

ERG S.p.A.
“2018 Annual Results”
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MODERATORS:
LUCA BETTONTE, GROUP CEO
PAOLO MERLI, GROUP CFO

Operator:

Good morning. This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 2018 Annual Results Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Luca Bettonte, CEO of ERG. Please go ahead, sir.

Luca Bettonte:

Good morning and thanks for coming to this Conference Call related to our 2018 annual results. As usual, here with me is the CFO, Paolo Merli.

I give you a quick overview of the main figures for the year, while Paolo will lead you through them more in depth, also for the fourth quarter.

As you see on **page no. 4**, also this year our Gross Operating Margin was higher than last year, while Net Profit was a bit lower. Overall, Gross Operating Margin growth was achieved thanks to the high complementarity of our generation portfolio, as the lower results in Wind and Thermal generation were more than offset by the extraordinary performance in Hydro, and by the contribution of the new Solar plant.

Going deeper, as for the negative effects in Wind in Italy the result - down from €241mn to €195mn - was mainly affected by the phase out of incentives for some €20mn (along with the lower incentive unit value), and by some €9mn costs due to unbalancing, whose contribution was on the contrary positive last year for about €7mn. Also, the production was lower than last year (and in particular in the last quarter); all this was partly offset by a better energy price scenario.

The Thermal generation was down by €25mn: €78mn in 2017 vs €53mn this year. The main reasons are:

- the lower unit price of the so-called White Certificates, due to the regulation came into force last year, that introduced a sort of cap at €250 per certificate. The negative impact of €13mn on 2018 accounts is anyhow represented by the lack of revaluation of the certificates generated in the previous year, as their unit value was already aligned with their selling price at the end of 2017, while in 2017 this revaluation was that of €13mn
- a quite unexpected weak Clean Spark Spread in Sicily down from 12€/MWh to 5€/MWh, as the strong increase of the unit prices of CO₂ (+171%) and of Natural Gas (+28%) were just partly included in the rise of the electricity price
- some extraordinary maintenance works on the Thermal plant during 2018, that reduced temporarily its availability, then implying both some costs and a lower contribution from the modulation: the impact all in all was of some €4mn.

Now, going to the positive items, in Hydro we posted a quite strong and higher result vs last year, up €53mn: from €94mn in 2017 to €146mn this year. Simply to say: that was due to a quite rainy season and to an appropriate use of our natural storages, everything underpinned by a better energy price trend.

The EBITDA of €32mn in Solar represents the relevant contribution from our last technological diversification. And finally do not forget also the positive contribution from Wind abroad of some €3mn, thanks to a larger perimeter. That is all for the EBITDA.

Moving now on to the Net Profit, it is lower of some €10m, as the better operating performance just commented was offset mainly by:

- higher depreciation from Solar of €23mn, quite easy to be understood
- higher financial charges, from a larger average net financial position and a lower income from available liquidity, partly offset by a lower average cost of debt thanks to the liability management done in 2018, and
- a higher tax rate due to the reduction of some deferred tax liabilities in France from a change in the Corporate Income Tax rate in 2017, not occurred in 2018.

Looking at the Net Financial Position, it grew by €110mn: from €1.23bn in 2017 to €1.34bn in 2018. The Capex spending of some €510mn and the dividend distribution of some €171mn were financed by the cash-in of some €285mn from the disposal of TotalERG (done in 2018) along with almost €360mn of operating cash flow.

This is in a nutshell what happened during last year; in a while Paolo will lead you through it in more details.

Now it is time to make a comparison between Actual results and the last Guidance we gave you, just a quick comment as per **page no. 5**. EBITDA at €491mn is in the range indicated in June, though in the low-end side. The projections were met in all the business lines but for Hydro (as the fourth quarter was particularly dry, with the central-north zone electricity prices well below expectations) and partly for Wind, due to very weak wind conditions.

Capex at €510mn are just €10mn below the lowest value of the range. The difference is mainly due to the delay of the Capex we expected from the partnership with Quercus that - as we have already achieved in February 2019 our targets in the Solar in Italy - has now been put on hold.

Net Financial Position at €1.34bn is pretty in line with June forecast.

Let me conclude that we substantially met the targets provided for in June revised guidance (while we overcome the forecast that we gave at the beginning of the year), and finally that the dividend per share will be of €0.75 as envisaged in our business plan, leading to a 4.6% dividend yield if calculated on the share price at the end of 2018.

And now Paolo it is up to you.

Paolo Merli:

Thanks Luca, good morning everybody.

Let me make a general premise before going through the usual charts. The premise is the following: the fourth quarter was not actually a good one. It was not good for wind availability, both in Italy and abroad. It was not good for Thermal generation margins, with spark spreads at their lowest since a while. And, despite the year-on-year increase, it was not good for Hydro either, with very little rainfalls during the period. I think that this premise can help you understand why the actual EBITDA ended in the bottom-end of the guidance range, and why we are so satisfied for this set of results, which met anyway the guidance range, despite everything played against during the quarter.

So, let us get started by commenting on the price scenario over the fourth quarter in more details.

I am on **page no.7**. I am going to comment the table at the top-left of the chart, then moving anti-clockwise.

- Power Demand in Italy was almost flat YoY. The quarter was characterized by higher water availability coupled with the declining contribution of Wind, Solar and Thermal generation. Looking at our assets: hydro production in the quarter rose significantly YoY (+30% in the quarter), but I like to remind you that the fourth quarter 2017 was very poor, so it is a very easy comparison. Talking about Italy and over the border, wind conditions and availability were pretty weak: -12% and -11% on average, respectively in Italy and abroad for our wind production. Our Thermal generation was down -17% also due to some maintenance work in the period.
- Prices. Still a very solid environment, with National Average Price in Italy at 69€/MWh (as shown in the graph), +11% year-on-year, partly reflecting the rising gas and CO₂ cost. Price indicator for Renewables in Italy, including Feed-in-premium, was 168€/MWh, nearly flat YoY. Price in Sicily still traded at a premium vs. PUN by nearly 4€/MWh, although slightly lower than in 4Q 2017, when it was about 5€/MWh.
- Our CCGT's Clean Spark spread was severely squeezed from €12/MWh to practically 0€/MWh by rising gas and CO₂ prices. Price for White Certificates – which anyway are an important stream and justifies most of the EBITDA in the quarter - remained in the range of 250-260€ per certificate.
- Abroad. In the graph at the bottom-right of the chart you can see the average reference selling prices for our productions, country by country. I think it is worth noting the significant upward trend in prices in East-Europe, in particular in Poland with Origin Certificate prices up consistently YoY. In Romania as well we enjoyed a significantly better merchant price, which more than offset the phase-out of one of the two Green Certificates since January 1, 2018. So it seems that those countries started rewarding more the renewables.

Let me now comment the Economics for the Group in a nutshell. I am on **page no. 8**. Here I will focus on the FY results, as I think they provide a broader picture of what happened during the Year.

EBITDA was €491mn - up 4% YoY – mainly thanks to three positive effects: a higher hydro production, the contribution of solar assets, and the positive price scenarios for electricity.

I told them in order of magnitude, from hydro to scenario, going through the perimeter represented by the new solar assets.

These three positives outweighed all the negatives, which are quite a large number in the list:

- lower wind productions both in Italy and abroad
- the lower price value of incentives in Italy, which is affecting both the wind and the hydro revenues
- the phase-out of some MWs of installed capacity in Italy from incentives scheme
- the higher unbalance costs in Wind in Italy, due to the change in regulations
- the lower clean spark spread – already commented - at our CCGT plant in Sicily
- the lower revenues deriving from White Certificates, and I remind you
- one-off item related to the recovery of past incentives in Hydro in 2017.

I repeat once again: we are satisfied with these results, stronger than last year and in line with our most recent guidance range, despite poorer conditions in the fourth quarter.

As usual, a quick comment on ERG's generation portfolio, which is more and more a fairly sizeable portfolio. I am on **page no. 9**.

During the year ERG managed roughly 13.6TWh of energy, of which 7.5TWh came from 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: 0.5TWh was the electricity sold to site customers in Priolo, 1.5TWh was sold abroad, while the remainder – consistently with our business model - was sold on the Wholesale Market.

Let me now comment on each business segment. I am on **page no. 10**, starting with Wind, and I will focus on 4Q 2018 results.

EBITDA in 4Q was €75mn, down 16% YoY as a result mainly of lower production in Italy plus some other effects that I am going to comment in a second. But let me repeat: the lack of wind was surely the main effect, with productions down by 12% in Italy and 11% abroad; in absolute terms – which maybe can help you understand better - we fell short

by about 126GWh YoY during the quarter, which is a quite sizable amount: transformed in euros, it would amount to roughly €13mn, then justifying all the gap of EBITDA on a YoY basis.

As I was saying, there are several other effects which, on balance, compensate each other, and which I can summarise like this: on the negative side we had the phase-out of incentives (-€3mn) and the exit from the scope of consolidation of Brockaghboy wind farm in Northern Ireland, which was sold at the beginning of the year (other €3mn). These two effects were more or less compensated by the price scenario abroad, while in Italy the price effect was basically neutral, as the higher merchant and the lower incentive prices offset each other. Also, the imbalance costs were more or less flat in the quarter, as the change in regulation has been in effect since September 2017, then making this quarter a like for like comparison.

Moving now onto Solar (I am on **page no. 11**), production in 4Q 2018 was 20GWh with a load factor of 10%, reflecting the traditional seasonality, with fourth and first quarters being the weakest of the year. Unitary revenues of almost €300/MWh due to the incentive scheme, known as “Conto Energia”, and the contribution in terms of EBITDA was €4mn in the quarter and €32mn in the FY.

Again, with respect to 2017, this being the asset consolidated as of January 1, 2018.

I remind you that as of 2019 our solar assets increased to 141MW thanks to the recent acquisition of Andromeda: so, no effects on 2018 Profit & Loss.

Let us move on, with Hydro. I am on **page no. 12**. EBITDA was €28mn, +40% YoY driven by the higher production: up 30% YoY. Unitary revenue was 114€/MWh, slightly less than 122€/MWh recorded in 4Q 2017, which mainly reflects the lower unitary price of incentives.

Although this may seem like a good profitability performance, on a YoY basis at least, let me point out again that it is basically driven by a very easy comparison, as 4Q 2017 was very weak.

So the thing is that, notwithstanding this positive YoY performance, 4Q 2018 was actually characterized by little rainfall, and it turned out to be significantly weaker than both our budget and what we reasonably expected at the time we gave our last guidance.

In the end, we could summarize 2018 like this: heavy rain over the First Half of the year (which filled our reservoirs at the end of June), and very little rain in the Second Half, as we entered in a drier season which lasted until the end of the year. While 3Q benefited from the usage of water in our lakes and dams, this effect could not be repeated in 4Q, as water levels at our reservoirs were back to normal at the end of September.

So we could say 2018 was a very good year on average, with a poor Fourth Quarter.

Let us now move to CCGT results (I am on **page no. 13**). Here again the performance in the fourth quarter was not good. EBITDA in 4Q 2018 was €5mn, -69% YoY. This fairly poor performance is mainly explained by two factors:

1. lower clean spark spread – I have already commented - squeezed by the rise of natural gas and CO₂ costs; and also the
2. lower contribution from White Certificates and Dispatching Market Services.

The 21% drop in production was also due to some maintenance activities which took place at ERG Power in the quarter, but let me say that even if the plant had been available it would have remained off-stream because of the poor price scenario.

I hope I managed to explain how poor this quarter was in terms of price scenario, maybe one of the poorest ones since a long period of time. We think it was mostly due to a sort of time-lag, and it should be a one-off effect during this quarter...

Let me now comment investments. I am on **page no. 14**. I will comment on FY figures as they are more representative of what we are doing and what we have done during 2018. In 2018 we invested a significant amount of money (€510mn), but let me break it down like this:

- €345mn related to the acquisition of ForVEI's 89MW Solar plants; while
- €140mn invested in Wind development, out of which about €67mn to acquire EPURON from Impax Asset Management, a business combination which includes - on top of two operating wind farms, for a total of 26MW - a very significant pipeline of 750MW at different stages of development. Another way to look at this figure is that we invested €140mn, out of which €98mn in France, €16mn in Germany related to the construction of Linda Wind Farm (22MW, which should be soon completed), and €23mn in the UK, for the acquisition of a 79MW Ready-to-Build project in Scotland. Though it is a small amount, I think it is worth mentioning that we invested €3mn for the Feasibility and Engineering study for the Repowering projects in the lead up to the submission of the authorization requests, which were completed by year-end for all the projects, including some we identified as back-up projects. Luca will be more precise on our advancement in the repowering project later on.
- The remaining €25mn is – as usual - maintenance Capex, spread across all our technologies.

In the end: we made significant investments in growth, surely in line with our Business Plan, but also ahead of schedule.

I will now comment on Key Financials on **page no. 16**. I have already commented on adjusted Ebitda. So, going down, higher depreciation mainly reflects the consolidation of Solar as of January 1st and the new French assets, which were not part of our scope last year. Net Financial expenses were at €17mn, more or less in line with 4Q17. The higher M/LT debt following the consolidation of new assets was almost entirely neutralized by the positive effects of liability management performed in the First Half of 2018, as

communicated to the financial Community. As a matter of fact, when looking at the cost of gross debt, I think it is important to make you note that the cost in the quarter was at 3.0% against 3.2% in 4Q 2017. So, the underlying cost is reducing over time.

As far as taxes, tax rate in the quarter was 29% against 15% in 4Q 2017, so a big jump mainly reflecting a positive one-off recorded in 4Q 2017 and related to the change in corporate tax rate in France, which had a positive reversal effect associated to deferred taxes - as I said - in 4Q 2017. Finally, no Minorities, as we acquired 25% of minorities of Vent D'est, which was our only minorities.

As a result of all this, adjusted Net Profit in 4Q 2018 was €15mn vs €29mn in 4Q 2017: quite a significant drop, but I hope I have explained the reasons behind this number. Let me also add that Adjusted net profit for the FY 2018 does not include a €27mn capital gain on the sale of Brockaghboy wind farm, which was accounted in the 2018 reported figures only.

In other words, the higher EBITDA was more than absorbed bottom line by higher depreciation, interests, charges and taxes.

Let us now take a look at the Cash Flow Statement, which is honestly the metric we care most about. I am on **page no. 17**. A big effect up and down, with a net financial position which remains more or less flat: up €110mn but compared with the big movement we had this is a small amount. Let me try to be more precise.

Net Financial Debt closed at €1,343mn, up by about €110mn YoY. This increase is mainly related to the huge amount of Investments (€510mn in the period, as already commented), a negative Net Working Capital trend (€114mn – I will say a couple of words on that, later on), financial charges (€70mn), taxes (€21mn) and dividend distribution (€171mn). If you add all these negatives you come out with roughly €900mn of cash-out.

A couple of words now about the Net Working capital: it includes two special items, or anyway non-recurring items: the first being a €42mn payment to NIOC (The Iranian National Oil Company) related to an old Oil Supply after the end of the embargo, and the second item is again a one-off for about €30mn related to the sale of TotalERG, and in particular its fiscal deconsolidation. The latter is purely a financial impact, as it takes longer to recover our VAT receivables.

These cash-outs – which, I repeat, amounted to about €900mn - were almost entirely offset by a positive EBITDA and the proceeds from disposals (TotalERG and Brockaghboy).

Bottom line, all these effects resulted in the net debt already commented, with a leverage for the Group of 42% against 40% in 2017. But if you divide the net debt by the EBITDA, I think the ratio is still very very solid.

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 the guidance for 2019, comparing it with what happened in 2018, so with 2018 actual figures. Let me start with the main assumptions that we have used to figure out the projections for this year:

- Power generation: as per historical normalised trend in Italy, then a bit higher in Wind and of course lower in Hydro
- Power generation in Wind abroad: even higher also for the new installed capacity, up and running for the whole year
- Power generation in Solar: higher thanks to the larger perimeter
- Declining unit value of green incentives and stable unit value of White Certificates
- Average power prices all across Europe higher, underpinned by CO₂ and Natural Gas increased costs. Anyhow in 2019 projections we have strongly taken into consideration the Forward Curve trend
- Average Clean Spark Spread of the Thermal plant slightly lower than last year, and
- Better energy management contribution from modulation and Dispatching Market Services for higher flexibility both of the Hydro plant (as a result of the forecast lower production), and of the Thermal plant restored efficiency after the planned shutdown in December 2018 for refurbishment purposes.

Having said that, EBITDA should then come in between €495mn and €515mn, where:

- Wind is slightly higher with a lower result in Italy and higher abroad
- Hydro is lower due to the historical projected production versus the extraordinary one in 2018
- Solar is higher due to the larger perimeter
- Thermal is slightly better

Capex is foreseen in the range €340-370mn. Investments reflect the deployment of the Business Plan as for the different lines of growth. Please notice that about €220mn are for the acquisition of the new solar plant in Italy done in February, and some €30mn are maintenance Capex for all the technologies.

And in the end, Net Financial Position is seen between €1.36bn and €1.44bn.

This is all about the guidance for this year.

Now, before taking your questions, let me go through some charts, so as to give you an update of the business plan deployment.

I start with **page no. 21**: I deem this is a self-explaining chart, and I simply read it with you if I may, because it is very important, and we are very proud of it.

On the Business Achievements side:

- full exit from oil thorough the sale of TotalERG: this is going to be the last time I mention it but anyhow it happened at the beginning of 2018
- enhanced technological diversification in 2 steps: now we have on board 141MW of high quality solar plants
- expansion in France. 55MW installed and 750MW of pipeline acquired
- auction won in Germany: almost 22MW in construction
- pursue growth in UK: new authorisation for 49MW and new project for almost 80MW
- Fitch assigned a BBB-Investment grade rating, and as a result
- we launched a Euro medium term notes program up to €1bn

Moving to the right of the chart, about ESG achievements:

- now we are included in the ECPI Global Clean Energy Index
- we achieved rating B from CDP
- we ranked 16th in the Corporate Knights Global 100 Index – worldwide, guys, 16th worldwide, by far the first Italian company and the third worldwide in our industry, not only renewables but power industry
- we obtained ESG rating from Vigeo, IGI, Ethibel and Oekom, and
- we signed 2 ESG Loans for €240mn

2018 was also our 80th birthday, so at the end we are very proud of all these things.

Moving now to next **page no. 22**, This chart summarises what we are today, and I dare to say even more than simply execution: we grew abroad in Wind with 55MW of new installed capacity in France, by exploiting the pipeline acquired at the beginning of 2018, while it is worth underlining the acceleration in Solar in Italy, through two acquisitions that will bring us more than €60mn of stable and predictable annual EBITDA in the long term.

On the next **page no. 23**, you see our pipeline of 350MW under development over the business plan horizon. In just less than one year we have almost doubled the Secured portion from 135MW to 247MW. In details:

- we have increased our operating dimension in France by about 42MW
- we are building a new 22MW wind factory in Germany, one of the largest being built nowadays in that country
- we doubled our secured pipeline in UK, by adding a further 79MW in the far North of Scotland

And now, moving forward, Repowering and Reblading (I am at **page no. 24**): you see here the other cluster of growth.

Starting from Repowering, in this year we applied for authorization for all the 6 projects included in our Business Plan 2018-2022: 153MW becoming 400MW after Repowering. In addition to that, we applied for authorization for other 3 projects: 31MW becoming 60MW.

As we highlighted in our Business Plan presentation, Repowering is a flexible instrument, and we are working on all the projects eligible for Repowering, as you can see in the chart.

As for Reblading, in this year we finalised tests on the new WTGs to install in the Reblading projects, and we are now working to the first reblading at Avigliano: 13MW, which will be in operation in 2Q19. In the meantime, we made some changes to the projects to be rebladed: now the MW to be rebladed are 75MW. Here it is important to highlight that – based on the latest results from field tests - average production would increase after Reblading from the previously expected 16% to 20%.

And now let us drive into 2023, as you see at **page no. 25**: you know that we update our business plan yearly without adding new projections, as we prefer to keep you update on its execution, and to make a profound change in due course just if necessary or appropriate, as we did in March 2018.

Hence for 2023 we highlight some qualitative comments on the most relevant items that would underpin our growth in the long term, classifying them in pros and cons.

As for pros:

- exploiting full potential of Repowering: focus on all the 500MW eligible in Italy
- boosting growth abroad leveraging on more than 700MW of pipeline in France and of the co-development agreements under negotiation in UK and Germany
- we are still working, and work is in progress for a new cogeneration project for our thermal plant eligible for white certificates for 5 - -or 10, better - years again
- keeping a sound and diversified financial structure aiming to confirm our Investment Grade rating in the long term

while we see one main cons: phase out of incentives will progressively continue beyond Business Plan horizon.

Something that you know, and we know: assuming we achieve our goals as per our Business Plan, let me tell that there would not be a cons any more. So, going forward: Keep growing leveraging on assets rejuvenation, larger capacity abroad and high quality financial structure.

In the end I leave with you this last chart (please see **page no. 26**), where we have put together all the relevant figures going forward, to give you an updated full picture for the years to come.

Having said that, thanks a lot for listening and – after this very long speech – we are ready now to take your very few 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 thanks for taking my questions. I try to be very short. So, I have some questions, starting from Repowering and Reblading. Can you give us an indication on repowering? When do you expect the authorizations to come and when should the plants stop for the repowering operations? Can you give an indication on the Reblading that should contribute from the second quarter in terms of EBITDA? The second question is as follows: I notice this increase in the taxation, can you please give us a guidance for the taxation going forward, and also an update on the current level of prices and spark spreads that you see in the market in this first quarter? And finally, the last question is on the simplification decree on the possible review of the hydro concession contracts: do you have any update from the Government or any dialog with the Regions that could be helpful? Many thanks.

Luca Bettonte:

Okay, thanks. As for the authorizations, we are on track. As for repowering, as you have seen in the chart we have applied for only 500MW eligible; as for the 153MW, we are waiting for the Central Environmental Authorization by the Ministry of the Environment. The well-known VIA commission is working on our files, we hope and at the same time expect to receive the authorization anyhow before the change of the components of this commission, that should take place before the summer break. So, the rule is that before any change the existing commission should give the authorization, so this is situation right now.

As for the contribution in terms of the EBITDA from the Reblading, for us it is important to say that this contribution is not going to be that relevant in terms of figures for the year to come: I am talking about just half a year for 13MW, it is less than €1mn. But it is important to achieve such a Reblading because it is a proof of our theory that it is working and that will allow us to keep on, Reblading also the other plants.

And the good surprise, the good news is that, by analyzing, studying, making test - and we started testing the blades in July last year - so far we have seen that the production increase is in the range of 20% rather than 16%. So we are talking about a small project with a quite high qualitative meaning, and that is delivering better than expected.

As for taxation, in 2018 we had a peculiar impact from the change in 2017 in France of the corporate income tax, that affected the deferred tax liabilities accrued, so having a positive impact in 2017 that we no longer had in 2018. So it is mainly due to an accounting treatment for deferred taxation, this is the spike that you have seen. While going forward, the tax rate is going to be a bit higher than the one we were familiar with, simply because ACE was erased by the Government, and as a result it will bring in higher tax rate.

Paolo Merli:

It is in line with 2018: the ACE was already out in 2018. So going forward, we should expect the tax rate remain more or less in line with 2018, in the region of 30%.

Luca Bettonte:

Yes, a bit more, something like that; anyhow, it will be higher than what you are familiar with, due to this change in law.

And as for the Hydro concessions, I would try to cut a long story short, because it is a quite complicated matter as of today. I mean, you know, there is a specific article in the simplification decree, by which the Government decided to rule what the reallocation of the hydro concessions should be once they expired. As you know, you should divide and make a difference between the already expired concessions and the concessions that will expire.

Fortunately, our concessions will expire in 2029, so we have time to see what the final outcome of the application of this new regulation will be. However, for the time being, based on the latest interpretation of this quite complicated new article, the value of our concession should not be affected at all. So, the value of our concession is there: we have made a calculation and sensitivities in order to understand - also in the worse case scenario - what the impact could be on the fair value of our concessions. And the outcome is that we do not see any risk of devaluation from now to the end of 2029.

You know, in that article they have introduced other specific rules as for the annual concession fee to be paid. I remind you that just after acquiring our concessions, the concessions fee that the seller was paying were doubled. So now we pay 30,000€/MW of power allowed. It is written in this new article that the Region has to tell everybody by

August of this year that they can change the value of this concession fees. And the article has introduced also two kinds of fees: one is a fixed one (the one that we already paid), and another one is a variable one, that is based on the calculation based on revenues generated by the concession. I cannot be precise because we are still analyzing the meaning of this, and how to make the calculation, not just us, but also the other operators along with the association “Elettricità Futura” and the others.

So based on that, we could just put on the table arithmetical, algebraical sensitivities with not much sense today. What I can tell you is that we pay already an amount that this article states it is the low amount, it is a sort of floor that we are already paying. So wait and see what the Regions will decide in the coming months. I can anyhow anticipate that in the decree there is plenty of statements that could be applied for in front of Courts, Tribunals, and European Commissions, European Union specific... but the operators and the associations are trying to identify what it is going to be the best way to approach this quite new regulation.

So we do not see any risk as for the value of the concession, anyhow concession will expire in 2029. We may see some trouble as for these concession fees, but it is quite difficult to predict today apart from making quite mathematical sensitivities on what the impact could be. And for sake of clarity, it is also worth mentioning that this article has introduced the right for the Regions to ask to be provided with some power for free from the concessioners. The problem is, what is going to be the price of this amount of power, if it has been based on the cost for the concession or on the price on the market. So the main risk has to do with this fee, annual fee, concession fee and with providing the Regions for free with some power on annual basis.

As for the specific question relating to the Clean Spark Spread that we see for the first quarter of this year, it is in range of 5€/MWh, which is more or less in line with the figure of last year.

Sara Piccinini:

Very clear, thanks a lot.

Operator:

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

Roberto Letizia:

Yes, good morning. Some questions on the Solar. I would like to understand if the productions of the solar plants in 2018 have been in line, lower or above the budget, just to better understand the performance all-in-all. On the Solar, I saw that the amount of depreciation in the fourth quarter has almost doubled versus the previous quarter. So in

the previous quarter you have applied some €5mn of depreciation, while in the fourth quarter there are €9mn of depreciation. So, I was wondering if there is any provision or if the €24mn is actually the amount that we have to expect for the full year: can you please clarify this? I would like to understand if the new acquired assets will contribute for the full year 2019, or if there are some issues related to the closure of the deal. And as you close the JV with Quercus, I would like to better understand what is going to be the strategy for Solar in Italy in the coming years. Can you please also give us a trend in the natural resources, meaning hydro and wind, for the first quarter so far? I saw in the presentation that you are looking to apply for some new investments in cogeneration, that should allow you to get some more White Certificates: can you just elaborate a little bit on this optionality, how much can it be big, in terms both of investments and of contribution of additional White Certificates? We are still expecting the decree for new possible auctions in Italy for the next 3 years, the 7,000MW that the Government talked about for a lot of time during 2018: when should we expect this decree to be finally published? And finally, on the Reblading, can you please remind us the cost of Reblading per MW and if the 75MW you are looking to apply for a full Reblading are all with expired incentives? Thanks a lot.

Luca Bettonte:

Okay, right. Starting from the first question about Solar productions, 2018 was a bit lower than budget. But this is not significant, just to be precise with you: in the end it was aligned with our own expectation.

As per the depreciation, it is a result of the change of the number of years we are depreciating. We are amortizing now the assets, and we changed from 25 to 20 years. Having a better tax shield of course, and going forward that will be 20 years: this is a pure accounting change.

As for the consolidation of the latest acquisition, we have already closed. And yes, I can confirm that we have consolidated it since January 1st, right.

As for Solar in Italy, I guess that you this morning saw the press release relating to the end of this potential partnership with Quercus, a decision that was made simply on the fact that - while we were finalizing the documentation relating to this potential joint venture - we were so rapid in closing a couple of deals that now we have 141MW in Solar in Italy, which means we have already achieved our targets.

I remind you, if I may, that Solar for us in Italy means investments to provide us with a fixed amount of EBITDA on the long run (they are quite important in order to stabilize our generation portfolio), and then to keep under control our profits at risk, and the EBITDA, at risk, so, PAR at the end of the day. So going forward, we do not think to pursue any further investments in Solar in Italy.

As for the Hydro and Wind productions in the first quarter till now, I would say that Hydro is lower than budget for a couple of reasons. First of all, because of no rainfall - I mean significant one, of course - that is lower, but not that much lower than budget, you know. So I am not talking about something quite significant; anyhow, we are lower than budget. One reason is the low level of rainfall, so far. And the second one has to do with the fact that we are refilling our lakes: as you know, we used as much as we could in the 2018, in order to benefit of all the water stored in our lakes, and now we are refilling them. And then... so, the lower amount of production we have seen in the first 2 months of the year is quite covered by the amount of power today stored in our lakes. So, going forward we do not see any specific problem on that issue.

Paolo Merli:

Let us say also - Luca, sorry - that the lower production we have seen in the first 2 months in the Hydro will be anyway covered by the higher production we have seen in the Wind segment. So, more or less we are absolutely on track with the guidance we have just given to you.

Luca Bettonte:

Yes, right. As for the White Certificates, we are working in order to replicate the model for 5 to 10 years... it is better to say 10 years. And the specific regulation envisage that you can do that just after 12 years after the inception of the first period for the White Certificates. So, everything should talk place in 2023, in the end of the day. But now our engineers are defining the project. We have already discussed with the GSE and all the relevant authorities what we have to do in order to be qualified again for generating White Certificates, and everything is going ahead well. So we have to change, we have to make some investments but, at the end of the day, these are differential investments as for the old plant, so the return of this investment is going to be very, very high, even higher than the original White Certificates contribution. However, we are going to be more precise and to give you further details in the months to come, because our engineers are still finalizing their analysis.

Roberto Letizia:

But are you expecting the same amount of White Certificates at the end of repowering?

Luca Bettonte:

No, a lower amount, because the regulation provides that you do not receive White Certificates per MWh but a lower amount, it is 0.8, but we should increase the amount of steam that we are going to generate and to sell to our customers, so to balance this difference. Let me be conservative now, so the amount of White Certificates should be a bit lower, but the investment is differential: we are not to build again all the plant you

know, but just to refurbish it, to improve it, to change some turbines and the like. So in the end, the return is for sure even more than in line, so it is higher than what we got from the existing White Certificates regulation.

Roberto Letizia:

Sorry about that, any investment on that, that maybe it is going to be in 2022 I guess, so you start maybe one year before. Is it going to be on top of the CAPEX plan forecast?

Luca Bettonte:

No, the investment should take place in 2023.

Roberto Letizia:

Okay, okay. Thanks.

Luca Bettonte:

We do not have any CAPEX today included in the existing Business Plan for this. If there is the opportunity to anticipate, I will let you know, but for the time being it is just something that should happen in 2023. Also because the investment is quite small in the end, so it is going to take place in 6 months and no more, so that is the reason.

As for Wind auctioning in Italy, we are waiting for the decree. As far as European commission, at European level there have been some questions and they were passed to the Ministry of the Economic Development. We do not know the content of these questions: I just know that there should be in the range of 30 to 40 questions, and it should delay the issuance of this decree. Also you know that they are quite engaged in sorting out different matters, such as problems with funds, but anyhow this is the situation. So I do not know: let us say that, if I am right, the first auction should have taken place in January, but you know we are already in February, and delay is on the table.

As for the investment for Reblading, we are talking about €15mn CAPEX divided by 75...

Paolo Merli:

€0.20mn, we have a quite limited investment.

Luca Bettonte:

Yes.

Emanuela Delucchi:

It is the same amount.

Paolo Merli:

Changing the blades and...

Roberto Letizia:

Sorry, I had asked if it is going to be applied on all plants that have already expired incentives.

Luca Bettonte:

No, no come on. The Reblading is on wind farms – or, as I prefer to say, wind factories - with incentives: that is the reason why wind factories are not eligible, because of the location, the wind availability and the like, for other authorization matters and also for the location (I am referring to the problem that you may have in bringing there new bigger turbines). So for many reasons we applied for Reblading, but the incentives of these wind farms are there, and that is one of the reason why the return on the additional 20% production is quite interesting.

Roberto Letizia:

Okay. Thanks a lot.

Operator:

The next question is from Emanuele Oggioni with Banca Akros. Please go ahead.

Emanuele Oggioni:

Good morning everybody. Thank you for taking my questions. The first one is on wind renewable generation in Italy: what should we expect from the change in the regulation bidding system, how much could the new regulation reduce the impact of imbalance costs? And the second one, the second question is on guidance of net working capital level for the full year and for the first quarter. Thank you.

Luca Bettonte:

Sorry, but I did not get the first question.

Paolo Merli:

It is about the bidding mechanism in the market vis-à-vis the imbalance costs.

Luca Bettonte:

Alright, okay.

Paolo Merli

Improve, it should improve.

Luca Bettonte:

Well, it should improve, we are still waiting for, you know. Our focus is to see something which is similar to what is already in place in the other countries. So the famous gate closure timing should be closer and closer. So, from the moment when you declare your production to the moment when you do deliver it, this time should be squeezed more and more, and we expect that the so called "X-bid" mechanism should be also applied in Italy. When? It is quite difficult to say: we know that it works outside of Italy, and we know that in Italy we are looking at and thinking on how to introduce it. But, it is part of the larger path forward that is happening all across Europe, in order to allow the Renewables to be more and more integrated into the Grid, based on the national plan, you know, that is quite a relevant impact.

As far the net working capital, I will let Paolo to reply to you.

Paolo Merli:

I think, it was a quite important item in 2018, for the reasons I tried to explain during the webcast. So, we had a couple of special items, we had €42mn to the NIOC which was an old item and we also had an impact of roughly €30mn associated to the sale of TotalERG. And, without entering into the very details, there are other items related to accounting items. Going forward, according to our plan we are not expecting in 2019 - and also for the year to come till 2022 - a huge absorption from working capital. Instead, we still have some interests to recover going forward, and then we expect this working capital to be not very impacting on our cashflow going forward.

Emanuele Oggioni:

Okay. Thank you.

Operator:

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

Luca Bettonte:

Right, thanks a lot to you all. And meet again for the first quarter results. Thanks a lot.

Paolo Merli:

Thank you.

Luca Bettonte:

Bye.

Paolo Merli:

Bye.