

ERG S.p.A.
“Second 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 Second 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 afternoon everybody and as usual thanks for coming to this Conference Call on our 2Q18 results, despite the incumbent summer break. Here with me is the CFO, Paolo Merli.

As usual, we start with a quick overview of our key figures for the period, when I dare to say we posted again very very good results, leveraging on our peculiar business resilience, that is based upon the geographical and technological diversification of the different source of energies, and upon their seasonal complementarity.

This high-quality mix, well managed through the Energy Management Department, is allowing us to overcome - and more than offset - the declining trend of the revenues in the Wind sector in Italy due to the progressive phase-out of our wind farms from the incentivised schemes.

In this first half of this year the most relevant factors that have adversely affected our performance have been:

1. the yearly production no longer eligible to get incentives of some 137GWh, whose value was around €13mn. At the end of June 2018 some 286MW were out from the incentivised regulation, though it is worth reminding you that till 2022 this number will not change that much, as just 55MW will lose the incentives over the next 4 years
2. the change in the unbalance costs regulation, with a negative impact of some -€5mn this year, to be compared with the positive effect of last year of some +€9mn
3. the reduction of the unit price of the so-called White Certificates, as a result of the new regulation being introduced. The combined effect of the growing price trend in 2017 with the declining one in 2018 brought about a negative impact in the first half of this year of some €10mn, and last
4. one-off positive item of €8mn in the first half of last year related to the recovery of past Green Certificates as regards some Hydro plants.

All in all, the total value of these negative differential items sums up to some €48mn.

Anyhow, as you see in this chart (I am commenting the **page no. 4**, of course) we posted €277mn EBITDA at the end of June 2018 - higher than €258mn of last year - and €114mn EBITDA vs €107mn over the second quarter. So, higher results.

The CFO later will bring you through an in-depth analysis of the specific reasons; on my side let me simply summarise that, as for the semester, what we lost in Wind and thermal generation was even more than offset from what we got from:

1. Hydro generation: +€34mn EBITDA vs 2017, like-for-like excluding the one-off item associated to the mentioned past Green Certificates got in 2017, thanks to the very rainy season and higher unit energy prices at peak in the Northern Central Zone: this has to be read as seasonal complementarity and flexible plant generation
2. Wind abroad: +€5mn EBITDA vs 2017, due to higher production and a larger perimeter in France, and temporarily also in the UK: this means growth through geographical diversification
3. Solar: €16mn EBITDA. There were no solar panels in our business perimeter in 2017: this is technological diversification. And as usual
4. the Energy Management contribution of some €13mn: this is core know-how.

Going down along the Profit and Loss, Net Result for the first half was up €4mn vs last year. The main reason has to do with the better performance at Gross Operating Margin level just commented, underpinned by financial charges just slightly up versus last year despite the larger gross indebtedness stemming from investments and acquisitions, thanks to the positive impact on the cost side from the re-leveraging and re-negotiations of a relevant portion of the gross debt made in 2017.

And in the end, the Net Financial Position grew of some €233mn mainly for the acquisitions and the investments made in the period (by entering the Solar in Italy, growing significantly in Wind in France - through the acquisition of Epuron, with its sizeable pipeline - and in the UK with the today announced ready-to-build project in Scotland) plus some €171mn dividends distributed. Those cash-outs were only partly financed through the disposal of Brockaghboy in the UK and the sale of TotalERG in 1Q 2018: let me say, no doubt they are some very good reasons in my opinion to have a higher net debt, that anyhow was expected.

This is all as far as our 2Q 2018 key figures and results.

Now let me go through the following charts before I ask Paolo to begin his speech.

In **page no. 5** we have summarised what we achieved in the first half of 2018 as for the liability management activity. As we did in past years, we kept working on ERG Group gross debt structure so as to further optimize it.

The results achieved in 1H 2018 after re-negotiating and re-financing some €500mn of gross debt (about 25% of the total gross debt) are listed on the right side:

1. 1% lower cost totalling about €4.5mn lower financial charges on annual basis, so about 50% of this amount will be seen in 2H 2018
2. Refinancing risk further reduced, as debt tenor has been extended 1 year

Let me comment now on **page no. 6**. Creag Riabhach: for sure a plant not easy to be pronounced but – in my opinion - important to be understood. It is the name of the location where a new wind farm of about 80MW will be built and operated by us in 2022.

We have entered into an agreement to acquire the company that owns all the rights and permits to build this wind farm, in one of the best location in Scotland as for the wind availability, with more than 3,000 equivalent hours per year.

This investment - amounting to some GBP90mn - represents ERG's way of growing in the Northeast Region of the UK, investing in high quality assets that allow us to exploit at best our industrial and financial capabilities, so as to beat the fiercest competition too.

But now what counts more at present is that through this investment we almost doubled our secured pipeline in the country, moving up from 84MW to 163MW of secured pipeline.

I guess that now it is time for a general update on how the Business Plan presented in March is proceeding, although just five months have gone by. I would like then to draw your attention again on the three pillars of ERG growth: Organic Abroad, Repowering and Reblading in Italy, and last M&A.

Let us start by commenting **page no. 7**. Here on the left-hand side there are the information we shared in March, while on the right-hand side there is the update at today, which clearly shows the significant execution we carried on over the last few months.

As you see, from March we have increased our secured pipeline by 112MW (+ 83%), thus achieving a 70% coverage of the capacity to be installed as per March Business Plan, out of which 53MW are currently under construction in France and Germany, and expected to be on stream by year end or early next year.

Further details on that: in France we have added 33MW, out of which 8MW already in exercise, 18MW in construction and 7MW already secured, mainly thanks to the acquisition of Epuron. In the UK we have added 79MW represented by Creag Riabhach, while in Germany the Linda project is now ready to be built after winning - first time ever for ERG - the right to install the new capacity in the auction held in May last.

I simply conclude my comment to this chart by saying so far so good, and I hope you agree.

Moving now on to **page no. 8**, here you find on the left the Repowering, and on the right the Reblading: in a nutshell I would say we are on track.

Regarding the Repowering, for 135MW out of 153MW (thus almost 90% of the initial cluster) we have applied to the Ministry of Environment for the VIA - the Environmental

Impact valuation - that represents the first authorisation step, while for the remaining wind farms we expect to do the same by year end.

At present there are no major issues to be brought to your attention.

As for the Reblading, we are meeting the timeline for both the engineering analysis and the permitting applications, while on 25th and on 26th July we mounted the first two sets of new blades in the wind farm of Avigliano, in Basilicata. Being this the first blade upgrade we have ever made, we also made the decision to test them for the coming three months before mounting the remaining WTGs. That also in light of a further upgrade that we are envisaging for the project, which consists in a new controlling system that would improve both the efficiency and the safety of the wind tower in the new set up.

So, everything goes on in due course or – let me tell you – even faster than expected.

The next two pages are dedicated to our expansion through M&A transactions.

I am now commenting **page no. 9** now, but let me make a premise which could help you to better understand the partnership I am going to tell you and that we have announced this morning.

Behind the M&A targets of our Business Plan (100MW in Wind and 60MW in Solar) there was the strategic objective to acquire greenfield pipeline and a development team in France with a proved track-record and know-how. To do that we thought we would have incurred in the acquisition of a large installed operating capacity. The acquisition of Epuron in May, on the contrary, with a sizeable pipeline and a strong development team allowed us to reach our strategic goals in advance and in one shot, and in particular with a limited absorption of capital devoted to operating assets.

Given that, we decided to focus our M&A efforts on Solar in Italy in order to increase the weight of this technology in our Portfolio, by investing the same amount of capex envisaged in the Business Plan for M&A (about €350mn), but at higher returns.

This could explain the rationale of the partnership with Quercus through which we see the opportunity to progressively enlarge our footprint in the Solar industry, exploiting at best our industrial and financial know-how, as we will see in a while.

In very few words the partnership, through a dedicated NewCo (60% ERG – 40% Quercus), under control and fully consolidated by us, aims at acquiring small size photovoltaic plants up to 150MW, and up to €350mn Capex.

The NewCo – I am on **page no. 10** - will rely upon a quite straightforward business model, where M&A origination is carried out by Quercus based on given investment guidelines, both in terms of financial and technical features. The Board of Directors - whose Chairman and CFO will be appointed by ERG - is in charge of approving the proposed investments.

The NewCo will target low double digit return on equity by exploiting industrial and financial synergies from consolidating smaller plants, whose installed capacity would be lower than 1MW, that represent the most relevant segment of the photovoltaic Italian market, as you see on page no. 10. Moreover, this sector is less liquid and would offer competitive returns versus larger scale M&A.

In the end, the partnership could be terminated by each of the shareholders if it does not achieve pre-agreed targets within a given timeframe.

So, I guess we have given you a more precise picture of what we intend to do in M&A which is at the service of our goals.

And now as usual I will hand you over to Paolo.

Paolo Merli:

Thanks Luca, good afternoon everybody. Let us start by commenting on the price scenario over the second quarter: I am on **page no. 12**.

Power Demand in Italy was almost flat YoY. The quarter was characterized by much higher water availability, slightly lower solar irradiation, flat wind and strong decline in thermal production. Overall hydroelectric production in the country was up 54% while our production rose by 99%, an outstanding outperformance which is related to the specific location of our Plants, coupled with their flexibility. As far as Wind is concerned, production in the country was flat YoY in the quarter, and our performance was pretty much in line. Solar production in Italy was down by 6%: our operations were no exception to that trend, though at a bit lower level, at least compared with our budget. Thermal generation as well in the country was down 16% - quite a significant number – while our operations in the gas were down -8% YoY for our CCGT, so the same trend but much less. Outside Italy, wind conditions were good in France but very very weak in Germany and in Eastern Europe, with the exception of Bulgaria.

As far as prices, the Average National Price in Italy was 53€/MWh, +19% year-on-year (so quite an important rise), as prices are starting to reflect the rising gas prices and CO2 costs. Price indicator for Renewables in Italy (including feed-in-premium) was 152€/MWh, practically flat YoY, as the decline in the incentive price (from €107 to €99) was offset by a similar rise in the electricity prices. Price in Sicily – a very important region for us - still traded at premium vs. PUN by 8€/MWh, although lower compared with what we have seen in 2Q 2017, when it was 12 €/MWh.

Clean Spark Spread for thermal generation in Italy dropped significantly in the quarter from 13 to 2€/MWh (as you can see in the graph of the chart), squeezed by a time-lag in absorbing both rising gas prices and CO2 costs. In particular, I make you notice that the cost of CO2 was 14€/ton, almost three times more than in 2Q 2017. This trend - coupled with the reduced price premium in Sicily and the reduced revenues from White Certificates - significantly impacted the profitability of our CCGT plant in the period, as we will see in a moment.

Let us see now the operations outside Italy. As far as the scenario is concerned, you can see here the average reference selling prices for our productions, country by country. Exposure to merchant scenarios in France, Germany and Bulgaria is nil as our assets are all eligible for feed-in tariffs. The only exceptions are Poland and Romania, where a Green Certificate mechanism is in place. In Poland OC (origin Certificates) were up consistently YoY, due to some favourable regulatory interventions which took place last year. In Romania since 2018 our assets benefit from 1 single Green Certificate instead of 2, explaining most of the trend.

Let us see at **page no. 13** the Economics for the Group, in a nutshell. Here – and it is the only chart – I will focus on the semester in order to give you more quickly a view of how each business is going.

EBITDA was €277mn - up 7% YoY – thanks mainly to three effects, just to summarize: the higher hydro and wind production, the contribution of new assets (solar in Italy and wind assets in France) and a positive merchant prices for electricity benefiting in particular our hydro and wind operations in Italy.

These positives outweighed all the negatives, most of them already expected:

1. the lower price value of incentives in Italy. As you know, this price is related to the merchant price of the previous year, so it was known. Anyhow, it has been 99€/MWh against 107€/MWh in 2017. Then
2. the phase-out of some MW of our wind capacity in Italy, exiting from the incentives scheme; this, for instance, accounted for -€13mn YoY
3. let us also remember that in 2Q 2017 the hydro segment benefited from €8mn one-off item associated with the recovery of past Green Certificates.

Then, as Luca already mentioned we had also some elements which were not expected – or at least they were not expected to this extent – which are:

1. the higher unbalance costs in Wind in Italy, following the change in regulations by GSE, effective since September 2017 but not expected with this huge impact; then
2. lower revenues deriving from White Certificates.

So, these two items on a year-on-year basis accounted for more or less €25mn in the semester: €15mn associated with unbalance costs (as I will comment later more in depth) and €10mn as a difference year-on-year associated with White Certificates.

So, these negative items together accounted for – just to give you an idea – more than €50mn, most part of which was already expected in our budget, but anyhow a material part of it was not, and I am referring in particular to White Certificates and unbalance costs. Nevertheless, they were more than offset by the positive effects I have already commented.

So that is why we are so satisfied with our results, which are stronger than last year and better than our budget, despite the negatives I have touched before.

As usual now on **page no. 14** a quick comment on ERG's generation portfolio, managed by our centralized Energy Management. It is a fairly sizeable portfolio, and it is getting bigger and bigger.

During the First Half, ERG managed roughly 7.1TWh of energy, of which 4.0TWh generated by our portfolio of assets. The remainder was purchased on the Market in order to adjust our supply profiles, optimize the portfolio and perform hedging strategies, in line with our risk management policies.

As far as sales: 0.2TWh was the electricity sold to site customers (so a small amount, but quite important in terms of profitability), 0.8TWh was sold abroad and the remainder was sold on the Wholesale Market, and namely in the Day Ahead Market and in all the ancillary services markets.

Let us now comment on each business segment, focusing on 2Q and starting with Wind. I am on **page no. 15**. EBITDA in 2Q 2018 was €52mn, down quite significantly (21% YoY) as a result of lower production abroad and slightly down in Italy as shown in the chart, coupled with the phase-out of incentives and higher unbalance costs.

Now let me be more precise to explain the economic performance. In more detail, the economic performance could be explained by:

1. higher unbalance costs for about €10mn YoY. They were positive for about €7mn in 2Q 2017, while they turned negative for about €3mn in 2Q 2018 following the changes in regulatory rules (effective since September 2017), which weakened our capability of predicting the zonal unbalance. Then
2. the lower contribution from incentives by €9mn YoY, of which €5mn in the quarter related to the phase-out of further 145MW from the incentivized scheme since July 1, 2017 to the end of 2017.

A quick focus on Production overall down 5% YoY, which means -35GWh:

- almost in line YoY in Italy, with a load factor of 18%
- down 10% outside Italy, as a mix of some positive such as in France (where we registered +8GWh production, given a larger perimeter) and some important negative such as in Germany, where we registered -28% in our production, entirely due to very poor wind conditions, so nothing to do with the technical availability of our plants. Production in Eastern Europe was weaker also in Poland and Romania, while better in Bulgaria. But the rise in Bulgaria is underweighted if compared to the other two geographies. Load factor abroad on average was 19% vs. 21% in the same period of last year.
- As already anticipated, availability of our wind plants was at about 98% on average, which is a good performance from a purely technical and industrial point of view.

But let us move on, commenting on Solar - I am on **page no. 16** - consolidated since the beginning of this year. Production in 2Q 2018 was 43GWh, with a load factor of 22%. Production in 1H 2018 was 64GWh with a load factor of 16%, so much lower in the semester compared to the quarter, reflecting the traditional seasonality, being 2Q and even more 3Q – at last we hope - the strongest quarters of the year.

Unitary revenues were about 291€/MWh due to the incentivized scheme our assets are entitled to, known as “Conto Energia”.

The EBITDA in the end was €11mn for the quarter and €16mn for the semester, in line with our expectations and our budget.

Now Hydro. I am on **page no. 17**. Here probably the strongest performance across our segment. The EBITDA was €45mn, more than doubled YoY driven by higher production (up more than 2x times compared with last year) thanks to particularly favorable rain conditions, which were better than last year but also well above the historical average.

Unitary revenue was 104€/MWh (vs. 110€/MWh last year) which mainly reflects the lower unitary price of incentives.

Finally I should add, as a relevant information, that our water reservoirs at the end of June were still pretty full following the heavy rain and snowfall during the winter and over the period, which is an encouraging sign for the rest of the year to come.

Now CCGT results. I am on **page no.18**. The EBITDA was €11mn, -56% YoY. So, quite a disappointing performance that has nothing to do with our capabilities of managing the assets, but to the backdrop in which our plant is operating. Let me explain in more details.

This poor performance can be mainly explained by two factors:

- -€7mn YoY related to much lower clean spark spread for our CCGT, down from 13 to 2€/MWh, following the sharp rise of natural gas prices and CO2 costs, not yet translated into selling prices – but we think this is going to be only a temporary effect – also coupled with lower zonal premium in Sicily.
- -€10mn YoY related to lower values of White Certificates. This amount basically reflects the write-down of value for certificates in 2018 following the recent intervention of GSE, which basically – let me cut the story short - capped the price at 250€/certificate (whilst in the 1Q 2018 the price was well above 300€/certificate). So we adjusted the prices of White Certificates in the 2Q (-€4mn) but this has to be compared with the write-up (+€6mn) we performed in 2Q 2017, in a time of rising prices for Certificates.

These two effects were only partially compensated by lower fix costs (roughly +€3mn), which anyway is a further evidence of our focus on efficiency.

So, in the end, if I may add a comment, I think it is important to notice the resilience of the portfolio: one year (2017) is good for the CCGT and bad for water, the other one is good for hydro and less good for CCGT. So, at the end the important is the net results.

And now investments. I am on **page no. 19**. Let us comment on the First Half, which I believe is more representative of what the Group is doing.

Investments in the period were at €447mn (quite an impressive number), which includes €425mn for M&A investments, made up as follows:

- €345mn relative to the ForVEI acquisition (with closing at early January);
- €80mn in the wind business relative to the recent acquisition of Vent d'Est (€12mn) and Epuron (€67mn), as well as a small project in France. All these acquisitions were in France, where we are expanding quite rapidly with more than 300MW of installed capacity expected by year-end, when the assets today under construction (53MW) will be on stream.
- The remaining CAPEX mainly referred to Wind and namely to construction of Vallée de l'Aa 2 project in France (13MW) and to the start of construction phase for the Linda wind farm in Germany (22MW), whose construction started straight after we succeeded in winning the auction in May 2018.

So in the end a simple comment: a significant amount of investments devoted to our growth, which means a significant execution towards the targets of our Business Plan.

I will now comment on P&L on a recurring basis. I am on **page no. 21**. I have already commented on adjusted Ebitda. So, going down: higher depreciation mainly reflects the consolidation of Solar as of January 1, 2018 and the larger scope in French. Net Financial expenses were up YoY from €18mn to €20mn in the quarter, to reflect the higher Project Financing and leasing facilities acquired through the acquisition of Solar, and a lower yield on cash management, consistent with the trend of interests in the international markets. Looking at the cost of gross debt, it was slightly better YoY at 3.2% against 3.3%, thanks to actions taken on Liability Management performed in 2017. We expect greater benefits as of 2H 2018, following the actions taken recently and already well described by my CEO.

Net income from equity investments is zero, as those figures are adjusted for TotalERG as well as they do not include the capital gain on the sale of Brockaghboy in the first half of this year.

Tax rate in the quarter was 28%, essentially in line YoY. Minorities still include 25% of Vent d'Est, which will disappear as of the second half of the year, as we just acquired 25% of minorities of Vent d'Est from Renvico.

As a result of all this, adjusted Net Profit was €19mn in 2Q 2018 vs €18mn in 2Q 2017, +6% YoY. What is more important: €76mn in the first semester.

Let us move now to Cash Flow Statements. I am on **page no. 22**. Net operating cash generation in 1H 2018 - before M&A, Dividends and Disposals - was €77mn and reflects a positive €277mn of cash Ebitda (already commented), partly absorbed by €21mn of ordinary CAPEX (again already discussed), €143mn change in Net Working Capital, mainly related to the seasonality in the cash-in of incentives and the payment of a debt to the National Iranian Oil Company associated to a past item in relation to the Embargo. On top of that we had also some important cash-ins and outs associated with M&A over the period, in particular the sale of TotalERG and Brockaghboy in the UK on one hand, and the acquisition of Solar plants, of Epuron, Vent d'Est and Vallée de l'Aa 2 extension on the other hand.

In addition to that, in the semester we paid dividends to our shareholders amounting to €171mn.

As a consequence of all the above-mentioned effects, net debt rose from €1,233mn to €1,466mn, with a leverage up to 45% from 40%.

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. As for guidance, from this meeting on we will give you our projections for EBITDA and CAPEX by indicating a range of values, while we keep forecasting just the Net Financial Position by identifying one figure.

The reasons of this change - that gets us more comparable with most of our peers - have also to do with the intrinsic volatility of the business, in particular taking into consideration the change of our business model, introduced with the Business Plan 2018-2022. The new model is based mainly upon organic growth, achievable through greenfield projects and co-development agreements, upon the construction works related to Repowering and Reblading, while M&A is focusing on partnerships. As a result, in our opinion, a guidance based upon some sets of values better captures the ongoing activities of the Group under the new Business Model.

Switch now to the new figures: as for EBITDA, we forecast a value in the range between €490-500mn, while the last guidance was €475mn.

As regards CAPEX, the range for year-end is €520-540mn, vs. the last guidance of €500mn.

Finally, Net Indebtedness at year-end is expected at about €1.35bn, to be compared with the last guidance of €1.3bn.

As you see, we have updated upwards all the projections for year-end (it is the first time – I guess – in the last 7 years); further in details:

EBITDA: we see the year-end result higher. The lower gross operating margin in Wind in Italy was adversely affected by the new regulation of the unbalance costs along with the phase-out of some 72MW from the incentivised schemes. And at the same time the weaker result we see for the Thermal plant was mainly due to the negative impact from the lower White Certificates prices. These two effects will be more than offset by a much higher result from Hydro (thanks to the high availability of water), the contribution from the new solar plant, and the higher result in Wind abroad, stemming from a larger perimeter in France and from an overall better energy price scenario. All that was underpinned by a better energy price scenario also in Italy going forward.

As far as CAPEX, the increase vs the last guidance is due to the acquisition of a company in Scotland (that brings us the opportunity to build some 79MW), and to the investment that we expect could come from the newly created partnership in the Solar sector with Quercus.

With regard to the Net Financial Position, the increase is simply the result of the mentioned changes in EBITDA and CAPEX, along with the dynamic of the Net Working Capital associated with those changes.

Now, as usual, 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 with Equita. Please go ahead.

Roberto Letizia:

Yes, good evening. I have several questions; I start with three very rapid questions, and maybe there will be some follow-up questions afterwards. On the unbalance costs, which have been increased due to the change in regulation, I was wondering which kind of level you expect from now onwards on a full year base as potential negative impacts. And what kind of measures are you eventually taking to reduce those cost as much as possible going forward? A check on the year end guidance, just roughly I want to be sure if the debt guidance fully includes all the M&A that you announced so far, and if eventually it includes any type of disposals that you will potentially do in the coming months. My third question relates to the evolution of the installed capacity in 2018 and 2019: can you please summarize briefly what is and where is the MW addition going to come in these two years? Thanks a lot.

Luca Bettonte:

Okay. Let us start with the first question. Yes, talking about the full year, we expect to have an impact from the unbalance costs of some €16mn, out of which €13mn already in the first half.

Mitigants have to do with the rules side, what you can do is to improve the way in which you predict the difference between production and what you are going to deliver, which could rely upon a better system to measure the production for the wind farms, that is a point. But in my opinion it is even more important to underline that the Regulator should change the approach, you know, and he is going to do that in the coming year, maybe - we hope - in the coming months, because also abroad there is a difference in there, on how this problem is dealt with, I mean: the closer the timing between when you declare your production and when you deliver it, the lower is the probability that you give a wrong number, and so you incur in unbalance cost. So, we are waiting for the pay as bid markets-like that should be introduced, because most of the European countries have it. And it is something that should be introduced in order to comply with the progressive inclusion of the renewable energy sources, as a means to generate power without creating any disruption to the grid, that is the point. So, we are waiting for that, we are trying to be much more precise in forecasting our production.

Roberto Letizia:

So, no battery investment so far?

Luca Bettonte:

No, big batteries are far away from being produced and installed due to the costs they have, also going forward. Technology transforms the world with the sudden steps, so maybe there could be an acceleration. So far in my opinion, as I am speaking it is very difficult to predict that. So, staying with what most relevant analysts are saying, anyhow I am not forecasting any relevant impact of this potential new technology over the Business Plan period. That is it.

As for the net financial position, yes, it includes what we expect the investments might be. So, as you see, we have given a couple of ranges about CAPEX and EBITDA, while a fixed number for the net financial position. Let me suggest you that the net financial position is stemming from cash flow that is using as EBITDA and CAPEX the middle point between the range, just to make it easier for you to understand. But anyhow, we are not forecasting any disposal, and at the same time we are including all the CAPEX, also the potential one stemming from the new partnership with Quercus.

As for the business development abroad, we are on track with our Business Plan, because we are now building some 90MW: 22MW in Germany, Evishagaran is 35MW

and the rest is in France. In France we are building 30MW: 18MW is the wind farm of Torfou (that we acquired through Epuron) and 13MW is Vallée de l'Aa, and they should be up and running by year-end. While in 2019, the 22MW of the so-called Linda project in Germany. And then in 2020, Evishagaran in Northern Ireland. This is what we are building at present.

Paolo Merli:

On top of which you should add the delivery we are expecting from the partnership we announced today, which having a target of 150MW, we are expecting to deliver on our progress way from now to the end of 2020-2021. So anyway, as of today we have 53MW under construction, which should be fully on stream late this year, or very early next year.

Operator:

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

Sara Piccinini:

Hi, good afternoon and thanks for taking my questions. I also have some of them. The first one is on the guidance: are there any one-offs that we should consider in this €20mn increase, and also can you give more colors on the drivers of the growth? So, it is basically mainly coming from better hydro conditions and also price scenario: can you give us your assumption, where do you expect the PUN price to be in the second half of 2018? Then another question is on the unbalance costs: if I understood correctly, these are €16mn for the full year. Are these to be considered as one-offs for this year, or are these €16mn on a recurrent basis in the following year, just to understand it correctly? And another question is on where you expect the contribution of the White Certificates for the full year. If I am not wrong, you were assuming about €30mn of the EBITDA for the full year: so, what do you expect now with this change in price? And the final question is on this partnership that you announced with Quercus: when you mentioned €350mn of investments, should we consider this as EV or equity for the investment? And also, where do you see the return of the project, so the IRR of the project: more in the single-digit area or still double-digit? Thank you.

Luca Bettonte:

Okay, right. As far as the guidance there is no one-offs: we have simply analyzed the scenario and production as usual, and that is our best estimate for the coming next months and for year-end, there is no one-off item included in this projection. As for the reason why: simply because we have a larger perimeter (16MW Solar and then the 90MW in wind abroad), simply as a result of what we just told you in terms of what we are building, and what we are already running there, in particular in France.

As for the scenario, scenario should be positive-oriented going forward. Let me say that just for the budget, the remaining portion of the year we are using the forward curve for you to see. Let me simply say that the calendar for 2018 is giving back some 6€/MWh, which means in the third quarter €65 and in the fourth quarter €68. So, we are not taking any specific position in terms of scenario, but simply using what the market is giving us back.

As for the unbalance costs, yes, the impact on year-on-year should be minus 4€/MWh.

Paolo Merli:

Particularly, we had 4€/MWh in first semester and we would not expect any difference actually in the second half. We are going to expect much lower reduction going forward. And we expect the market to adapt the technology to the way the producer can bid on the market in order to fill the gap between the expectation and the real introduction in the network. So, this cost should be expected to reduce in the following years, but not this year, which represents a discontinuity compared to the previous year.

And with reference to White Certificates, it is a very, very simple straightforward calculation today, based on the regulation: the price is basically capped at 250€/ton. So, we are producing roughly 100,000-110,000 White Certificates per year, that means €25-26mn of revenues coming from this stream.

Luca Bettonte:

As for the partnership with Quercus, yes, with speaking about €350mn we are talking about enterprise value. And as for the return, I would think we are talking about a low double-digit equity return. While in terms of project IRR, it depends on the leverage and many other items... but we say something like a high single-digit return, this is the final outcome.

Sara Piccinini:

Very clear. Thanks a lot.

Operator:

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

Luca Bettonte:

Good. So, it is time for holiday. Thanks everybody for being with us, and have a nice summer break. Goodbye.

Paolo Merli:

Thanks from me as well.