

ERG S.p.A.
“First Quarter 2018 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 First Quarter 2018 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 on our 1Q 2018 results. Here with me as usual there is the CFO, Paolo Merli.

Let me give you a quick overview of our key figures for the period, in which we posted strong results, better than last year, despite the negative impact of some items, such as:

- the phase-out by March 31, 2018 of some incentives as regards 172MW vs 1Q 2017, equal to some 85GWh generated, with a negative impact on revenues - and then on EBITDA - of some €9mn;
- a lower incentive price in Italy (99€/MWh in 2018 vs 107€/MWh last year) which affected the whole incentivized Italian production with a negative impact of roughly €6mn YoY (Wind and Hydro);
- the new regulation by GSE on unbalances for non-programmable sources in Italy, that implied in the quarter higher imbalance costs by almost €5mn, thus a lower corresponding EBITDA; and in the end
- 1Q 2017 benefitted, still in Italy, of some €8mn revenues as a result of the recognition of the Green Certificates of previous years related to some hydro plants (Sigillo and Cotilia), accounted in the Financial Statements at March 31, 2017 at profit & loss.

If you sum up all the above items, you come to about minus €28mn: that was the starting point for us this year, already known and factored in the BP presented a couple of months ago. So this is the way we woke up.

Let us continue by looking at the main figures, and see how we achieved those stronger results. Year on year:

- EBITDA came in at €162mn vs €151mn (+7%), with a 57% EBITDA margin, whilst it was 50% last year. I would say a higher EBITDA for all the technologies, plus the contribution of some €5mn from the newly acquired solar plants, and plus other roughly €5mn from other assets additions in the Wind segment, in France, Germany and in the UK; the latter as long as it lasted (I am referring to Brockaghboy, of course)
- Net profit at €56mn vs €54mn of last year. The latter does not include the contribution of some €6mn from the equity valuation after tax in 1Q 2017 of the stake in TotalERG, of course

- Net Debt at €1,229mn, a bit lower than last year-end figure of €1,233mn. 1Q 2018 amount includes some €36mn of Vendor Loan to api.

Let me try to summarise and simplify the main reasons by commenting quickly the quarterly figures. As for EBITDA, let us start with volumes: we had a very windy quarter, both in Italy and abroad. The production all-in-all was 15% higher, +11% in Italy and +20% abroad. Outside of Italy in 1Q 2018 we had some 112MW of higher capacity installed, of which 48MW in Germany, 48MW in Northern Ireland (until 7 March), and 16MW in France; all of them contributed with some 63GWh to the higher production.

As for the hydropower plants, this time we had a very rainy season: the production was some 84GWh higher (+20%) than last year.

As for the contribution of the solar plants, it was of some 21GWh, pretty in line with our expectations.

Regarding the thermal generation, the production was some 12% lower, but in this case what counts much is the plant flexibility associated with the Electric Energy price trend, along with the Clean Spark Spread value.

Talking now the Energy Prices, they were slightly below those of last year, with the National Average Price some 6% lower. 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. In the end it has also to be mentioned that in Italy we had a lower former Green Certificate unit value at 99€/MWh vs 107€/MWh of last year, as mentioned before.

In North-Central zone peak prices were lower (-7%) vs 1Q 2017: these are the prices mostly captured by the hydropower plants.

As for the Thermal Unit, the baseload Clean Spark Spread was lower than last year due to higher natural gas and CO₂ prices; but the Sicilian premium was definitely higher.

All the above effects have led to a higher EBITDA, where:

- Wind in Italy was down just by €4mn, even including the negative impact from lower incentives and higher unbalancing costs
- Wind Abroad was up by €7mn, out of which €5mn from a broader perimeter
- Hydro was in line at €35mn, but far higher on a like-for-like basis
- Thermal was up by €4mn, as usual thanks to its peculiar characteristics, such as location, site contracts and high flexibility.

And finally

- Solar, where the contribution from the new assets was about €5mn, 10% below our budget as the heavy rains resulted in poor solar irradiations in the Country (-18% at country level).

As for Net Profit, we posted a higher result: €56mn vs €54mn (restated) in 1Q 2017. In this quarter the higher operating results just commented have offset higher depreciation of some €7mn (due to the larger perimeter in wind and to the newly acquired solar plants), and higher financial charges, due to a larger average long-term indebtedness, coming from the huge investments made in the quarter.

In the end, Net Financial Position lands at some €1.2bn (in line with the year-end amount), as a result of a strong operating cash flow, cash-out for investments of some €365mn, and cash-in from disposals of some €285mn.

Let us now go on to **page no. 5**. In this chart we have just summarised what you already know as for the acquisition of Epuron. There is nothing more to add, except to remind that this investment represents a very important boost and acceleration of our business plan. As we are going to see later while sharing our forecast for the guidance, this transaction was not included in the Business Plan presented in March. It could be seen as an anticipation of the Capex included in our Business Plan as regards both M&A spending (as 26MW were already operative, or under construction, as we bought them when acquiring Epuron) and, above all, Business Development stream, as in the perimeter it is included a huge pipeline of about 750MW, whose partial deployment is going to be carried out in the plan period, especially as regards the advanced portion of the pipeline.

This paramount acquisition - which is not very different from what E.ON. and Boralex did respectively in Germany and France few weeks after us - allow us to achieve two important goals: first of all, to become owners of a significant pipeline in France, and secondly to increase ERG's workforce there and to strengthen our capability and know-how for growth.

Now I will hand you over to Paolo.

Paolo Merli:

Thanks Luca, good morning everybody. Let us start by looking the general scenario over the first quarter: I am on **page no. 7**, commenting on Power Demand in Italy. Demand was up 2% YoY. The quarter was characterized by a windy and wet season, with poor solar irradiation. Overall Hydroelectric production in the country was up 11%, while ours rose by 22%, an outperformance which is basically related to the specific location of our assets in Central Italy. As far as Wind is concerned, production was up 16% YoY in the quarter in the country, while our performance was pretty much in line with the national trend, although slightly below (+11%). This is due to the weaker wind conditions in the east of the country - namely in Puglia - where we have a solid positioning. Later I will comment more in depth number by number. Conversely, Solar was down by 18% (here I am talking about Italian production); our operations were no exception to that trend,

even though the gap to our budget was narrower, about -10%. Outside Italy, wind conditions were good in France and Germany, but weaker YoY in East-Europe.

Prices. The Average National Price in Italy was 54€/MWh (-6% year-on-year), partly due to the fact that 1Q 2017 prices were inflated by the nuclear crisis in France, and partly because 1Q 2018 prices did not fully reflect the rising gas and CO₂ costs. Price indicator for Renewables in Italy (which is the sum of the national average price plus the feed-in-premium) was 153€/MWh, -7% YoY. Here it is worth highlighting that 2018 incentive price is down by 7% as well, from 107€/MWh in 2017 to 99€/MWh; as you know, this number is worked out from a mathematical formula which is inversely proportional to the previous year's electricity price.

Let me outline other two important price indicators for our operations:

- the first one is the price in Sicily, which traded at a significant premium vs. the average national price by 5€/MWh (whilst in 1Q 2017 it was negative), driven by some bottlenecks and some maintenance works at the interconnection with the Mainland; and
- the indicator is the Central North Peak price, which traded at 63€/MWh, and this was about +9€/MWh higher than the average national price. This indicator is quite important, as it is sort of a proxy for the selling price of our hydro production.

Generation margins in Italy (I am commenting the graph at the right top part of the chart) dropped quite consistently in the quarter from 16€/MWh to 7€/MWh due to - we believe - a sort of time-lag in absorbing the rising cost of CO₂, which has doubled from 5€/t to 10€/t. Notwithstanding this drop at a national level, our results were up anyway YoY, as we benefited from being located in Sicily first of all, with higher zonal prices (as already commented), we benefited as well from our hedging (executed at a time of higher margins), and finally from the fact that in 1Q 2017 the plant was not fully able to capture the very good spark spread because we still had a PPA in place with IREN, which capped the marginality of the plant. This contract – as you may be aware - expired at the end of 2017.

Commenting the prices abroad, as far as the scenario abroad is concerned, you can see at the bottom right of the chart that the prices in France, Germany and Bulgaria are quite stable, as they are based on a feed-in tariff. The only exceptions are Poland and Romania, where a Green Certificate mechanism is in place. In Poland I would like to underline that OC (Origin Certificate) were consistently up YoY – they tripled, more or less - due to some regulatory interventions which took place last year. In Romania it is important to say that since 2018 our assets benefit from 1 single Green Certificate instead of 2, explaining most of the trend.

Let us move not to **page no. 8**, commenting the Economics for the Group in a nutshell over the period.

EBITDA was €162mn - up 7% YoY – thanks mainly to three effects:

1. The higher wind and hydro productions on a like-for-like basis;
2. the contribution of new assets, namely wind assets abroad in France, Germany and in the UK (with Brockaghboy wind farm consolidated up to March 7, 2018, i.e. the date in which we sold the asset) and the recently acquired solar business.
3. a positive contribution from our CCGT plant, thanks to its high modulation (so that the plant is capable to capture the best prices in Sicily), and to still very high prices for White Certificates, which remain an important stream of revenues for our plant.

This is the general comment. Luca has already mentioned some negatives which were known at the time of the Business Plan, but I think it is quite important to recap them. So they are:

- the lower price value of incentives in Italy (99€/MWh vs 107€/MWh): this accounts for a negative of €6mn over the quarter
- the phase-out of incentives in Italy related to roughly 85GWh of production, which went out from the incentivized perimeter: this translates into a negative of roughly €9mn on Ebitda
- the revenues we had in 1Q 2017 associated to the recovery of past green certificates in Hydro operations, which accounted for about €8mn. And also
- the change in the rules for imbalance costs, which translated into roughly €5mn YoY of imbalance costs associated to Wind operations.

So all-in-all these negatives accounted for roughly €28mn, which were fully recovered - and even more, as the result is positive – by the positives I mentioned before.

So that is why we got very very good results in the quarter.

Commenting very quickly on **page no. 9**, here you have a recap of our energy portfolio: 2.2TWh was the production over the period from the different technologies. The entire portfolio was 3.7TWh, because on top of the 2.2TWh produced by our plants you have to add the quantity we purchased on the Market in order to adjust our supply profiles, optimize the portfolio and perform our hedging strategies.

As far as sales, out of the total 3.7TWh 0.1TWh was the electricity sold to site customers, 0.5TWh was sold abroad, and the remainder was sold on the Wholesale Market.

Let us move now to **page no. 10**, commenting technology by technology, and starting with Wind. EBITDA in 1Q 2018 was €107mn, up 3% YoY thanks to higher production in Italy as well as in France and Germany, while– as already said - weaker in East Europe, as shown in the chart. Production also benefited from the contribution of the newly acquired assets in Germany (which were not yet consolidated in 1Q 2017) and in France (effective as of January 1, 2018), together with the contribution of Brockaghboy wind farm in Northern Ireland, which was consolidated until the date of the sale.

Commenting in general, overall production was up 15%, and the load factor was at 31% vs. 29% last year. So all the KPI were good. In Italy production was up +11%, with a load factor of 31% vs. 28% in 1Q 2017; outside Italy production was up 20%, with a load factor – by chance similar to the one registered in Italy – of about 31% on average vs. 30% in 1Q 2017. The technical and energy availability of our wind plants was at about 97.5% on average on the entire portfolio, which I think is a very good performance from an industrial point of view.

I have already commented on the negative scenario, with the reference price in Italy down by roughly 7% YoY, on top of which you have to add the phase-out of the incentives. As a matter of fact, ERG net unitary revenues in Italy were 126€/MWh, down 13% YoY to reflect all these items I have already commented.

Moving on **page no. 11**, commenting now on Solar, here there is no comparison on a year-on-year basis, because this is the first quarter we are consolidating these assets.

Production was 21GWh, with a load factor of 21%: as already said, production was -10% below our budget, but pretty in line with the trend registered in the segment, because of the poor irradiations. I think it is important to remind you that 1Q and 4Q are the weakest quarters for the solar, so we are quite confident for the full-year results of these new assets, which anyway must be seen as part of an integrated portfolio, together with wind, hydro and natural gas.

Let us move now on **page no. 12**, commenting on Hydro operations. EBITDA was at €35mn, in line with 1Q 2017, even though this figure has to be explained very well: in fact I remind you that 1Q 2017 results included a one-off item of about €8mn associated to the recovery of past Green Certificates. So, excluding this special item in 1Q 2017, the result of this year would have been much better than last year, and this is due to the higher production generated in 1Q 2018: 469GWh, +22% YoY.

Unitary revenue was more or less in line with last year: 94€/MWh vs. 95€/MWh in 1Q 2017; so all the increasing Ebitda - once excluded the €8mn of one-off item included in 1Q 2017 - is basically due to the higher volumes produced by the plant.

Finally I should add, as relevant information, that our water reservoirs at the end of the quarter were pretty full, following the heavy rains and snowfall over the period, which is an encouraging KPI for the rest of the year to come.

Let us move now to **page no. 13**, commenting on CCGT. EBITDA was €18mn, almost +29% YoY. Let me try to explain this performance, because it came in a quarter where the spark spreads were particularly lower than the same period in 2017, in Italy in general. This performance can be explained by several facts: first of all, I have to say that the higher zonal premium in Sicily basically absorbed the lower price scenario when looking at the average national price. On top of that we have the three elements I have already mentioned before: so the hedging actions over the spark spreads taken in a time of

higher margins, progressively in 2017, which contributed for +€3mn thus preventing us from feeling all the economic impact from the squeeze of spark spreads during the period. In addition to the above I remind you that, conversely, in 1Q 2017 - despite the very high spark spreads - the plant was not able to fully capture this marginality because of the PPA agreement in place at that time with IREN, a contract which expired in 2017, so in 1Q 2018 we were fully capable to capture these spark spreads when ready in the Market.

Finally, I would like to point out that the white certificates remain an important stream of revenues, and that only for purpose of accounting the value at which we accounted the white certificates during this quarter is 288€/tee, which is lower – frankly speaking – than the current prices on the market. Our policy is to use the average price over the previous 12 months, so let us see how these prices are evolving in the forthcoming months, and from this point of view we see more upside than downside, for sure.

Let us move now to **page no. 14**, commenting on investments. Investments in the period - including those related to M&A - were at €365mn, which include €357mn for M&A, whilst the remainder is for organic investments.

In particular, €346mn were relative to the ForVEI acquisition. This figure slightly differs from the €335mn EV announced during the acquisition, because in the meantime, just for accounting purposes, we accounted also €10.5mn of negative fair value relative to the leasing contract acquired during the acquisition, which anyway – incidentally - is being refinanced.

€12mn is the investment in the wind business, and is relative to the acquisition of Vent d'Est in France, which – added to the €346mn – makes the aggregate of €357mn associated to the M&A.

The remaining CAPEX mainly refers to Wind, and namely to the acquisition of Linda project in Germany (22MW), which is currently participating in the auction, but we are still waiting for the outcome.

So, all these figures are pretty in line with what we had announced in the business Plan.

Let us move now to **page no. 16**, commenting on P&L on a recurring basis. I have already commented on Ebitda. So, going down, higher depreciation mainly reflects the consolidation of Solar as of January 1, 2018 and also the German assets which were not included in 1Q 2017.

Net Financial expenses were up YoY from €16mn to €18mn, and this mainly reflects the higher debt acquired from Solar M&A, and a slightly lower yield on cash management. All in all, if you look at the cost of our gross debt, it remained basically at 3.2%, which is pretty in line with 1Q 2017, and we think it is quite a competitive number.

Tax rate in the quarter was 26%, essentially in line YoY. You could see that - even though close to zero - there are also some minorities, which refer to 25% of Vent D'Est, which is the 16MW we have just acquired in France and consolidated since January 1, 2018.

As a result, adjusted Net Profit was €56mn in 1Q 2018 vs €54mn in 1Q 2017, so +4% YoY. For the sake of clarity, I am commenting here restated figures that in 2017 do not include the results of TotalERG (this is to simplify the comparison), and - to be honest – in 1Q 2018 do not include the important capital gain associated to the sale of Brockaghboy (closed during 1Q 2018), which would have increased the pre-tax net profit by roughly €26mn.

Let us move now to Cash Flow Statements, I am on **page no. 17**. You see that at the end the net debt remains more stable: €1.229bn vs. €1.233bn at the end of 2017, so basically in line. But you can see from the chart that the ups and downs are quite significant: let us try to comment them one by one, starting from the left. First, you have the net operating cash generation (namely the Ebitda) that was €162mn, the Capex were €8mn: here for more clarity we have separated the organic Capex from the M&A ones. Then we have €65mn of net working capital, which is quite an important number: half of this is associated with the normal receivables for incentives and electricity, because the first quarter is generally a quarter when the production is seasonally higher than in the other quarters. Part of this is also associated with the fact that TotalERG went out of our consolidation scope, so we had an impact - evident only in this quarter, as it is the quarter when we actually sold the asset - related to the VAT taxes.

Then financial charges: €18mn (already commented) plus some other minors.

All in all, the net operating cash flow was of €76mn. On top of that we had the M&A and the disposals: the M&A include - on the buy side - the Solar ForVEI and Vent d'Est acquisitions, whilst on the disposal side you have TotalERG and Brockaghboy sales.

All in all, you arrive at €1.2bn, more or less in line, but with a slightly lower leverage (38% vs. 40%), because in the meantime the invested capital increased for the new investments.

I hope 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 as usual it is time to talk about the Guidance.

EBITDA confirmed at €475mn at year-end as a result of a lower EBITDA in the Wind business (in particular in Italy vs last year, abroad broadly in line, including a larger perimeter and higher development costs), significant higher EBITDA for the hydroplants, slightly lower EBITDA in thermal generation, and significant contribution from the newly acquired solar plants.

Capex guidance is up from €450mn to €500mn to include the acquisition in France of Epuron, and Net Financial Position guidance is up from €1.25bn to €1.3bn for the same reason.

First of all, let me say that - although 1Q 2018 results are better than expected - we prefer to keep the initial guidance unchanged.

Deeper in details, as for EBITDA, we see slightly lower electricity prices than last year in the next nine months in Italy, in all the zones where our plants are located, and still low Spark Spread. On top of that, it is worth underlining the lower unit incentive value per MWh (99€ vs 107€), and the phase-out from incentivised scheme of 286MW which is not bad. Also abroad, but for Poland, we see lower electricity prices than last year.

In wind, in Italy in our projections we have already included April's production (that was much lower than expected), and we predict to meet the budget for the months to come, then on a full-year basis the power generated should be slightly higher than in 2017. Also abroad, for both a larger perimeter in France of some 55MW at year-end and higher wind availability, we forecast over all higher production.

As for the hydroplant, also in light of the much higher than expected April's production, we see a so-called rainy season ahead, thus the power generated will be by far higher than in 2017, allowing us to receive incentives for more than 40% of the total generation. Anyhow, we still have to remind the lower level of unit incentive value, and that last year the business line benefitted of some €7mn of previous year green certificates.

With reference to the thermal generation, we foresee lower results vs 2017, mainly due to lower spark spread, a lower contribution from the revaluation of the previous year White Certificates, all of that partly offset by the Energy Management optimisations.

In the end, we are forecasting a sound €475mn, a result that is north of last year EBITDA despite the phase-out by year-end, on cumulative basis, of some 286MW from the incentivised schemes, a negative change in the unbalancing costs regulation and the special contribution in hydro in 2017 of previous years green certificates.

As for Capex, the amount at the end of the year should be about €500mn: on top of the initial projection we have included the acquisition of Epuron, and the Capex to build the 18MW wind farm of Torfou, to be up and running by year-end.

Net Financial Position guidance is in line with last year at €1.3bn after Capex for some €500mn and €172mn of dividend distribution. 2018 cash flow will be affected also by some €434mn of acquisitions (mainly ForVEI and Epuron) and by some €285mn of disposals (TotalERG and Brockaghboy).

Having said that, I have finished my speech, and we are now 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 Sara Piccinini with Mediobanca. Please go ahead.

Sara Piccinini:

Hi, good morning and thank you for taking my questions. I have some. The first is on the guidance: sorry to come back again on this, I know that you well explained that, but just to understand on my numbers. You gave €475mn guidance at the Business Plan; then you have concluded this acquisition in France, which I calculated should contribute for €4mn. Despite this, €475mn is still maintained as a guidance for EBITDA: so I just want to understand if these €4mn are included in the EBITDA, but you are maintaining the same numbers to be cautious. Could you just clarify on this?

And then on the guidance still: could you provide us with the contribution from the White Certificates in this first quarter? And how much are you assuming for the full year guidance in your EBITDA?

The second question is in general on the market: could you give us an update on the next auctions in Germany and France, and tell us if you consider the bids in the auctions as aggressive (as we have seen the latest offshore auction in Germany with zero subsidy): could you give us your view on these auctions?

And finally, can you please provide an update on repowering, if you see any risk or delay on the implementation of the National Energy Plan with the new Government in place? And how do you see the market for PPA with private companies, if you are thinking about signing PPA to reduce the exposure to merchant prices? Many thanks.

Luca Bettonte:

Okay, thanks for your questions... maybe we should begin an interactive dialogue with you, because they are many. And maybe then I do not remember all of them: maybe you will need to go back and repeat them if I missed some of them, okay?

Sara Piccinini:

Sure.

Luca Bettonte:

Right. As for the guidance, let's say that the acquisition we are just finalizing in France - we are about to close it today from a pure formal view point - is an acquisition that boosts and accelerates our Business Plan. And consider that the importance of this

acquisition has to be associated with the pipeline that we have bought: now we own some 750MW that are waiting for us to deploy them.

As for the specific numbers on which you asked me to give you some indication, the contribution of Epuron is included in the forecast for this year, but you should consider that it is made of the contribution of 8MW already in operation – referred to Le Melier, the first wind farm we acquired - while the 18MW are related to Torfou, the second wind farm which is going to be up and running by year-end, so there is no EBITDA contribution from this wind farm. And then you should also consider that what counts most for us, as I just mentioned, has to do with the pipeline development, and then we put inside the forecast some €4mn cost. So, in the end the contribution of Epuron - for this first year having them on board - is going to be negative by some €2mn, and it is included in our projection.

As for the White Certificates, you have to consider two effects: the first one has to do with the certificates produced in the current year - they have a specific value - and the second one is the revaluation - if it is the case, and now it is the case - of the value of the White Certificates generated in the previous year and which are going to be sold at the final price in the subsequent year. So, we are talking about the White Certificates at the 2017 (revaluated) and the White Certificates of 2018. In terms of contribution margin, we are talking about some €10mn: this is the contribution for this first quarter, as for the two effects relating to the White Certificates.

As for the forecast, we are talking about a number that is north of €30mn as for the contribution of the White Certificates into the guidance in the forecast for this year.

Sara Piccinini:

Sorry, 32, right?

Luca Bettonte:

32 yes, approximately 32-33... of course, based on the projections so far, but in our opinion the price of the White Certificates of 2018 should be a bit higher than what we forecast today, but we do not want to change the way we are running the Company in the current year. Anyway, I think this number could be a bit higher at year-end: that is why I told you today in the press release that I am quite confident with this EBITDA guidance at €475mn at year-end.

Going forward to your second question on auctions in France and Germany, the prices coming out from these auctions are in line with our expectation and with our capability to be competitive there. Maybe you have mentioned something about the offshore: offshore is not in our business, and so it is very difficult to compare with the onshore

business. I should not take care about what is happening offshore, so in the sea. Whilst, looking at what is coming out in terms of entry price for the auctions, the price which has been allocated for the auctions (in particular, in Germany it is 51-52€/MWh to be multiplied by the correction factor, so we are talking about more than 65€/MWh) is not bad, it is good in the end. In France, it started at 70€/MWh, now we are waiting for the outcome. As far as Italy - though we are commenting just a potential draft of the new decree - the entry point is 70€/MWh. So, these figures are confirming that our strategy is quite solid, going forward.

Let me remind you, if I may, that we bought Epuron, about one month ago, and no later than a couple of weeks ago Boralex did the same in France. And in particular, what is very important for us is that E.ON by acquiring Vortex did the same transaction, following the same path forward as for the strategic way to grow in the countries we are operating in, therefore confirming again our strategy.

Moving to the repowering and reblading, so far the main important item stemming from the Strategic National Energy Plan has to do with the PPA, because for the remaining portion of this adventure - I mean the repowering and the reblading - we simply need to get the authorization to build the wind farms. We are not waiting for auctions, so we are not waiting for incentives: we are simply waiting for the authorization, and we have already got one, very important, as for 13MW out of 64MW, talking about reblading. So we are ready to start substituting the blades on these wind farms: this is quite positive. As for repowering, we have already filed the authorization for some 66MW – let me take the exact figure- 66MW is going to become 164MW, once finalized. So, so far so good: we are on track, we are submitting the authorization and despite - for the time being - the practical translation, the factual translation of the National Strategic Energy Plan. Because, the PPA is going to be quite important for us. So far - you know that - we have based our Business Plan simply on merchant prices. Anyhow, we see the SEN positive to these specific investments. So we are confident that each translation is going to be positive for us. Everybody is looking for PPA: not just to bring home money, but mainly to stabilize on the medium and long-term run the price signal, and that is something that everybody is pushing all across Europe. So in the end, I see it is going to be positive. Please do not forget that our Business Plan is based on a timeline that foresees a couple of years simply to obtain authorization. So far, we are even better than on track, so I am confident that we going to meet your and our expectation.

Sara Piccinini:
Many thanks.

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

Roberto Letizia:

Yes, good morning. I am afraid I have to remain on the guidance, to be sure to understand the reason why you kept it at the same level. So you mentioned several things for which you are keeping the number, but the majority of those you mentioned were already included and known at the time you presented the strategy plan, or is it changing? The elements that are actually changing versus that time are only positive, because you were expecting the thermal contribution to go slightly down this year versus last year, but in the first quarter is actually up by 30%.

You envisage recovery in spark spreads now. I understand the reservoirs are at full capacity with a very high contribution already in the first quarter. So hydro is going to stay higher. You are talking about decreasing prices, but actually the power prices in the second quarter - at least in Italy - are higher than last year. So actually, I was wondering if you are keeping the €475mn EBITDA guidance, because it is normal that in the first quarter you do not want to face the risk in the volatility of the natural resources for the rest of the year, or because there are some negative elements that are worse than you were originally expecting in this strategy plan. And - if this is the case - can you please tell us what is actually going worse than expected in March, when you presented the strategy plan?

Then a confirmation - for example, that could be an element - that the second quarter is actually growing in line with budget for the hydro and the wind, which can support the view that maybe if the natural resources stays in line with budget at the end of the year, you can be much higher than the €475mn EBITDA guidance. Thanks a lot.

Luca Bettonte:

Okay. Let me take some figures... Fine, so I understand that you are forcing me to change the guidance.

Roberto Letizia:

No, just telling... it is very difficult to see companies changing it in the first quarter. Just to understand, if it is the normal way or there is something that is going wrong versus the expected.

Luca Bettonte:

I am simply joking. Now, I can give you a general comment... as usual, we try to be conservative for sure after the first quarter: I agree with what you have said. And you have mentioned then, you have reminded me all the negative items that we are including in the forecast. For sure, there are also some positive items, that you have already underlined. First of all, let me tell you that there is no any negative surprise

coming: as you have asked me, I can confirm you there is no problem that way. The only comment I have is on prices: for sure, if we look at the forward curves, they are quite higher than what we have put in our forecast. And we are working on them, for sure there is going to be an upside going forward. But in any case there is some volatility because they suddenly increased over the last couple of weeks, there is some turmoil globally speaking if you look at the oil prices going up and up, and the forward curve is also quite steep. Someone of that business - the previous business we had - told me yesterday that the oil prices are seen at 80-85\$ per barrels going forward. And this may explain also this trend in the forward curves. You have had a quite sudden increase in the value of the CO₂, and also an increase in the cost of the natural gas. Everything is pushing towards prices which are higher than what we have put in our forecast. Anyhow, we want to keep this forecast because we do not want to change the way we predict our forecast, because it is in line and consistent with what we have done in the past and are doing now, on a normal course of business. But for sure, also the upside is by far larger than the downside, having reference to the €475mn EBITDA at year-end. This is the way we work, as you know, we are trying to be conservative for sure at the beginning of the year.

Talking about what is happening today, for sure things are going well. April is again well above budget, thanks to the contribution of the Hydro. Thermal is in line with our expectation. Wind is a bit lower than we are forecasting at year-end and the contribution of Solar is pretty in line with budget. So the only thing I will tell you is that the Wind production in April was quite low. On the other side, the Hydro production was very, very high. So in the end, we are conservative, prices ahead of us are quite higher than what we have put in our forecast, there should also be a positive outcome at year-end. And the initial indication for the second quarter is quite positive. But anyhow, I do not change the forecast for the time being.

Roberto Letizia:

Okay. Thanks, now I got it very clearly, thanks.

Luca Bettonte:

Alright.

Operator:

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

Roberto Ranieri:

Yes, thank you. Good morning to everyone. Two quick questions, please. The first one is on debt, just a clarification for the future: could you please remind us the covenant on net debt, and if the contribution on net debt from Solar is a non-recourse project

financing? In that case, is that debt to be accounted on this covenant? My second question is on thermal power production in Sicily: do you see any impact from a potential cable from Tunisia to Italy? And the third question is just an outlook on M&A in Italy and abroad: do you see any exit strategy from the financial funds, or do you see any increasing competition on the M&A on the infrastructure? Thank you very much.

Paolo Merli:

Hi, Roberto, I will try to answer your two/four questions about the debt. The covenant is four times EBITDA, so we are well below this ratio. And yes, for sure the solar project financing - as well as the leasing - so all the debt acquired from the solar acquisition is included in this calculation.

Luca Bettonte:

Right, as for the cable to Tunisia. I think that we are not worried about that. No comments on that, no forecast... anyhow, let me ask you how much time should we need to create such a cable? Anyhow, thanks for the question: we are going to investigate, but for the time being I do not see any problem about that.

In terms of M&A, as usual the exit from funds has to do in my opinion with the natural expiry of the investment they started in the past - talking about the initial adventure in the renewables - and it has to do with how old are the plants they are running, vis-à-vis the repowering possibility, both in Italy and abroad. So, you see that funds are exiting when they are approaching the natural expiry period, and when they see that the assets are going to get older and older. Maybe a good example is from our acquisition of Epuron, because we bought it from Impax Asset Management, and they exited simply for the reason I just mentioned to you: because of the pipeline associated with their investment they sold. They are no longer in the position to exploit it, because they do not have the industrial capabilities we have. And that is why we bought Epuron, that is why E.ON was able to buy Vortex, and this is the new strategy we already shared with you a couple of months ago, now being deployed in reality.

Roberto Ranieri:

So basically, can we see this exit strategy from the financial funds as an additional opportunity and as an upside on your M&A target from the Business Plan or not?

Luca Bettonte:

I would say, as a trend there is nothing upside. It was already included, if you go back to our Business Plan, we said that as for the M&A it is something that should support the organic growth, and that is what has been done by acquiring Epuron. Maybe if there is an acceleration in that direction for sure. But it is important to understand how much is the amount of megawatts already in operation and that are still eligible to receive

incentives out of the total amount of megawatts that a potential financial investor puts on sale. In the case of Epuron or also in the case of Vortex, I see that the amount of megawatt in the pipeline was by far larger than the amount of megawatts in operation sold by the seller, that is the point. While on the other hand, if you take the transaction done by Boralex, the amount of pipeline was - as far as I know - lower than the amount of the megawatt still eligible to receive incentives. So, it is important to understand this composition. First, the way that the fund is exiting, and second the potential buyers of these kind of assets.

Roberto Ranieri:

Okay, thank you very much.

Operator:

There are no more questions registered at this time.

Luca Bettonte:

Okay. So, thanks a lot everybody for being with us, and speak to you during the next webcast for the half-year results. Thanks. Bye.

Paolo Merli

Bye.