



ERG S.p.A.
“Second Quarter 2015 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 Second Quarter 2015 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 everybody, and thanks for coming to this conference call, where we are going to comment our results and the last acquisition we announced yesterday night.

Starting from the results, let me tell you that also in this quarter we posted very strong results, both from a cash flow and profit and loss view point. Talking about EBITDA, we posted a +15% on a quarterly basis (with positive and higher results both in Wind and in Power) and a +8% if you consider our results on a semi-annual basis: for this first half of the year we posted almost €200mn EBITDA.

As I told you, also in this second quarter we had better results, both for the Power business and in Wind. And you should consider that comparing the EBITDA from the Wind sector, you should deduct some €6mn which are the reversal aspect of some provision made in the past, which are related to some unbalancing cost that had a positive impact on the profit and loss of last year. So deducting them we should compare €62mn versus €57mn, so in any case a very good result also in this sector.

I will comment quickly on the reason, and then I will let Paolo go through the numbers in further details later on: there is a larger production both in Italy and abroad, and that at better prices and in a scenario which was a bit better than last year. The competitive framework in the Power market is weaker than last year, because of the new regulation that limited the possibility to modulate and to bring home all the advantages we have from our plant. In any case we reported better results compared to last year, thanks to the site contracts, thanks to the way we sell our production over the counter market, thanks to the cost control, thanks to the agreement that we have had with the regulator in reference to the reimbursement of the cost related to the essential units, as our plant is today at this stage. So in the end we posted very, very good results also for this plant, if you consider that last year we achieved €100mn of EBITDA on a yearly basis, and now just in the first half of the year we have already posted €62mn. So that is not bad as of today, compared to what we had anticipated at the beginning of the year.

Going down to the profit and loss, it is simple to comment: plus 42% on semi-annual basis for our net profit, very good results again: €57mn versus the €40mn we posted last year. Again we got very positive and better and higher operating results, including the good performance of TotalERG this quarter, that has posted a positive net result, for the first time since a lot of months I think. And a strong control over the financial charges and a lower taxation thanks to the reduction of the Robin Hood tax.

Moving on to the net financial position, it increased by about €70mn, but this increase was expected because it is mainly driven by the payment of the taxation relating to the positive income, the profit we posted last year after the exit of the CIP6 concession. Let me remind you the transaction whereby we bought the 49% of ISAB Energy from GDF

Gaz de France to sell then the 100% of IE to LUKOIL, and in between we exited from CIP6 concession. The positive income, the capital gain we posted with this transaction was significant, and this year we paid the relevant taxation accrued at the end of 2014, along with some €50mn CAPEX and €71mn dividends distribution. However, everything has been well offset by more than €130mn of operating cash flow. So the net indebtedness is growing, but is under control and, as you have seen, we need to re-leverage the Group. And this is what we are trying to do, and what we are doing, thanks to the new transaction that I comment with you very quickly, and then of course we will take your questions also on that.

Moving ahead with the presentation, then on chart no. 3 and to the following couple of charts, we have some key terms and the key aspects of the new transaction we are going to finalize. We signed yesterday an agreement with E.ON for the acquisition of what I call integrated hydro system of Terni, which is an integrated system to generate power through water. And this acquisition is for the 100% of the Company - Hydro Terni – that owns this business. As announced, the enterprise value is €950mn (with no cash no debt, so it is similar to an equity value), but this is the amount we are going to pay at closing, which is expected before year-end.

From an industry view point, we are talking about a plant that allows us to be recognised as an operator in Italy in this business, so it means that we are entering the market with a very large dimension that is consistent with the market, and consistent with our portfolio. It is composed of 16 hydro generation plants, 7 dams, 3 reservoirs, and so 38 generation units, of which 21 reservoirs and also 155 kilometers of tunnels. So we are not just buying a plant, but we are buying an integrated hydro-electric system which is very important in order to justify and explain to you the price we are paying, and the return that we are expecting from this transaction. Just to give you some figures, in 2014 the production was 1.8TWh, with an EBITDA estimated in the range of €140mn, while the average annual production is expected in our financial projection to be 1.4TWh, based on the last 30 years average, and slightly below the last 20 years average.

It is still very important to say that this plant has been repowered in 2013 for the 70% of the capacity, and the Company selling this plant to us had invested some €200mn. So going forward, the level of CAPEX that we are expecting is going to be very, very low and this is very important for us because it will allow - with an operating cash flow going to be very high - a very, very strong and fast deleveraging and therefore a very high return on this investment, considering the leverage we are going to comment in a while.

Still very important also for the stability of the revenues is the fact that 40% of the production is eligible to receive the green certificates until 2024 and the concession expires in 2029.

More important in this transaction is of course the support we had received from 7 international banks, listed in this chart: in fact €700mn loan out of a €950mn is a very good leverage that allows us to post a very high return, also because the financing we have got from these banks is quite competitive from a cost view point (the margins is well below 2% per year), and it allows us to have a lot of flexibility in risk financing, consistently with the business that is based on a concession agreement lasting until

2029. In terms of debt maturity, we are talking about two tranches: the first one with expiry time of 24 months, and the second one of 60 months. So we have a lot of flexibility to keep this financing (as it is very competitive from a margin view point), or on the other side to refinance it on the debt capital markets, in order to improve the return on an average basis.

So we are acquiring a very good plant, a high quality plant, and this is in line with our philosophy as you know: our pay-off is a simple energy mix, we want to buy assets of very high quality, very simple technology, much technology that we know and that we can run at best. And let me remember again that we are not talking about simple hydro-electric plants, but of an integrated system that can be highly modulated. This is also the reason why we are making such an acquisition through our ERG Power business unit: because it has all the knowledge to modulate, the knowledge to generate revenues and not just adding the simple flow of water inside the business unit, as this is not a simple plant but an integrated system, let me remember you: 7 dams, 38 production units, everything linked by 155 kilometer of canals. So it is simple for everybody to understand the potential capability to generate power by modulating it, and bringing home the best prices during the year from this production plant.

To sum up, we have acquired this integrated system, we are very happy with its production, also because it has a high complementary seasonality with our wind business: looking at the graph in chart no. 8, it is easy to understand that when the wind is up the water is down, and that when the water is down, the wind is up. Then these investments allow the Group to have a more balanced generation portfolio, in line with our Renewables peers, although they have a larger dimension. In this chart, you can see that we moved from a 100% wind oriented business to 70% wind vs. 30% hydro oriented business. And if we put this plant inside our generation portfolio, you have a discontinuous business like wind, then a very flexible business in terms of modulation (like the CCGT), and then there is a medium modulating business like the hydro plant.

I do not want to bother you talking about multiples of the transaction, as most of you have already made their own calculation. However, having 8.6 ratio in terms of enterprise value and EBITDA, I think it is a very good transaction... but I would like you to make your own judgment. I do not want to draw your attention to any comparison with the latest transactions made in this sector, because they were very small compared to this one. But in any case, should you take them into consideration, you would see that the price we paid is very, very low compared to the expectation based on the last transactions.

So I am happy to talk about this transaction, and ready to take your questions later. And I am very, very happy to have put in our business portfolio this hydro-electric integrated production system in the center of Italy.

Of course, while we were doing something in the same business, we did not forget to do anything in the other businesses we have: solar and wind. Let me just remember you that we have finalized the acquisition of 63.4MW in France (with an enterprise price value of €72mn and a very high productivity, amounting to 2,300 equivalent hours) that will allow us to double our presence in that country.

And if you look at Chart no. 10, you may see that after this acquisition and before the split of LUKERG Renew, our portfolio composition in terms of geographical diversification is now made of a 75% in Italy, and a 25% abroad, if you consider also the 42MW already built, and already entered into production in Poland.

So we have doubled our presence in France, and we reached an agreement with LUKOIL to split our MW in the Wind business in Bulgaria and in Romania: as you see in the low right portion of the chart no. 11, before the split we had 104MW and now we go up to 124MW, so at the end we are increasing by 20MW our installed capacity in the region, by reducing our presence in Romania and increasing it in Bulgaria. Now we are alone running the business at best as we wish, without having all the burdens and limits that are typical when you have joint ventures, though we had and keep on having very good relationship with LUKOIL. The enterprise value for these 20MW is €27mn, i.e. €1.3mn/MW, and the closing of this transaction is expected by year end.

Now, before I hand over to Paolo, let me remember you that in the first half of this year, we have already increased our installed capacity in wind by 165MW: 82MW in Poland, (of which 42MW already built, and the remaining to be built before year-end), 20MW increase after the split of LUKERG Renew, and then the 63MW acquisition in France. So, while we were doing something interesting in the hydro business, we kept on investing and growing also in the other sectors, i.e. in Wind.

I think that they are very good news for us. And I hope that you will appreciate them. Now, Paolo it is your turn.

Paolo Merli:

Thank you Luca. Good morning everybody from me as well. I think Luca has already explained the figures in good details. So I will try to go a bit quicker than usual, leaving room for Q&As, as the focus today I think it is more on the transaction than on the results.

I will start as usual with business environment we operated in during the quarter. At Page 13 you see here that the average price in Italy was €48/MWh slightly up year-on-year, notwithstanding the much lower cost of crude and gas, that was made up for the higher contribution margins or generation margins, as the contribution to demand - remained flat over the period - was less contributed from Renewables (the demand coverage from renewables was 42% against 45%), in particular given the much lower contribution from hydroelectric production over the period, while solar and wind kept going up.

Green Certificates were slightly higher than last year, notwithstanding the increase in the energy price, and this is contradictory compared to the usual formula to calculate the green certificates, and it is reflecting the new regulation in Sicily, which lowered substantially the reference price to calculate the green certificate. So on the one hand the new regulation cooled off the prices in Sicily (as you can see on the left part on the slide), whilst on the other hand it helped the green certificate to increase a bit compared to last year.

Getting to Sicily, as said you can easily see that the Sicilian prices went down quite considerably, this is just following the introduction of the new regulation, which started with the issue of the decree last summer and then it was regulated through a resolution of the Authority, which set up the rules to calculate the reimbursements and the criteria to cost the reimbursement for the so-called essential units such as our plant. In this respect, the lower revenues we got from lower prices in the market were more or less offset by the reimbursement of cost deriving from the new regulation.

The cooling off of the pricing reflects the fact that every essential unit can't bid on the market above its variable cost, this is the main reason. Commenting the renewable prices, in Italy they were higher, thanks to the higher energy prices and higher green certificate prices, while in the foreign countries where ERG Renew operates the tariffs have been mostly flat, with the exception of Romania, where the market still remains oversupplied, adding lots of pressure on the two green certificates provided to the producers.

Let us now turn the page to no. 14, commenting in a nutshell the EBITDA for the Group over the period. You see here €86mn against €75mn last year. Wind higher production, higher prices as I commented, but tough comparison, as we had a positive 2014, then resulted in a negative reversal effect this year from the cancellation of the unbalanced cost. On a like-for-like basis, results then would have been increased by about €6mn year-on-year.

I think I have already commented Power: the lower revenues more or less compensated by recognized costs deriving from the new regulation and on top of that, the higher contribution from energy management, the higher spark spread in the market excluding the zonal premium and savings on the cost side deriving from the actions taken also following the new organization drove the results slightly: €11mn, up against last year.

Last but not least, I would say the corporate cost kept improving, also thanks to the new organization which - as you know - envisages specific company services to provide the transitional services for all the Group being focused on cost efficiency.

Let us now move on, commenting business-by-business in more details. I am at page no. 15 about Renewables: as I already commented, EBITDA was slight flat, almost flat, with production up 3% over the period on a year-on-year basis, plus 2% in Italy and plus 8% abroad as a whole in the quarter. And let me say that, notwithstanding the very good performance over the first six months, July started off badly. So when you will look at the guidance for the year, please consider that in July the weather outside was not good at all. So this should be considered when analyzing the guidance later on. EBITDA margin of the Company was 73%: still very, very interesting return for us.

Moving to Power, you see production was up 2%. We have not reported but I can tell you that revenues were down 11%, so minus €27mn in absolute terms, which were - as I said - almost compensated by €25mn of cost reimbursements pertaining to the quarter, though - let me add (and this should help you to understand why the second quarter was

so good in terms of year-on-year comparison) - accounted for about €5mn, which actually pertains to Q1 after fine-tuning of calculation together with the Authority.

I have already commented that on top of this, as I just explained, cost reimbursement almost offset the lower revenues, and that the increase is explained by higher spark spreads, higher contribution from energy management and lower costs.

Now commenting the investments, I think here it is much more appropriate to comment investments over the first six months, which are more representative of what the Company is doing: €52mn, so more than double, almost triple compared to what we invested last year. This amount does not include the investments Luca had mentioned referred to the acquisition in France, and the split of LUKERG Renew assets. In fact the transaction in France has already been closed, but only after the end of the semester, while the closing of the split of LUKERG Renew is expected in the next months.

So net of this I said almost three times, 92% of investments are related to wind development, in particular in Poland where we have 42MW already in operations at the end of June and further 40MW under construction.

Let us move now to TotalERG, which I remind you is no more fully consolidated line-by-line, but on an equity basis, so that we are commenting the results looking at 100% but considering then that our quota is only 51%. We see the EBITDA was considerably up: €31mn against €20mn last year. Even more important, you see that the operating results finally went on the black side with plus €10mn over the period against minus €1mn last year, thus putting an end to a long trend of negative EBIT and net results. This was basically due to a sharper rebound in refining margin (as you can see on the right graph on the chart) from negative to \$4 positive: the contribution margin, this is the EMC reference margin. But also marketing, considering the still tough competitive environment with pressure on volumes, and the margin was quite satisfactory (€27mn against €30mn), though a bit lower than our budget. But, I repeat, in a very, very tough competitive landscape where the incumbent again in this quarter - as you should have seen - has lost a further 2% market share. While TotalERG at least remains flat, in a context where white pumps still keep growing very, very fast. The number of service stations of TotalERG declined by 200 units on a year-on-year basis, thus reflecting the strong effort in rationalizing the network and reducing the complexity, resulting also in lower costs.

Let us now move to key financials. I am at page no. 20. I have already commented EBITDA: plus 15%. EBIT over the quarter was €46mn, plus 35%. And results before taxes €32mn against €19mn, so 68% up vs year-on-year. So you can see that our profit and loss becomes more and more similar to a Renewables company with a strong operating leveraging going down from EBITDA to net profit.

Net profit in particular was €23mn also benefiting from the reduction of tax rate, which was 27% against 42% last year, surely reflecting the cancellation of the Robin Hood tax as per the ruling on the Supreme Court, but also given the higher pre-tax amounts which tends to guide also the tax rate.

Now, moving to the cash flow statement: it has already been well commented by Luca. But I will just remind the key figures. The EBITDA or the cash from operation was €86mn, an absorption of working capital in particular deriving from the new regulation in place for the CCGT plant, as the cost reimbursement I mentioned before have not been cashed in yet, and they are expected to be cashed in in the second half of the year: that is implying sort of a six-months delay compared to the previous status.

CAPEX have been already said, and financial charges already commented as well. Here in particular, I would like to point out that the new project financing issued last year as regards LUKERG Renew has increased the cost of our debt. And on the other hand, the yield on cash management got lower, thus keeping the financial charges flat notwithstanding the much lower indebtedness for the Group. I think the transaction we commented at the beginning of this presentation will help our capital structure to improve quite substantially when it will be executed. We paid €71mn of dividends whilst the €83mn of taxes and other include almost \$100mn of non-recurring taxes paid in respect of ISAB Energy transaction.

Now, let Luca give you the guidance and his final remarks.

Luca Bettonte:

Alright. Thanks Paolo. As for the guidance, as already announced, we are here to tell you that we are in a position to increase the year-end EBITDA result starting from the €330mn we gave you at the beginning of the year, thanks to what we achieved during the first half of the year, and considering the contribution of the new wind farms acquired, although we have to take into consideration that the production in July was very, very low, and - to a given extent - offset the new production from these new plants. At the same time, we are including in our projections the better than expected performance in the first half commented by Paolo, and that we expect to have also in the second half of the year related to the Power, so to let our projections go up from €330mn to €350mn at the end of this year, a guidance that is even higher than what we posted on a like-for-like basis (last year the EBITDA was €343mn). As for CAPEX, in the 1H 2015 we invested some €52mn, and now our guidance is increasing from the previous one of €120mn to €230mn, as a result of the investments in Poland and France: this is the main reason. But of course the new guidance does not take into consideration the investment in the hydro system we are about to acquire. Let me tell you that we had a very strong consideration in Wind investments, as I told you before, and let me remember you that we have already achieved a growth of plus 12% on the installed capacity of the beginning of the year. So 165 new MW installed, and all abroad in line with our strategy. And so, the new CAPEX guidance is higher also compared to that of last year.

In terms of net financial position, the guidance has now been increased from €530mn to €600mn, reflecting the acquisition of the French wind assets (€72mn) and the debt put on our shoulder after the split of the assets of LUKERG Renew (€27mn). But at the same time, as I told you, a higher operating cash flow offset this growth in the net financial position. In any case, we are expecting better results compared to the previous guidance and also to the last year results, both in terms of EBITDA and in terms of

investments supporting our growth. Our growth - as it has already been said - is what we are looking for, also after acquiring this integrated system plant in the middle of Italy.

I think we have finished our speech, 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 of Equita SIM. Please go ahead.

Roberto Letizia:

Yes, good morning. My question of course is on the acquisition of the hydro assets. Can you give us some indication on the economics that drive the performance of this acquisition? The first data if available that I would like to have is the underlying pricing of electricity that drives the €110mn EBITDA contribution you have indicated in the press release.

And, if it is possible, the level of depreciation that is associated to this asset: the current level and the eventual level that will result after the purchase price allocation that may occur on the acquisition. And generally speaking on the quality of the asset, the €110mn seems a very high number that drives to very low OPEX per MW. So we made a comparison with the main or the biggest plants in Italy managed by Shell for example or by ML or other company, and the level of OPEX per MW in price is much higher than the one that would result from the price you have indicated. So can you please clarify all that to let us better calculate the return expected from these assets in the future?

My second question is on the Power division, where performance was very, very good. I would like to understand if the effect that you registered in the second quarter will be similar also in the third and the fourth quarters. And when you expect this to end up, I mean the entrance of the network with Sicily from Terna. I would like to understand also - but of course we will see this better in the strategy presentation – if in the future the new plants will come more from Greenfield going forward, or you still run mainly through acquisition. Thank you.

Luca Bettonte:

Okay, thanks. As per the economics, the pricing that you see and the profit and loss of the new acquisition we have analyzed, let me give you an overall answer to your three or four questions. To understand the economics of this business, you should consider that we are not talking about a single plant or separate plants, we are talking about a system that is a very complex, with a number of generating units linked together and then based on the specific structure, we have a lot of reservoirs and dams. So we can modulate the way we generate the power, and then bring home the best price over the day. And so that is what we like very much to underline: the energy management

improvement that we may have, thanks to this new group of assets, thanks to this new integrated hydroelectric production system.

More specifically, to try and answer some specific questions, I would say that in terms of electricity price we started from the average electricity price: so we are talking about some €48-€49/MWh this year, and the CAGR that we are forecasting is in the range of 3%-4% from now to the end of the concession agreement, so 2028-2029.

And in terms of profit and loss, it is very difficult today to give precise figures in terms of PPA allocation and the like, but let me tell you that I can be sure that this investment is EPS accretive and in the range of about €40mn on average bottom line. And it takes into consideration of course the depreciation and the level of OPEX, but we do not think that they are so high or higher than the average of the other companies also because it is difficult to make a good comparison among them, as this plant - let me stress the concept - is an integrated system, that is going to allow us to bring home money from the same modulation.

Roberto Letizia:

Sorry to interrupt you, did you say €40mn at bottom line?

Luca Bettonte:

Yes, on average you consider that it is going to be a growing figure starting from about €30mn and going up to an average €40mn over the duration of the concession agreement. It is a result of some depreciation that could be a bit higher at the beginning because of the goodwill that we are posting in our books. But also in this case it is very important to underline the very fast and the strong deleveraging that this business is going to allow us, because we are just investing some €250mn, and the return based on this figure of the cash generation is - let me tell you - very, very high.

Moving to the Power, let us say the performance is not very good, you know: there has been a change in the regulation in the Sicilian market but, as you have seen, we posted in any case very interesting results for the first half of the year, and now we think we are going to replicate this result also for the next six months. That because we have defined all assets under this new regulation vis-à-vis with the Authority and then thanks to the fact that this plant is managed very well, cost controlled, and we have a very interesting and profitable over-the-counter agreement. These are the reasons why I think we can keep having such a good performance also during the next six months of the year.

As for the cable to link the Mainland to the Island, I guess that they are going to finalize by year end – at least this is what Terna announced - so we are waiting for them. And we will see in our Business Plan how this new change in infrastructure is going to impact going forward.

As for the last question you raised - strategy on Wind - for sure the Company has achieved a dimension that both from an industrial and operating, and also from a financial viewpoint, allows this company to be fully independent and ready to keep on growing. The strategy is on two lines. The first is to go abroad, in order to improve our geographical diversification. And the main way to install new capacity is through

greenfield and brownfield. So for sure, if we will find some good opportunities to have a more stable and larger presence in some countries (as we have just done with this recent acquisition in France), for sure we will follow this road. But the priority no. 1 for the CEO of the Company is to let the Company grow through the organic growth, so through greenfield or brownfield projects, in order to bring home a higher return in a Company that has already a very big, a great and stable megawatt installed base, that allows this Company to generate cash flow to be fully financed for its future growth.

Paolo Merli:

Luca, if I may, I would like to add a couple of points on the transaction, to help everybody make their calculation and to appreciate the full potential from a value standpoint. First of all, the assets (they are still to be depreciated in our financial accounts, which are coherent with the audited balance sheet of the target) are more than €700mn, with a depreciation profile very much frontloaded, given that a couple of €100mn are related to goodwill, which has got, as said, an upfront loaded profile. This is a very important element, when considering the value and the cash generation capability of the assets.

And then please do not forget that after the expiry of the concession, there is a regulation which envisages for an exit amount for the incumbents in case of no renewal once the concession expires. So this so-called terminal value, which is coherent within the draft ministerial decree which should be issued over the next few years, should - I hope - provide every operator with this kind of business with a fair remuneration once the concession will expire. And this has to be put correctly in your model, in order to understand the full value of the transaction.

Last but not least, Luca has already explained the financing structure. So the leverage of this transaction is very, very high (more than 70%,) the cost of debt is below 2%, and so much lower than the project financing we are used to. And, in the right moment, in this period the debt capital markets offer very good options in order to re-finance in a long-term basis.

Operator:

The next question is from Nicolò Storer with Mediobanca. Please go ahead.

Nicolò Storer:

Yes, thank you for taking my question. Just a clarification on the cost of financing: you said 2%: is it 2% gross or net of tax shield? Thank you.

Paolo Merli:

The €700mn acquisition facility is made of two installments, €350mn each. The first is a sort of bridge loan with scale-up margin structure as usual, with on average gross cost (before any tax shield) below 2%. While the second €350mn tranche is five years term loan, with 36 months grace period, so the first repayment will be in three year-time, after signing. So that is providing us with a huge flexibility to benefit from this line. The first bridge loan, having this scale-up structure of margins, suggests to re-finance it as soon as possible, and we will do it accordingly to the capacity to do it, over the forthcoming months.

Nicolò Storer:

Okay, perfect. But when giving the previous answer you said 2%, did you mean an average of the two, i.e. the term loan and the bridge loan?

Paolo Merli:

Yes, absolutely.

Nicolò Storer:

Okay, thanks.

Operator:

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

Roberto Letizia:

Hi, yes sorry, I have some follow up. First of all, really I missed the maturity of the bridge loan: is it few months or whatever? Then I was just wondering if the closure of the deal by the end of the year implies that also all the metrics will works, meaning the debt mainly actually because the contribution will be next year, so the debt at year-end will include also the cash out for the acquisition.

And then please I would like a clarification on the issue of the terminal value that you mentioned for the acquisition of the hydro assets, because in fact this is not yet been decided by the regulator, and there is a strong discussion whether you will be entitled for the recovery of the investments over the period, or you have to give the assets for free at the end of the concession. So can you update us on the discussion with the Authority about these elements, because it is one of the main topics under discussion for all the hydro players in the segment, and actually this can be at risk.

So another clarifications on the acquisition, so when you quote €110mn EBITDA, that is the incremental expected EBITDA on ERG consolidated accounts, so there is no other negative components in terms of corporate cost that will be added to the structure. So, is it the incremental EBITDA on ERG consolidated numbers? Thanks a lot for your help.

Paolo Merli:

On the bridge loan, I confirm that the maturity is 24 months starting from the signing date, which was yesterday. So the idea is to re-finance over the next twelve months, let us say. You are right: the net debt at the end of the year will probably include the cost of the acquisition while, on the other hand, it will not include any contribution from the EBITDA. So you have to read the figures at year-end very, very carefully. But I want to give you another element on the financing loan, that does not provide any covenant on the 2015 financial statement. So there is no constraint from a financial point of view.

The €110mn for sure is the expected EBITDA in our consolidated accounts. And as regards the terminal value, you are right: the matter is still under discussion, and I think it is not in discussion that the so-called "opere asciutte", in particular equipment and facilities should be reimbursed to the incumbents at the expiring date of the concession. The discussion is more about the "opere bagnate", so the dam and whatever is

composing the hydro-electric system, but in our evaluation this amount was about zero. So it is not included, or almost not included in our terminal value.

Roberto Letizia:

Okay, sorry my very last question: we have also these elements, but the E.ON has made an expenditure of €200mn for 70% repowering of the asset. So wondering if, proportionally you will spend similar amounts per megawatt for the remaining 30%, and if this will be “opere bagnate” or not, thanks a lot.

Paolo Merli:

Consider that the refurbishment investments executed by E.ON were also economically supported by the green certificates. If not, I think nobody would have invested that much to recover those plants.

Luca Bettonte:

Let me just add one last comment on the so-called terminal value of the cost that the incumbent is going to receive back if exiting the concession: that is just a very positive figure, all this item is an upside for us if that happens, that is what I can tell you now.

Operator:

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

Luca Bettonte:

Okay. Thanks a lot everybody have a nice summer break. And as anticipated in our press release, we are going to see you during the first half of October for the presentation of the Business Plan for the next three years to come. Thanks a lot again and let us have a break.

Paolo Merli:

Thanks a lot and bye-bye from me as well. Goodbye.