

ERG S.p.A.
“Fourth Quarter 2016 Results”
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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 Fourth 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 morning and thanks for coming to this Conference Call related to our 2016 annual results. Here with me there is the CFO, Paolo Merli.

We start as usual by underlining our key figures for the year: as you see on the **chart no. 4**, we posted very strong results. These figures have to be analysed taking into account both the weaker energy scenario we had in 2016 (in particular in Italy and in Poland), and the larger and more diversified installed capacity that we operated, compared to the previous year.

In Italy the National Average energy price (so called PUN) went down to 43€/MWh in 2016 (from 52€/MWh in 2015) despite a sudden recovery in the fourth quarter, that seemed to be linked to a temporary lack of production in France. Electric Energy demand posted a -2.1% versus last year.

In Poland, due to the continuous regulatory uncertainty, the sale prices (including the Origin Certificates, i.e. their Green Certificates) went down from €63/MWh to €48/MWh (-15€/MWh).

While on the positive side, in terms of the installed capacity, and its different structure during 2016, we have had an easy comparison YoY:

- 371MW of larger wind capacity abroad, out of which 105MW in France and Poland as of July 2015, and 266MW for 12 months among France, Germany, Poland and Eastern Europe 8MW of larger wind capacity in Italy for 12 months, and
- 527MW of new hydro capacity in Italy as of December 1, 2015

Now let me just go quickly through the annual results, while Paolo will lead you later more in depth also for the fourth quarter figures.

Ebitda came in at €455mn vs €350mn (+ 30% vs last year), showing a positive trend in both business lines:

- €308mn vs €254mn in non-programmable, so Wind
- €161mn vs €115mn in programmable (Thermal + Hydro), so while Hydro went up, the Thermal went down
- the Ebitda margin grew from 37% in 2015 to 44% in 2016, thanks also to the significant reduction in the Corporate costs (-€6mn vs 2015, when they were at €19mn).

Talking about the single business lines, in the Wind business we posted higher results both in Italy and abroad. In our country this is due to a larger production that has more than offset the lower energy prices, as well as the greater limitations imposed by the National Grid Operator. Abroad we achieved better results in each country, mainly thanks to the larger aforementioned installed capacity, that has more than offset a lower

electric energy production in France and Germany on a like-for-like basis, as well as a weaker energy price scenario in Poland.

In programmable sources, the CCGT plant posted an Ebitda of €77mn, lower than €107mn of the previous year. But in order to understand this performance, it is necessary to consider that it is affected by the phase-out from 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 2015 benefited from a larger - about some €47m - amount of fixed costs reimbursement. Net of this item the result in 2016 would have been higher than in 2015, although I recognise that this comparison might not be homogeneous at all.

Anyhow, the Ebitda in 2016 is still satisfactory and it has benefited from:

- higher Spark Spread, due to the trend in electric energy price and the cost of LNG
- contribution from the Dispatching Market Services activities, resumed after the end of the Essential Unit Regime
- contribution from Energy Management activities, as well as
- lower operating costs

The Hydro plant contribution amounted to some €84mn, as in 2016 the 527MW of installed capacity ran for 12 months, while in 2015 they contributed just for 1 month. Production was in line with expectations.

Moving on to Net Profit, 2016 result was very strong at €107mn, up vs €96mn in 2015. The main reason has to do with the good operating performance already commented, that has allowed the bottom line result to grow, although we had of course:

- higher depreciation, due to a larger asset base, and
- higher financial charges, due to increased average net debt, as a result of the huge investments made, although the gross debt cost was in any case lower than in 2015.

Looking at the Net Financial Position, it grew only by €110mn (from €1.45bn in 2015 to €1.56bn in 2016) despite some €306mn of M&A transactions and some €143mn of dividend distribution: the Group has generated some €340mn of operating cash flow, as a proof of the high quality of the business performance and of our asset base. So in the end a very very strong result.

Moving now to **chart no. 5**, we have some key figures regarding the actual results vs. the last guidance. As for the comparison between actual results and the last guidance, we see that Ebitda is €15mn higher than expected.

1. In Non-programmable sources, Wind business posted a good performance as the generation in Italy - higher than expected - offset both a weaker domestic and foreign energy price scenario, and a lower than expected electric energy production abroad. A tight control over costs and the benefit from the fiscal revision of IMU (property taxation in Italy) represented also a relevant contribution to the final outcome.
2. In Programmable sources

- Thermal generation achieved a better than expected result, mainly due to margins higher than budgeted throughout the year, in particular since the end of the Essential Unit Regime, as of June 1st last year.
 - Hydro generation performance was as expected, with a production pretty in line with budget in a slightly weaker price scenario. A very important contribution to the result came from the Dispatching Market Service (MSD) revenues.
3. Finally let me highlight that such a result has been achieved thanks also to reduction in Corporate costs, and that it does not include some €26mn of previous years Green Certificates pertaining to the acquired Hydro plants, that have been posted as a price reduction for accounting principle in the Purchase Price Allocation process

Capex are €14mn lower than expected: the difference is mainly attributable to a different time spending related to the Brockaghboy 48MW wind farm, that we are building in Northern Ireland. Despite a slower spending, the project is on time, and we expect the COD – Commercial Operation Date - to be in the fourth quarter 2017.

Net Financial Position is some €100mn better (so lower) than expected. This is as a result of different items, such as, among the main important:

1. higher Ebitda and lower Capex
2. receivables and Green Certificates partly included in the newly acquired Hydro business, that have been cashed-in faster, and also for a larger amount
3. some timing differences in some net working capital items, expected to revert in 2017.

Moving now to **chart no. 6**, we have here summarized what we did in 2015 and in 2016, as we shared with you showing the guidance of the relevant years. 2015 was dedicated mainly to growth, whilst 2016 was focused on consolidating the new larger and diversified asset base, as it is listed here in this chart. I think that in any case in 2016 we have spent a lot of time in paving the way also to further growth in 2017: let me remind you for example the Brockaghboy wind farm in the Northern Ireland and the latest acquisition in Germany I am going to comment later on.

In fact, as you may have seen, two days ago we sent out a press release announcing our latest investment in the Wind business in Germany. We have highlighted on **chart no. 7** the main relevant information of this M&A transaction, through which we are consolidating and expanding our presence in Germany, adding some 48MW to the existing 168MW already operated by us.

This transaction is in line with our strategy to grow in Europe in countries with a stable regulatory set of rules, and that see the renewable energy sources as the main important way to generate power, going forward. Let me just underline today that this investment is made of operating plants with a stable and predictable returns, that we bought recognising a value consistent with the prices ranked in the low end part of the tables summarising comparable transactions and multiple paid per MW, and that are eventually located next to the other plants we already have in Germany, thus allowing us to exploit synergies from technical and commercial management services, provided for by our technical organisation already operating in that country.

At the end, with this acquisition we became one of the largest wind operator in Germany as for the capacity installed, and our capacity abroad represents now the 38% of the total MW operated by ERG European wide.

Now I will hand you over to Paolo for his in-depth analysis.

Paolo Merli:

Thanks Luca and good morning everybody. I will start as usual with a brief overview of the power scenario in the fourth quarter (I am on **page no. 9**). Let me start commenting on Demand in Italy, as per the bottom left graph of the chart.

National Electricity Demand in Italy was down 0.5% in Q4 2016 (-2% in the year), so it is still a quite weak fundamental. Focusing on the quarter and looking at the different sources in Italy, Wind contribution to demand was up by 41%, Hydro down 7% and Thermo up 15%. Notwithstanding the Demand reduction in Italy, the National Production was up 12% to compensate for lower imports following the disruptions at some nuclear plants in France. Those effects contributed to drive prices up during the quarter, as I will discuss in a moment. Looking at productions, our Wind operations showed a trend in line with industry data, with production up 38% YoY. Our Hydro production in the 4th quarter was down 6% compared to our budget, so pretty much in line with the industry trend in the country, though much better than last year for us, as the plant was consolidated – as you know - as of December 1, 2015. Our Thermal production in the 4th quarter was slightly down YoY, as a result of the different regulatory and competitive landscape.

Looking at prices, the Average National Price in Italy was 56€/MWh in Q4 2016, +6% year-on-year. The recovery in prices experienced in the quarter - both in Italy and in central Europe - is even more significant when compared to the downward trend seen over the first 9 months of the year as shown in the graph, and related - as said - to the disruptions at nuclear plants in France. Price indicator for Renewables in Italy, including Feed-in-premium, was 156€/MWh, +2% YoY. Price in Sicily – this is an important trend to underline - traded at a discount vs. the national average price (-4€/MWh vs +4€/MWh in 4Q15) following the exceptionally high prices in the north of the country as a consequence of the already mentioned problems in France. This is an important item to underline in order to better understand our performance from the CCGT.

Generation margins were anyway quite satisfactory (talking about the industry) in the quarter, up significantly YoY and QoQ mainly for the same reasons as regards the general situation in France, which is at least expected to be temporary. In order to better understand the quite weak performance of our CCGT in this specific quarter, as I have said it must be very clear that - being the plant located in Sicily - our specific spark spreads were lower compared to the country average.

Abroad, in light of our exposure to Feed-in-Tariff systems in France, Germany and Bulgaria the impact from the price scenario was quite limited, as shown in the chart, with the exception of Poland, where the general environment remains very challenging with

sale prices - including the Origin Certificates - down significantly YoY, following the uncertainty regarding the evolution of the regulatory framework.

Let us see Economics in a nutshell (I am on **page no. 10**). I will comment here on FY Ebitda, which is more representative of our performance. Ebitda in 2016 was €455mn, up about 30% YoY, mainly driven by the contribution from new assets in Wind and in Hydro. The technological and geographical diversification of our asset portfolio was probably the basis for this very good economic performance.

I think it is also important to underline that the economic results were even higher than our guidance of €440mn despite the weaker price scenario, which was more than offset by all the actions taken by the Company, moving from Energy management to Cost Control.

Overall we are very satisfied with the Company's 2016 performance.

Now on to ERG's generation portfolio, managed by our centralised Energy Management Department. I am on **page no. 11**. It is a fairly sizeable portfolio: looking at the FY, our portfolio comprised 12.3TWh of energy, +22% YoY. During the fourth quarter, the figure is consistent with the FY number: roughly 3.2TWh of energy, of which 1.9TWh generated by our portfolio of assets, while the remaining 1.3TWh was purchased on the Market in order to adjust our supply profiles and optimize the portfolio.

Moving now onto **page no. 12** - I comment now the Economics business by business, starting from Renewables - Ebitda was €78mn for Wind operations, up 50% YoY thanks to the larger scope (with roughly 300MW of additional installed capacity spread in France, Germany and Poland) and to significantly – and I underline significantly - better wind conditions in Italy, as 4Q15 as you know was one of the weakest quarters ever experienced in this respect.

Commenting on Q4 results, with regard to Wind operations I would underline the following items:

- the higher contribution in terms of energy produced by our new assets
- productions on a like-for-like basis showed a larger contribution of roughly +114GWh, driven by better wind conditions in Italy, partly eroded by weaker conditions outside Italy (as a matter of fact, load factor in Italy was 21% vs. 15% in Q4 2015, while abroad it was exactly the opposite: the load factor was 26% vs. 29% on average in Q4 2015)
- I have already commented on the price scenario, which I remind you was supportive in Italy, quite neutral where we have feed-in-systems (France, Germany, Bulgaria) and much weaker in Poland.

Now Programmable results, which include our CCGT and Hydro plants. I am on **page no. 13**. All in all Ebitda was €32mn against €37mn over the same period of 2015, composed as follows:

- CCGT Ebitda at €7mn vs. €29mn last year. This is quite a sizeable reduction, and I would like to explain it better. The completely different environment, due to the exit from the "Essential Unit Regime" - which anyway meant lower cost reimbursement for about €22mn in the 4Q 2015 – is also associated to a poor price scenario in Sicily, compared to the Average National Price - this was due to the fact that in the north of Italy, because of the problems in France, we had very high prices, so the zonal price

in Sicily became at discount compared to the average price in Italy - but on top of these two effects there was a mix of negative items accounted in the quarter, among which I should mention the yearly settlement of the bilateral contract with IREN, which moved in an area less favorable for ERG given the high spark spread registered in the quarter, some write-downs of spare parts, and a weaker than expected contribution from Energy Management, because the volatility experienced in the quarter was not helping the usual Energy Management operations. All these items put together explain in my opinion the performance of the CCGT in the period, which is not to be taken as a proxy for the forthcoming quarters.

- Hydro - which I remind you has been included in our scope since December 1, 2015 - generated an Ebitda of €25mn in the quarter. Production was 329GWh, 6% down compared to our budget (here I prefer to comment results versus our budget because last year we had just one month). The 6% decrease should not become as a surprise, because it is pretty in line with the trend seen for the country, as already discussed. *Vice versa* of our CCGT, Economics for Hydro benefited during the quarter from higher prices in the central-north area, where the plant is located, as well as from MSD positive contribution (+€3.5mn).

As far as FY 2016 results, Ebitda was €161mn, +40% YoY boosted by the consolidation of Hydro assets, partly offset by the phasing out of Essential Unit Regime for CCGT as of May 28, 2016, and the consequent entry into operation of Sorgente-Rizziconi interconnection, which anyway have influenced the profitability of the plant, as it was very clearly expected in our last Business Plan.

I will now comment on Investments. I am on **page no. 14**. Investments in the period were quite limited, with €29mn mainly concentrated in Wind operations, where we are carrying on the construction of Brockaghboy wind farm in Northern Ireland, which we expect to be completed by the end of September 2017 and start contributing to our figures by the end of the year.

When looking at the FY2016, figures are more significant. ERG once again invested a large amount of money to feed its growth with €366mn spent over the year, which includes the acquisition of wind farms in France and Germany from Impax Asset Management (€292mn) at the very beginning of the year, plus the amount invested so far for the development of the Brockaghboy wind farm in Northern Ireland (off around €50mn for the full year), including the cost for the acquisition of the project and the down-payment for the Wind Turbine Generators. So far so good, we are more or less on track with our Business Plan. In 2016 we spent a little bit more than we envisaged in our Business Plan, *vice versa* the 2017 guidance for CAPEX Luca will give you in a minute is a bit less, but all in all we are more or less in line.

Now quickly about TotalERG results, which are accounted on an equity basis. I am on **pag no. 15**. As usual, to keep it simple, I will look at results for 100% of the Company, of which 51% is our stake.

Ebitda was €38mn, up 31% compared to €29mn in the fourth quarter of 2015. When looking at the FY, Ebitda was €135mn, so down 6% compared to €144mn in the same period of 2015. In general, the result suffered from marketing operations whose margins were squeezed by the fact that oil and oil products prices kept rising constantly over the

year. But we should expect a sort of reversal in 2017, if prices are going to stabilize, as we foresee.

Back to the quarter, Marketing Ebitda was more or less in line YoY, thus the upside came entirely from refining which enjoyed stronger margins, with the EMC indicator up from 2.6 to 3.0\$/bl, as shown in the chart. So surely the Company enjoyed a good refining performance in the fourth quarter, and in general in 2016.

However, being an equity investment, we nevertheless tend to look at Net profit. In this respect, thanks to lower depreciation and much lower financial charges, TotalERG Net Profit was €7mn in the fourth quarter (versus €2mn in Q4 2015) and – even more important - €28mn for the FY (versus €24mn in 2015, at replacement cost so excluding the gains on the stock inventories), so up 17% YoY on a FY basis.

I am pleased to say that, thanks to these set of results, TotalERG's Board of Directors has proposed a dividend distribution of €40mn, of which 51% to ERG SpA, to be distributed in Q2 2017.

I will now comment on P&L at replacement cost. I am on **page no. 17**. I have already commented on Ebitda. So going down, higher depreciation reflects the consolidation of new assets, partly offset by some adjustments mainly related to the technical life extension of some wind assets in France and Germany. This is also in line with the industry trend to extend the life of the assets in the Wind business.

Net Financial expenses were up YoY from €18 to €20mn: that increase must be seen in light of the huge re-leverage of the Company with an average NFP in the period at about €1.6bn, roughly 2 times more than last year. As a consequence, the implied cost of Net Debt declined significantly from about 87% in the 4Q15 to about less than 5% in the 4Q16. This financial optimization reflects all the actions taken in 2016 to optimize our capital structure and reduce Kd.

About income from Equity Investments (namely TotalERG), I have already commented. As far as taxes, I think it is always better to look at the tax rate for the FY, as it is more representative: 22% vs. 23%, further down mainly thanks to the fiscal yields granted on capital injection we have done in July 2015 in our sub-holding ERG Power Generation SpA for about €700mn to financially support the Hydro acquisition.

As a result of all this, Net Profit at replacement costs was €24mn in the quarter vs €20mn over the same period of 2015. Looking at the FY, NFP was €107mn vs. €96mn, +11% YoY, so again a significant improvement YoY, which in the end meant that the acquisitions made in 2015 have turned out to be earnings accretive for the Group since the 1st year of contribution, despite the still tough electricity environment.

Now the cash flow statement for the period. I am on **page no. 18**. I am commenting on the FY cash flow, as I believe it is more representative of the capability of the Group to generate cash and deleverage, even exceeding the already challenging targets set out in our Business Plan and guidance.

In more detail, the net cash generation (before including the dividend payment of €143mn - half of which extraordinary - and the €306mn of M&A acquisitions) was €340mn (so quite a solid and sound number), and reflects the €455mn of cash Ebitda (already mentioned), €41mn of non-recurring items pertaining to the Hydro business (basically we have cashed-in some past Green Certificates and receivables which were

not included in our Business Plan projections, thus you can consider that item as a structural upside compared to the guidance we gave in the past), plus €6mn of change in working capital, €60mn of CAPEX (mainly related to the construction of a wind farm in Northern Ireland), €76mn of net financial charges and €15mn of other effects (mainly taxes).

I would like to say that this Company at the end of May 2016, after having paid about €300mn for its M&A, and having distributed €143mn of dividends to its shareholders, had a NFP of almost €1.9bn, while at end of 2016 - just few months after - we closed the year below €1.6bn, and all this in a quite challenging environment. I really think this is quite a unique performance and an impressive pace of deleverage.

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

Luca Bettonte:

Thanks Paolo. Now the guidance for 2017 (as per **page no. 20**). We foresee an Ebitda at €430mn, lower than €455mn of 2016. There are several items affecting this projection, among them the most relevant are:

1. In the Wind business:

- the phase out in Italy, during 2017, of some 214MW from the incentive scheme. This is an important impact on our projections. The relating loss of revenues would be partly offset by higher unit incentive value per MWh (+7€/MWh at 107€/MWh) due to the calculation mechanism, and from the recovery of the value of the loss of production due to past years limitations imposed at that time by the National Grid Operator. We also forecast a better scenario for energy prices in Italy in 2017
- lower electric energy generation in Italy (taking into account the weak results we already had in January and February), partly offset by a larger production abroad, thanks to the newly acquired wind farms in Germany (48MW), and to the wind farms being built in Northern Ireland (another 48MW) up and running from the fourth quarter.

2. in Thermal business:

- Essential Unit regime for CCGT ended in May 2016, while the interconnector began operating. That effect is partly offset by:
 - higher value and volumes of the TEE/white certificates
 - good contribution from the Dispatching Market Services

3. in the Hydro business:

- better electric energy unit price in the Central-Northern zone
- higher unit incentive value per MWh
- still strong contribution from the Dispatching Market Services

In the end, we forecast a weaker performance in Wind and Thermal generation, mainly as a consequence of the phase-out of incentives and the end of the Essential Unit Regime, as per our Business Plan, partly off-set by better results in the Hydro generation and contribution from the newly acquired and built assets.

CAPEX guidance is at €140mn, so lower compared to €366mn in 2016. Let me in any case underline that last year the amount included some €292mn of M&A acquisition,

while in 2017 the amount referred to the newly acquired German wind farms equals to some €40mn. In 2017 about €120mn out of €140mn will be to grow in the Wind business abroad, while the difference - as usual - is for the ordinary maintenance capex.

The Net debt guidance is at €1.45bn from the previous €1.56bn: a deleverage of some €100mn, which includes the proposed dividend distribution and, for the time being, is not including any proceeds from the potential sale of our stake in TotalERG.

In the end, let me inform you that we are going to present our Business Plan for the period 2018-2020 in December this year, as usual. We have already begun working on the matter, and we see a lot of opportunities and some threats in the Renewables industry going forward, as many game changers are coming.

First of all, the stronger competition being introduced by the auctions may induce the industry as a whole to reshape itself all along the value chain. In Europe the Climate Change Package - better known as Winter Package - is to be approved at EU level within 2018, and to be adopted by the different EU member States in 2020. Although its final approval will be in three-year time, its preliminary content is already effecting the choices of the different member States, see for instance Germany regulation on wind onshore and solar. I think it is important to say that, among the guidelines included in the Winter Package, there is a clear support to the re-powering of the European Wind Asset Base as it is entering into a more mature phase. It is something we have been pushing a lot over the last months, not to say years.

In Italy the Strategia Energetica Nazionale (National Energy Strategy) should be finalised by the Ministry of Economic Development this year, and its content should take into consideration the guidelines from the European Union.

As mentioned there may also be some threats looking forward, in particular – nowadays - from the uncertainty associated with the outcome from the elections to be held in France, in Germany and maybe in Italy, although we deem that in the renewable industry the pathway for a continuous growth worldwide has already been well defined.

Let me then conclude by saying that for further information we see you in December.

I think we have now finished our speeches, and now 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 Roberto Letizia with Equita. Please go ahead.

Roberto Letizia:

Yes, good morning. I have a question on the guidance for the full year: I just want to understand if I got correctly a couple of items you mentioned. So basically what we did have in the first months of the year is a particularly favorable price scenario at least in Italy, and Terna has reported a plus 22% in the hydro production at national level which I guess is also partially registered by you. But basically you said that this benefit is

captured by much, much lower wind production. I wanted to check if this is correct, because what we noticed is that the full year is particularly low, so I just want to fully get what is going on here. And I want to check if the guidance already includes the recently acquired assets in Germany, hence the roughly €5 million of EBITDA you included in the press release, and when exactly this contribution will come through the year in 2017? And then I have another question on the disposal process of TotalERG. At the end of last year, you mentioned - or at least we understood - that something could have materialized during the first part of the year, so at the end of the first quarter/beginning of the second quarter. Can you update us on the timing and the potential happening of the disposal? Thanks a lot.

Luca Bettonte:

Alright, okay. Right, yes, the guidance seems to be the most important item in this conference call. Yes, what you have said is correct, but let me give you further information on your comments. In terms of pricing, you are right: prices were higher in January and in February, but you know you have to consider that Italy is a vertical country, so the closer you are to the north of the country, the higher is the benefit that you have in this moment due to the different zones the Italian electricity market is divided in. So the more you go south, the lower is this benefit. In terms of average price, you are right, and from a different zone viewpoint, the impact is the one that I have already described.

Hydro production for us is good, this year we are in line with budget, but you are right. The wind generation is lower than expected, as I said. In our forecast we have included a lower production that we had during these first months of the year in the wind sector. And so, we have already factored in this impact. Hydro production is in line with budget, we are forecasting a better result compared to last year, that is something we expect to get.

In terms of forecast again, talking about the last acquisition, the EBITDA contribution is included. As we said, we are expecting to have for the full year some €5 million of EBITDA, a bit less, of course in the projection we have put something, below because we are going to finalize the acquisition in the second quarter of 2017. But we have included it. About TotalERG, you know, this is a tender process, so it is difficult today to make comments. Let me say that things are proceeding the way we were expecting, and so we confirm that we should see something in terms of final outcome before summer, so in the second quarter of this year.

Operator:

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

Roberto Letizia:

Yes, sorry, if there are no other questions, I have a follow-up. I am not sure whether I fully understood the buffer you currently are keeping in your numbers for the green certificates that are put under the PPA contract: so can you please explain it better to me, to understand which buffer is still there in 2017? Thanks a lot.

Luca Bettonte:

So I am talking about the phase-out of the green certificates. At the end of the year, there are some 214MW that will be out from the existing incentive scheme. Of course, there is a decalage, let us say a half of this amount is in the first quarter, and the second portion evenly distributed over the remaining three quarters.

Roberto Letizia:

But there... sorry, I did not explain myself correctly, that was not what I was questioning, but forgive me, there is something I did not understand, so probably I am not even asking it in the right way, but you mentioned that the top line does not include some €26 million - if I am not wrong - of green certificates that then are related to the PPA, and then later in the conference you talked about the buffer that you do not include in the numbers, and you keep it as a potential upside, correct?

Paolo Merli:

We got your question, so we were referring to sort of non-performing receivables we inherited from the acquisition of the Hydro business, partly related to past green certificates and partly associated to water services provided to a major Italian utility. All in all, we were talking about almost €50 million, out of which €41 million were cashed in 2016. Let us say that those items, which were very well known at the time of the acquisition, were not included in our projections in the Business Plan because we had a scheme of representation and warranties in the contract, but were expected to be recovered beyond 2019. So the cash-in, the recovery of those items had been much faster than expected. So you can consider it as a structural upside compared to the guidance we gave you in the Business Plan.

Roberto Letizia:

But that is only on the net debt level, isn't it?

Paolo Merli:

Yes, on the net debt level.

Roberto Letizia:

Okay, perfect. Thanks a lot.

Operator:

Excuse me; there is another question from Roberto Ranieri with Banca IMI. Please go ahead.

Roberto Ranieri:

Yes, good morning everyone, just a follow-up question about the assumptions underlying the 2017 guidance, and possibly onwards a follow-up question mainly on the Sicily and the thermal power generation, and also the domestic wind power production. Maybe I missed some figures about that, but could you please share with us what your EBITDA target would be for the thermal power generation in Sicily, or the underlying assumption in terms of spark spreads. In addition for 2017 and onwards, you talked about some non-recurring effects in the fourth quarter 2016, which led to a discount of the spark spread in Sicily versus the spark spread on the Italian basis. So I am just

wondering, can we have an indication of the spark spread you can have in 2017 onwards in Sicily on a structural basis? My second question is on the German acquisition: we understand that it is EPS accretive. Can you share with us the internal rate of return in terms of your internal equity, the internal rate of return of this acquisition? Third question on assumptions as well, wind availability for 2017 compared with the 21% load factor in 2016: could you give us your indication of the load factor assumed for 2017 on a structural basis? Thank you very much.

Luca Bettonte:

So, I think you have read so many questions, that maybe we can go back one-by-one, if you can quickly repeat the first question about the guidance, and then we can give you an answer and then go ahead with the other ones.

Roberto Ranieri:

About the guidance?

Luca Bettonte:

Yes, you know, about the guidance...

Roberto Ranieri:

Yes. About the guidance, just to summarize, the wind load factor for 2017 compared with 2016 assumption on your guidance basically: I suppose that this is on a structural basis, so if this assumption is an historical average for a domestic production. And in Sicily, I am interested in your guidance on structural spark spread for the thermal power generation in Italy, so adjusted by all the non-recurring items we have seen in 2016.

Luca Bettonte:

Alright.

Roberto Ranieri:

This is basically the first question. Thank you.

Luca Bettonte:

Alright. So in terms of load factor, it is difficult to say today that we have a structural load factor, because if you look at what has happened during the last two years it was quite a volatile situation, you know. So, for sure we look at what has happened in the past in order to forecast what is going to happen in the future, but it is not so a linear analysis. In the end, let me tell you that in our projection for the time being, we started from a wind generation that should have been almost in line with what we had last year: a bit lower, if you want, but not that much. What is affecting mainly our forecast today is the outcome of these first two months in the wind generation, that has been lower than expected. And then we have put already in our figures these months in order to give you the more appropriate number, so that you can make your evaluation going forward. Although I can tell you that March production is going very, very well, so you know climate changes are there and the predictability about the production is not so easy, you know. So we have preferred to factor in what has already happened in January and in February, not what is happening in March. I am just telling you what is happening.

In terms of Sicily, CCGT, you are talking about spark spread and the like. Let me tell you that you should try to read our business in a different way because you know... we keep on giving you numbers relating to hydro, relating to gas, relating to wind. You know wind and hydro may be easier to read, to be understood because you are talking about assets, you are talking about water, you are talking about wind, the wind availability and the like.

When you move to the CCGT, CCGT is the heart of our Energy Management system because it is the most flexible machine we are operating. And so you know, what I can tell you is in terms of trend for the year, that we are no longer having the benefit from the Essential Unit Regime, whose value was some €30mn in 2016 for the first five months of the year. So day one: you wake up and you see that in 2017, you no longer have this amount.

On the other hand, if you consider what we sold in terms of amount of energy in 2016, the amount was 11TWh. The generation was less than 8TWh, so we are operating our Energy Management centralized system in a way to improve the profitability. So if you try to understand what is going to be the result from the CCGT just in terms of scenario, okay, you can do the exercise; but you have to look at the EBITDA as a whole, considering that through the CCGT inside the Energy Management system that we have centralized in Terni, we are selling all our power by improving the way we generate EBITDA.

So the main impact in Sicily in any case had to do with this lack of profitability from the end of the Essential Unit Regime that - compared to the previous year - is €30mn, partly recovered in any case by a projection in terms of spark spread, that is going to be higher because the price is going to be higher, and by the good performance of the Energy Management. But, all in all, I can confirm you what we already said and shared a couple of years ago, when we showed and shared with you our Business Plan from 2015 to 2018. So now, we see something in the range of €50 to €60mn as EBITDA for the full year at the CCGT level. But, if you take for instance what was going to be the impact from the Energy Management system, just to give you a figure we got in 2016 more than €10mn, Dispatching Market Services from the ERG business, just to tell you. So please, begin reading our business in a different manner: we are an integrated and independent power operator in Italy, we have a centralized Energy Management system.

Okay, I think there are further questions I have to answer...

Paolo Merli:

Yes, another question was about the return associated to the acquisition on the German assets...

Luca Bettonte:

Right. I think we are talking about something in the range of a 7% to 8% levered.

Paolo Merli:

Without including any terminal value and without including any option to repower the plants, because bear in mind that the acquisition was about old plans, 10 years of

operations. So the idea is to keep them also in order to repower after the end of the technical life, and in Germany this is possible.

Roberto Ranieri:

Right. Thank you.

Operator:

Once again, if you wish to ask a question please press “*” and “1” on your telephone. The next question is from Paolo Citi with Intermonte. Please go ahead.

Paolo Citi:

Hi, good morning. Just two questions, very quickly. The first one is on your assumption regarding electricity prices (PUN9 for 2017, and an indication regarding the feed-in premium you are assuming in your guidance. And then, the second one is again on the guidance: I was looking at slide no. 20, regarding EBITDA again: it seems to me that you are assuming much higher corporate costs, in your guidance for this year. So is it correct? Thanks.

Luca Bettonte:

No, we are not: we are not forecasting any increase in corporate costs, the number is going to be the same we had for 2016. In terms of projection, I would say, if I have understood properly your question, PUN is in the range of €47/MWh, including the temporary - in my opinion - effect from France. And incentive is €107/MWh, simply because of the trend of the prices we had last year, to apply the formula that we all know very well.

Paolo Citi:

Okay. Thank you very much.

Luca Bettonte:

Okay.

Operator:

Gentlemen, there are no more questions registered.

Luca Bettonte:

Okay. Fine, thanks a lot, and see you in a couple of months.

Paolo Merli:

Thanks a lot.

Luca Bettonte:

Bye-Bye.

Paolo Merli:

Bye.