ERG S.p.A.

"First Quarter 2016 Results"

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MODERATORS:
LUCA BETTONTE, GROUP CEO
PAOLO MERLI, GROUP CFO

Operator:
Good morning. This is the Chorus Call Conference operator. Welcome and thank you for joining the ERG First Quarter 2016 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.
At this time, I would like to turn the conference over to Mr. Luca Bettonte, CEO of ERG. Please go ahead, sir.

Luca Bettonte:
Good afternoon everybody and thanks for coming to this conference call on our first Quarter 2016 results. Here with me is the CFO, Paolo Merli.

As usual, we start at **page no. 4** by underlining our key figures for the quarter, when we posted very strong results despite a weaker than expected energy price scenario, as well as energy demand (-1.5% vs last year). In general terms, these results were achieved thanks to ERG's geographical diversification in non-programmable sources (i.e. Wind), and our technological diversification in programmable sources (i.e. Gas and Hydro).

EBITDA came in at €163mn vs €111mn (+46% vs last year), with an EBITDA margin of 55% in this quarter vs 40% in 1Q15. We have higher figures in all businesses: €117mn vs €95mn in non-programmable (i.e. just Wind), and €48mn vs €22mn in programmable, so CCGT plus Hydro.

As I mentioned, energy prices and energy demand were weaker than expected in Italy, so in order to properly understand our overall result one should consider the huge amount of new installed capacity in operation in the quarter compared to the first quarter 2015 (namely: +371MW of wind capacity abroad, +8MW of wind capacity in Italy, and +527MW of hydro capacity in Italy). All this led to an overall growth in production of some 832GWh (+56% vs the same quarter of last year), of which +656GWh from the larger perimeter, but also +176GWh on a like-for-like basis, out of which +95GWh in Wind (+11% versus last year) mainly achieved in Italy.

In the Wind business in Italy, this increased production offset the decline in the energy price, while abroad production was higher, and energy prices - being mostly based on feed-in tariffs - were nearly in line with last year.

Moving onto the programmable sources, the gas-fired turbine plant posted a strong performance (€27mn vs €22mn) thanks to a greater reduction in gas prices than in energy prices (thus benefitting from a larger spark spread) and solid operating performance, along with the significant profitability stemming from the Over-The-Counter agreements in place mainly with industrial operators in Sicily.
The Hydro plant contribution amounted to some €21mn, in line with the performance posted in the last quarter of 2015. It is worth underlying that the EBITDA margin in this business is 70%.

Moving on to Net Profit, the 1Q 2016 result was very high at €57mn vs €34mn in 1Q 2015, +68%. This was achieved mainly thanks to the previously mentioned performance at the EBITDA level, which more than offset higher depreciation due a larger asset base (at -€23mn), higher financial charges (due to increased average net debt, as a result of the huge investments made - -€4mn - although gross debt costs was lower than in 1Q 2015), and higher taxation due to increased taxable income.

The TotalERG equity value contribution was positive by €2mn, whilst last year it was negative for about -3€mn. I am referring to ERG's stake, of course.

Talking about indebtedness, net debt grew from about €1.5bn to about €1.7bn, as expected. This increase is attributable to the acquisitions made in the quarter in the Wind business: IMPAX (France and Germany) for €293mn, and Brockaghboy's shares (Northern Ireland/U.K.) for about €13mn. If we deduct these figures from the cash out flow, the Operating Cash flow is about €13mn, so the Group continues to deleverage.

On **page no. 5** we summarize the increase in installed capacity for the various business lines, which I think I have already commented on: so I will now hand you over to Paolo for his analysis. So please Paolo…

Paolo Merli:
Good morning everybody. I will start as usual with a brief overview of the scenario, focusing on the power market.
I remind you that, based on our current configuration, the core business has been divided into "non-programmable" and "programmable" sources: the first include Wind, while the latter CCGT and Hydro. Thus I will comment on results following this framework; TotalERG, as an Equity investment, will be discussed separately.

Let us take a look at the business environment in the period. I am on **page no. 7**.
National electricity demand in Italy was down 1.5% YoY. As regards productions, Wind was up 11% and Hydro down 18%. So the quarter was generally characterized by good conditions for Wind, and bad for Hydro. Our operations did not make exception to that trend, though over-performing it a bit.
The Average National Price was 40€/MWh in 1Q 2016, -23% YoY. The quarter was characterized by a severe downward trend in electricity prices - both in Italy and in Europe - triggered by a sharp fall in commodity prices. Notwithstanding this, generation margins went up quite considerably in light of the even greater fall in gas prices. Abroad, in light of our exposure to feed-in-tariff systems, such as in France, Germany, Bulgaria, the impact from scenario was anyway limited.
As regards Sicily, prices on the island continue to be much more aligned with the Mainland since January 1st 2015 when the new regulatory framework - known as Mucchetti - was put in place. No exception in 1Q 2016, with a premium at only 5€/MWh (6€/MWh in 1Q 2015).
Price indicator for Renewables in Italy, including the incentives, was 140€/MWh vs. 154€/MWh, which reflects the shifting from Green Certificates in 2015 to a feed-in-premium tariff as of January 1st 2016.

Outside Italy, feed-in-tariff in France was 89€/MWh, in Germany 92€/MWh and Bulgaria 97€/MWh. Where we have Green Certificates mechanisms, average price in Romania was 76€/MWh and in Poland 58€/MWh. So the lateral thinking here is that in the current depressed environment for electricity prices in Europe, Green Certificates mechanisms are less rewarding (and uncertain) compared to feed-in-tariff systems. Exactly the opposite, compared to few years ago. So we are quite happy to be much exposed to France and Germany nowadays.

Moving onto **page no. 8**, and commenting on economics in a nutshell, the EBITDA for the period was €163mn (+46% YoY). There are several items affecting it. Just to summarize I would quote the contribution from new assets for more than 900MW (fully in service in 1Q 2016), good wind conditions in Italy and abroad, good generation margins for our CCGT in Sicily, and lower central costs on a YoY basis. All these positives were partly offset by lower than expected productions from Terni's Plant over the period, given the weaker general hydro conditions in Italy, and a generalized weaker price scenario for power, both in Italy and in Europe.

It is worth noting that the EBITDA margin in the period grew steadily from 40% to 55%, reflecting the new business portfolio and the leaner cost structure.

I will now give a more in-depth description business by business, starting commenting our energy portfolio. I am on **page no. 9**. As stated in our Business Plan presentation, we now have a much larger generation portfolio, managed directly by ERG's Energy Management.
During the quarter, ERG managed 3.3TWh of energy, of which 2.3TWh generated by our portfolio of assets. The remaining 1TWh was purchased on the market in order to adjust our supply profiles and optimize the portfolio, with basically no risk taken.
As far as sales, 0.5TWh was the electricity sold through a bilateral contract to IREN, 0.1TWh to site customers, and the rest was sold in the wholesale market.

Let us now comment on "non-programmable" results (Wind), on which please see **page no. 10**. EBITDA was €117mn (up 23% YoY), benefiting mainly from the enlarged portfolio with 379MW of new assets in service among France, Germany, Poland, Bulgaria, Romania and Italy, coupled with greater productions in Italy (+14%, on a like-for-like basis), thanks to the better wind conditions.
Load factor in Italy, in fact, was 32% vs. 29% last year. Production abroad was up 151% to 452GWh thanks, as said, to the contribution of new assets. Load factor abroad was 33%, in line YoY but still very satisfactory.
EBITDA Margin in 1Q 2016 for Wind operations was 81%, in line with the 1Q 2015 figure (81%).

Now commenting on Programmable Results, I am on **page no. 11**. EBITDA was €48mn, more than double compared to €22mn in 1Q 2015.
In details, CCGT EBITDA at €27mn vs. €22mn as a consequence of higher production (+13%) and higher generation margins, higher cost reimbursement under the Essential Unit regime (which is still going on, as expected in our budget, till the end of June 2016), better plant performance with improved KPI of the plant compared to last year, as well

as the higher contribution from Energy Management for the entire generation portfolio, including Wind.

The Hydro asset generated an EBITDA of €21mn over the quarter. Its production at 384GWh was lower than historical average and our budget, due to worse hydro conditions in Italy, as publicly shown by the TERNA report.
It is worth mentioning that our plant is very flexible, as we have 3 reservoirs and we therefore have the capability to store water ant then electricity. The level of water stored at the end of the quarter in Terni reservoirs was good (270GWh equivalent), equal to about 50GWh more than its historical level. Thanks to this flexibility, we are also able to catch the peak prices on the market, at premium compared to baseload prices.

Let us see now investments over the period. I am at **page no. 12.** We invested €310mn in the quarter. Investments here include the consideration paid for the acquisition of 206MW in France and Germany from IMPAX AM, whose transaction was closed on February 2nd 2016, but fully consolidated as of 1st January. During the quarter we also announced our arrival in the U.K. market through the acquisition of a project to build 45MW in Northern Ireland. All in all, we invested through M&A (in terms of EV) €306mn, out of which €293mmn for Wind in France and Germany, and €13mn in the U.K.. Therefore investments for the period were mainly related to those transactions.
The remaining €4mn are basically maintenance, let us say 50% CCGT and 50% Hydro.

Now on TotalERG results, accounted at equity. I am at **page no. 13**. To keep it simple, we will look at results for 100% of TotalERG, of which 51% is our stake.
As far as Marketing, EBITDA in the quarter was down roughly 10% YoY, mainly as a result of a sharp decline in margins which was only partly offset by a good performance in terms of volumes, in particular in the Retail channel where TotalERG gained a 0.3% market share to 11%. So once again, a tough trading environment. Against this backdrop TotalERG is carrying on with its efficiency plan to reduce costs and the complexity of the retail network, with positive results.
As for Refining and Logistics, results improved significantly thanks to a sharp recovery in the refining margins of Sarpom Refinery which posted a better performance YoY, also thanks to some positive inventory stock effects at replacement costs, due to rising oil prices over the period, notwithstanding that the EMC indicator was lower on a YoY basis, as you can see from the graph on the right-hand side of the chart.
Its NFP was a bit lower than at the end of 1Q 2015.

Let us now talk about financials, commenting on P&L at RC with TotalERG equity consolidated. I am on **page no. 15**.
Higher Depreciation reflecting the consolidation of new assets, Hydro and Wind.
Net Financial expenses of -€19mn vs -€15mn reflect the re-leverage of the Company with an average NFP in the period at €1.6bn, more than 3 times last year, when it was about €500mn on average. As a consequence, the cost of Net Debt (simply the annualized ratio between financial charges and the average net debt in the period) declined significantly from above 12% in 1Q 2015 (due also to the distortion created by the huge amount of cash available at that time) to below 5% in 1Q 2016. This financial optimization reflects also the cost dilution following the fund raising for the acquisition of Hydro (whose facilities cost just slightly above 1%), as well as the actions taken to

renegotiate some long-term Project Financing facilities. Looking at M/L term gross debt, its cost went down from 4.2% last year to 3.5% in this quarter. I think all these numbers are showing clearly that we have now reached a very well optimized financial structure.
Income from Equity Investments was at +€2mn vs. -€3mn last year, reflecting the better bottom line results of TotalERG in the period.
Taxes were at -€21mn vs -€15mn, with a tax rate of 26% versus 29% last year; minorities remained in line with the same period last year.
As a result of all that, Net profit at replacement cost was €57mn in the quarter (+68%), compared to €34mn posted last year. So, a record result on a quarterly basis.

Let us now take a look at the Cash Flow statement for the period. I am on **page no. 16.** It is worth noting that during the quarter, excluding the M&A deals which accounted for €306mn, we kept generating cashflow: €13mn of cash deriving from our core businesses (i.e. CCGT, wind and hydro generation).
The net cash generation reflects: €163mn of cash EBITDA (already commented), a working capital absorption of €109mn (an item that is related to several business effects, some of them expected to reverse over the next few quarters, in particular items related to Green Certificates in Italy), €19mn of net financial charges (as already discussed), and €18mn of other effects, mainly related to the deterioration of FV of IRS derivatives on our PF facilities, so a non-cash item related to the lower interest rate curve.
In the end, NFP closed at €1,741mn, with an implied leverage of about 50%, which we believe is now more coherent with the nature of our business portfolio. Please also consider that our NFP includes roughly €180mn of negative FV of IRS derivatives.

I think I have touched on all the key items of the period so I will now hand you over to Luca for his final remarks.

Luca Bettonte:
Thanks Paolo. Now we are on **page no. 18**, to comment our guidance for the months to come up to year-end.
We confirm this guidance for year-end. We see EBITDA at €440mn, despite that 1Q 2016 was above our expectations and our budget, but we see a continued weak energy price scenario for the next 9 months, and at the same time we do not envisage any further higher production for either Wind (also bearing in mind what happened last year in December), or for the Hydro business, for which we keep the budget projections for the 9 months to come. As for CCGT, it should continue to benefit from a wider spark spread, as in 1Q 2016.
Capex at €400mn from the €310mn of this quarter, including the portion related to the construction of Brockaghboy in the U.K. for some €56mn.
Net debt at €1.73bn, posting a slight reduction vs 1Q 2016, although our forecast includes the distribution of about €140mn to shareholders, including the extra dividend of €71mn, and investments in the U.K.. If we deducted from the cash out flow these two items, the cash flow generated in 2016 would be about €150mn, so keeping on deleveraging.

Thanks for being here again, and now we are ready to take you questions.

Questions & Answers

Operator:
Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone; to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions. Anyone who has a question, may press "*" and "1" at this time.

The first question is from Roberto Letizia with Equita SIM. Please go ahead, sir.

Roberto Letizia:
Yes, good afternoon. Some question on my side. The first one is on a very low tax rate: I am wondering what is driving the low tax rate in the quarter, and whether this is achievable also for the remainder of the year. Then if you can update us on the development of the pipeline, maybe in the UK, if there is something arriving probably in the short term or whatever related to the pipeline development? And Paolo mentioned that there are some elements of the working capital that are going to revert during the year, so can you give us additional details on this point? Thank you.

Luca Bettonte:
Right. As for the low tax rate, let us say that the taxation grew because of the larger taxable income, at the same time this growth was offset because we are benefiting from some specific tax rules, in particular relating to the deductible income stemming from the increase on the shared capital of our controlled companies. I remember that a couple of years ago we injected some €400mn in ERG Renew, and this year we injected some €250mn in ERG Hydro for the transactions that we have finalized. So this allowed us to reduce the tax rate on an overall basis.

In terms of pipeline, there is nothing new but what you already know. I mean, we are in line with budget, on time, in building the Brockaghboy wind farm in the Northern Ireland. So we expect to deliver what we promised you when we announced this acquisition. And of course, we have something between 150MW and 200MW pipeline in Scotland. And we are working in order to meet the target; in any case they are going to be out of the Business Plan shared with you in December from a timing view point. Because if we are lucky, we could finalize something by 2018, but it is most likely that we go in 2019 so far, but we keep on working on it.

And as for the net working capital, it increased in this first quarter because we have larger production as we are recording the receivable from the essential unit regulation and the like, and because we entered in the new regulation relating to the former Green Certificate and we will be able to secure regulation dynamics that should reverse by year-end. So we are forecasting to achieve the results you already know in terms of net indebtedness.

Operator:
The next question is from Roberto Ranieri with Banca IMI. Please go ahead.

Roberto Ranieri:
Yes, good afternoon gentlemen. Just one question, if I may. I did some math on the price effect on the wind power generation, and the EBITDA effect. According to my calculation the reduction of the EBITDA is in a region of €10mn. I am just wondering, if this impact is included in your statistic and your guidance of €25mn negative impact from the price effect. So basically, can you confirm also if this EBITDA is at risk, after the impact from the lowering price in the first quarter 2016? Thank you very much.

Paolo Merli:
Hi, Roberto, Paolo speaking. Yes: the impact from the scenario, which was in the region of €10mn in the quarter, was fully included in our forecast, but is included also in the famous €25mn at risk we announced during the Business Plan presentation. On top of that - but it is nothing, which was not already included in our figures - I like to mention that with the discontinuity from Green Certificates to incentive, the impact for all the companies operating in this business was the fact that the Green Certificates today are 100€/MWh, which is about €10 less than if they were still based on the previous formula. But it does not matter and it has nothing to do with the price effect. But I would like to mention, to recall it, because in the year-on-year comparison it is an important item to bear in mind.

Roberto Ranieri:
Okay. Thank you very much.

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

Roberto Letizia:
Yes, sorry. I have a follow up on the internalization process of O&M, so you did an acquisition last year with the aim of producing as much as possible the O&M in the organization. I see that the corporate costs are already decreasing in the first quarter, which is a very good sign. So how much of this reduction relates to what you are doing in terms of O&M, and how much can arrive from this part of the business in the remaining part of the year? And my very last question is on the competitive arena, as ENI is progressively announcing with more concrete probability the entrance in the renewable space. So I am wondering if this creates any problems to you on assets that you were actively looking at in the country? Thank you.

Luca Bettonte:
Okay, right. As for the first question, the cost reduction you have seen has nothing to do with the items you have underlined: it is only related to the control we have, a very tight control over what we call the centralized cost, the corporate cost and ERG Services cost. So that is a very good result, because we are working very hard every day on this item. While relating to ENI, my only comment is “welcome on board”, I think they are confirming that what we begun a couple of years ago is the right strategy to go on and create value and... good luck also for them. But I do not see any problem for us also because, if I am right, they are aiming mainly to grow in the solar business, which we are not interesting in so far.

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

Luca Bettonte:
Okay. Thanks a lot to everybody for being with us. See you and speak to you in a couple of months for the first half results.

Paolo Merli:
Thank you from me as well.

Luca Bettonte:
Have a nice weekend.