” explaining to the companies how to operate.⁸

Officially, the modern concept of ESG was introduced in 2004 in a report from the United Nations, called “Who Cares Wins”.

1.2 – How ESG affects business performance and valuation

Incorporation of Environmental, Social, and Governance (ESG) factors, in recent years, represents a game changer for businesses focusing on the improvement of performance and business valuation.

1.2.1 Improvement of Financial Performance

Recent studies demonstrate a positive correlation between ESG activities and improvements in financial performance. An analysis of more than 2,000 studies shows that increased attention to ESG concerns does not compromise returns⁹; rather, it is mostly associated with higher equity returns and reduced risk.¹⁰

⁷ Byrne, D., *What is the history of ESG?*, Corporate Governance Institute.

https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-is-the-history-of-esg/?srsltid=AfmBOoqNHSejvoT6FWwZCuc9jtbJ6B8_dQSzGrB8lCGIUo7YPIHM0BJw

⁸ Corporate Governance Institute, *Id.*

⁹ Henisz, W., Koller, T., Nuttall, R., *Five ways that ESG creates value. Getting your environmental, social, and governance (ESG) proposition right links to higher value creation. Here's why*, McKinsey (November, 2019).

<https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.ashx>

¹⁰ Montenegro, M., *ESG Performance drives Corporate Performance*, Wolters Kluwer (February 20, 2023). <https://www.wolterskluwer.com/en/expert-insights/the-importance-of-esg-as-a-key-drive-of-corporate-performance>

Another study conducted by NYU Stern Center for Sustainable Business on over 1,000 companies demonstrates “that strong corporate management of ESG is linked to improved Return on Equity (ROE), Return on Assets (ROA), stock price, operational efficiency and risk management.”¹¹

Concretely, ESG risk management and improvement in the financial performance are evident by looking at greenhouse gas emissions, climate risk (such as extreme weather conditions), transition risks, green products, operational risk, DEIB benefits, and governance programs.¹² Moreover, effective and efficient management of ESG factors allows companies to increase profitability and efficiency by putting in the spotlight factors such as energy savings, waste reduction, and increased employee productivity.

1.2.2 Influence on Risk Profile and Cost of Capital

The application of ESG practices contributes to a company’s management of risk, potentially leading to a lower cost of capital. Studies demonstrated “that companies with robust ESG practices displayed a lower cost of capital, lower volatility, and fewer instances of bribery, corruption, and fraud over certain periods. Conversely, studies have shown that companies with lower ESG scores had a higher cost of capital, higher volatility due to controversies and other incidences such as spills, labour strikes and fraud, and accounting and other governance irregularities.”¹³ This dynamism emphasises the importance of ESG factors in influencing a company’s financial stability.

1.2.3 Impact on Valuation and Investor Perception

A study conducted a couple of years ago from ISS, a ESG rating company, demonstrated how, by looking at several factors such as company size, type of industry and country in which the business operates, ESG performance can have a different relationship, which

¹¹ Wolters Kluwer (February 20, 2023), *Id.*

¹² Wolters Kluwer (February 20, 2023), *Id.*

¹³ *How has integrating ESG considerations into the investment process affected performance?*, MCSI.
<https://www.msci.com/esg-101-what-is-esg/esg-and-performance>

can be positive or null, with the company valuation. This relationship is also influenced by the sector in which the company operates.¹⁴

Through the analysis of a company with the support of the Market Value Added (MVA) Spread, a metric that “corresponds to the difference between a company’s Enterprise Value and its Capital, scaled by its Capital.”¹⁵, the ISS estimated the sectors in which a better ESG performance leads to a greater valuation.¹⁶

Similar to other rating companies, such as S&P Global, Sustainalytics, and MSCI, the ESG performance is measured on a range from 0 to 100 and considers the extent of vulnerability to ESG risks. The study, conducted across 11 different sectors, found a positive relationship between ESG implementation and MVA Spread in more than half of the sectors, precisely in 7 of them (see Figure 1.1).¹⁷

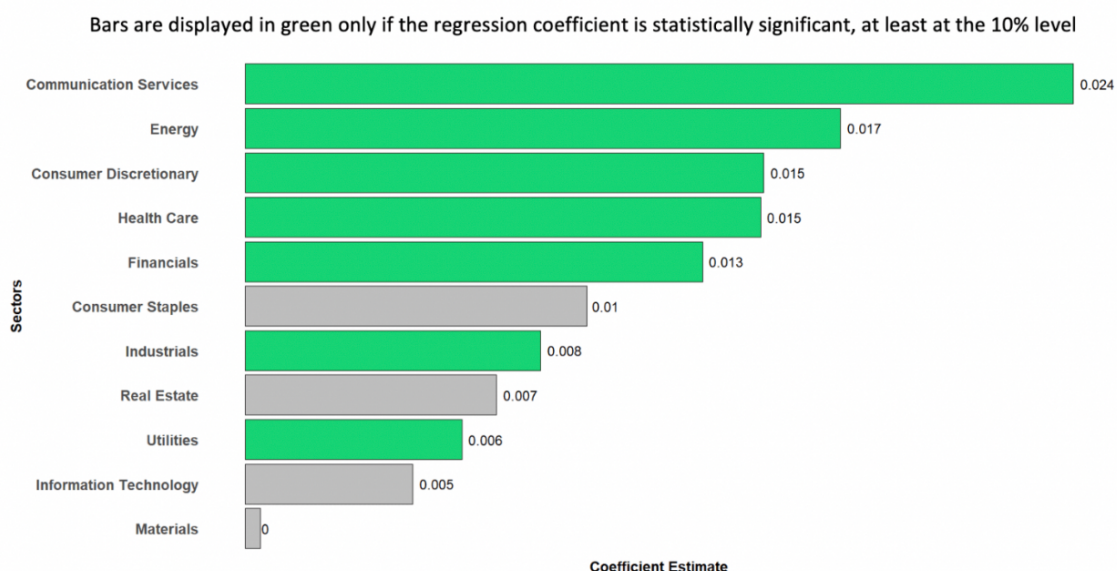


Figure 1.1 Relationship between ESG Performance Score and MVA Spread across sectors. Source: ISS ESG Corporate Rating and ISS EVA.

Moreover, in addition to the estimation of the regression coefficient for ESG Performance Score for each different sector, the study evidenced that the examination of all the companies together led to an estimation of the coefficient “positive and statistically

¹⁴ *ESG Performance and Enterprise Value: In Which Sectors Does ESG Performance Matter the Most for Company Valuation?*, ISS Insights (May 9, 2023). <https://insights.issgovernance.com/posts/esg-performance-and-enterprise-value-in-which-sectors-does-esg-performance-matter-the-most-for-company-valuation/>

¹⁵ ISS Insights (May 9, 2023), *Id.*

¹⁶ ISS Insights (May 9, 2023), *Id.*

¹⁷ ISS Insights (May 9, 2023), *Id.*

significant”¹⁸ and “equal to 0.01”¹⁹. As we can observe from Figure 1, 5 of the sectors evaluated above represent a coefficient larger than 0.01, implying a stronger relationship.²⁰

But what does it all represent in terms of value for the companies?

Before we defined what the MVA Spread represents and, consequently, its relationship with the Enterprise Value. From there, we can conclude that the Enterprise Value is the “product of MVA Spread and Capital, plus Capital.”²¹

This can represent, partially, an answer to our question. ISS analysed all 11 sectors presented before to demonstrate that the relationship is not merely statistically relevant, but that it has economic relevance (see Figure 1.2).²²

Sector	Median Capital (in \$bn)	Median MVA Spread	Estimated Effect of a 10-Point Difference in ESG Performance Score on MVA Spread	Estimated Effect of a 10-Point Difference in ESG Performance Score on Enterprise Value
Communication Services	5.20	0.57	0.24	15.0%
Energy	7.35	0.02	0.17	16.6%
Consumer Discretionary	3.31	0.71	0.15	8.6%
Health Care	1.36	1.78	0.15	5.3%
Financials	4.27	0.20	0.13	10.9%
Consumer Staples	3.22	1.05	0.10	4.7%
Industrials	3.27	0.59	0.08	5.3%
Real Estate	3.09	0.29	0.07	5.5%
Utilities	10.41	0.27	0.06	4.9%
Information Technology	1.84	2.00	0.05	1.6%
Materials	4.88	0.35	0.00	0.3%

Figure 1.2 Estimated Differences in Enterprise Values for Companies with 10-Point-Higher ESG Performance Scores. Source: ISS ESG Corporate Rating and ISS EVA.

¹⁸ ISS Insights (May 9, 2023), *Id.*

¹⁹ ISS Insights (May 9, 2023), *Id.*

²⁰ ISS Insights (May 9, 2023), *Id.*

²¹ ISS Insights (May 9, 2023), *Id.*

²² ISS Insights (May 9, 2023), *Id.*

To have a clear interpretation of what the table means, it is possible to take, for example, the Communication Services sector. As we can observe, the study conducted by ISS evidenced, in this sector, a median MVA Spread of 0.57 and a median Capital of \$5.2 billion. If we substitute this data into the Enterprise Value formula, we obtain an estimation of \$8.2 billion. But this model also shows that a company that reports a 10-point-higher ESG score would have a Spread 0.24 higher. Assuming that company A has a median MVA Spread of 0.57, then company B, with higher performance, would have a 0.81 MVA Spread. Given that it is possible to evaluate the Enterprise Value of company B will be \$9.4 billion, which represents a 15.0% increase compared to company A. This represents another evidence at support of the theory of the existence of a positive relationship between ESG performance and Enterprise Value, even if we need to take into account that this analysis presents some limits and cannot be considered as a sufficient study in the evaluation of how the ESG factors can influence the value of the company. It cannot be excluded that other factors exist that have not been considered in the analysis.²³

This research can lead us to another correlated effect, an increase in the investment in companies with high ESG performance scores. A positive correlation between ESG performance scores and enterprise value represents a key point for investors when they need to decide in which companies to invest. Since the effect of ESG performance on firm value and profitability is relevant, the investor can also predict a higher financial return on their investment.

Meanwhile, in contraposition to the completely or mostly positive findings of ISS researches, another research conducted by Serguei Netessine (Wharton senior vice dean for innovation and global initiatives) focused on the effect of nonmaterial ESG factors (ESG factors that are less relevant for the firm's activities) on overall valuation of the company concerning material factors. Serguei, in collaboration with Soman Singh, Ashwin V. Malshe, and Yakov Bart, found out that a focus of the company on nonmaterial factors is considered a pessimistic signal, indicating potentially a less efficient use of

²³ ISS Insights (May 9, 2023), *Id.*

resources and absent management. And this signal generally supersedes the favourable effects of material factors.²⁴

In particular, this research found that “for every 10% increase in emphasis on material ESG concerns, the company’s value goes up by 1.4%, but a similar increase in nonmaterial ESG emphasis leads to a 3% decline in value.”²⁵

What can be concluded from this second study is that, similarly to the one conducted by ISS, it cannot be considered as final and unchangeable. This is evidenced by the opposition between the two conclusions obtained from these two different studies. At the same time, a first hint can be extrapolated. Combining the two analyses, it can be asserted that ESG factors can play a role in the evaluation of a company, but it is important to focus on material ESG factors and less on nonmaterial factors to achieve a positive effect.

1.3 - ESG Ratings and Metrics: An Overview

ESG ratings and metrics represent vital instruments not only for companies to communicate sustainability and ethical performance, but also for investors and stakeholders. These tools offer insights into the company’s vulnerability to ESG risks and its ability to manage them.

While methodologies may differ among agencies, the main intent remains to provide a transparent, comprehensive assessment of ESG risks and management. Understanding ratings and metrics is crucial for investors and stakeholders who aim to make informed decisions that align with sustainability objectives.

1.3.1 S&P Global ESG Scores

“S&P Global ESG Scores measures a company’s performance on and management of material ESG risks, opportunities, and impacts informed by a combination of company

²⁴ Murray, S., *How Does ESG Emphasis Impact a Company’s Value?*, Knowledge at Wharton (March 4, 2024). <https://knowledge.wharton.upenn.edu/article/how-does-esg-emphasis-impact-a-companys-value/>

²⁵ Knowledge at Wharton (March 4, 2024), *Id.*

disclosures, media and stakeholder analysis, modelling approaches, and in-depth company engagement via the S&P Global Corporate Sustainability Assessment.”²⁶

This methodology, developed for more than 2 decades, allows for “assess companies not only their ESG performance management of financially relevant ESG issues.”²⁷

Because of the difficulties on the comparison of the information for the investors, the Corporate Sustainability Assessment uses “a dual approach to collecting relevant ESG information by supplementing public disclosure with additional information provided directly by companies.”²⁸

The S&P Global approach intends to group relevant issues “into 22 materiality core subjects”²⁹ to evaluate the impact both internally and externally. “The S&P Global ESG Score uses a double materiality approach whereby a sustainability issue is considered material if it presents a significant impact on society or the environment, as well as on a company’s value drivers, competitive position, and long-term shareholder value creation.”³⁰ The intention is to approach “sustainability issues from the perspective of the investor as provider of equity capital”³¹ and “in terms of external impact on society or the environment, the material significance of the core subjects is defined through an analysis of a company’s business activities, business model, products and services.”³²

The measurement is on a scale from 0 to 100. “Points are awarded at the question level ... based on ... assessment of underlying data points ... according to predefined scoring frameworks that assess availability, quality, relevance, and performance on ESG topics. These “Question-level Scores” aggregate up to the “criteria level” reflecting the most material ESG themes depending on the sub-industry. The Criteria-level Scores are further combined into their respective groupings to form standalone E, S, and G “Dimension Scores,” which ultimately aggregate into a single headline ESG Score for every company.

²⁶ *ESG Scores and Raw Data*, S&P Global. <https://www.spglobal.com/esg/solutions/esg-scores-data>

²⁷ *S&P Global ESG Scores. Disclosure Analysis*, S&P Global.

<https://www.spglobal.com/esg/documents/spglobaldisclosureanalysisbrochure.pdf>

²⁸ S&P Global, *Id.*

²⁹ Griek, L., *Developing industry materiality matrices for the S&P Global ESG Scores*, S&P Global (July 4, 2024). <https://www.spglobal.com/esg/insights/blog/developing-industry-materiality-matrices-for-the-sp-global-esg-scores>

³⁰ *S&P Global ESG Scores. Methodology*, S&P Global (March 2025).

https://portal.s1.spglobal.com/survey/documents/spglobal_esg_scores_methodology.pdf?utm

³¹ *Supra* note 29.

³² S&P Global (July 4, 2024), *Id.*

As relevant sustainability risks, opportunities, and impact management tend to be industry-specific, the scores measure a company's overall sustainability performance relative to its peers within its industry.”³³

1.3.2 Sustainalytics' ESG Risk Ratings

Morningstar Sustainalytics' ESG Risk Ratings is a tool that provides access to evaluations regarding the degree to which a company's enterprise value is at risk due to ESG factors. The main feature of this tool is the consideration of both quantitative and qualitative factors, to “capture trends and anticipate future developments.”³⁴ Same to S&P Global, they use a two-dimensional approach that consent to considers both the ESG risk for the company and how the company manages these risks.³⁵ The result of the analysis conducted is a single score that represents the company's overall management of ESG risk, categorized into five different levels from negligible to severe. This guarantees investors a clearer understanding of the ESG risks that could affect financial performance.³⁶

To conclude, an adding value of Morningstar is the implementation of AI in their information chain. “Morningstar Sustainalytics integrates AI efficiency with human insights in news monitoring, ensuring comprehensive and accurate ESG analysis.”³⁷

³³ *Supra* note 30.

³⁴ *ESG Risk Ratings Methodology*, Sustainalytics. <https://connect.sustainalytics.com/esg-risk-ratings-methodology>

³⁵ Sustainalytics, *Id.*

³⁶ *ESG Risk Ratings. Empower your investment decisions with a consistent approach to assess material ESG risks*, Sustainalytics. <https://www.sustainalytics.com/esg-data#:~:text=Company%20ratings%20are%20categorized%20across,by%20our%20ESG%20Globes%20icons>

³⁷ Sustainalytics, *Id.*

1.3.3 MSCI ESG Ratings

A third relevant rating system is the MSCI ESG Ratings. Similar to other systems, it aims to measure ESG risks relevant to a company's finances and identify potential opportunities.³⁸

MSCI distinguishes the companies into three main categories: laggard, average, and leader.

Laggard refers to a company with a “high exposure and failure to manage significant ESG risks.”³⁹ Average companies are businesses “with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers.”⁴⁰ While a leader company is “leading its industry in managing the most significant ESG risks and opportunities.”⁴¹

1.3.4 Common ESG Metrics

Apart from these rating systems, a variety of ESG metrics are employed in the quantification of a company's sustainability performance. Common environmental metrics include greenhouse gas emissions, energy management, waste management, and water management. Concerning social analysis, the key metrics are employee diversity and inclusion, labour practices, employee health and safety, and pay equity. The key metrics for the governance factor are, instead, cybersecurity, business ethics, business model resilience, and remuneration.⁴²

These metrics allow companies to set targets, monitor progress, and transparently report their ESG performance to stakeholders.

³⁸ *ESG Ratings. What do MSCI ESG Ratings measure?*, MSCI. <https://www.msci.com/sustainable-investing/esg-ratings>

³⁹ MSCI, *Id.*

⁴⁰ MSCI, *Id.*

⁴¹ MSCI, *Id.*

⁴² *Understanding ESG metrics*, Novisto. <https://novisto.com/resources/blogs/understanding-esg-metrics-definition-examples>

1.4 - Investors' Perspective on ESG Integration

In contemporary investment activities, the integration of ESG has moved from a marginal consideration to a key component in the process of decision-making. Investors increasingly perceive ESG factors not just as ethical requirements but as a game-changer in the understanding of a company's long-term financial performance. This section will analyse the motivations, strategies, and challenges associated with the incorporation of ESG factors into investment portfolios.

1.4.1 Motivation for ESG Integration

Investors are increasingly integrating ESG factors into their investment analyses for several reasons. Firstly, an integration of ESG factors in the GRC or Governance, Risk, and Compliance agenda offers the opportunity for companies to promote sustainable growth and guarantee long-term value creation. Moreover, the incorporation of ESG principles can represent an opportunity for the company to show its commitment toward more sustainable business activities, increasing the trust of stakeholders.⁴³

Secondly, integration of ESG factors provides the company with complementary information that allows the business to “identify unexpected opportunities”⁴⁴ and it offers the opportunity to mitigate potential legal and reputational risks.

1.4.2 Strategies for ESG Integration

In recent years, responsible investors have increasingly considered ESG factors in their investment operations. One possible approach is ESG integration, which implies the inclusion of ESG factors in combination with traditional financial analysis to identify companies that properly manage ESG risks and opportunities.⁴⁵ The UN Principles for

⁴³ Druckmann, N., *Embracing ESG in Governance, Risk, and Compliance (GRC): A Strategic Imperative for Corporate Sustainability*, LinkedIn (February 7, 2024). <https://www.linkedin.com/pulse/embracing-esg-governance-risk-compliance-grc-natalie-druckmann-mifoe/>

⁴⁴ Sütterlin, D., *How ESG Cultivates a New Paradigm in Risk Management*, EY (March 06, 2024). https://www.ey.com/en_ch/insights/sustainability/how-esg-cultivates-a-new-paradigm-in-risk-management?utm

⁴⁵ *Environmental, Social, and Governance Investment Approaches*, AnalystPrep (August 10, 2022). <https://analystprep.com/cfa-level-1-exam/corporate-issuers/environmental-social-and-governance-investment-approaches/?utm>

Responsible Investment define it as “the explicit and systematic inclusion of environmental, social and governance issues in investment analysis and investment decisions.”⁴⁶

There are five other ESG investment approaches: negative screening, positive screening, ESG integration, thematic investing, engagement or active ownership, and impact investing.⁴⁷

Negative screening is based on the use of personal preferences for the exclusion of some industries. Positive screening works in the opposite way of the negative one, meaning that it requires the selection of industries that match personal preferences. The intention is to select companies or sectors with proper management of ESG risks. Thematic investing requires the stakeholder to look at ESG factors relevant to the investor. Engagement or active ownership requires “direct corporate involvement, submission of shareholder recommendations, and proxy voting that follows ESG criteria, shareholder or bondholder rights are used to affect business conduct.”⁴⁸ The last, impact investing, implies the investment in companies to earn a financial return as well as producing a positive impact at a social and environmental level.

1.4.3 Challenges in ESG Integration

Because of the increasing relevance of ESG, several challenges surface.

Data quality and availability represent two primary impediments to the incorporation of ESG information into possible investment opportunities. Differently from financial metrics, ESG data differs between reporting firms. Also, because of a voluntary approach to the disclosure of ESG information, data availability is not constant among companies; there is a differentiation in the transparency between businesses. This condition cannot

⁴⁶ *Definitions for responsible investment approaches*, UN PRI (November 01, 2023).
<https://www.unpri.org/investment-tools/definitions-for-responsible-investment-approaches/11874.article>

⁴⁷ *Supra* note 45.

⁴⁸ AnalystPrep (August 10, 2022), *Id.*

guarantee a full and unbiased overall understanding of differences in ESG performance between companies.⁴⁹

In addition to this situation, different ESG rating companies, such as S&P Global or MSCI, collect information with different methods, and value “different ESG factors based on their assumptions and research.”⁵⁰ Different ESG rating companies, because of the different methods in data collection, reward the companies with inconsistent scores concerning the same company. This implies an increased difficulty for the investors on the determination of which rating company to trust.⁵¹

Another issue is the establishment of materiality and relevance. This issue implies the understanding of the financial importance of ESG factors. Even if there is an increasing agreement on the applicability of ESG aspects, understanding which factors play an effective role in the financial performance and the evaluation of risk remains complex to recognize. To recognize which factors are key players requires a study and vast knowledge of the industry dynamics and how ESG factors can be converted into factors relevant for the finances of the company. The complexity of this identification is given by the fact that “the relationship between ESG factors and financial performance is not always direct and easily quantifiable.”⁵² The absence of direct quantification of the influence of ESG factors on the financial performance is well represented by ESG issues, which cannot reflect a financial consequence in the short term but only in the long term. In addition, this understanding cannot be applicable at the same level in different sectors, because an ESG issue can be specific or more emphasized for a particular sector.⁵³

A third challenge is represented by the subjectivity regarding the interpretation of ESG data and reports. The initial intention of the ESG reporting companies is to provide an impartial analysis based on data collected, but “the evaluation of ESG factors often involves qualitative judgments and value-laden perspective.”⁵⁴ This absence of objectivity leads to the introduction of bias and possible variations into ESG analysis.

⁴⁹ *What Are the Potential Challenges of Integrating ESG Data into Investment Decisions?*, Sustainability Directory (February 20, 2025). <https://sustainability-directory.com/question/what-are-the-potential-challenges-of-integrating-esg-data-into-investment-decisions/?utm>

⁵⁰ Sustainability Directory (February 20, 2025), *Id.*

⁵¹ Sustainability Directory (February 20, 2025), *Id.*

⁵² Sustainability Directory (February 20, 2025), *Id.*

⁵³ Sustainability Directory (February 20, 2025), *Id.*

⁵⁴ Sustainability Directory (February 20, 2025), *Id.*

This absence in objectivity is underlined mainly in the Social and Governance criteria of ESG, where it is harder to quantify the impact of ESG factors on the company and the financial performance. Evidence of the absence of objectivity can be found in the different methodologies used by rating companies to collect information and in the way in which they analyse it. Some rating firms can focus more on social factors that, as stated above, have less direct impact on financial performance, while others can focus on factors that are considered more involved in the influence of financial performance. This is reflected in the differences between scores given by different rating companies to the same corporation.⁵⁵

⁵⁵ Sustainability Directory (February 20, 2025), *Id.*

Chapter 2: Company Profile and Industry Review

2.1 - Introduction to Audax Renovables

Audax Renovables, SA is a publicly listed Spanish company that operates in the energy sector. Specifically, Audax specializes in the generation and commercialization of electricity and gas, with an emphasis on the production of renewable energy. The company is based in Badalona (Barcelona, Spain), but it operates in several other European countries, namely Portugal, Italy, Germany, the Netherlands, Poland, Hungary, and France, and Panama.

2.1.1 Company Overview and Historical Development

Established in 2000 as Fersa Energías Renovables, Audax Renovables began trading on the Barcelona Stock Exchange's secondary market in 2003, and it was listed on the Madrid Stock Exchange's SIBE in 2007. In 2006, the company started producing renewable energy after the construction of the first wind farm in Spain. In 2017, the company was renamed Audax Renovables after a reverse merger with Audax Energía in August 2016. This allowed the company to move to a more vertically integrated process under a single brand name. Nowadays, they focus on electricity generation from renewable sources and the commercialization of electricity and gas to end users.⁵⁶

Audax counts on a portfolio of both wind farms and photovoltaic that accounts for an overall production of 955 MW, of which 267 MW are operating, and 84 MW are under construction (See Figure 2.1).⁵⁷

⁵⁶ *Non-Financial Information Statement 2023 AUDAX RENOVABLES and subsidies*, Audax Renovables (2024). <https://www.audaxrenovables.com/en/wp-content/uploads/2024/04/Audax-Non-Financial-Information-Statement-FY2023-.pdf>

⁵⁷ *In Figures 2024*, Audax Renovables (2025). <https://www.audaxrenovables.com/en/wp-content/uploads/2025/03/In-figures-2024-1.pdf>

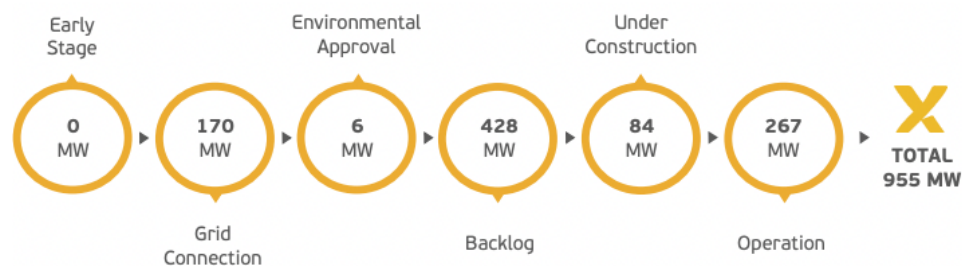


Figure 2.1. Different stages of production of the 955 MW portfolio. Source: Audax in figures, In Figures 2024, Audax Renovables (2025).

2.1.2 Mission, Vision, and Strategic Orientation

The mission of Audax is to offer consumers energy 100% renewable with a competitive price, high efficiency, and a high standard of commitment to sustainability. The company's vision strongly meets the climate goals known Sustainable Development Goals or SDGs. These goals are included in the so-called "Agenda 2030" developed by the United Nations Members only in 2015, but that required more than 20 years of work and cooperation.⁵⁸ Audax concentrated its effort on 10 of these goals, some of which include gender equality (SDG 5), decent work and economic growth (SDG 8), responsible consumption and production (SDG 12), climate action (SDG 13), and peace, justice, and strong institutions (SDG 16).⁵⁹

The effort in developing a more sustainable company is emphasized by the aforementioned project of investment in increasing its operating generation portfolio, composed of both solar photovoltaic plants and wind farms, of 955 MW.⁶⁰

2.1.3 Business Model and Operational Structure

Audax operations can be identified and categorized into two main segments: electricity generation and energy commercialization. The former segment involves the development, construction, and operation of renewable energy assets, specifically wind farms and photovoltaic plants. Specifically, at the end of 2024, Audax counted on wind farms

⁵⁸ *The 17 Goals*, United Nations, Department of Economic and Social Affairs. <https://sdgs.un.org/goals>

⁵⁹ *Sustainable development*, Audax Renovables (2025).

<https://www.audaxrenovables.com/en/sustainability/sustainable-development/>

⁶⁰ *Supra* note 57.

operating in 4 different countries (Spain, Poland, France, and Panama) and photovoltaic plants in 3 different countries, namely Spain, Portugal, and Italy (where the photovoltaic plants are under development).⁶¹

The energy commercialization segment, instead, concerns the sale of electricity and natural gas to different segments of customers. In 2024, Audax supplied a total of 15.5 TWh of energy, divided into 10.6 TWh (68% of the total) of electricity and 4.9 TWh (32% of the total) of gas (See Figure 2.2).⁶²

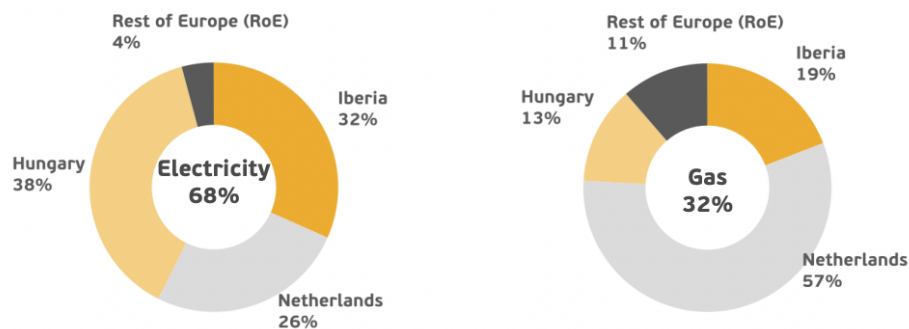


Figure 2.2. Energy supplied distribution in 2024. Source: Audax in figures, In Figures 2024, Audax Renovables (2025).

This structure, called vertically integrated, permits Audax to control its value chain from production to the retail phase, representing an advantage on both strategic and financial levels.

2.1.4 Governance and Sustainability Commitment

Audax Renovables is governed by the Board of Directors, whose responsibilities concern the representation and management of the company. It is composed of 6 members, divided as follows: “chairman, four members ... and a non-member ... secretary.”⁶³, changes in the years, as reported by the Non-Financial Information Statement of 2022, where the

⁶¹ Audax Renovables (2025), *Id.*

⁶² Audax Renovables (2025), *Id.*

⁶³ *Supra* note 56.

Board of directors was differently composed. It was a 7-member board, distributed as: “chairman, five members ... and a non-member ... secretary.”⁶⁴

On this, we can see a first movement by Audax to the attainment of gender equality (SDG 5). In fact, in 2022, 2 of the 5 members of the BoD were women⁶⁵, representing 40% of the total, which moved to 50% of the total in 2023 when the number of members moved from 5 to 4.⁶⁶

In addition to this dedication toward gender equality from Audax, in the last years the company implemented in the Non-Financial Information Statement (NFIS) several sections regarding its commitment to sustainability and information about environmental issues, in conformity with Spanish Law 11/2018. In this document, Audax reports the double materiality matrix, in which they disclose about the material topics for Audax Renovables and the methodology that lead to the obtainment of it as well as their strategic plan, the ESG ratings, and an analysis of their contribution to the SDGs (discussed in the Section 2.1.2).⁶⁷

2.2 - Industry Analysis and Competitive Landscape

The energy sector is living, globally, a moment of transformation, amplified and pushed by the necessity to work on global challenges such as the mitigation of climate change, the improvement of energy security, and the transition from fossil fuels towards renewable energies. In this landscape, the renewable energy industry is taking a key role as the cornerstone of sustainable development, and Spain, as well as other European markets, has taken a leading role in this transition.

⁶⁴ *Non-Financial Information Statement 2022 AUDAX RENOVABLES and subsidies*, Audax Renovables (2023). <https://www.audaxrenovables.com/en/wp-content/uploads/2023/03/Audax-Non-Financial-Information-Statement-2022-ENG.pdf>

⁶⁵ Audax Renovables (2023), *Id.*

⁶⁶ *Supra* note 56.

⁶⁷ Audax Renovables (2024), *Id.*

2.2.1 The European Renewable Energy Market

The European Union (EU) is a leader of the global energy transition. Through the European Green Deal and the REPowerEU strategy, the EU intends to achieve climate neutrality by 2050 and reduce gas emissions by at least 55% by 2030, to the 1990 levels. The European Green Deal requires Member States to spend the full amount of their revenue from emissions trading activities on “climate and energy-related projects and the social dimension of the transition.”⁶⁸ Also, with the support of the Social Climate Fund, which amounts to over €86 billion, the EU intends to aid “the most vulnerable citizens and small businesses with the green transition.”⁶⁹ In support of this process, in February 2024, the Commission set another goal, which requires a reduction of greenhouse gas emissions by 90% compared to 1990 levels at most by 2040.⁷⁰

REPowerEU, a project launched more than three years ago, in May 2022, represents a response to the energy market disorder generated by the invasion of Ukraine. This project “is helping the EU to save energy, diversify energy supplies, and produce clean energy.”⁷¹ In over two years of activity, important achievements have been reached. Between August 2022 and March 2024, the EU’s demand for natural gas declined by 18%, corresponding to a total savings of 125 billion cubic meters of gas. In 2022, to avoid shortages of energy, “EU Member States agreed to fill underground gas storage to 80% of capacity by 1 November 2022. ... EU countries surpassed this, ... reaching 95% of gas storage capacity.”⁷² A new target set for 2023 to reach 90% of capacity has been reached in mid-August, 2 and a half months in advance compared with the prediction. Representing a good starting point to conclude the winter season with a record of remaining gas in the storage compared to the total capacity. In fact, “At the end of the winter heating season

⁶⁸ *Delivering the European Green Deal. On the path to a climate-neutral Europe by 2050*, European Commission. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en

⁶⁹ European Commission, *Id.*

⁷⁰ *The European Green Deal. Striving to be the first climate-neutral continent*, European Commission. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

⁷¹ *REPowerEU. Affordable, secure and sustainable energy for Europe*, European Commission. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en

⁷² European Commission, *Id.*

..., on 1 April 2024, gas storage levels were at 59% of total capacity. That is a record at the close of the winter season”.⁷³

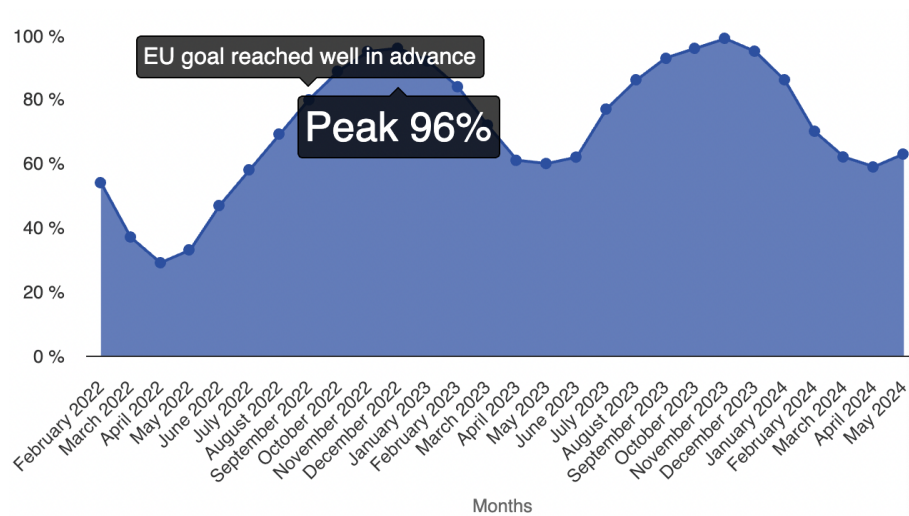


Figure 2.3. EU Gas Storage between February 2022 and May 2024. Source: REPowerEU. Affordable, secure, and sustainable energy for Europe. European Commission.

In support of the great effort of the EU in the use of renewable energy, a report of the International Energy Agency (IEA) of 2023 identified in the European Union a record-breaking expansion in renewable energy capacity in 2022, in particular in solar photovoltaic. Among the top contributors to this growth, it is possible to identify three countries: Spain, Germany, and the Netherlands. The trend is expected to continue in the next years, with the support of national recovery plans, feed-in tariffs, auctions, and other incentives.⁷⁴

A most recent report of the IEA, *Renewables 2024*, outlines that the consumption of renewable energy in the EU’s power, heat, and transport sectors is predicted to increase by 60% between 2024 and 2030. This growth will lead the use of renewables to account for almost 20% of the total final energy consumption by 2030, which represents an increase compared to 2023, the year in which renewables accounted for at most 13%. For the electricity sector, the share of renewables will move up from 30% in 2023 to 46% in 2030, most of which given by the support of solar and wind energy.⁷⁵

⁷³ European Commission, *Id.*

⁷⁴ *Renewable 2023. Analysis and forecasts to 2028*, IEA (January 2024).
<https://www.iea.org/reports/renewables-2023#overview>

⁷⁵ *Renewable 2024. Analysis and forecasts to 2030*, IEA (October 2024).
<https://www.iea.org/reports/renewables-2024>

To support this long-term necessity of investment for the promotion of renewable energy, the EU has introduced mechanisms such as the Renewable Energy Directive (RED II), the Just Transition Fund, and the Fit for 55 legislative packages. These policies can have an impact on the market growth in wind and solar energy while supporting infrastructure like storage systems.

2.2.2 The Spanish Renewable Energy Landscape

Spain has become, because of its favourable geographic position for wind and solar development, one the Europe’s most relevant renewable energy markets. In 2023, 50.3% of Spain’s electricity generation came from renewable sources (134.321 GWh out of 266.807 GWh), with the main contribution from wind farms (62.569 GWh) and photovoltaic plants (37.332 GWh).⁷⁶ (See Figure 2.4)

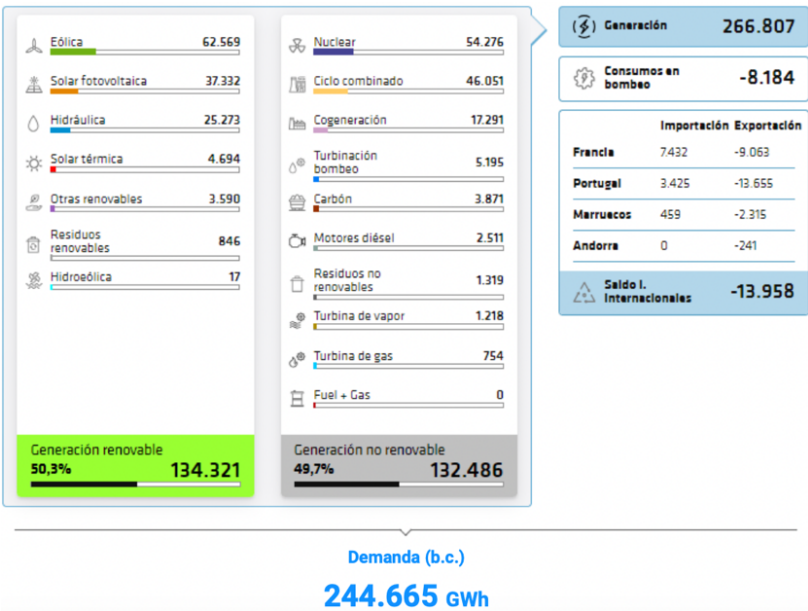


Figure 2.4. Total Generation and Demand of Electricity in Spain. Source: Red eléctrica (January 2024).

This growing trend can be visualized in the report for 2024. In 2024, 56.8% of Spain’s electricity generation came from renewable sources (148.999 GWh out of 262.247n

⁷⁶ The Spanish electricity system, Red eléctrica (January 2024). https://www.sistemaelectrico-rec.es/sites/default/files/2024-03/ISE_2023.pdf

GWh), with the main contribution from wind farms (60.921 GWh) and photovoltaic plants (44.520 GWh).⁷⁷ (See Figure 2.5)

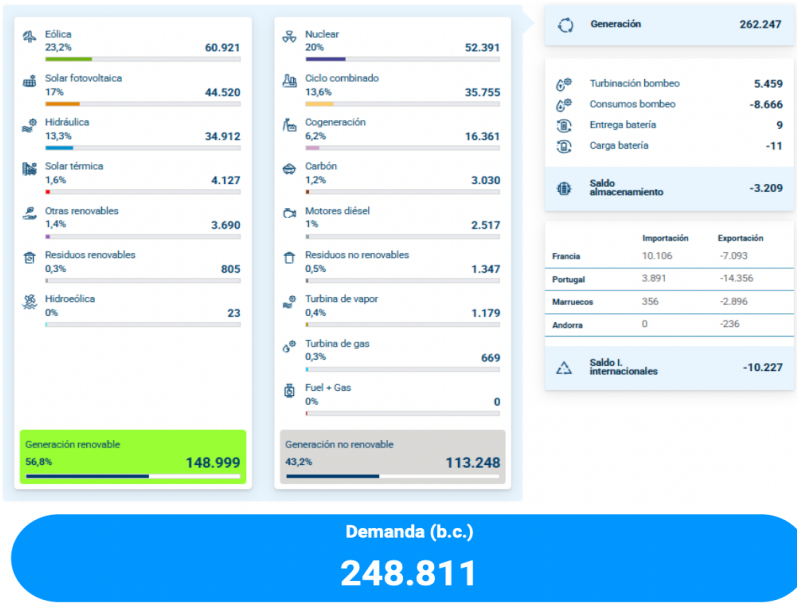


Figure 2.5. Total Generation and Demand of Electricity in Spain. Source: Red eléctrica (January 2025).

The country's National Integrated Energy and Climate Plan (PNIEC) 2023-2030, in conformity with the Article 14.2 of the Regulation (EU) 2018/1999, includes objectives for 2030 such as the reduction of the greenhouse gas emissions of the 32% with respects to the level, the use of renewable energy in the final stage for the 48% of the total, a reduction by 50% of energy dependence, improvement in energy efficiency, and a generation of energy covered by 81% from renewable energy.⁷⁸

Spain's adherence to the energy transition is demonstrated through competitive auctions and reforms to permitting procedures. These activities have made Spain an attractive destination for investors, domestic and foreign, in renewable energy. Moreover, the liberalization of the energy market allows companies like Audax Renovables to compete with major companies, especially by applying innovative and more flexible business models focused on the customer's needs.

⁷⁷ *The Spanish electricity system*, Red eléctrica (January 2025). https://www.sistemaelectrico-ree.es/sites/default/files/2025-03/ISE_2024.pdf

⁷⁸ *Plan Nacional Integrado de Energía y Clima (PNIEC 2023-2030)*, Ministerio para la Transición Ecológica y el Reto Demográfico. <https://www.miteco.gob.es/es/energia/estrategia-normativa/pniec-23-30.html>

2.2.3 Competitive Environment and Key Players

The renewable energy market in Spain is highly competitive, with different companies that are vertically integrated, such as Iberdrola, Endesa, and Naturgy, combined with independent power producers like Acciona Energía and new entrants such as Capital Energy. These companies invest in innovation, storage of energy, and green hydrogen to differentiate themselves in an increasingly competitive market.

Audax Renovables stands out in this system. It is a vertically integrated energy group with activities in both the generation of 100% renewable energy and commercialization. Unlike other companies, Audax targets SMEs and residential segments by offering competitive prices, sustainable sourcing, and flexible supply models. This approach guarantees resilience in a period of strong energy price volatility.⁷⁹

The increasing funds for infrastructure and the presence of international energy firms in the Spanish market have increased competition, especially in the acquisition of land and connection to the grid. For companies like Audax, rapidity, prevision, and partnerships are becoming crucial for the obtainment and maintenance of market share.

2.2.4 Regulatory and Policy Drivers

Spain's regulatory scenario for renewable energy moves alongside EU directives and the national legal framework. Royal Decree 960/2020 and Law 24/2013 of the Electricity Sector represent the foundations of legislation regarding renewable energy generation, grid access, and remuneration mechanisms. The Royal Decree 960/2020 regulates "the economic regime of renewable energies for electricity production facilities. This economic regime will make it possible to receive a fixed price for the energy generated and will be granted through auctions."⁸⁰

This Royal Decree represents an implementation of "Article 2 of Royal Decree Law 23/2020, which modifies Article 7.bis of Law 24/2013 on the Electricity Sector."⁸¹ It establishes that there will be a recognition of a price for energy in the long term and that

⁷⁹ *About us*, Audax Renovables. <https://www.audaxrenovables.com/en/get-to-know-us/about-us/>

⁸⁰ *Royal Decree 960/2020*, Dikeos Abogados (November 5, 2020). <https://dikeos.com/en/royal-decree-960-2020/>

⁸¹ Dikeos Abogados (November 5, 2020), *Id.*

it will be guaranteed through auctions. Moreover, the Royal Decree 960/2020 “establishes the general framework for the auctions, which will be regulated more specifically by Ministerial Order and called by Resolution of the Secretary of State for Energy.”⁸²

In addition, the Renewable Energy Directive (RED II) at the EU level promotes a long-term vision. In 2022, 23% of the EU energy consumed was represented by renewable energy. In 2018, the EU introduced a binding target of 32% of renewable energy in EU consumption by 2030. With the introduction of the RED II, the target has been moved up to at least 42.5%, with the aspiration to move it again to 45%.⁸³ These policies are supported and enriched, to facilitate the energy transition, by funding instruments like the Recovery and Resilience Facility, a temporary support to the countries⁸⁴, and the EU Innovation Fund.

For Audax Renovables, all these policies can offer the conditions to improve its solar generation portfolio and expand its retail operation in Spain and other countries. Regulatory alignment with the aforementioned policies and, consequently, with the EU climate agenda, strengthens the company’s ESG profile, attracting impact-oriented investors.

2.3 - Company’s ESG Strategy and Reporting

2.3.1 Overview of ESG Commitment

Audax Renovables has considered ESG criteria fundamental for the corporate strategy. As a vertically integrated company that operates across several European countries and, consequently, across several markets, the group recognizes that alignment with SDGs can offer a long-term business lifecycle and trust from stakeholders and investors. Its ESG strategy branches out into various fields, such as ethical governance, transparency, and social responsibility towards the communities in which it operates.

⁸² Dikeos Abogados (November 5, 2020), *Id.*

⁸³ *Renewable energy targets*, European Commission. https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-targets_en

⁸⁴ *The Recovery and Resilience Facility*, European Commission. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en

The company's annual reports and non-financial information statement reflect an increasing orientation toward the path established by ESG standards and the United Nations Sustainable Development Goals (SDGs)⁸⁵ (See Section 2.1.2).⁸⁶

Audax actively measures the use of resources through the years, the total amount of greenhouse gas emissions, as well as an analysis of the composition of the personnel (gender, age, sector, country and other factors) to align with the SDG 5 (gender equality) and SDG 8 (decent work and economic growth).⁸⁷

2.3.2 Environmental Pillar: Renewable Energy and Climate Impact

Audax's central environmental contribution lies in its generation of 100% renewable energy. The company's main assets, in this context, are the photovoltaic plants. Consequently, they prioritize the production of photovoltaic energy, which plays a key role in the acceleration of the energy transition across its core markets, especially in Spain (See Section 2.2.2).

To reduce its impact, Audax conducts life-cycle evaluations of its facilities and reports its Scope 1 and Scope 2 emissions. Scope 1 emissions are emissions related to the core business of the company, while Scope 2 emissions are indirect emissions. The company is also committed, as reported in the non-financial information statements, to sustainable water and resource use in project development, and its photovoltaic plants are installed by taking into consideration biodiversity protection measures.⁸⁸

2.3.3 Social Pillar: Employee Welfare and Community Engagement

Audax promotes inclusive and fair workplace policies as part of its social efforts, following SDG 5 and SDG 8. The company stresses gender equality (SDG 5), safe working conditions (SDG 8), and professional development. It also supports flexible work measures to offer an appropriate work-life balance.

⁸⁵ *Supra* note 58.

⁸⁶ *Supra* note 56.

⁸⁷ Audax Renovables (2024), *Id.*

⁸⁸ Audax Renovables (2024), *Id.*

The company has also made progress regarding diversity and inclusion metrics, and it is committed to increasing female representation in leadership positions (See Section 2.1.4).

2.3.4 Governance Pillar: Transparency, Ethics, and Oversight

On the third element of the ESG, the governance front, Audax Renovables has adopted a corporate governance model based on principles of integrity, transparency, and shareholder accountability. The BoD (Board of Directors) includes an independent member (See Section 2.1.4), and the company maintains committees for audit, equality, criminal, appointments, and remuneration.⁸⁹

Audax has implemented a Code of Ethics and Conduct. And, from 2013, has been part of the United Nations Global Compact, whose goal is to fight against corruption. “In order to prevent any form of corruption ..., Audax Renovables has the following documents and measures available: Code of Ethics, Code of Good Commercial Practice, contract validation handbook, bank reconciliation, delivery contract model, dissemination of public administrations delivery contract terms, public administrations proceedings, cash and bank accounts management, digital certificates of electricity and gas purchases, forecasts of income from energy retailing and price hedging contracts”.⁹⁰ These tools offer a general and documented view across all business operations and minimize reputational and regulatory risks. The company, moreover, aligns with the Comisión Nacional del Mercado de Valores (CNMV) or National Securities Market Commission standards and records in the Official Record of the CNMV several information, such as additional information for annual reports on Corporate Governance and remuneration of Directors, or Auditor’s reports.⁹¹ The CNMV “is the body responsible for the supervision and inspection of Spanish securities markets and the activity of all those involved in them. ... The aim is to ensure the transparency of Spanish securities markets and the correct formation of prices, as well as the protection of investors.”⁹²

⁸⁹ Audax Renovables (2024), *Id.*

⁹⁰ Audax Renovables (2024), *Id.*

⁹¹ *Entity Information. Audax Renovables, S.A.*, CNMV Comisión Nacional del Mercado de Valores. <https://www.cnmv.es/Portal/Consultas/DatosEntidad?nif=A62338827>

⁹² *CNMV functions*, CNMV Comisión Nacional del Mercado de Valores. <https://www.cnmv.es/portal/quees/funciones-cnmv?lang=en#ref1>

Furthermore, ESG disclosures, audited annually to guarantee credibility and comparability for investors, observe the EU Taxonomy and the standards of the Task Force on Climate-related Financial Disclosures (TCFD), created in 2015 to “increase reporting of climate-related financial information.”⁹³

2.3.5 ESG Ratings and External Evaluations

Audax Renovables is evaluated by different ESG rating companies. The company’s goal is to improve its standings in rankings such as Sustainalytics, S&P Global, and MSCI (See Section 1.3) through transparency and better ESG performance. Although current ESG scores are modest compared to larger rivals, the combination of strategic improvements and a supplement reporting framework is expected to elevate its profile in the sustainable investment community.

⁹³ *Climate change presents financial risk to the global economy*, TCFD. Task Force on Climate-related Financial Disclosures. <https://www.fsb-tcfd.org/>

Chapter 3: Financial Analysis and Performance Review

This chapter analyses the company's financial performance in 2023 and 2024. We compare the last two years to evaluate possible changes and the factors that led to these differences.

3.1 – Company Financial Overview

Audax Renovables' financial performance during 2023 and 2024 reflects the company's transition towards a more integrated and sustainable energy model. While the energy market stabilized in 2024 compared to the volatility of 2022-2023, Audax faced opportunities and operational challenges across its business segments.

3.1.1 Revenue Trends and Market

In 2023, Audax Renovables reported revenues amounted to approximately €2.29 billion (See *Appendix 1*), of which €732.4 million (31.98%) from Spain and Portugal and €1,558 million (68.02%) from the rest of the world, namely from Italy, Poland, Germany, the Netherlands, France, Panama, and Hungary (See *Appendix 2*).⁹⁴ This represented a decline from the results of 2022, the year in which the company reported €2.6 billion in revenues, €1,260 million (47.95%) from Spain and Portugal, and €1,367 million (52.05%) from the rest of the world.⁹⁵ The reasons behind this contraction can be found in the normalization of wholesale electricity prices following the European energy crisis.

In 2024, Audax Renovables reported revenues for approximately €1.98 billion (See *Appendix 1*), representing a 13.5% decrease compared to 2023. The reason, as also evidenced in the “Consolidated Management Report January-December 2024”, can be found in the fall in the prices of energy. But, through an increase in energy supplied

⁹⁴ Auditor's Report on Audax Renovables, S.A. and subsidiaries, Audax Renovables (February 27, 2024). https://www.audaxrenovables.com/en/wp-content/uploads/2024/04/AUDAX-RENOVABLES-CCAACC-2023-Consolidadas-Completas_eng.pdf

⁹⁵ Audax Renovables (February 27, 2024), *Id.*

(+12.3% compared to the previous year), the company maintained an amount revenue of nearly €2 billion.⁹⁶

3.1.2 Cost Efficiency and Procurement Costs

Even with a significant decrease in revenue (-13.5%), Audax improved its profitability. Operating profit rose from €75.1 million in 2023⁹⁷ to €93.6 million in 2024⁹⁸ (See *Appendix I*), representing a 24.6% increase. The explanation behind this increase in operating profit can be mainly identified by the decrease in procurement costs, which include electricity and gas purchases. Audax reduced procurement costs from €2.06 billion in 2023⁹⁹ to €1.75 billion in 2024 (See *Appendix I*)¹⁰⁰, which underscores a 14.8% drop. A large part of this drop can be found in the decreasing price of energy and, consequently, in the favourable energy market conditions. Between 2023 and 2024, the Group reported a drop in the price of electricity in Spain of 28.07%, moving the average price of electricity from €87.43/MWh to €62.89/MWh.¹⁰¹

3.1.3 EBITDA and Net Profit

The EBITDA improved between the two years, moving from €96 million in 2023¹⁰² to €115 million in 2024¹⁰³ (See *Appendix I*), representing a 20% increase between the two years. Moreover, it can be observed an increase in the EBITDA margin, with a value of 4.2% in 2023 and of 5.8% in 2024, reflecting a higher share of earnings from operational activities relative to total revenue. In parallel, consolidated net profit increased by 101.6%, moving from €31.4 million in 2023¹⁰⁴ to over €63.2 million in 2024¹⁰⁵ (See *Appendix I*). This increase emphasises the capacity of Audax to maintain earnings growth

⁹⁶ Auditor's Report on Audax Renovables, S.A. and subsidiaries, Audax Renovables (February 25, 2025). <https://www.audaxrenovables.com/en/wp-content/uploads/2025/05/AUDAX-RENOVABLES-CCAACC-2024-vFINAL-eng.pdf>

⁹⁷ *Supra* note 94.

⁹⁸ *Supra* note 96.

⁹⁹ *Supra* note 94.

¹⁰⁰ *Supra* note 96.

¹⁰¹ Audax Renovables (February 25, 2025), *Id.*

¹⁰² *Supra* note 94.

¹⁰³ *Supra* note 96.

¹⁰⁴ *Supra* note 94.

¹⁰⁵ *Supra* note 96.

even in a context of a decrease in the prices of energy, through effective cost optimization strategies and diversification across markets.

In 2024, the company operated across eight European countries (See Section 2.1), including Spain, Portugal, Italy, and Poland. The revenues from Spain and Portugal represented 33.79% of the total revenue¹⁰⁶, demonstrating a good ability from Audax to operate profitably also in markets different from the Spanish market.

Conversely, financial expenses declined slightly, from €34.6 million in 2023¹⁰⁷ to €32.9 million in 2024¹⁰⁸ (See *Appendix I*).

Additionally, Audax improved its financial structure significantly. The 7.8% reduction of the NFD or Net Financial Debt lowered the debt-to-EBITDA ratio from 2.5x in 2023 to 1.9x at the end of 2024.¹⁰⁹

3.1.4 Balance Sheet and Financial Structure

Audax's total assets increased by 5.7%, from €1.29 billion in 2023¹¹⁰ to €1.37 billion in 2024¹¹¹ (See *Appendix 3*). Non-current assets increased from €589 million to €623 million¹¹² (+5.73%), while total current assets increased from €705.8 million to €746.1 million¹¹³ (+5.71%) (See *Appendix 3*).

The growth of total non-current assets and, consequently, total assets is mainly due to investments in property, plant, and equipment, given by the installation of photovoltaic plants. From 2023 to 2024, property, plant, and equipment moved from €156.3 million to €194.8 million¹¹⁴ (+24.6%) (See *Appendix 3*).

¹⁰⁶ Audax Renovables (February 25, 2025), *Id.*

¹⁰⁷ *Supra* note 94.

¹⁰⁸ *Supra* note 96.

¹⁰⁹ Audax Renovables (February 25, 2025), *Id.*

¹¹⁰ *Supra* note 94.

¹¹¹ *Supra* note 96.

¹¹² Audax Renovables (February 25, 2025), *Id.*

¹¹³ Audax Renovables (February 25, 2025), *Id.*

¹¹⁴ Audax Renovables (February 25, 2025), *Id.*

Net equity moved up by 29.3% from €173 million in 2023¹¹⁵ to €224 million in 2024¹¹⁶ (See *Appendix 3*). The increase is due to a decrease in “Reserves” (-7.74%) from €335.5 million to €309.5 million¹¹⁷, and an increase in “Profit ... for the year attributable to the parent company” (+108.6%) from €29 million to €60.6 million¹¹⁸ (See *Appendix 3*).

Liabilities increased by 2.1%, from €1.12 million in 2023¹¹⁹ to €1.14 million in 2024¹²⁰ (See *Appendix 3*). This implies that the increase in current liabilities offsets the decrease in non-current liabilities. Current liabilities registered a 15.5% increase between the two years, from €549 million in 2023¹²¹ to €633.9 million in 2024¹²² (See *Appendix 3*). The evidence of this increase can be found on the increase of “Bonds and other negotiable securities” from €88.8 million in 2023¹²³ to €134.4 million in 2024¹²⁴ (+51.3%) and of “Other current liabilities” from €146 million in 2023¹²⁵ to €194.5 million in 2024¹²⁶ (+33.2%) (See *Appendix 3*).

Non-current liabilities, instead, recorded a -10.7%, from €573 million in 2023¹²⁷ to €511.5 million in 2024¹²⁸ (See *Appendix 3*). The evidence of this decrease can be found on the increase of “Bonds and other negotiable securities” from €418.5 million to €347 million¹²⁹ (-17.1%), of “Other non-current liabilities” from €31.2 million to €21.5 million¹³⁰ (-31%), and of “Other financial liabilities” from €32.1 million to €25.4 million¹³¹ (-20.9%) (See *Appendix 3*). All these decreases overcompensated the increases on “Financial liabilities to credit institutions” that increased from €54.6 million to €75.9

¹¹⁵ *Supra* note 94.

¹¹⁶ *Supra* note 96.

¹¹⁷ Audax Renovables (February 25, 2025), *Id.*

¹¹⁸ Audax Renovables (February 25, 2025), *Id.*

¹¹⁹ *Supra* note 94.

¹²⁰ *Supra* note 96.

¹²¹ *Supra* note 94.

¹²² *Supra* note 96.

¹²³ *Supra* note 94.

¹²⁴ *Supra* note 96.

¹²⁵ *Supra* note 94.

¹²⁶ *Supra* note 96.

¹²⁷ *Supra* note 94.

¹²⁸ *Supra* note 96.

¹²⁹ Audax Renovables (February 25, 2025), *Id.*

¹³⁰ Audax Renovables (February 25, 2025), *Id.*

¹³¹ Audax Renovables (February 25, 2025), *Id.*

million¹³² (+39%) and on “Derivative financial instruments” from €4 thousand to €2.5 million¹³³ (+528.7%) (See *Appendix 3*).

3.1.5 Cash Flow Analysis

In 2024, the company reported an operating cash flow of €74.2 million¹³⁴, which represents a 47.2% decrease compared to the €140.5 million of 2023¹³⁵ (See *Appendix 4*). These changes are influenced mainly by “Changes in working capital” that moved from €47.4 million in 2023 to €5.3 million in 2024¹³⁶ (-88.9%) and by the decrease of “Adjustments to results” that moved from €91.3 million in 2023 to €26.8 million in 2024¹³⁷ (-70.6%) (See *Appendix 4*). These decreases are compensated by a higher “Profit ... for the year before tax” that in 2023 resulted in €45 million¹³⁸, while in 2024 was reported as €88.9 million¹³⁹ (+97.56%) (See *Appendix 4*).

Investing activities resulted in a cash outflow of €58.9 million in 2024, compared to the €34.9 million in 2023¹⁴⁰ (See *Appendix 4*). The increased investment expenditure demonstrates the company’s commitment to expanding its infrastructure through the development of new photovoltaic plants.

Financing activities registered a substantial improvement between the two years. In 2023, the company reported a net cash outflow of €81.3 million, while in 2024, the company’s net cash outflow amounted to €16.7 million¹⁴¹ (See *Appendix 4*). This reduction suggests a potential reduction in debt repayments or optimized capital structure management.

Overall, at the end of 2024, the company registered a positive amount of cash corresponding to €228.78 million¹⁴², providing a solid liquidity necessary to support operations and future investments (See *Appendix 4*).

¹³² Audax Renovables (February 25, 2025), *Id.*

¹³³ Audax Renovables (February 25, 2025), *Id.*

¹³⁴ Audax Renovables (February 25, 2025), *Id.*

¹³⁵ *Supra* note 94.

¹³⁶ *Supra* note 96.

¹³⁷ Audax Renovables (February 25, 2025), *Id.*

¹³⁸ Audax Renovables (February 25, 2025), *Id.*

¹³⁹ Audax Renovables (February 25, 2025), *Id.*

¹⁴⁰ Audax Renovables (February 25, 2025), *Id.*

¹⁴¹ Audax Renovables (February 25, 2025), *Id.*

¹⁴² Audax Renovables (February 25, 2025), *Id.*

3.2 – ESG-Driven Financial Performance

Audax Renovables, in the last two years made substantial progress in the integration of ESG principles. The company, in May 2023, approved a Strategic Sustainability Plan 2023-2025. A plan “articulated around 4 strategic lines: environmental leadership, environmental protection, together we add up, and compliance culture. The Plan defines more than 40 initiatives and projects with specific objectives that will contribute to improving its sustainability performance and achieve the ambition of leading the energy transition in the renewable energy sector, contributing value to society and the planet. The Strategic Sustainability Plan establishes the main environmental objectives of doubling the installed capacity of Audax’s generation portfolio by 2025 and achieving climate neutrality by 2050. On a social level, it defines a series of objectives to promote diversity, equality, integration, and conciliation, while maintaining a firm commitment to the development and well-being of its team, as well as the local communities. Within the scope of the compliance model, priority is given to the integration of ESG aspects into internal policies and procedures to ensure the proper functioning and foster an ethical culture within the organization and with key stakeholders.”¹⁴³

In 2024, the company supported the intention of its Plan with investment in photovoltaic projects, contributing to a cleaner energy mix and aligning with EU climate directives. In addition, Audax expressed and evidenced its commitment to sustainability reporting through the use of frameworks like the Global Reporting Initiative (GRI) and referencing SDGs in its communication and report. This allowed the company to improve its reputation among ESG-conscious stakeholders.

3.2.1 ESG Ratings and Market Positioning

In 2023, the company received an ESG Risk Rating of 19.5 from Sustainalytics, which categorizes the company within the “Low Risk” segment with an improvement of 3 points

¹⁴³ *Audax Renovables Increases its EBITDA by 47%*, Audax Renovables (May 11, 2023). <https://www.audaxrenovables.com/en/audax-renovables-increases-its-ebitda-by-47-2/>

from 2022, the year in which Audax obtained a score of 22.7, which represents a “Medium Risk” segment.¹⁴⁴

In 2024, Audax received a Sustainalytics’ ESG Risk Rating of 22.5, moving the company back to the “Medium Risk” segment.

This rating has implications that go beyond reputational benefits. Some studies have shown that companies with better ESG performance are rewarded with lower cost of capital and higher interest from investors.¹⁴⁵

3.2.2 Financial Impact of ESG Initiatives

The financial impact of ESG actions is becoming increasingly relevant in the company’s capital structure and earnings quality. In the last years, Audax improved its debt-to-EBITDA ratio, moving it from 2.5x in 2023 to 1.9x in 2024¹⁴⁶, driven by active debt reduction and an increase in the EBITDA. The 2024 results report a net financial debt decreasing from €262.25 million at the end of 2023 to €245 million at the end of 2024.¹⁴⁷

By aligning its corporate strategy with climate targets and the reinforcement of renewable generation capabilities, Audax can demonstrate a not-high risk to creditors and investors, reducing its cost of borrowing and enhancing long-term financial flexibility.

3.2.3 Renewable Energy Growth and Operational Efficiency

One of the pieces of evidence that supports the alignment of Audax with ESG objectives is the growth in renewable energy production. In 2023, Audax produced 279 GWh of renewable energy, an 8% increase from 258 GWh produced in 2022.¹⁴⁸ If we consider also the plant in Panama, in which Audax has a 30% stake, the production increased from 375 GWh in 2022 to 521 GWh in 2023¹⁴⁹ (+38.9%). For 2024 can be observed an increase

¹⁴⁴ *In Figures 2023*, Audax Renovables (2024). <https://www.audaxrenovables.com/en/wp-content/uploads/2024/04/In-figures-2023-1.pdf>

¹⁴⁵ Amel-Zadeh, A., Serafeim, G., *Why and How Investors Use ESG Information: Evidence from a Global Survey*, SSRN (July 2017). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925310

¹⁴⁶ *Supra* note 96.

¹⁴⁷ Audax Renovables (February 25, 2025), *Id.*

¹⁴⁸ *Supra* note 144.

¹⁴⁹ Audax Renovables (2024), *Id.*

in production in Europe with a shift from the 279 GWh produced in 2023 to a production of 305 GWh in 2024¹⁵⁰ (+9.3%).

This shift contributed to the preservation of the total revenue. With a decline in electricity prices across Europe and a decrease in total revenue from €2.29 billion in 2023 to €1.98 billion in 2024 (See *Appendix I*), a higher energy production allowed the company to lose relatively small in revenue. Moreover, EBITDA and operating profit both increased, due to improved energy production, reduced procurement costs, and better efficiency.

3.2.4 Governance and Risk Management

On the governance side, Audax increased its controls and stakeholder oversight processes. The company increased the transparency of its internal reporting systems. This contributed to reducing reputational risk and potential compliance infringements, especially regarding EU taxonomy and climate-related disclosures.

The link between ESG compliance and corporate governance structure allowed the company to improve its accountability and meet growing investor expectations for transparency. This approach aligns with studies indicating that companies with strong ESG governance structures generally outperform in risk-adjusted financial terms.¹⁵¹ Precisely, the academic research outlines that “Roughly 90% of studies find a nonnegative ESG-CFP relation. More importantly, the large majority of studies report positive findings.”¹⁵²

3.3 – Comparative Analysis with Industry Peers

3.3.1 Revenue and Profitability Comparison

In 2023, Audax recorded revenue of €2.29 billion, which declined by 13.5% to €1.98 billion in 2024 (See *Appendix I*). This decline, as aforementioned, was due mainly to a decrease in the electricity prices across Europe. This implies that this trend can be

¹⁵⁰ *Supra* note 57.

¹⁵¹ Friede, G., Busch, T., Bassen, A., *ESG and financial performance: aggregated evidence from more than 2000 empirical studies*, SSRN (December 15, 2015).
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699610

¹⁵² SSRN (December 15, 2015), *Id.*

observed among many companies in the energy sector. However, even with lower revenue, Audax's net profit increased by 101.6% from €31.4 million in 2023 to €63.3 million in 2024.

Iberdrola, one of the largest companies in the sector in Spain, registered a decrease in revenue by 9.3% from €49.3 billion in 2023 to €44.7 billion in 2024¹⁵³ (See *Appendix 5*). On the other side, the company registered an increase in net profit of 10.2%, moving from €5.4 billion in 2023 to €5.97 billion in 2024¹⁵⁴ (See *Appendix 5*).

In comparison, Audax's percentage growth is more relevant. The Group decreased its revenues by 13.5% but increased its profits by 101.6%.

While Audax's operating profit margin increased from 3.28% in 2023 to 4.72% in 2024, Iberdrola's operating profit increased from 18.2% to 21.75%. This margin improvement by Audax, mainly driven by a reduction in procurement costs, reflects Audax's focus on operational efficiency and contract renegotiations during periods of lower energy prices.

3.3.2 ESG Integration and Sustainability Positioning

Audax's progress in ESG adoption has placed the Group in a competitive position. In 2023, Audax received a Sustainalytics ESG Risk Rating of 19.5, categorizing Audax as a "Low Risk" company. This rating represents an outstanding score when compared to mid-sized competitors in the European renewables sector. On the other hand, when compared with other companies, the score is not that encouraging. For example, Greenergy Renovables, another Spanish renewable firm, holds a "Low Risk" rating in 2024¹⁵⁵ (Audax moved up to "Medium Risk" section in 2024), while other larger companies such as Iberdrola¹⁵⁶ and Endesa¹⁵⁷ received scores like Audax.

¹⁵³ *Annual Financial Information*, Iberdrola (2025).

<https://www.iberdrola.com/documents/20125/4778712/gsm25-annual-accounts-consolidated-2024.pdf>

¹⁵⁴ Iberdrola (2025), *Id.*

¹⁵⁵ *Company ESG Risk Ratings. Greenergy Renovables SA*, Sustainalytics (January 31, 2025).

<https://www.sustainalytics.com/esg-rating/greenergy-renovables-sa/2004533658>

¹⁵⁶ *Company ESG Risk Ratings. Iberdrola SA*, Sustainalytics (May 16, 2025).

<https://www.sustainalytics.com/esg-rating/iberdrola-sa/1008395546>

¹⁵⁷ *Company ESG Risk Ratings. Endesa SA*, Sustainalytics (April 2, 2025).

<https://www.sustainalytics.com/esg-rating/endesa-sa/1008202988>

The implementation of Audax's Strategic Sustainability Plan 2023-2025¹⁵⁸, which includes more than 40 ESG initiatives, reinforces its commitment to responsible growth. This includes reducing "Scope 1" and "Scope 2" emissions, expanding photovoltaic plants, and improving engagement of stakeholders.

Audax's focused strategy on the implementation of photovoltaic facilities to expand solar power generation contrasts with firms that maintain diversified portfolios that involve natural gas and nuclear assets.

3.3.3 Financial Structure

Audax has reduced its net financial debt from €262.25 million in 2023 to €245 million in 2024¹⁵⁹, and achieved a lower debt-to-EBITDA ratio. This represents a positive goal, especially in comparison with other companies in the sector, such as Iberdrola, which reported a debt-to-EBITDA of 3.32x at the end of 2023¹⁶⁰ (Audax reported 2.5x debt-to-EBITDA) and a debt-to-EBITDA of 3.40x at the end of 2024¹⁶¹ (Audax reported a 1.9x debt-to-EBITDA). It can be observed that not only did Audax decrease its debt-to-EBITDA ratio during the last two years while Iberdrola increased it, but Audax overall has a lower ratio in comparison in the two years.

¹⁵⁸ *Supra* note 143.

¹⁵⁹ *Supra* note 96.

¹⁶⁰ *Supra* note 153.

¹⁶¹ Iberdrola (2025), *Id.*

Chapter 4: ESG Impact on the Company's Evaluation

Chapter 4.1 – Traditional Valuation Approaches

Company valuation represents a fundamental aspect of corporate finance. Defined as “the process of assessing the total economic value of a business and its assets”¹⁶², it is used to assess the worth of a firm, and it is used for a variety of purposes such as investment, M&A, and strategic planning. Traditional valuation methods have extensively provided the foundation for the estimation of a company's intrinsic value, based on financial performance, market conditions, and future cash flow expectations.

The three most widely used approaches are the Discounted Cash Flow, the Relative Valuation, and the Asset-Based Valuation, even if other methods exist.¹⁶³

4.1.1 Discounted Cash Flow Method

The DCF approach is represented as one of the main standards in intrinsic valuation. It is based on projecting future free cash flows and on discounting them with the use of WACC (weighted average cost of capital) to estimate present value.¹⁶⁴ It allows the analysis of the “ability to generate liquid assets”¹⁶⁵, but its challenge is that “its accuracy relies on the terminal value, which can vary depending on the assumptions you make about future growth and discount rates.”¹⁶⁶

The application of this method requires the following three steps which are the forecasting revenues, costs, taxes, and capital expenditures, the calculation of a terminal value, and the discount of the value using WACC.

¹⁶² Misamore, B., *How to Evaluate a Company: 6 methods and examples*, Harvard Business School Online (April 21, 2017). <https://online.hbs.edu/blog/post/how-to-value-a-company>

¹⁶³ Garrett, K., *Business valuations*, ACCA Global.
<https://www.accaglobal.com/content/dam/acca/global/PDF-students/2012s/fm-valuations3.pdf>

¹⁶⁴ Schmidt, J., *Valuation Overview*, Corporate Financial Institute.
<https://corporatefinanceinstitute.com/resources/valuation/valuation/>

¹⁶⁵ *Supra* note 162.

¹⁶⁶ Harvard Business School Online (April 21, 2017), *Id.*

For Audax Renovables, this model is viable due to long-term contracts and infrastructure investments. However, Discounted Cash Flow is sensitive to growth and discounted rate assumptions, making it vulnerable to volatility and macroeconomic changes.¹⁶⁷

4.1.2 Relative Valuation (Multiple Approach)

This method compares the company with its industry peers through the use of financial multiples such as EV/EBITDA, P/E, and P/S. This method “provides an observable value for the business, based on what other comparable companies are currently worth.”¹⁶⁸

Firstly, it requires identifying suitable companies for the comparison. Industry classification, geography, size, growth rate, margins, and profitability represent core criteria in the analysis conducted in the first step.¹⁶⁹

Following, the acquisition of financial information is required. Depending on the maturity of companies, we analyse different metrics. “For mature businesses, you will look at metrics like EBITDA and EPS, but for earlier stage companies, you may look at Gross Profit or Revenue”¹⁷⁰

This type of tool is used in several situations, like IPOs or M&A advisory.¹⁷¹

This method is helpful in the evaluation of Audax Renovables against other publicly traded companies that operate in the same sector. As evidenced by a paper of the IESE Business School, relative valuation can reveal disparities in the valuation due to strategic positioning or sectoral risks.¹⁷²

However, this method’s foundation is the comparability of data, which risk of being distorted by differences in ESG practices, regulatory exposures, or capital structure.

¹⁶⁷ Harvard Business School Online (April 21, 2017), *Id.*

¹⁶⁸ *Supra* note 164.

¹⁶⁹ Vipond, T., *Comparable Company Analysis*, Corporate Financial Institute.
<https://corporatefinanceinstitute.com/resources/valuation/comparable-company-analysis/>

¹⁷⁰ Corporate Financial Institute, *Id.*

¹⁷¹ Corporate Financial Institute, *Id.*

¹⁷² Fernandez, P., *Company Valuation Methods. The Most Common Errors in Valuation*, IESE Business School (January, 2002). <https://www.iese.edu/media/research/pdfs/DI-0449-E.pdf>

For Audax Renovables, a relevant metric can be EV/EBITDA. In 2024, the company registered a significant growth of EBITDA, even with a compression in revenue, resulting in favourable multiples (See section 3.1.3).

4.1.3 Asset-Based Valuation

It is a typology of valuation based on the evaluation of assets. It “focuses on the value of a company’s assets or the fair value of its total assets after deducting liabilities.”¹⁷³

Two different asset-based valuation methods can be identified. The Asset Accumulation Valuation and the Excess Earnings Valuation. The Asset Accumulation Valuation is based on the assignment of a value to each asset and liability. The value of the company is then reported as the difference between assets and liabilities. The limitation of this method is the identification of all assets. It is possible that assets used in this valuation, such as intangible assets internally generated, do not appear on the balance sheet.¹⁷⁴

The Excess Earnings Valuation “approach is a combination of the income and assets valuation methods. Other than evaluating a company’s tangible assets and liabilities, the method can also be used to work out a business’s goodwill. To determine goodwill, the earnings of a business are treated like input, and then a connection is drawn to the income method.”¹⁷⁵

However, these methods present obstacles given by the absence of some intangible assets generated internally that do not appear on the balance sheet, which leads to a complex process of measuring the value of intangible resources.

Moreover, the asset-based method is characterised, sometimes, by a low level of objectivity from the companies in the estimation of their worth.

For Audax, this valuation method is important due to the large quantity of assets identified by photovoltaic plants and wind farms. On the other hand, this method does not take into

¹⁷³ *Asset-Based Valuation*, Corporate Finance Institute.

<https://corporatefinanceinstitute.com/resources/valuation/asset-based-valuation/#:~:text=Asset%2Dbased%20valuation%20is%20a,fair%20market%20value%20is%20obtained>

¹⁷⁴ Corporate Finance Institute, *Id.*

¹⁷⁵ Corporate Finance Institute, *Id.*

account earnings potential or intangible value, such as ESG reputation, making the asset-based valuation less efficient.

4.1.4 Additional Determinants of Value

Modern methods of valuation of a company are increasingly considering a large spectrum of factors that influence the enterprise value. An article in the Harvard Business Review identified 6 of these drivers. Namely, “weighted forecasts of growth in company revenue; weighted forecasts of growth in company margin; patterns of cash returned to shareholders; changes in the company’s debt-to-equity ratio; the economic conditions in the company’s industry; market volatility in the geographic areas in which the industry’s major companies compete.”¹⁷⁶

What emerged from the study published by the Harvard Business Review is that these valuation drivers don’t always have the same weight in the evaluation, but change over time. An example reported from the study is about packaged food. The analysis shows that between 2011 and 2020, “packaged food became much more margin oriented”.¹⁷⁷

The study evidenced, also, that the relevance of each variable can differ between two companies that operate in the same sector. “So, a CEO might come to one packaged goods company from another and run the second the same way they ran the first – unaware that, for whatever reason, the market cares much more about the margins of the second company than it did with regard to the first company, where revenue mattered much more.”¹⁷⁸

Moreover, over the last years, non-financial factors such as management quality, growth potential, corporate governance, and industry risk and innovation have been playing a role in the estimation of the enterprise value.

¹⁷⁶ Trustman, J., Keely, L., *6 Factors That Determine Your Company’s Valuation*, Harvard Business Review (October 25, 2022). <https://hbr.org/2022/10/6-factors-that-determine-your-companys-valuation>

¹⁷⁷ Harvard Business Review, *Id.*

¹⁷⁸ Harvard Business Review, *Id.*

4.1.5 Limitations of Traditional Models in an ESG Context

Traditional models, such as the three discussed above, namely Discounted Cash Flow, Relative Valuation, and Asset-Based valuation, present a limitation in terms of sustainability. Traditional models generally do not consider ESG-specific variables such as sustainability-driven market access.

Additionally, ESG information affects the valuation of the enterprise through indirect considerations such as investor preference, green financing eligibility, or resilience during periods of crisis. This implies the necessity of introducing a valuation framework that incorporates material ESG metrics in combination with traditional financial indicators.

4.2 – How ESG Factors Influence Financial Metrics

ESG factors are increasingly recognised as material drivers of financial performance and enterprise valuation. The integration of these factors into the evaluation of the performance of the company moved the analysis from simple financial analysis to alignment with stakeholders' interests. This section evaluates the impact of ESG factors on financial metrics, such as revenue, cost of capital, and profitability.

4.2.1 ESG and Revenue Growth

The adoption of environmental and social practices can offer the firm the opportunity to experience higher revenue through the differentiation from competitors in the market, acquiring new customers, and reinforcing the loyalty of long-term customers. Companies involved in activities such as emissions reduction are generally more appreciated by customers who value transparency and improved solutions.

For Audax Renovables, the project of expansion of photovoltaic plants and the long-term power purchasing agreement (PPAs) signed with Statkraft for the supply of 525 GWh of electricity every year¹⁷⁹ has reinforced its revenue growth.

¹⁷⁹ *Audax Renovables and Statkraft sign the largest long-term PPA with immediate delivery in Spain*, Audax. <https://www.audaxrenovables.es/en/audax-renewables-and-statkraft-sign-the-largest-ppa/>

This agreement of Audax with Statkraft, a multinational company that produces hydroelectric, wind, solar, and natural gas energy and operates in 16 countries, represents a 10 and half years PPA for the supply of electricity to more than 130,000 customers in Spain.¹⁸⁰

Research published in 2014 and conducted on a sample of 180 US companies evidenced that “corporations that voluntarily adopted sustainability policies by 1993 – termed as High Sustainability companies – exhibit by 2009, distinct organizational processes compared to a matched sample of firms that adopted almost none of these policies – termed as Low Sustainability companies”.¹⁸¹

Additionally, “boards of directors of these companies are more likely to be formally responsible for sustainability, and top executive compensation incentives are more likely to be a function of sustainability metrics. Moreover, High Sustainability companies are likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of nonfinancial information.”¹⁸²

In conclusion, the research evidenced that “High Sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market as well as accounting performance.”¹⁸³

Overall, the analysis conducted by Eccles, Ioannou, and Serafeim evidence how ESG commitments can lead to commercial advantages.

4.2.2 ESG and Profitability

As aforementioned, the application of ESG strategies leads to an increase in revenue. An example can be offered by the revenue of Audax, which invested in photovoltaic plants. In the case of the Group, the revenue between 2023 and 2024 decreased only because of

¹⁸⁰ Audax, *Id.*

¹⁸¹ Eccles, R. G., Ioannou, I., Serafeim, G., *The Impact of Corporate Sustainability on Organizational Processes and Performance*, Harvard Business School (2014).
https://www.hbs.edu/ris/Publication%20Files/SSRN-id1964011_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf

¹⁸² Harvard Business School (2014), *Id.*

¹⁸³ Harvard Business School (2014), *Id.*

a negative variation in the price of energy, but the overall amount of energy distributed increased significantly.

But beyond the effect on revenue, ESG strategies contribute to profitability. Initiatives such as waste reduction and improvements in energy use allow the company to lower operational expenses. Investments for increasing employee satisfaction and retention allow, also, higher productivity and cost savings.

A study conducted by Khan, Serafeim, and Yoon in 2015 evidenced that “firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues. In contrast, firms with good ratings on immaterial sustainability issues do not significantly outperform firms with poor ratings on the same issues. These results are confirmed when we analyze future changes in accounting performance.”¹⁸⁴

For Audax, the reduction in operating expenses allowed the rise in operating profit from €75.1 million in 2023 to €93.6 million in 2024.¹⁸⁵

4.2.3 ESG and Cost of Capital

ESG factors influence a firm’s cost of equity and debt. Investors increasingly focus on the incorporation of ESG scores into their risk analysis, leading to a higher consideration for companies with a strong sustainability profile.

A recent study conducted by MSCI shows a negative correlation between ESG Rating and Cost of Capital.¹⁸⁶ Firms with higher ESG ratings experience a lower cost of capital. (See Figure 4.1).

¹⁸⁴ Khan, M., Serafeim, G., Yoon, A., *Corporate Sustainability: First Evidence on Materiality*, SSRN (March 11, 2015). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912

¹⁸⁵ *Supra* note 96.

¹⁸⁶ Malich, J., Husi, A., *MSCI ESG Ratings and Cost of Capital*, MSCI (July 2024). [https://www.msci.com/documents/10199/6c2115f3-5fef-b883-278d-853de6ffc019#:~:text=The%20systematic%20risk%20\(valuation\),%20%20flow%20\(DCF\)%20model](https://www.msci.com/documents/10199/6c2115f3-5fef-b883-278d-853de6ffc019#:~:text=The%20systematic%20risk%20(valuation),%20%20flow%20(DCF)%20model)

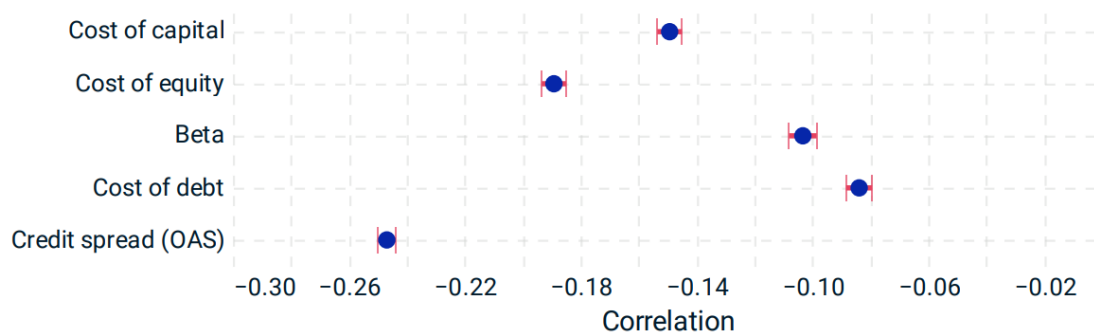


Figure 4.1. Correlation between ESG Rating and Cost of Capital. Source: MSCI ESG Research (July 2024).

Confirming the data reported from MSCI, Audax's ESG score worsened between 2023 and 2024, and the capital cost overall increased during the same period. From 2023 to 2024, only the Netherlands and Germany reported a decrease in capital cost. Differently, when analysing the After-tax Weighted Average Cost of Capital (After-tax WACC), only two countries, namely Poland and Hungary, increased. (See *Appendix 6* and *Appendix 7*).

4.2.4 ESG and Risk Mitigation

A robust ESG profile represents a tool for risk management, allowing businesses to navigate operational, regulatory, and reputational ambiguities. Businesses with strong ESG governance can adapt to regulations such as the EU Green Taxonomy with respect to companies with a lower reputation.

Research conducted by Friede, Busch, and Bassen covered over 2,000 studies and reported a non-negative link between ESG performance and risk-adjusted returns for 90% of the studies, but instead, a positive relation.¹⁸⁷ (See Section 3.2.4)

4.2.5 ESG Disclosure and Investor Perception

As already discussed, transparency regarding ESG disclosure allows a company to increase investor confidence and loyalty and contributes to higher valuation multiples. Over the last decades, investors have relied on ESG reports that align with several

¹⁸⁷ *Supra* note 151.

frameworks, like the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD).¹⁸⁸

Several research studies confirm that inconsistent disclosures can lead to valuation discounts, while clear and transparent communications and ESG disclosures strengthen investor engagement.

Audax's annual ESG disclosures in combination with third-party ratings help build credibility in the sector, allowing access to capital and increasing stakeholder confidence.

4.3 – ESG Valuation Adjustments

The integration of ESG considerations in traditional frameworks such as the Discounted Cash Flow is becoming essential for investors and analysts. On one hand, conventional models such as relative valuation and Discounted Cash Flow focus on financial metrics, but they overlook factors of sustainability if not explicitly incorporated. This section discusses the influence of ESG factors on the valuation and analysis methods to incorporate them into traditional approaches.

4.3.1 ESG in Discounted Cash Flow (DCF) Models

The DCF model is based on assumptions regarding revenue growth, cost structures, discount rates, and terminal value. What can be evidenced is the influence of ESG factors on all these components.

Regarding revenue projections, companies with strong ESG performance can obtain market share and loyalty from customers, leading the company to stable long-term growth rates.¹⁸⁹ This implies that companies like Audax, which develop new renewable energy infrastructure such as photovoltaic plants, position themselves above average.

¹⁸⁸ *Climate change presents financial risk to the global economy*, TCFD. Task Force on Climate-related Financial Disclosures. <https://www.fsb-tcfd.org/>

¹⁸⁹ *Supra* note 181.

ESG-related operational activities can lead to a reduction in operating costs in the long term, positively impacting EBITDA margins.¹⁹⁰

Ultimately, ESG performance can lower the WACC or weighted average cost of capital through the reduction of perceived firm-specific or sector-specific risks, leading to an increase in investor confidence and green financing.¹⁹¹

Therefore, analysts include ESG-linked cost savings into cash flow forecasts or adjust the growth rate in line with revenue trends driven by ESG factors.

4.3.2 ESG in Relative Valuation Multiples

Valuations such as EV/EBITDA or the P/E ratios allow the comparison between firms that operate in the same sectors. The introduction of ESG factors permits the explanation of the valuation premiums or discounts.

Generally, companies with higher ESG ratings can trade at higher multiples due to the low-risk perception or due to their alignment with long-term global sustainability goals.

On the other side, firms with negative ESG reports or carbon-intensive operations may experience penalties in comparison with peers.

As highlighted in a paper from the IESE Business School, ESG factors can lead to differences in the valuation of multiples between comparable firms that operate in the same sector, especially in a sector like the energy sector, in which Audax operates, where environmental risks are material.¹⁹²

The integration of ESG practices in relative valuation methods involves the selection of competitors based on ESG comparability, and not just financial metrics. Moreover, it requires the application of adjusted multiples that mirror ESG premiums or discounts and considering ESG scores from third parties like Sustainalytics, MSCI, or S&P Global.

¹⁹⁰ *Supra* note 184.

¹⁹¹ *Supra* note 186.

¹⁹² *Supra* note 172.

4.3.3 ESG in Market-Based Approaches

Market-based approach, a valuation method based on the determination of the value of assets based on the prices of comparable assets¹⁹³, can implicitly reflect ESG perceptions. Climate regulation and public opinion lead investors to evaluate ESG risks and opportunities for companies. Moreover, green bonds and sustainability-linked bonds show, through market-based evidence, how high ESG scores and the correct evaluation of ESG risks influence capital availability and cost.

Audax Renovables, through annual non-financial reports, demonstrates its commitment to disclosure transparency and improving its risk profile. However, even with an increase in performance between the last three years, and in particular between 2023 and 2024, the Group reported a negative correlation with the ESG ratings. From 2023 to 2024, for Sustainalytics, the company moved from a “Low Risk” score to a “Medium Risk” score.

4.3.4 Limitations and Challenges

Even if we have evidenced how ESG factors’ relevance is growing over the years, the integration presents challenges. ESG metrics are generally reported internally by the company when not supported by third-party analysis, leading to a distortion in the analysis due to a lack of uniformity. Additionally, ESG factors importance varies across sectors, since carbon emissions data may be considered critical for some sectors but non-material for others. In conclusion, ESG implementation benefits occur over the long term, while enterprise valuation and financial analysis reflect short-term performance.

¹⁹³ Fernando, J., *Market Approach: Definition and How It Works to Value an Asset*, Investopedia (August 31, 2024). <https://www.investopedia.com/terms/m/market-approach.asp>

Chapter 5 – ESG and the Company’s Bond Market Performance

5.1 – Corporate Debt Structure and Bond Issuance

Corporate debt plays a key role in financing long-term growth and operational flexibility for companies. The structure of corporate debt, which includes maturity profiles, interest rates, and seniority, affects a company’s risk profile.

The increasing interest in Environmental, Social, and Governance (ESG) factors extends to the context of financial analysis and investments. More often, in the last years, ESG is becoming a key point for the determination of how companies structure their debt and access the bond markets. Companies with robust ESG practices benefit from access to capital markets, as investors increasingly value sustainable investment opportunities. We are going to analyse corporate debt structures, the relevance of bonds in long-term financing, and the evolution of the landscape of ESG-related debt instruments, such as green bonds.

5.1.1 ESG Considerations in Bond Issuance

The integration of ESG factors into bond issuance reflects a change in investor priorities. ESG-aligned bonds, such as green bonds and sustainability-linked bonds (SLBs), are created with the intent to finance projects with positive environmental or social impacts.

An example is represented by the data regarding the period from January 1, 2024, to September 30, 2024. During this time, sustainable bond issuance surpassed \$800 billion. The most popular are the green bonds, which account for more than half of the total ESG bond issuance in 2024. Europe is the leader, with Germany and France as the main European issuers for value. Respectively, they represent \$63 billion and \$41 billion.¹⁹⁴

Investors are increasingly considering ESG bonds due to their potential for stable returns and alignment with sustainability goals. In addition, companies issuing ESG bonds may experience reputational benefits and demonstrate commitment to responsible practices.

¹⁹⁴ *ESG bond issuance surpasses \$800bn as momentum builds for sustainable debt*, Linklaters (November 4, 2024). [https://www.linklaters.com/it-it/about-us/news-and-deals/news/2024/november/esg-bond-issuance-surpasses-\\$800bn-as-momentum-builds-for-sustainable-debt](https://www.linklaters.com/it-it/about-us/news-and-deals/news/2024/november/esg-bond-issuance-surpasses-$800bn-as-momentum-builds-for-sustainable-debt)

5.1.2 Application to Audax Renovables

Audax Renovables has actively engaged in ESG-aligned financing. In September 2020, Audax issued the first green bond for an amount of €20 million. It was a bond with a two-year maturity and the goal to use the funds collected for the construction of 8 photovoltaic plants located in Spain.¹⁹⁵

Subsequently, in December 2020, Audax completed an issue of €200 million in green bonds¹⁹⁶ as part of the €400 million Senior Unsecured Program registered on the MARF (Mercado Alternativo de Renta Fija).¹⁹⁷ This project's target is "restructuring the maturities of the Group's debt, thus managing to extend them until December 2027 and reducing financial cost ... The use of the funds obtained will also be to finance and refinance green projects".¹⁹⁸

5.2 – The Role of Green Bonds and Sustainability-Linked Bonds

The sustainable bond market has experienced rapid growth in recent years, driven by an increasing demand for ESG-compliant investments. In the first quarter of 2024, more than \$338 billion has been invested in ESG bonds. Leading the market, green bonds were issued for an overall worth of \$202.5 billion globally and represented 60% of ESG bond issues. The second largest level of issuance in the first quarter has been represented, with 19% of shares, by social bonds, whose volume reached \$63.9 billion. Completing the podium are the sustainability bonds, with a volume of \$60.2 billion (18% of the total). The last type of bond, sustainability-linked bond, instead, represented only 3.5% of the total volume in the first quarter of 2024, with \$11.8 billion.¹⁹⁹

¹⁹⁵ *Audax Renovables: Green Bond Construction of 40 MW of Photovoltaic*, Audax Renovables (September 9, 2020). https://audaxrenewables.it/en/audax_green_bond_1_emission/?utm

¹⁹⁶ *Audax: green bond issue*, PKF Attest (January 15, 2021). <https://www.pkfcm.com/audax-green-bond-issue/?utm>

¹⁹⁷ *Audax Renovables Attracts the Market in its New Green Bond Issue*, Audax Renovables (December 17, 2020). https://www.audaxrenewables.com/en/wp-content/uploads/2022/05/NdP-Audax_Green-bond-issuance-200M_OK2_English.pdf?utm

¹⁹⁸ Audax Renovables (December 17, 2020), *Id.*

¹⁹⁹ Jesch, B., *Rising ESG bond volumes offer opportunities*, DWS (April 29, 2024). <https://www.dws.com/en-us/insights/cio-view/asset-classes/rising-esg-bond-volumes-offer-opportunities/?utm>

This positive trend can be found in the data relative to the final year. Sustainability bonds issuance reached \$1.1 trillion at the end of 2024. This result supports the continuing growth trend. What can be evidence is a 5% increase from the results of 2023 (See Figure 5.1).²⁰⁰

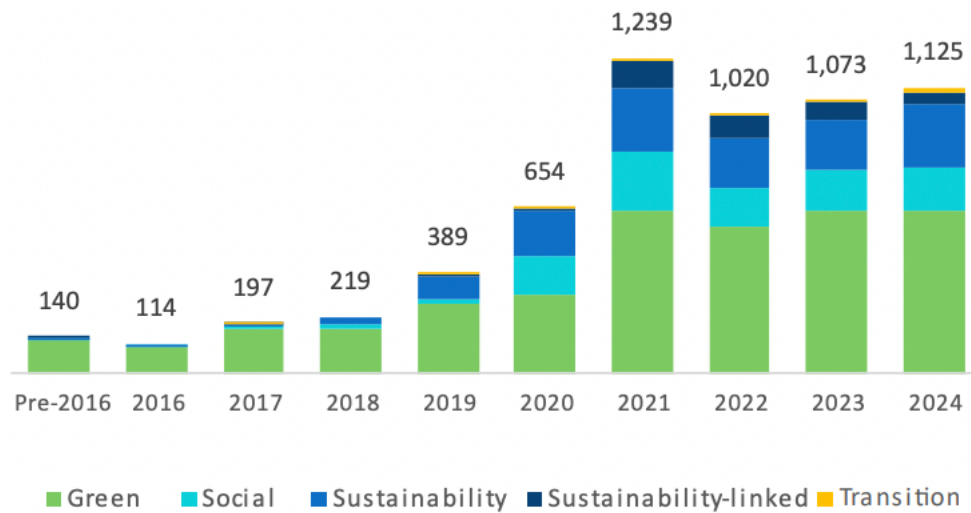


Figure 5.1. Global labeled sustainable bond annual issuance in USD bn. Source: World Bank based on data from Bloomberg Terminal.

By combining green, social, sustainability-linked, and labeled sustainable bonds with the sustainability bonds, the market issued bonds for a total amount of \$6.2 trillion at the end of the year. As can be observed from Figure 5.1, green bonds, which represent 57% of the total amount, continue to play a crucial role in this market.²⁰¹

Green and sustainability-linked bonds are more than mere gestures from companies to show interest in sustainability-related activities. They can result in financial benefits. Considering the increasing interest from investors in more sustainable business models, “firms that adapt faster will eventually enjoy lower funding costs.”²⁰²

²⁰⁰ *Labeled Sustainable Bonds*, The World Bank (February 2025). <https://thedocs.worldbank.org/en/doc/cd82b4033281dab2cb1a1c71eeb691e4-0340012025/original/Labeled-Bond-Quarterly-Newsletter-Issue-No-10.pdf>

²⁰¹ The World Bank (February 2025), *Id.*

²⁰² Ehlers, T., Mojon, B., Packer, F., *Green bonds and carbon emissions: exploring the case for a rating system at the firm level*, BIS (September 14, 2020). https://www.bis.org/publ/qtrpdf/r_qt2009c.htm

5.2.1 Principles, Standards, and Regulatory Frameworks

The credibility of green and sustainability-linked instruments is supported by non-mandatory frameworks and guidelines issued by global institutions. The Green Bond Principles (GBP) and the Sustainability-Linked Bond Principles (SLBP), published by the International Capital Market Association (ICMA), are the most adopted standards worldwide. These principles intend to outline best practices and offer recommendations for issuing bonds relevant to social and environmental purposes.

The Green Bond Principles are largely used in market by several figures since “they provide issuers with guidance on they components involved in lauching a credible Green Bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by offering vital steps that will facilitate transactions that preserve the integrity of the market.”²⁰³

Additionally, the Green Bond Principles “recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents, and others may use to understand the characteristics of any given Green Bond.”²⁰⁴

Specifically, the Green Bond Principles identify four core components for disclosures: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.²⁰⁵

On the other hand, the Sustainability-Linked Bond Principles are, as well as the GBP, are largely used in the market since “they provide issuers with guidance on the key components involved in launching a credible and ambitious SLB; they aid investors by promoting accountability of issuers in their sustainability strategy and availability of information necessary to evaluate their SLB investments; and they assist underwriters by

²⁰³ *Green Bond Principles. Voluntary Process Guidelines for Issuing Green Bonds*, ICMA (June 2021). <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

²⁰⁴ ICMA (June 2021), *Id.*

²⁰⁵ ICMA (June 2021), *Id.*

moving the market towards expected approaches to structuring and disclosures that will facilitate credible transactions.”²⁰⁶

The SLBP is structured around five core elements: selection of KPIs or Key Performance Indicators, calibration of SPTs or Sustainability Performance Targets, bond characteristics, reporting, and verification.²⁰⁷

To reinforce the credibility of the information and offer transparency, issuers often engage external reviewers, such as Sustainalytics, to verify the conformity of the bond frameworks with international standards.

Another pivotal role is played by the European Union through the EU Green Bond Standard, which aims to “set a clear gold standard for green bonds.”²⁰⁸ Meanwhile, the EU Taxonomy for Sustainable Activities provides criteria for defining what constitutes an environmentally sustainable economic activity and which “economic activities ... are aligned with a net zero trajectory by 2050”.²⁰⁹

5.2.2 Application to Audax Renovables

As anticipated in Section 5.1.2, in December 2020, Audax issued €200 million in green bonds as part of a €400 million program registered on Spain’s MARF²¹⁰, which allowed the construction of photovoltaic plants across Spain, supporting the company’s strategy of expansion of renewable energy generation capacity.²¹¹

Audax’s green bond issuance process was developed in line with the ICMA’s Green Bond Principles (See Section 5.2.1) and obtained a positive opinion from external reviewers (See Section 5.2.1) as a confirmation of the transparency of the process and environmental

²⁰⁶ *Sustainability-Linked Bond Principles. Voluntary Process Guidelines*, ICMA (June 2023). <https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf>

²⁰⁷ ICMA (June 2023), *Id.*

²⁰⁸ *The European green bond standard – Supporting the Transition*, European Commission. https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard-supporting-transition_en

²⁰⁹ *EU taxonomy for sustainable activities*, European Commission. https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

²¹⁰ *Supra* note 197.

²¹¹ *Supra* note 195.

integrity. This process started by Audax not only increases the attractiveness of the bond for ESG-oriented investors, but also allows the company to diversify its funding by accosting ESG-related bonds to traditional bank financing.

While Audax has yet to issue sustainability-linked bonds (as of 2025), the evolution of its financing practices represents an alignment with the SLB model. The company should explicitly establish ESG performance targets, such as emissions reductions or expansion of renewable energy capacity, to reinforce its credibility while conceivably reducing its cost of capital. From several papers emerge that “companies with high environmental performance benefit from a lower cost of capital.”²¹²

Moreover, Audax’s ESG credibility aligns with an evolving trend regarding energy companies. Increasingly, in recent years, energy companies are evaluated both for their environmental impact and for the transparency of their ESG disclosures. This alignment represents a critical condition as institutional investors apply ESG filters for both equity and fixed-income portfolios.

5.3 – ESG Influence on Credit Rating and Debt Pricing

5.3.1 ESG Integration in Credit Ratings

Over the past several years, credit rating agencies (CRAs) such as Moody’s, S&P Global Ratings, and Fitch Ratings have incorporated ESG factors into their credit analysis methodologies. If the traditional credit ratings’ main focus of their analysis is on the issuer’s financial strength and ability to repay debt, ESG-related risks and opportunities are becoming recognized as significant elements or material components that can affect the reliability of the issuer over time.

Environmental risks, such as physical climate risks, can affect operating costs, asset valuation, and long-term profitability. Social factors, like labor relations and community impacts, can weigh on the reputational risk. Governance issues, like board oversight,

²¹² Zerbib, O. D., *The effect of pro-environmental preferences on bond prices: Evidence from green bonds*, Elsevier (January 2019). <https://www.sciencedirect.com/science/article/abs/pii/S0378426618302358>

transparency, and shareholder rights, instead, have been considered for a long period in the credit analysis, but in recent years, they have been explicitly assessed as separate risks.

An example could be S&P Global Ratings, which integrates ESG insights by integrating them with traditional credit factors such as management and governance, competitive position, and country risk.²¹³ A company subjected to climate transition risks might encounter a higher probability of a credit lowering if these risks are considered to impair future operational stability and cash flows.

5.3.2 ESG-Related Debt Pricing Dynamics

Apart from credit ratings, ESG factors have influenced the pricing of corporate debt in capital markets. Companies with strong ESG qualifications benefit from favorable borrowing terms, as investors recompense sustainability efforts with tighter credit spreads and increased demand for debt instruments. This dynamic, described as a contraction of “green premium”²¹⁴, refers to the lower yields investors accept for bonds issued by companies with transparent ESG reports and sustainability credits.

A study conducted by Zerbib and published in 2019 supports the existence of this price benefit. By analyzing green bonds, he found that these instruments are generally traded at a modest premium, with a yield spread approximately 2 basis points lower than conventional bonds. This spread mirrors supply-demand imbalances in the green bond market and investor preferences for portfolios that align with sustainability goals.²¹⁵

Investor demand for sustainable debt instruments has increased because of regulatory frameworks such as the European Union’s Sustainable Finance Disclosure Regulation (SFDR)²¹⁶ and the EU Taxonomy for Sustainable Activities²¹⁷, which incentivize

²¹³ *General Criteria: Environmental, Social, And Governance Principles in Credit Ratings*, S&P Global Ratings (October 10, 2021). <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396>

²¹⁴ *Supra* note 212.

²¹⁵ Elsevier (January 2019), *Id.*

²¹⁶ *Sustainability-related disclosure in the financial services sector*, European Commission. https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en

²¹⁷ *EU taxonomy for sustainable activities*, European Commission. https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

investors, such as pension funds and insurance companies, to allocate capital toward ESG-alignment assets.

However, the pricing benefit offered by sustainability-linked bonds compared to conventional debt offerings is not automatic. Investors increased concern regarding the credibility of ESG claims, particularly regarding greenwashing, which “involve misrepresentation, misselling, or mispricing practices.”²¹⁸ Issuers must provide, as stated in previous sections, transparent and independently verified disclosures to offer confidence to investors and secure favorable debt pricing. A lack of credibility or failure to meet sustainably-linked markets can erode trust or reduce investor demand.

5.3.3 Implications for Audax Renovables

In its recent green bond issuance of 2020, Audax benefited from investment from both national and international investors at relatively competitive pricing, reflecting investor confidence in its renewable energy strategy.²¹⁹

Looking at the future, Audax’s ability to sustain attractive pricing and avoid ESG-related risks will depend on maintaining robust ESG governance, transparent reporting, and alignment with standards such as the EU Taxonomy for Sustainable Activities.²²⁰ A failure to keep pace with always-new regulatory standards and disclosure requirements, as well as failing in the evolution of ESG expectations, would lead to an increase in costs or lower access to investors.

Given the European Commission’s Sustainable Finance Disclosure Regulation (SFDR)²²¹ and ongoing improvements to ESG scoring methodologies, Audax’s ESG performance will play an increasingly material role in both credit evaluation and investor decision-making.

²¹⁸ *Greenwashing and sustainable finance: the risks of greenwashing and possible resources to counteract it*, Forum per la Finanza Sostenibile. https://finanzasostenibile.it/wp-content/uploads/2022/11/Greenwashing_ENG_WEB.pdf

²¹⁹ *Supra* note 197.

²²⁰ *Supra* note 217.

²²¹ *Supra* note 216.

5.4 – Investor Sentiment and Bond Market Reaction

Investor sentiment has become an increasingly relevant driver in bond market dynamics, especially through the gain in importance of ESG considerations. The integration of ESG factors into investment decision-making processes has altered perceptions of risk and opportunity, influencing both primary and secondary market performances.

Over the last years, investors have shown growing interest in debt instruments issued by companies with strong ESG reports. Studies conducted by MSCI, a rating agency, show that bonds issued by companies with higher ESG ratings present lower yield spreads, reflecting a lower risk perception and a larger demand from investors.²²² In addition, the studies showed that companies with better ESG credentials show “a lower likelihood of suffering from issuer-specific risks than companies with low ESG ratings, after accounting for common factors including credit ratings.”²²³

The explanation for this trend is attributable to the trust that companies with better ESG performance can better manage long-term risks, such as regulatory shifts, reputational threats, and environmental liabilities.

Additionally, a recent study shows that “there is a statistically significant advantage, for the issuers, when a bond is labelled as green. Such advantage is quantifiable, on average, in lower interests paid annually to investors of 18 basis points (meaning 0.18% of the bond value).”²²⁴ This implies that, even considering necessary costs to obtain the green certification, green bonds can be convenient in comparison to similar ordinary bonds.²²⁵

The positive investor sentiment toward ESG bonds has an impact on bond market reaction. Issuers that successfully communicate credible sustainability strategies, such as the obtainment of a green certification, experience a higher demand, resulting in oversubscription and an increased number of investors.²²⁶ This implies that, for

²²² Mendiratta, R., Varsani, H. D., Giese, G., *How ESG Affected Corporate Credit Risk and Performance*, MSCI (2021). [https://www.msci.com/documents/10199/19248715/Foundations-of-ESG-Investing-in-Corporate-Bonds-How-ESG-Affects-Corporate-Credit-Risk-and-Performance+\(002\).pdf](https://www.msci.com/documents/10199/19248715/Foundations-of-ESG-Investing-in-Corporate-Bonds-How-ESG-Affects-Corporate-Credit-Risk-and-Performance+(002).pdf)

²²³ MSCI (2021), *Id.*

²²⁴ Gianfrate, G., Peri, M., *The Green Advantage: Exploring the Convenience of Issuing Green Bonds*, Elsevier (May 10, 2019). <https://www.sciencedirect.com/science/article/abs/pii/S0959652619304019>

²²⁵ Elsevier (May 10, 2019), *Id.*

²²⁶ Baker, M., Bergstresser, D., Serafeim, G., Wurgler, J., *Financing the response to climate change: the pricing and ownership of U.S. green bonds*, NBER (October 2018). https://www.nber.org/system/files/working_papers/w25194/w25194.pdf

companies like Audax Renovables, issuing green bonds will represent an incentive for investors, offering support for future financial flexibility for projects of the company.

Furthermore, some studies report “improved liquidity and lower bid-ask spreads”²²⁷ for sustainable bonds in comparison to their conventional counterpart. However, it can be verified a variation in the ESG use across countries, sectors, and investment approaches,²²⁸ underlying the relevance of maintaining credible sustainability reports to maintain investor trust and offering transparency.

In brief, the increasing relevance of investor sentiment and increasing interest toward ESG factors are reshaping bond market dynamics, expanding investor pools, and market access for companies dedicated to sustainability. For Audax Renovables, transparent ESG disclosures and credible sustainability commitments could support its long-term capital needs and, simultaneously, strengthen its position in the market.

²²⁷ Yongjun, T. D., Yupu, Z., *Do shareholders benefit from green bonds?*, Elsevier (April 2020). <https://www.sciencedirect.com/science/article/abs/pii/S0929119918301664>

²²⁸ Amel-Zadeh, A., Serafeim, G., *Why and How Investors Use ESG Information: Evidence from a Global Survey*, SSRN (July 2017). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925310

Conclusions

Key Findings

The aim of the thesis was the identification of possible influences of ESG factors on the financial performance and valuation of a company, with a focus on Audax Renovables. Through a detailed analysis of the 2023 and 2024 financial situation of the Group and the ESG factors implementation.

What emerged from this paper is that, even if several academic literature²²⁹ report a positive correlation between ESG performance and financial outcomes, this relation is not always evident in practice, as evidenced by Audax Renovables' case. In 2024, Audax significantly improved its financial results, with a net profit that doubled compared to 2023. However, even if for the academic literature, this improvement should correspond with a better ESG score, this is not the case for Audax. For the Group, the improvement in net profit, as well as on other financial metrics, coincided with a worsening of the ESG risk rating. Sustainalytics, one of the main agencies of ESG reporting, moved Audax from a “Low Risk” position in 2023 to a “Medium Risk” position in 2024. These negative relations for the years 2023-2024 demonstrate that, even if there is a positive relationship between ESG scores and financial performances, ESG factors influence can be offset by several other elements that can influence the financial performance of a company. Moreover, it shows that, even if a positive relationship between ESG scores and financial performance exists, in the short term, positive financial results can be reached even without a relation to ESG metrics. This dissimilarity demonstrates that ESG cannot be considered as an independent forecaster of performance but as one of several variables.

Limitations of the Study

Even if the thesis provides an overall analysis of the influence of ESG factors in the valuation of a company, it is important to note certain limitations. First, the thesis is based on a single company, leading to a limitation in the generalization of the findings. Second, the ESG performance of the company has been analysed only through the results obtained from Sustainalytics. Since the ratings are not standardized across agencies, other

²²⁹ Eccles et al., 2014; Khan et al., 2016

secondary agencies would have interpreted differently the sustainability performance of the company. Third, the study has been done taking into consideration only the years 2023-2024, but it does not imply that the positive relationship identified by several academic papers cannot be visualized in the long run. Additionally, since the study is limited to the years 2023-2024, it implies that even at the end of 2025, the trend can be inverted, moving the situation of Audax to correspond to the academic papers' results.

Implications for Investors and Policymakers

For investors, this paper evidenced the need to consider ESG factors in their decision-making process. ESG should be considered an integral part of the analysis of risk, and not a collateral of financial analysis. Investors who consider ESG metrics will be able to identify firms with a greater long-term value.

For policymakers, this thesis underlines the importance of the presence of regulatory frameworks for the promotion of ESG transparency. Measures such as the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD) play a fundamental role in allowing investors to make informed decisions.

Future Prospect on ESG and Company Valuation

In the future, ESG will continue to gain relevance for the valuation of a company and its financial performance. The integration of ESG factors is expected to become more regulated and standardized, especially for what concerns the discrepancies in the valuation of a company between several ESG rating agencies.

For companies like Audax, investment in infrastructure such as photovoltaic plants, as well as compliance with best-practice governance standards, will play a key role in the maintenance of a strategic advantage.

In conclusion, this thesis demonstrates that ESG is not only a framework for expressing a company's level of responsible conduct but also serves as a lever for creating financial value. But, it has also been demonstrated that it cannot be considered the only element for the improvements in economic performance.

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Appendix

	Note	31/12/2024	31/12/2023
Ordinary income	19	1,981,744	2,290,438
Procurement	19	(1,752,080)	(2,056,855)
Other operating income		6,030	2,717
Wages and salaries	19	(41,877)	(37,888)
Other operating expenses	19	(78,454)	(99,105)
Amortisation and depreciation	5 and 6	(21,816)	(21,005)
Impairment and profit (loss) on disposal of fixed assets	5 and 6	34	(3,175)
Operating profit (loss)		93,581	75,127
Financial income		9,017	7,587
Financial expenses		(32,879)	(34,588)
Profit (loss) on disposal and change in value of financial instruments	12 and	11,311	181
Exchange differences		9,080	(4,072)
Financial profit (loss)	20	(3,471)	(30,892)
Profit (loss) of companies consolidated by equity accounting	7	(1,160)	789
Profit (loss) before tax from continuing operations		88,950	45,024
Income tax expense	18	(25,697)	(13,644)
Consolidated profit (loss) for the year		63,253	31,380
Profit (loss) attributable to the parent company	12	60,562	29,030
Profit (loss) attributable to non-controlling interests	12	2,691	2,350

Appendix 1. Consolidated Income Statement (EUR in thousands) of Audax. Years 2023-2024. Source: Audax Renovables' Consolidated Financial Statement 2024 (2025).

31 December 2023	Spain and Portugal	Rest of World (*)	Total
Ordinary income	732,388	1,558,050	2,290,438
Procurement	(631,843)	(1,425,012)	(2,056,855)
Other operating income	1,504	1,213	2,717
Operating expenses and remunerations	(71,932)	(65,061)	(136,993)
Amortisation and depreciation	(9,670)	(11,335)	(21,005)
Impairment and profit (loss) on disposal of fixed assets	(2,155)	(1,020)	(3,175)
Operating profit (loss)	18,292	56,835	75,127
Financial profit (loss)	(20,983)	(9,909)	(30,892)
Participation in the profit (loss) of associates	—	789	789
Income before tax	(2,691)	47,715	45,024
Corporate income tax	(1,030)	(12,614)	(13,644)
Consolidated profit (loss) for the year	(3,721)	35,101	31,380
a) Profit (loss) attributable to the parent company			29,030
b) Profit (loss) attributable to non-controlling interests			2,350

(*) Rest of World includes Italy, Poland, Germany, the Netherlands, France, Panama and Hungary

Appendix 2. Consolidated Income Statement (in EUR thousands) of Audax by Region. Year 2023. Source: Audax Renovables' Consolidated Financial Statement 2024 (2025).

Assets	Note	31/12/2024	31/12/2023
Goodwill	5	138.036	137.996
Other intangible assets	5	196.929	197.951
Property, plant and equipment	6	194,763	156,264
Investments as per equity accounting	7	13,149	13,415
Financial assets	8	56,353	67,986
Deferred tax assets	18	<u>23,940</u>	<u>15,771</u>
Total non-current assets		<u>623,170</u>	<u>589,383</u>
Inventory		17,833	12,512
Trade and other receivables	8 and 10	280,721	254,262
Current tax assets		8,336	6,537
Financial assets	8	154,878	139,080
Time period adjustments and other current assets	10	55,576	63,203
Cash and other cash equivalents	11	<u>228,782</u>	<u>230,196</u>
Total current assets		<u>746,126</u>	<u>705,790</u>
Total assets		<u>1,369,296</u>	<u>1,295,173</u>
Net Equity and Liabilities	Note	31/12/2024	31/12/2023
Capital		45,343	44,029
Share premium account		420,821	420,316
Reserves		(309,547)	(335,518)
Treasury shares portfolio		(4,739)	(997)
Other equity instruments		1,314	—
Profit (loss) for the year attributable to the parent company		60,562	29,030
Translation differences		(6,750)	(4,061)
Other comprehensive income		<u>3,503</u>	<u>8,421</u>
Equity attributed to the parent company		<u>210,507</u>	<u>161,220</u>
Non-controlling interests		<u>13,438</u>	<u>12,032</u>
Total net equity	12	<u>223,945</u>	<u>173,252</u>
Provisions	13	1,651	1,498
Bonds and other negotiable securities	14	347,032	418,484
Financial liabilities to credit institutions	14	75,924	54,619
Lease liabilities	14	20,781	19,324
Derivative financial instruments	9 and 14	2,515	4
Other financial liabilities	14	25,395	32,115
Subsidies	15	4,248	4,432
Other non-current liabilities	16	21,511	31,160
Deferred tax liabilities	18	<u>12,437</u>	<u>11,403</u>
Total non-current liabilities		<u>511,494</u>	<u>573,039</u>
Provisions	13	6,787	23,930
Bonds and other negotiable securities	14	134,353	88,821
Financial liabilities to credit institutions	14	19,572	20,850
Lease liabilities	14	1,898	1,664
Derivative financial instruments	9 and 14	8,190	4,567
Other financial liabilities	14	3,041	6,005
Trade and other payables	16	249,247	246,711
Current tax liabilities		16,244	10,321
Other current liabilities	16	<u>194,525</u>	<u>146,013</u>
Total current liabilities		<u>633,857</u>	<u>548,882</u>
Total net equity and liabilities		<u>1,369,296</u>	<u>1,295,173</u>

Appendix 3. Consolidated Balance Sheet (EUR in thousands) of Audax. Years 2023-2024. Source: Audax Renovables' Consolidated Financial Statement 2024 (2025).

		2024	2023
Cash flows from operating activities			
Profit (loss) for the year before tax	Note	88,950	45,024
Adjustments to results		26,838	91,323
Amortisation and depreciation	5 and 6	21,816	21,005
Valuation adjustments due to impairment		17,741	38,334
Changes in provisions		(17,043)	(2,612)
Allocation of subsidies		(273)	(259)
Profit (loss) on derecognition and disposal of fixed assets		(34)	3,175
Profit (loss) on derecognition and disposal of financial instruments	12 and 14	(11,311)	(181)
Financial income	20	(9,017)	(7,587)
Financial expenses	20	32,879	34,588
Exchange differences	20	(9,080)	4,071
Profit (loss) of companies consolidated by equity accounting		1,160	789
Changes in working capital		5,273	47,406
Inventory		(5,321)	(2,565)
Accounts receivable		(40,307)	13,041
Other current assets		9,137	5,519
Accounts payable		2,429	14,290
Other current liabilities		39,142	16,925
Other non-current assets and liabilities		193	196
Other cash flows from operating activities		(46,867)	(43,238)
Payments of interest		(27,202)	(27,522)
Collections of interest		320	561
Income tax payments		(19,985)	(16,277)
Cash flows from operating activities		74,194	140,515
Cash flows from investment activities			
Payments of investments		(170,835)	(91,348)
Group and associated companies	17	(10)	—
Intangible assets	5	(14,626)	(8,849)
Property, plant and equipment	5	(41,880)	(22,273)
Other financial assets	8	(114,319)	(60,226)
Collection on divestments		111,914	56,410
Group and associated companies		9,800	—
Intangible assets	5	414	82
Property, plant and equipment	5	497	365
Other financial assets	8	101,203	55,963
Business unit		—	3
Cash flows from investment activities		(58,921)	(34,935)
Cash flows from financing activities			
Collections and payments for financial liability instruments		(265)	(81,269)
Issuance			
Bonds and other negotiable securities	14	209,775	137,770
Amounts owed to credit institutions	14	39,936	25,005
Payables to group companies and associates	22	676	4,613
Other debts		2,483	3,469
Repayment			
Bonds and other negotiable securities	14	(212,656)	(171,889)
Amounts owed to credit institutions	14	(18,690)	(55,174)

Appendix 4. Consolidated Cash Flow Statement (EUR in thousands) of Audax. Years 2023-2024. Source: Audax Renovables' Consolidated Financial Statement 2024 (2025).

	Note	2024	2023 (*)
Revenue	38	44,739	49,335
Supplies	39	(20,863)	(26,033)
Gross income		23,876	23,302
Personnel expenses	40	(3,941)	(3,824)
Capitalised personnel expenses	40	947	864
External services		(4,159)	(4,000)
Other operating income	7	2,691	824
Net operating expenses		(4,462)	(6,136)
Taxes	41	(2,566)	(2,749)
Gross operating profit - EBITDA		16,848	14,417
Impairment losses, trade and other receivables	16	(471)	(618)
Amortisation, depreciation and provisions	42	(6,648)	(4,826)
Operating profit - EBIT		9,729	8,973
Result of equity-accounted investees	15.a	(37)	239
Finance income	43	2,377	1,535
Finance expense	44	(3,952)	(3,722)
Net finance income/(expense)		(1,575)	(2,187)
Profit before tax		8,117	7,025
Income tax	35	(2,150)	(1,610)
Net profit for the year from continuing operations		5,967	5,415
Net profit/(loss) for the year from discontinued operations (net of taxes)		(19)	(21)
Non-controlling interests	22	(336)	(591)
Net profit for the period attributable to the parent		5,612	4,803
Basic earnings per share in euros from continuing operations	53	0.840	0.697
Diluted earnings per share in euros from continuing operations	53	0.838	0.695
Basic and diluted earnings per share in euros from discontinued operations	53	(0.003)	(0.003)

Appendix 5. Consolidated Income Statement (in millions of euros) of Iberdrola. Years 2023-2024. Source: Annual Accounts, Directors' Report, Audit Report and Liability Statement 2024 (consolidated) (2025).

2024								
	Spain	France	Poland	Italy	The Netherlands	Hungary	Portugal	Germany
Risk-free discount rate	2.97%	3.03%	5.68%	3.48%	2.44%	6.46%	3.07%	2.32%
Risk premium *	4.70%	4.71%	4.44%	4.67%	4.50%	4.65%	4.71%	4.46%
Capital cost	7.67%	7.74%	10.12%	8.15%	6.93%	11.11%	7.78%	6.78%
Cost of debt	3.16%	2.68%	5.02%	3.74%	3.11%	5.91%	3.31%	2.94%
After-tax weighted average cost of capital**	6.25%	5.52%	8.73%	6.69%	6.20%	10.11%	6.16%	6.05%

Appendix 6. Capital cost of Audax. Year 2024. Source: Audax Renovables' Consolidated Financial Statement 2024 (2025).

2023								
	Spain	France	Poland	Italy	The Netherlands	Hungary	Portugal	Germany
Risk-free discount rate	3.59%	3.12%	4.44%	4.32%	2.56%	4.86%	3.30%	2.56%
Risk premium *	3.09%	3.09%	3.82%	3.80%	4.50%	4.65%	3.81%	4.46%
Capital cost	6.68%	6.21%	8.27%	8.12%	7.05%	9.51%	7.11%	7.02%
Cost of debt	3.54%	3.90%	5.15%	4.13%	3.11%	5.91%	3.92%	2.94%
After-tax weighted average cost of capital**	6.92%	6.20%	7.93%	7.46%	6.30%	8.82%	6.71%	6.24%

Appendix 7. Capital cost of Audax. Year 2023. Source: Audax Renovables' Consolidated Financial Statement 2024 (2025).