ERG S.p.A.

“Second Quarter 2016 Results”

August 5, 2016

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

Operator:
Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the ERG Second Quarter 2016 Results Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Luca Bettonte, CEO of ERG. Please go ahead sir.

Luca Bettonte:
Good afternoon everybody and thanks for coming to this Conference Call on our 2Q16 results. Here with me is the CFO, Paolo Merli.

As usual, we start by underlining our key figures for the period, when we posted very good results despite a weaker than expected energy price scenario, as well as electricity demand in Italy (-2.0% half-on-half and –2.6% quarter-on-quarter). Anyway, in general terms, let me confirm that these results were achieved thanks to ERG's geographical diversification (in particular in non-programmable sources, i.e. Wind), our technological diversification in programmable sources (Gas and Hydro), and also due to a very good operating performance, coupled with the activity made by the Energy Management organization, along with tough control over central and corporate costs.

I start commenting **on page no. 4** the 2Q16 on YoY basis. Our EBITDA came in at €111mn vs €86mn, + 28% vs last year, with an EBITDA margin still growing: 47% vs 39% in 2Q15. We have higher figures in all our businesses: €70mn vs €62mn in non-programmable (i.e. Wind), and €44mn vs €30mn in programmable, so CCGT and Hydro.
As I mentioned, energy prices and energy demand were weaker than expected in Italy, so in order to properly understand our overall results I think that one should consider the huge amount of new installed capacity in operation in the quarter compared to 2Q15, amounting to some 906MW, out of which +371MW of wind capacity abroad, +8MW of wind capacity in Italy, and +527MW of hydro capacity again in Italy. That has led to an overall growth in production of some +570GWh (+47% vs 2Q15), of which +512GWh from the larger perimeter, but also +57GWh on a like-for-like basis, most of them from the wind business in Italy (+14% vs last year).
In the wind business in Italy, this increased production offset the decline in the energy prices. National Average Price was at 34.5€/MWh (dropped down by some 28%, and the lower price ever). Instead abroad production was higher, thanks to the larger installed base, while electricity prices were a bit lower on average.

In programmable sources the Gas-fired turbine plant posted an EBITDA of €24mn, lower than €30mm of the previous year. In order to understand this trend, I have to remind you that 2Q 2015 benefited from a roughly €6mn item related to the Essential Unit costs reimbursement pertaining to 1Q 2015, so - net of that - 2Q results would have been in line on a Year-on-Year basis. As a matter of fact, EBITDA in the semester (€52mn) was in line with the comparable result related to 1H 2015.
So, in order to better understand the performance of this specific plant over the quarter, it is necessary to consider that it is affected by the so-called Essential Units regime, and by the Energy Management activity for the whole Group. In fact, with respect to the Essential Unit regime, it is worth underlining that the connection between Sicily and the Mainland started operating at the end of May, so the 2Q 2015 also benefitted of a larger (€6m) amount of fixed costs reimbursement. That means that on a like-for-like basis the

2Q 2016 result would be better than last year, thanks to a reduction in gas prices (greater than that in electricity prices), that allowed achieving a larger spark spread, and solid operating performance along with the significant profitability stemming from the OTC agreements in place mainly with industrial operators in Sicily.

We complete the picture by saying that the Hydro plant contribution amounted to some €20mn, in line with the performance posted in the previous quarter, with an EBITDA margin of about 65%.

Moving on to Net Profit, the 2Q 2016 result was at +€17mn, down vs +€23mn in 2Q 2015. The main reason has to do with the low seasonality of the power production in 2Q from non-programmable sources. That has to be read in association with higher depreciation, due to a larger asset base charged evenly in the profit and loss over the quarters (-€24mn), and higher financial charges (-€4mn) due to increased average net debt, as a result of the huge investments made, although the gross debt cost was lower than in 2Q 2015.

Anyhow, one should consider the 1H 2016 as much more appropriate to understand the Net Profit outcome: so far this year the result was at €74mn vs €57mn (+30%), being affected by higher taxes due to higher taxable income, and benefitting from TotalERG equity value contribution, that was positive by €3m vs last year's negative result of about -€1m, as referred only to ERG's stake, of course.

If we consider now the comparison between what happened in 1H 2016 and the results in 1H 2015, EBITDA came in at €273mn vs 198mn, +38% vs last year, with an EBITDA margin of 52% vs 40% in 1H 2015, still growing. The reasons why we achieved such strong year-on-year growth over the semester are roughly the same already discussed for the quarter.

Talking about indebtedness, as you see net debt grew from about €1.45bn to about €1.84bn, as expected. This increase is attributable to the acquisitions made in the wind business (Impax in France plus Germany for €293mn, and Brockaghboy's shares in Northern Ireland U.K. for about €13mn), and to the dividend distribution for about €143mn. Net cash generation before M&A transactions and dividend distribution is about €57mn, so the Group assets performance keep on generating cash to deleverage.

So all-in-all again a solid, good set of results despite the very weak scenario we are still having nowadays.

On **page no. 5** we have summarised some information we deem very important to you, i.e. the outcome from the hard work made in the 1H 2016, so as to further optimise the debt structure. We have worked on some €1bn different loan agreements and through repayments, refinancing and fund raising, negotiations, discussions and the like we have been able to reduce the average cost of gross debt from 4.2% to 3.4% (even more in terms of net cost, from 14.8% to 4.7%), thanks to the re-leverage of the Group through roughly €1.5bn of industrial investments we carried out in 2015/early 2016. Anyway, the full benefits from the actions taken and here listed are expected to be effective during the second half of this year.

Now I will hand you over Paolo for his analysis.

Paolo Merli:
Thanks Luca, and good afternoon everybody.

I will start as usual with a brief overview of the scenario, focusing on the power market. TotalERG - being 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 2Q in Italy was down 2.6% on a year-on-year basis. As regards productions in Italy, Wind was up 18% and Hydro down 3%. So in Italy a quarter generally characterized by good conditions for Wind, and still tough for Hydro. Our operations performed in line with those market trends, both in Wind and Hydro. Looking at the semester, demand in Italy was down 2% while Wind and Hydro productions in the country were up, 14% and down 9% respectively. ERG did not make any exception to those trends.
The Average National Price was 35€/MWh in 2Q 2016, -28% year-on-year. The quarter was still characterized by a severe downward trend in electricity prices, both in Italy and in Europe. Notwithstanding this, generation margins went up quite considerably in light of the even greater fall in gas prices, with spark spread up to 3€/MWh compared to 1€/MWh over the same period last year, as shown in the chart. Abroad, in light of our exposure to Feed-in-Tariff systems - such as in France, Germany and Bulgaria - the impact from the scenario was limited, anyway.
As regards Sicily - as Luca said before - the interconnection between Sicily and the Mainland came on stream at the end of May 2016, one month earlier than expected in our Plan. Prices on the island kept trading at a premium vs. Average National Price: that premium was 5€/MWh in the period.
Price indicator for Renewables in Italy, including Feed-in-premium, was 135€/MWh vs. 148€/MWh last year.

Outside Italy: Feed-in-tariffs in France were 89€/MWh, in Germany 91€/MWh and in Bulgaria 97€/MWh. Where Green Certificates mechanisms are in place, average price in Romania was 75€/MWh and in Poland 51€/MWh. I think it is important to say that, as shown in the chart, Green Certificates prices in Poland are under very high pressure, driving down the all-in prices, following the uncertainty about the evolution of the regulatory framework, which remained throughout the period. At the end of June, as you probably know, a new regulation was approved that does not seem very favourable at a first look, but still we need time to assess the potential effects on prices.

Let us now comment on Economics in a nutshell. I am on **page no. 8**. EBITDA for the period was €111mn (+28% YoY), mainly driven by the contribution from new assets (more than 900MW) fully in service in 2Q 2016, good wind conditions (particularly in Italy), higher contribution from the Energy Management, and lower central costs on a year-on-year basis

All these positives were partly offset by the end of the Essential Units regime due to the entry into operation of the Sorgente-Rizziconi interconnection between Sicily and the Mainland as of May 28, 2016. In addition to that, results were partly offset by weak general hydro conditions in Italy, though improving progressively month by month.

As a consequence of all these effects, EBITDA margin in the period grew steadily from 39% to 47%, reflecting the new business portfolio and the leaner cost structure.

I will now give a more in-depth description business by business, starting from commenting the general energy portfolio.

As stated in our Business Plan, we now have a much larger generation portfolio, managed directly on a centralized basis by ERG's Energy Management. I am on **page no. 9**.

During the quarter, ERG managed roughly 2.7TWh of energy, of which 1.8TWh generated by our portfolio of assets. The remaining 0.9TWh was purchased on the Market in order to adjust our supply profiles and optimize the portfolio, with basically no risks 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 on the Wholesale Market.

Let us now comment on non-programmable results (Wind), as per **page no. 10**. EBITDA was €70mn (up 14% year-on-year) benefiting mainly from the enlarged portfolio with roughly 380MW of new assets in service (between France, Germany, Poland, Bulgaria, Romania and Italy), coupled with greater production in Italy, +14%, on a like-for-like basis, thanks to the better wind conditions. As a matter of fact, load factor in Italy was 24% vs. 21% in 2Q 2015. Production abroad (253GWh) was more than double compared to the same period last year thanks - as I mentioned earlier - to the contribution of new assets. Load factor abroad was 19%, slightly worse than 21% registered in 2Q 2015, mainly due to tough wind conditions, particularly in Germany. EBITDA margin in 2Q 2016 was 70%, slightly up year-on-year, as it was 69% in 2Q 2015.

Now programmable results, and I am on **page no. 11**. EBITDA was €44mn vs. €30mn in 2Q 2015, composed as follows: CCGT EBITDA at €24mn vs. €30mn. The gap – as Luca already said - is fully explained by the fact that 2Q 2015 benefited from a €6mn item related to the Essential units cost reimbursement pertaining to 1Q 2015: so, net of that, results would have been perfectly in line on a Year-on-Year basis. That is why EBITDA in the semester (€52mn) is bang in line with 1H 2015.

It is worth mentioning that the lower cost reimbursement (-€6mn) under the Essential Units regime, due to the entry into operation of the Sorgente-Rizziconi interconnection as of May 28, 2016 (so one month without this regime in the period), was offset by higher spark spreads and a bigger contribution from Energy Management, including the MSD activities carried out by the business units.

The Hydro asset generated an EBITDA of roughly €20mn over the quarter. Production at 367GWh was slightly lower than the historical average and our budget, due to the already commented worse hydro conditions in Italy, as publicly shown by the TERNA report, despite a recovery during June 2016, which continues in July. Revenues were €30mn over the period, and that is driving a 65% EBITDA margin. As you know, the plant is very flexible, relying on 3 reservoirs which provide with the capability to store electricity. The level of water stored at the end of the quarter in the Terni system was about 50GWh more than its historical level, which - I can anticipate - was produced in July under more favorable conditions, in terms of energy prices and ahead of some scheduled maintenance.

So, in the end we are very satisfied with the performance of all our plants.

I am now on **page no. 12**, commenting on investments over the period. Investments were mainly in Wind, and include CAPEX (approximately €10mn) related to the. Brockaghboy wind farm, in construction in Northern Ireland. The remaining €5mn is basically maintenance, and essentially refer to our CCGT plant in Sicily and - to a lesser extent - to ERG Hydro.

Over the semester investments included the M&A expenditure for the acquisitions of wind farms in France and Germany, as already commented in our 1Q 2016 webcast.

Let us now quickly comment on TotalERG results, accounted using the equity method. I am on **page no. 13**. To keep it simple, we will look at results for 100% of the Company, of which 51% is our stake. EBITDA was €23mn, down compared to €31mn over the same period of 2015 while, looking at the semester, EBITDA was €53mn, perfectly in line Year-on-Year.

More in details, Marketing suffered as the period was characterized by weaker margins in the Retail segment due both to a tough competitive landscape and to very high pressure on margins, coming from rising oil and oil product prices over the period, which could not be immediately passed through into the final prices. The effects on margins were partially offset by higher Industry volumes particularly for TotalERG, which in the period gained market share from 10.5% to 10.8%, as shown in the chart. So let me say that on a company-specific basis, TotalERG is still performing quite well.

Even Refining and Logistics posted worse results compared to 2Q 2015, as refining margins weakened consistently with the EMC indicator down from 4$/bl to 1.9$/b, as shown in the chart.

So at bottom line TotalERG contribution to our Net Profit at replacement cost (51% of the total) was 0 in the quarter, and roughly €3mn in the semester. Finally, TotalERG net financial position was €246mn at June 30th, a bit lower than at the end of 2Q 2015.

Let us now comment on profit and loss at replacement cost with TotalERG equity consolidated. I am on **page no. 15**. Higher depreciation reflects the consolidation of new assets. Net Financial expenses are at -€19mn vs -€15mn reflecting the re-leverage of the Company, with an average NFP in the period at roughly €1.6bn, almost 4 times last year, when it was about €400mn 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 – as Luca said before - declined significantly from 14.8% in 2Q 2015 to 4.7% in 2Q 2016. This financial optimization reflects 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 gross debt, its cost went down from 4.2% last year to 3.4% in this quarter, which we believe is a very competitive figure. I think all these numbers show clearly that we have now reached a highly optimized financial structure.

Income from Equity Investments unfortunately was at €0mn in the quarter vs. +€2mn last year. But when looking at the semester, the numbers are the *vice versa*, so plus €3mn contribution in 1H 2016 against -€1mn in the 1H 2015.
Taxes: looking at the quarter, -€10mn vs -€9mn with a tax rate of 37% versus 27% last year. But I think we have to look at the tax rate in the semester, which is a bit more representative: it was 28%, perfectly in line with last year.
Minorities are again in line with the same period last year. And then, as a result of all that, net profit at replacement cost was €17mn in the quarter, while looking at the semester, net profit was €74mn vs. €57mn, so again a big jump also in bottom line, up consistently and significantly YoY.

Moving to my last **page (no. 16**), and commenting the cashflow statement for the period, let me say that during the quarter - excluding the dividends paid on May 2016, which accounted for €143mn, half of which related to an extraordinary dividend - we have generated roughly €50mn of cash deriving from our core businesses.

The net cash generation reflects the €111mn of cash Ebitda (already mentioned), working capital absorption of €29mn (an item that is expected to reverse a bit in the second part of the year), €19 mn of net financial charges (as already discussed), and €9mn of other effects, mainly related to taxes.

In the end, net financial position closed at €1.84bn, with an implied leverage of 54% which we believe is absolutely coherent with the nature of our business portfolio. Please also consider that our net financial position includes roughly €170mn of negative fair value of IRS derivatives. Anyway, I think the most important comment is that our net financial position is on track to meet our full-year guidance.

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

Luca Bettonte:
Okay, thank you Paolo, very clear.

As for guidance, we confirm our year-end targets, as - despite the very poor industry scenario we had during the first half of this year - we posted very good results, even about our expectation and our budget. However, going forward we expect again a very poor, a very weak scenario; but in any case we want to confirm our target. We see

EBITDA at €440mn because – as I have just told you – with a continuing weak energy price scenario for the next six months. And talking about production, we do not envisage any further higher production for either Wind (and by the way let me tell you that the July production has been lower than expected) or the hydro business, for which we keep the budget projections for the 6 months to come, despite its higher production in July, so you see, the complementarity of the two businesses. Whilst for the gas turbine, it should continue to benefit from a wider spark spread also in the second half of the year.

So, we confirm Ebitda at €440mn, we increase CAPEX at €400mn (from €325mn spent in the first half of this year: this amount includes the portion used in the construction of Brockaghboy wind farm in the U.K.), whilst the net debt is confirmed at €1.73bn and takes into account €306mn of M&A transactions, the distribution of about €71mn to shareholders of extraordinary dividend, and investments in the U.K. for some €56mn. If we deducted from the cash outflow these items, the cashflow generated in 2016 would be about €150mn. So, the scenario is poor, we have been performing well, and are going to perform well again. And then we confirm - also in this moment and for the next six months to come - the guidance we discussed and shared with you since the beginning of the year. Okay, now I guess we are ready to take your questions.

Questions & Answers

Operator:
Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Niccolò Storer with Mediobanca. Please go ahead.

Niccolò Storer:
Yes, good afternoon, and thanks for taking my three questions. The first one is about future expansion CAPEX, considering that both Poland and the U.K. probably at the moment are not the most attractive places to invest: do you still feel comfortable with the business plan indication, basically limiting your action to France and Germany? The second question relates to electricity prices, as the picture is really dismal: in our view what has contributed to the recent drop, as you wrote basically unexpected at the time of the business plan presentation? Your short-term view seems to remain negative, but do you still think that there could be a downside to this level and what could realistically be done to kind of support at such low price levels? My last question is on press articles on your possible intention to enter the energy retail market in Italy beyond 2018: I know that it is relatively early to talk about this, but do you have a rough idea of the cost or investment that might be needed to sustain such a move? Thank you.

Luca Bettonte:
Okay, right. So as for the future CAPEX, you are partly right, because we think that, despite of the Brexit, the U.K. still is a market that we can grow in, you should in any case make a breakdown about the Great Britain. So, today we are investing in Northern Ireland and we have a pipeline that is proceeding and on which we are working very hard, in order also to anticipate as much as we can the construction in Scotland. So,

there is some discussion in a country which we still think is a good region to invest in. And let me remind you that the pipeline we are exploiting in Scotland is some 150MW to 200MW to be installed, with a very high wind availability and the like.

As far as Poland, wait and see: you are right, we have invested, we have there some 82MW installed. Let us see what is going to happen, because if they want to go ahead by investing and seeing their renewable asset basis growing, they should maybe think a bit about the new change in the regulation, which is not favorable to investors.

So, for the time being, we will wait and see: in any case Poland has already been a country where there has been economic development in the past, in investments and the like, so now it might be a moment to wait and see a bit. So, we confirm that we are going to grow, to invest in Germany, in France, in the U.K., while for Poland of course we would take a break in the next months.

In terms of energy price, a good question: if I were British it would also be a good question, and as an Italian I try to answer. It is a very difficult situation: commodity prices are dropping down, the electricity demand is not growing, and all the other things everybody knows very well. Going forward I do not see a real game changer that is going to change the situation and allow a recovery in the energy price.

For sure, the situation is a structural one, it deserves an intervention from the Authority and we need to have a clearer picture in terms of energy policy from the Government, as many operators are pushing to obtain, to suggest some paths forward to be pursued - on our side, as you know, we are working very hard along with the other operators, in order to have the opportunity to invest again for the repowering - because the fundamentals are there. But for sure we do not see any real game changer in the next six months.

So, on our side at the same time is going to be difficult. In April if I am right, we saw the lowest energy price in Italy ever, some €32/MWh. So let me tell you that in the long run there is no place in the world where the industry such as infrastructures, and heavy capital intensive industries such as the electricity producers can survive with these prices. So, the real question – if I had to think about ourselves as green energy producers – has to do with the price of CO2, this is the point, because - as I have already said, and as I keep on saying - if 30 years ago we had known the real cost of pollution we would have charged the producers of energy that were and are using fossil items (and they are many), we would have identified a cost for the CO2 that should be the real, the right representation of the full cost to generate such an energy. That is something that I believe should be considered, and I know that it is difficult in the end, because the European Union is working very hard, but to find the balance also from the social viewpoint is not easy.

Entering the retail markets, yes, it is something we are working on, but it is too soon to say: in any case if we made the decision to enter, that would be because we see a market to be touched, whilst today the market is blocked. As long as the so-called Mercato Tutelato in Italy is not opened, it is difficult to jump into, to enter a market that has a very clear market share divided among the existing operators, and take away from them market shares. So we are studying this: I do not have an answer to your question, which is actually on the value for a potential investment, but for sure it is going to be a way to sell our energy in the future but inside a larger portfolio balance, that is represented today by our 10 to 12TWh we are going to sell this year.

Niccolò Storer:
Okay, very interesting. Thanks.

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

Roberto Letizia:
Yes good evening. I would like to better understand the situation of your thermal plant after the entrance of the connection with Sicily: to date for two months (June and July) you have been working without the contribution of the Mucchetti Decreee, and the profitability of the segment is still very good, because - despite one month of the entrance - the profitability is still the same. You mentioned the Energy Management, the ancillary service contribution and the better spread: I would like to understand if this positive situation continued also in July, and if you look at this as being a structural situation, whether you will be able also to defend the profitability for the rest of the year, meaning that by the end of the year the contribution of the thermal asset in Sicily will be better than your forecasting in the business plan. The second question is linked to the possible entry in the retail business as anticipated by my colleague before, wondering if you are looking at a possible entrance to the retail market with a combined offer of electricity and also the service that you currently have with TotalERG could be done together, meaning that you could think back again to the participation in the JV and - if this is not - what is the situation of the potential sale of the participation? Thank you.

Luca Bettonte:
Right. As for the thermal plant, yes, for two months we are operating without Mucchetti regulation: we posted very good and solid results, in line with our budget although the remuneration from the expired regulation is no longer there. From now on you should read our figures referred to the thermal plant considering that we are not talking about a single plant but about the Energy Management: so the thermal plant is a relevant item in that it allows us to balance and to better sell the energy we produce through the three different technologies: Hydro, Wind and Gas.

So trying to stick to the question, i.e. if today we have the opportunity to go back modulating the plant and then benefiting from the MSD services, so far we are having profitability standing from the different speed of the declining energy price at a pace lower than that of the gas price, so the spread is widening. And in general terms - as this plant allows us to modulate as much as we can the way we generate and sell our energy - this profitability comes from this different way to sell the energy by exploiting the three different and complementary production methodologies we have.

Are we going to be structured? Yes, because the way we are selling energy has been structurally changed over the last four months, thanks also to the fact that we are not obliged to run this gas-fired turbine plant as much as we could in order to benefit most from a regulation that blocked the possibility to compete in the region.

As far as entering the retail market, I have just said what we think about that: if we can put together different services to the final customers by leveraging on TotalERG, it is not the case. As I said, TotalERG is no longer our core business, we deem this is a quite different business, and we do not want to go back towards a more oil company image, because we are an IPP today. Then I confirm to you that TotalERG is no longer in our core business, and that we are willing to sell this stake as soon as possible, as we shared with you - unfortunately from this viewpoint - more than six months ago.

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

Roberto Ranieri:
Yes, good afternoon everyone. Two questions please: the first one is on figures. Working capital changes (I am referring to slide no. 21): in the first half net working capital change is €142mn to close €111mn, as the press release is saying €110mn net working capital change and the remaining others. Could you explain what the others items are and refer to? And could you please give us some timing for the reverse of this net working capital negative change? Then, on the bilateral contracts, with IREN in particular: can you give us some update about any potential current negotiation with that utility relating to this contract? Finally, my very last question is on power prices: I am talking about the very short term, you were talking about the programmable power generation from Hydro Terni and the water level, which are very high, if I understood well. Which kind of level of peak hour price do you expect in the second and third quarters? Thank you very much.

Paolo Merli:
Hi Roberto. Paolo Merli speaking, I will try to answer your first question about the absorption of net working capital during the semester, €142 million, which is actually a big number. This number has to do with three effects: the first one (the most important) is the discontinuity about the regulatory regime, which has moved from the Green Certificate to the incentive, sort of feed-in tariff in Italy. This has implied a discontinuity, very concentrated in the first half of the year: that is why we believe - according to the timing envisaged by the new rules - part of it is going to reverse in the second half of the year, and this is already included in our guidance for the net financial position. So this effect has had an impact of roughly €50mn or more. The second item…

Roberto Ranieri:
Sorry Paolo, so you mean that in the second half…

Paolo Merli:
Second half of 2016.

Roberto Ranieri:
Yes, but do you mean at the end of the year, or do you believe that also in the third quarter there would be some reverse?

Paolo Merli:
No, no, not in the end of the year: so part of it will be already in the third quarter, when the GSE is going to pay the incentives related and matured during the 1Q 2016, while by the end of December, the incentives matured in the second quarter of 2016 will be paid.

Roberto Ranieri:
Okay.

Paolo Merli:
So anyway by the end of the year all these effects should reverse. The second effect has to do with the Essential Units regime that, as you know, expired at the end of May, but anyway we have collected roughly €31 million of payables towards the electricity produced still under the regime in 2016, and then this effect is going to be partly cashed in (€19mn in 2016, which is the amount generated in 1Q 2016), while the remaining €12-13mn is going to be settled in 2017. But do not forget that in 2016 we are going to cash in also the amount related to the Essential Unit regime matured in 2H 2015, which accounts for almost €40mn: all these items are going to explain the decline and the cash generation we expect in the second half of the year.

The third effect I was mentioning is more limited: this relates to the value of Titoli di Efficienza Energetica, so a sort of environmental titles generated by our CCGT plant being highly co-generative, which accounted in the networking capital change about €9-10mn. Those are the three effects.

Luca Bettonte:
Okay. As for the agreement with IREN, you know it will expire next year. There is no news but the fact that IREN is one of our partner, and going forward it may be that we keep working with them on mutual satisfactory stages. We are every day in talks with them, because we are operating with them. We have been operating four years with them, but I do not have any specific news in that direction.

Roberto Ranieri:
Okay.

Luca Bettonte:
As for the energy price, as for the peak hour in North Central Zone, I have here my crystal ball, and I can tell you that the number - let me joke a little bit, it is the fifth of August… - let us say that we think it is going to be in between €42-45/MWh in the next six months.

Roberto Ranieri:
Okay. Thank you.

Luca Bettonte:
Okay.

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

Luca Bettonte:
Right, okay. Thanks a lot to everybody for being with us, and may everybody enjoy the summer break: we will speak to you next in the fall.

Paolo Merli:
Happy summer holiday from me as well. Bye!

Luca Bettonte:
Bye-bye.