

**ERG S.p.A.**  
**“Third Quarter 2017 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 Third Quarter 2017 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:**

Thanks a lot. Good afternoon everybody, and thanks for coming to this conference call on our Q3 results. As usual, here with me there is the CFO, Paolo Merli.

Let me give you a quick overview of our key figures for the period, in which we posted very strong results year-on-year. As you see on **page no. 4**, EBITDA came in at €98mn versus €78mn (plus 26%), with a 43% EBITDA margin versus 34% in 3Q 2016: it is a higher EBITDA for all the technologies that we are operating. Net profit came in at €26mn versus €9mn (I would say three-fold higher than last year), and net debt down to €1.37bn, with a deleverage of €187mn from the amount at the 31st of December 2016.

Now comparing the same information on a 9-month basis, 2017 EBITDA is higher than 2016 EBITDA (which is important for us), and net profit is well above €100mn, namely €113mn: that means a plus 36% versus last year.

Let me try summarizing and simplifying the main reasons by commenting quickly the quarterly figures; anyhow Paolo is going to take you through them in a while as for EBITDA, volumes and energy prices.

Let us start with volumes: we had a very windy quarter, both in Italy and abroad. The production all-in-all was some 24% higher, with a significant plus 21% in Italy.

As for the hydropower plants, on the opposite, it was still a very weak and dry season: the production was 16% lower than last year. Regarding the thermal generation, the production was some 10% lower. But in this case, what counts much is the plant flexibility associated with the energy price trend, along with the clean spark spread value: all of them definitely high.

Moving on to the energy prices, they were well above of last year, with the National Average Price some 26% higher. This affected mainly the wind generation in Italy: as you know, abroad we are exposed in particular to Germany and France, where we get feed-in tariffs. Italian production benefited also from the higher former Green Certificates unit value at €107/MWh versus €100/MWh last year. Again, higher North Centre zone peak prices: on average, some 32% higher versus last year. These are the prices mostly captured by the hydropower plants.

And as for the thermal units, the baseload clean spark spread is slightly higher than last year, as a result of the phase-out in 2016 of the former Essential Unit Regime as per the so-called Decreto Mucchetti. These items affected also our performance on a 9-month basis, though the still positive difference of EBITDA was slightly lower, as in the first half

of 2017 the power generation was lower than in the first half of 2016 due to the unfavorable weather conditions just mentioned. What is more, in the first half of 2016 the thermal generation benefited of some €31mn as fixed cost of reimbursement from the Essential Units Regime, that was stopped – as you remember - in May 2016, although in 2017 it benefited from the higher price of the so-called White Certificates, being a co-generative plant. Let me tell you that I believe it is worth noting that at the end of this quarter, we overcame last year EBITDA, for the time being.

As for the net profit, it makes sense to comment the figures as at the end of September, when we posted a very high result: €113mn, plus €30mn versus 2016. Excluding for a moment the impact from the better operating results just commented, this achievement was possible thanks to lower depreciation (as some wind farms ended their accounting useful life), lower financial charges (due to both a lower average indebtedness and, overall, the positive effects stemming from the relevant re-financing and re-negotiation transactions made in the last months, through which we reduced the cost of funding); and finally, the higher contribution of TotalERG that posted a net profit two times higher than in 2016. In the end, net financial position is down by €187mn, thanks to the very high operating cash-flow, and after some €80mn spent through CAPEX and M&A, and a dividend distribution of some €74mn.

Switching on to the **page no. 5**, as for the sale of TotalERG, I deem there is not much left to add on top of what already written, said, and included in this chart, I guess. Let me just spend a minute to underline that it has been a very tough and complex transaction, involving a lot of players on both sales' and buyers' side, that has been signed in due course achieving a very satisfactory result in terms of:

- value, that ERG has got for its stake;
- timing, with reference to the consolidation process in the downstream industry in Italy;
- cash that we should receive at the closing on top of what we already obtained through €71mn dividend distribution from TotalERG, and also, let me tell you
- industry view point, as TotalERG will be acquired by one of the most reputable Italian downstream operator, supported by some of the most important Italian-international banks: I think, it is a very positive result for the industry as a whole.

Said that, now I will hand you over to Paolo.

**Paolo Merli:**

Thanks, Luca. Good afternoon, everybody. I think Luca has already touched the key points, so I will try to go quickly through my review in order to leave a little bit more time for your questions, as I think there are going to be some.

Let me start going over on the power scenario - I am on **page no. 7** - commenting the demand in Italy, which was 2.6% year-on-year up in the quarter, and 1.7% over the first 9 months: so, demand was in its upward trend. Looking at the supply side, the period was still characterized by a very dry season with poor rainfalls, but I would say pretty

much in line with what we have seen over the first part of the year. Just to remind you, here I am commenting on the industry trends, and not on our Company specifics.

Overall, hydroelectric productions in the country were down 5% in the quarter, and 12% in the first 9 months. And unfortunately, our hydro plant did not make any exception to that. As far as wind, production in Italy was 19% up in the quarter, but still in deficit by 7% over the first 9 months of 2017.

Looking at our generation portfolio in Italy, the performance again in wind was more or less consistent with those macrotrends. Outside Italy, wind conditions were generally good during the quarter, in particular in France and Germany, while in the first 9 months France and Germany as well suffered a bit from wind condition; to the contrary, East Europe was really good over the first 9 months and also over the quarter. But I comment in more details our Company's specific later.

Looking at the prices, the PUN (the Average National Price in Italy) was €52/MWh during the quarter, so up 26% year-on-year mainly related to the already commented rise in demand but also in a context of quite low hydro production in the country. Price indicator for Renewables was good as a consequence of the higher electricity price, but also of the higher price of incentives, based on the mechanic of the math to calculate it. And it was €159/MWh, which means 13% up year-on-year. Price in Sicily is still good at premium, notwithstanding the cable on-stream. But evidently, it suffered from some bottlenecks at the interconnection with the Mainland. The Central North peak price - another very important point for us, as it could be seen as the reference for the sales price for our hydro operation - was €60/MWh, so €8 more than the Average National Price.

Looking at the last bit of the scenario, talking about the spark spreads and White Certificates, again they were both very, very positive during the quarter, in particular the White Certificates. As you may know, our plant is entitled to generate roughly 100,000 White Certificates per year, the price of which came at above €300 per certificate in the period, so the historical high for this kind of instruments. The spark spreads were very good as well, but particularly good in Sicily, given the further premium in the island.

Abroad, I already said about the wind condition in terms of prices in Europe, in general, prices in the markets were good, but as you know, having feed-in tariff system in our wind farms, our exposure to the scenario is quite limited with the exception of Poland and Romania, where we have still a Green Certificate mechanism.

I move on – I am now on **page no. 8** - commenting very, very quickly the EBITDA from €78mn to €98mn: the comment here is quite easy, because we reported better performances across all our business segments. In very few words, the 26% increase in EBITDA was mainly due to good wind associated to poor water, but in a backdrop of a very strong price scenario. And on top of that, we also benefited from the contribution of the new assets in Germany.

Now on **page no. 9**, commenting our energy portfolio very, very quickly, just on the 9 months figures: 8.6TWh of energy, of which 5.2TWh came from our assets, so generated by ourselves, by our plants. The remainder – which is a quite sizable amount - was purchased on the Market, as usual in order to adjust our supply profiles, to optimize the portfolio and to perform hedging strategies in line with our Risk Management policies.

As far as sales, 1.5TWh was the electricity sold to IREN, according to a bilateral contract, expiring by the end of the year. It is a contract based on market conditions so, given the current market condition, we do not expect any major impact on our economics going forward. 1TWh was sold abroad, and the remainder was sold on the Wholesale Market in line with our practices.

On **page no. 10** I am now commenting business-by-business, starting from wind. EBITDA was €57mn, so considerably up year-on-year (+33%): again thanks to better wind condition - both in Italy and abroad - and to the contribution of new assets. Let me concentrate on the industrial performance. All KPI were very positive in terms of productions, in terms of load factors, looking both at the portfolio on average, and also at the portfolio country-by-country, geography-by-geography. Last but not least, I think it is important to say that the technical availability of our wind farms was on average at 98%, which is a quite impressive performance from a pure technical point of view.

Positive pricing was the other boost of our results during the quarter, as I think I have already commented. But I think it is important to say that, as already planned, we still suffer from the phase-out of incentives, which had a negative impact of roughly €4mn during the quarter and roughly €9mn over the first 9 months. These amounts already include the recovery for past limitation. Anyway, this is a trend we knew, but we tend to give transparency and a disclosure on that, in order to allow you to have a good understanding of the phenomenon.

Now let us move on to **page no. 11**, commenting the programmable results: again, very good performance both from the CCGT and the hydro, €42mn, plus 17% year-on-year. As far as the CCGT EBITDA, I have already said the reasons behind the performance, which mainly related to the scenario, spark spread, price premium in Sicily and White Certificates.

As far as hydro is concerned, EBITDA was €19mn: it is a bit more interesting because you have on one hand a drop of 16% in volumes, and on the other hand you have a plus 12% in terms of EBITDA. That means that the drop in productions was more than compensated, more than offset by the very good price scenario, which is also due to the capability of the plant to capture the very high price in the peak hours. And on top of that, it is also important to remind that the perimeter entitled to incentives is larger, following the fact that other plants have been included in this entitlement.

I think maybe it is worth to spend a minute to make you notice that in the first 9 months the EBITDA of the plant was 25% up - I am referring again to hydro - while production was down by 14%, basically for the same reason. In this respect, I also remind you that our EBITDA for the 9 months includes roughly €8mn deriving from recovery of the past incentives over the two plants I mentioned before. But even adjusting for this effect, the

EBITDA of hydro would have been 10% higher over the first 9 months, which I think is quite important, because it shows the value of these assets.

I now move to **page no. 12**, commenting on investments and focusing on the first 9 months, when we spent roughly €77mn, out of which €66mn were related to Wind, of which €40mn were embedded in the price value in the acquisition of wind assets in M&A in Germany.

I would like to give you just a quick comment, because I read some reports from analysts - maybe they misunderstood the press release - saying that there are €100mn less in CAPEX. Actually, I will let Luca comment on the guidance later on. But I just want to underline that the target in term of growth we gave ourselves at the beginning of the year was totally targeted, because we are building Brockaghboy - the wind farm in North Ireland (48MW), included in this amount of CAPEX - plus the 50MW bought in Germany, which was actually our target. As these assets have more than 6 or 7 years off from COD, the cost per megawatt was less than half what we planned to have, so for planning purposes the CAPEX is lower, but this is the only reason, there is nothing delayed in our Business Plan.

Now quickly on **page no. 13**, commenting TotalERG results, which are accounted on an equity basis. As usual, I comment on 100% of the Company, of which 51% is still ours, though not for much longer, given the recently announced sale to API. EBITDA was €45mn, plus 2% year-on-year; the marketing EBITDA was slightly lower, but more than offset by refining and logistics. And you see that the EMC indicator was up significantly from \$1.5/bbl to \$4/bbl. As usual, being an equity investment, we tend to look at the net profit, which was €20mn in the quarter, plus 25% year-on-year, and all the lines of the statement were better, starting from depreciation, financial charges and *etcetera* down to the bottom line. Just to finish, as you may know the sale of our stake is expected to be closed by January 2018. In the meantime, TotalERG has already paid €71mn of dividends, which must be seen in the backdrop of the sales transaction.

Let us move to **page no. 15**, commenting on profit and loss. I have already commented on EBITDA, so going down we have the same effects just commented in TotalERG. Lower depreciation (by €5mn), due to the fact that we extended the life of some assets in France, and we had the termination of the technical life - just for accounting purposes - of some assets in France, which were the first ones entering our portfolio. These effects were partly offset by the new depreciation coming from the new assets in Germany. But all-in-all, you see depreciation is roughly €5mn less over the first 9 months, and €3mn less in the third quarter.

Net financial expense is down from €18mn to €15mn in the quarter, so €3mn less, related to the lower debt and to the effects of debt restructuring, which is already giving the full effect on our economics. Income from equity investments - basically TotalERG - is at €10mn versus €9mn last year.

Tax rate in the quarter - as reported in the chart - was 16% during the quarter, and 21% during the first 9 months. Here there are two effects: the corporate tax (which went down from 27.5% to 24% effective from 1st January), and on the negative, the ACE regime

providing for a reduced yield, consistently lower from 4.75% in 2016 to 1.6% in 2017. Please consider that the tax rate reported in the chart is simply the ratio between the pre-tax and the tax. So, it is not discounting the fact that the equity investments are already coming post taxes. So if you adjust the actual tax rate for these effects, the adjusted tax rate in the first 9 months would 27% against 26%, which is more consistent with the income tax in the country.

In the end, net profit came in at €26mn, roughly 3 times more than in the third quarter of 2016. Looking at the first 9 months, it was €113mn, plus 36%, so a quite impressive and a quite positive performance.

Now last chart – **page no. 16** – commenting the cash flow statement in the period. You see that deleverage of the company keeps going on very well, from €1.5bn to €1.37bn. And consider that in this figure it is not yet included the effect of the €51mn dividend cashed from TotalERG on October 26. This chart is quite self-explaining, anyway: €98mn EBITDA, €11mn of CAPEX; as just commented, in the quarter the net working capital was positive related to the dynamic of the settlement of the cash-in of incentives, financial charges and others, thus representing the €1.37bn.

I hope I have touched quickly all the elements of the quarter, therefore I will hand you over to Luca for his final remarks.

**Luca Bettonte:**

Thanks, Paolo. Now it is time for the guidance and the Business Plan. As for the guidance, we are going to update it: the EBITDA guidance varies from €430mn to €455mn, so plus €25mn. CAPEX drops from €140mn to €100mn, so minus €40mn. The net financial position goes down from €1.45bn to €1.3bn, less by about €150mn.

Before commenting in detail, let me underline that we think these figures are quite sound. Talking about EBITDA, we have increased the guidance because we see higher electricity price in Q4 than in Q3 in all the zones where our plants are located, and a still high spark spread.

In wind in Italy, in our projection we have already included October's production (that was higher than expected), and we predicted to meet the budget for the months to come. Then on a full year basis, the power generated in Italy should be lower than in 2016. On the other hand, the production abroad should be higher than in 2016, thanks also to the contribution from the assets acquired in Germany. So all in all, we see a slightly lower result versus last year.

As for the hydro plant, we still see a dry season ahead, and the power generated will be lower than in 2016. However, we expect higher results than in 2016, as the plant can keep capturing the higher prices at peak, thanks to its high operational flexibility, along with the recognition of incentives for some plants that in the past were not eligible to receive them.

When we come to the thermal generation, we foresee higher results versus 2016, despite last year we accounted for some €31mn revenues under the Essential Unit Regime. That thanks to higher local prices and a significant contribution from the White Certificates, whose unit value more than doubled versus last year.

In the end, we are forecasting a sound €455mn, a result in line with last year and higher than expected at the beginning of 2017, despite the contribution from the Essential Unit Regime in 2016 and the phase-out of the incentivized schemes of more than 200MW wind assets this year.

As you see, ERG business model - leveraging on the Energy Management (that operates three complementary technologies) and on the insourced Operation and Management to exploit at best the plant availability and flexibility - should allow us to keep on delivering strong results, also when the wind does not blow and there are no rainfalls.

As for the CAPEX, as Paolo has already commented, the amount at the end of the year should be about €100mn, mainly as a result of the construction of the 48MW in Northern Ireland and the acquisition of some 48MW in Germany. As planned, we have now almost 100MW of new installed capacity abroad. And the decrease of some €40mn has to do with the amount - lower than expected - paid per megawatt for the acquisition of the German assets, and with the settlement of the acquisition of the rights to build in Northern Ireland, that we simply moved forward in 2018.

As for the net financial position, the guidance moves down to €1.3bn: that means a deleverage of more than €250mn in 2017, after €100mn for CAPEX and dividend distribution of some €75mn. The very strong operating cash flow - along with the extraordinary dividend distributed by TotalERG ahead of the sale - represented the main reasons. These are the new guidance for year-end.

And now, before you raise your questions, let me go back to the next Business Plan (due to be presented before year-end) that we need to postpone for the first months of 2018. Considering that the main pillars of the next Business Plan will be to keep on going abroad and to potentially invest in Italy through re-powering and re-blading, there are some reasons why we suggest a new path forward and a new due date.

First of all, the Italian Energy Strategy issued today: at the first glance, there are both positive and less positive elements. And anyhow, we should understand its reliability. It will be deployed through the issuance of the National Energy Plan. Also, this National Energy Plan - along with the National Energy Plans of all other countries of our interest - due by the beginning of 2018 are being postponed. And - even more important for us - the new regulation related to the re-powering or re-blading is expected to be issued by GSE before year-end, and it is quite important for us to understand the best way to allocate our capital going forward.

And - last, but not least - anyhow, in the coming months, we have also to manage the signing to close the process of TotalERG, as well as the sale of the lubricant business units to Total.

So please let us work in the next months so as to share with you our best vision for the coming 3 years, on the basis of a more sound and clear business scenario. Anyhow, the presentation is still well ahead of the date it was expected; originally speaking it was scheduled for December 2018. So we are not postponing the Business Plan: we are just reducing the time we anticipate it.

And now, I guess - no, I am sure - we are ready to take your questions.

## Questions & Answers

### **Operator:**

Excuse me; this is the Chorus Call conference operator. We will now begin the questions and answers session.

The first question is from Roberto Letizia of Equita. Please go ahead.

### **Roberto Letizia:**

Yes, good evening. My first questions are on the disposal of TotalERG. I was wondering if you can share with us the forecast you had at the time of the strategy plan presentation in terms of net income deconsolidation from the disposal of TotalERG. So as from next year - not based on the current results, but based on what you were expecting almost one year ago – what should we consolidate... deconsolidate, going forward, in terms of net income? Then something that we would have expected, as an indication from the strategy plan, but you are moving it far away now at least 2-3 months: we had all, I guess, understood that once you dispose the asset, the possibility of an extraordinary dividend distribution was a concrete option. Of course, you did not state it officially in the strategy presentation, but you let us understand that it might have been a concrete possibility. I would like to understand if this is confirmed or not. On the numbers, I would like to understand a couple of moving parts, so what has been the overall contribution of the White Certificates in the 9 months, and the overall contribution of the Energy Management? And in particular, for what regards the Energy Management I was wondering if these amounts given as a projection on the full year, should now be considered as a recurrent element of your profit generation? Then, on guidance... not really a guidance but on the 2018: can you please sum up for us the moving parts that we should have on 2018? One for sure is the lower Green Certificates price because of the mechanism (some €7/MWh less should be counted next year), then you should lose some Green Certificates. But can you sum-up the moving parts on 2018? And the last question is on the net income, just if you can follow with me my considerations: if I take the net income of the 9 months and I take the fourth quarter of last year, you could possibly end up above €145mn of net income. Is it something reasonable? Thanks a lot.

### **Luca Bettonte:**

Okay, fine. Do you remember Rischiatutto?

### **Roberto Letizia:**

Yes of course.

**Luca Bettonte:**

Yes. You remind it to me. Okay, I will try and answer at my best. As for the first question, we will give you the number, I cannot remember now what it was in the business plan.

**Paolo Luigi Merli:**

Anyway, much lower than the one TotalERG is posting to-date.

**Luca Bettonte:**

Right, for sure, in any case our Investor Relation manager should provide you with the figure later on. Talking about the Business Plan, we are not moving far away: at the end of the day, we are talking about just a couple of months. In any case, we are delivering a business plan well in advance than expected, because we should have been in a position to wait till the end of 2018. But this is not the matter, in the end.

What it is important for you to understand - and you just told you understood - is the reason why we are doing that. And just setting aside for a while the disposal of TotalERG - which is going to take time, of course, as it has been a complex transaction: it was complex during negotiations, and it is going to be difficult as well also from now to the closing... however we are quite positive oriented - for us it is important to come to you with a clearer view about what the scenario is going to be, in particular in Italy. Abroad we have a clear idea as to where we want to go: it depends on how fast, how much, how long... but you know, we confirm our strategy.

It is important to understand what the opportunities are in Italy. Of course, based on the regulation that the GSE is about to issue, there may be some thoughts we have to consider in order to identify what is the magnitude of the investment we could be putting into the Business Plan in the next 3 years to re-power and to re-blade our plants. Today, we are quite closer to the issuance of this specific regulation: we have been directly in touch with works, as we were consulted by the GSE.

So - let me say on a scaramantic basis - we are a bit more optimistic than saying 1 month ago. But what counts much now is - and we have just received the National Energy Strategy - what's going to be the future in terms of authorization permit? The Winter Package stated that for re-powering it takes no more than 1 year to get the authorization. You know, fine, let us work with the Minister of the Economic Development, with the Environment, because we want to understand that we have ahead of us a quite interesting business case to be first included in the Business Plan. We need a couple of months, I guess; these are the main reasons, along with the other one I have mentioned to you.

Then you asked me to give you the amount of the impact of the White Certificates: €18mn in the first nine months...

**Paolo Merli:**

Yes.

**Luca Bettonte:**

Yes, it was €18mn. And then, you raised some question as to what is going to be in the future. So...

**Roberto Letizia:**

Yes, but not the Green Certificates... the White Certificates, for the Energy Management there.

**Luca Bettonte:**

Right, you are right. White Certificates, €18mn. As for the Energy Management contribution, we are talking about something in the range of €35mn to €40mn: is it going to be structural? Yes, thanks for this question, because it means that you are realizing that ERG is not simply an energy producer, but we are leveraging on the Energy Management system that allows us to optimize the way that we sell our energy on the market. And so Energy Management is a structural part of our business.

Looking forward, based on what you have said, I can tell you that the figures of €145mn as a net profit result for year-end should not be a surprise if we get such an amount. It is reasonable that you consider this value. And as for the other question you raised, I think you have to wait a bit, because you are talking about something relating to the new Business Plan, the new budget, relating to 2018. What I can just say...

**Roberto Letizia:**

So you are now talking about the possible extraordinary dividend, right?

**Luca Bettonte:**

No, I am talking in general terms about the moving parts of the economics for next year

**Roberto Letizia:**

Okay.

**Luca Bettonte:**

The reduction in the Green Certificates contribution and *etcetera*. These are all items that we are going to share with you in a couple of months.

As for the dividend, for sure, you know what we have done in the past. I know that the expectation is that we may distribute an extraordinary dividend. Let me put the question this way. As for the extraordinary dividend, we did in the past, you should not be surprised if we do the same in the future, and this is a portion of the answer. So the main important portion of the asset is what I am telling you now: ERG has finished its transformation just last week, when we signed the sale of TotalERG. Now, we no longer have any drop of oil in our Business Plan, in our financial statements, and also for the future. So it means that we are completely another company today.

And so, we had to re-think the way to define our dividend policy, in a way that should be much more in compliance with the new business animal we are today. And so, we are thinking about how to comply with the new role we have in the industry, that is much more like the utility scheme, and so to grant the shareholder a return which is in line with expectations. So it is easy for you to understand that from now on we may change this policy; and so it is more likely the dividend is going to be increased, rather than to be kept stable or to decrease. For the time being I think this is going to be enough.

**Roberto Letizia:**

Thanks a lot.

**Luca Bettonte:**

Thanks.

**Operator:**

The next question is from Sara Piccinini of Mediobanca. Please go ahead.

**Sara Piccinini:**

Hi, good afternoon. Thank you for the presentation. I have some questions. The first one is on the CCGT business, I do not know if you already answered, and in this case, sorry for that. But I would like to understand how much you associate these good results - as well as, higher prices for Hydro - to the extraordinary conditions of the market. And how much do you see normalized EBITDA going forward, and the contribution from the MSD Market related to this business? The second question is that you have arguably accelerated a lot your debt reduction with the expected cash-in from the TotalERG disposal. However, at the same time, you are postponing CAPEX, we do not see an acceleration in CAPEX. So going forward, what is the level of net debt to EBITDA, assuming that you will accelerate this CAPEX that you see for a company like ERG? And finally, on the SEN you have already quite well commented, I just want to understand which are the negatives in your view, because I understood that there are some positives and negatives: can you give us more colors on the negatives? Thank you.

**Luca Bettonte:**

Okay, as for the CCGT and hydro, it is not a matter of extra conditions: if you look at what we did in the past, if you take the EBITDA generated by the CCGT this year, last year, 2 years ago, 3 years ago, 4 years ago, every year has been exceptional. But when something is exceptional every year, I think it becomes normal, you know, that is the point. It is quite difficult to explain to you, but you know, we went through the Mucchetti Decree, the new cable, connecting Sicily to the Mainland. In the past there were not many megawatts installed in Sicily, neither in solar nor in wind.

So at the end of the day, what is important to understand is the flexibility of the plant, first. Second, the plant is located in a quite crucial strategic region, because we have very long-term strong agreements with the local operators, with the largest industry in Sicily. So at the end of the day, I do not think that what we have achieved today and we are going to achieve next year is going to be extraordinary for that plant. And in the end, that plant is, let me tell you, the core of our Energy Management system, because it allows us to modulate production. And so at the end, let me convince you, please trust me, I will be talking about not extraordinary situation, but ordinary results. That is going to be the same with the hydro plant. Our Hydro plant is quite flexible: so, if you see what has happened this year (production lower minus 144GWh, versus last year), at the end of the day, the performance is in line or above. That is because, as we mentioned, we bought a very high-quality asset. It is very important that you understand that, but thanks for the question.

In terms of CAPEX acceleration, let me tell you that we are working on more than 1,000MW of new capacity abroad. Something can be already considered ready to be installed, something is in the pipeline and we have finalized an agreement and we have just signed also an agreement for a pipeline of 300MW in France. And we are working very hard. So do not worry: we are going to be ready when we show you the Business Plan.

In terms of financial balance, financial soundness, it is the same question: three times, four times and let us say that there will be...

**Paolo Luigi Merli:**

We have covenants on our capital structure based on four times more or less, even a bit higher, 4.25. So three times, which is the embedded ratio according to the guidance we just gave to you: surely, absolutely low, considering the nature of our business. So we still have much firepower to increase it. And let me add on the capital intensity going forward before the Chief Executive touched the item of the re-powering: re-powering could be an important stream of investment. So we do not have lack of opportunity, neither from wind perspective abroad, nor in Italy.

**Luca Bettonte:**

Right, so the matter has to do with the capital allocation. Let me say that a couple of months ago, I did not have the clear view I have today. So having taken part into the consultation process with GSE for the new regulation, I think that today - as I have just said - I am more optimistic on re-powering or re-blading than I was in the past.

As for the GSE new regulation, relating to refurbishment of the existing assets, it may be an accelerator in our Business Plan, but before being an accelerator, it is something that we have to take into consideration in order to identify the best way to allocate capital, because you know, to refurbish or to repower the peak of the mountains where we have our plants today is going to be a quite interesting exercise, not just from an industrial point, but also from a financial one. This is the point.

Moving to the SEN, which is a part of the game, in particular in terms of permit; I did not say that I see something negative, but I see something less positive, you know, and the less positive has to do so far – I have read just a couple of pages - with the regulation for the auction, because we are talking about tech neutral auction, that is something that we expressed our opinion on: we were contrary to that, because you know, the different sources of energy have quite different intrinsic technological meaning, and way to operate. So to have a competitive framework context, to let them grow, it means that you have to realize that to get solar to compete with wind is not as simple as that, because they need a different landscape, different amount of ground, they have different technology. And at the end of the day you should put the entire system... I am not saying downturn, but in difficulties, because what is important in a market such as the electricity market, is that the balance between the different sources of energy should be well done, well analyzed, paid attention to. And to go down through the competition, I do not think this is going to be the best solution.

Without taking into account that we are not alone as a Green Energy producer, we have to take into account also the coal, and to take into account also the gas-fired turbine. So not because it is less positive than expected in my position, but at the end of the day we are just the beginning... let us analyze in the next days what the real meaning of it is.

In terms of less positive, it has to do with the deployment of the SEN through the Energy Climate Plan that the country has obtained to postpone. So timing is crucial in business. Anyhow let us see, let us analyze these documents, and let us understand when the new decree on renewables is going to be issued, if it may sort out any problem stemming from the existing system.

**Sara Piccinini:**

Many thanks, very clear. Just to be sure that I understood correctly. So in order to be favorable, the auctions should not be technology-neutral like, for example in Spain, right? Thank you.

**Luca Bettonte:**

Yes, that is my opinion, you know, I would say that it is better to keep the technologies on a separate basis, like it was done in the past. But, you know, it is my perception and my view, and what we discussed through the association. But now the decision has been made far enough. In any case, this is going to affect the new plants. In any case, for us the re-power and the re-blading are much more important. And so, in any case, I see much more positive elements than less positive elements in that respect. But let us work with the Minister in the next months.

**Sara Piccinini:**

Thanks a lot, very clear. Many thanks.

**Operator:**

The next question is from Roberto Ranieri of Banca IMI. Please go ahead.

**Roberto Ranieri:**

Good afternoon, everyone. I have two questions, I have to ask something about 2018, not about the business plan, not any anticipation on business plan. When you talk about the favorable scenario - and you think that this favorable scenario could go on, also in the next few months - do you think that in your estimates you have a 2018 with a favorable scenario in power generation in terms of prices, or do you expect a better recovery of the volumes in wind, and also in hydro power generation? Just to understand if the drivers we have seen recovering in these past few months in 2017 could also normalize in 2018. My second question is on the re-powering matter: I am trying to understand what the operating performance could be, and also the impact on financials. I understand that you are still working on your CAPEX plan. But, in case, you are repowering, and in terms of percentage, what is the additional power production you can have going forward from 2018 and onwards? My last question is on tax rate: can we assume 27% going forward for the next few years? Thank you very much.

**Luca Bettonte:**

Right. As for the favorable scenario in 2018, let me tell you first, prices: look at the forward, they are quite favorable today and with price quite high compared to 2017. And so, we did not see, but in any case the starting point is quite favorable. As for volumes, who knows, but at the end of the day, this year was not very windy. And for sure, it was a quite dry season, but to replicate both of them the next year, I do not know. So wait a bit, but this is the only answer I can share with you.

As for the re-power and re-blading, I can pass you a couple of information. First, as for the production, in general terms if you consider a re-blading, the substitution of existing blades with new ones - so a technology that is 10 to 15 years younger - the production on the same place could improve by 20%-25%, simply substituting the blades.

While talking about repowering, what does it mean? It means that you change the WGTs, the wind turbines. So moving from a V47 to a V117-147, with an associated wind tower of some 0.8-0.6MW to another one that is in the range of 3 to 4MW. It means that you reduce the number of towers by two-third, you do not use any additional ground, but the production can be three times higher than in the past, so it is quite an impressive growth. That is why – and I think Minister Galletti mentioned this - GSE is working very hard on that, and this is why we believe it would take a couple of months in order to be in a position to share with you something more for the future.

**Paolo Luigi Merli:**

And please consider Roberto that from this perspective, having both the assets from Gaz de France - which were practically the first in the country - we believe we have quite an advantage starting point for this respect.

**Luca Bettonte:**

Of course, we are talking about general information, preliminary estimates but we think that starting from this we may identify a quite important CAPEX accelerator. As for tax rate, I was told that the 26% is going to work for the future.

**Roberto Ranieri:**

Yes, thank you. Just a follow-up about the volumes: I understand that the volumes are unpredictable. My question is on your current budget, on the volumes we had in this part of 2017 and as an estimate for the fourth quarter of 2017: are we in a normal situation which can replicate in 2018, or can you expect something better or worse in 2018? Thank you.

**Luca Bettonte:**

If you try to make a calculation and you take the average production over the last two or three years, for sure 2017 is a year that we should remember for bad weather condition: I mean, just sun and not wind. So I do not think that 2017 should be taken into consideration as a normal course of business, but something extraordinary low. And so you know, on average, if we applied the average generation per year of the last 5 to 7 years, for sure we are going to increase the amount of wind at our disposal and we are having a quite high index in terms of machine availability, I think that we should produce more power from wind in 2018 than we did this year.

**Roberto Ranieri:**

Thank you very much.

**Operator:**

Mr. Bettonte, there are no more questions registered at this time. Thank you.

**Luca Bettonte:**

Fine, so thanks a lot and speak to you soon for the new Business Plan in the end. Okay, thanks a lot. Bye-bye.

**Paolo Luigi Merli:**

Bye.