

ERG S.p.A.
“1Q 2019 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 1Q 2019 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 2019 results. As usual here with me there is the CFO, Paolo Merli.

Let us start on the **page no. 4**, where you see the highlights of this 1Q 2019: still growing results despite of a very dry quarter. Let me give you a general overview about the business environment in this first quarter, while Paolo later will take you deeper through the figures.

Starting from Energy prices, they underpinned our results as they were higher than last year in all the countries where we have operating capacity, and also the Clean Spark Spread in the Thermal generation was higher, though the performance of this sector was negatively affected by lower price for White Certificates.

As for production, all in all it gave a positive contribution as it was higher in Wind (both in Italy and abroad), and higher in Solar (also on a like-for-like basis), while it dropped in Hydro as per the mentioned very dry season that began in the last quarter of 2018.

However, in this context, as for ERG specifically, it is worth underlining a larger perimeter of megawatts installed: I remind you that in Wind we had 39MW of larger capacity in France related to three new wind factories, while in Solar we run additional 51MW from the latest acquisition, named Andromeda.

These elements, associated with no megawatts gone out from incentivized mechanism in this quarter, allowed us to achieve a relevant growth in Wind and Solar and to post an equal result in Thermal generation, so as to offset the very weak result in Hydro, where the lower water availability further reduced the capability of the plant to modulate as it was last year.

All in all EBITDA was at €164mn, €2mn higher than last year.

As for Net Profit, we posted a slightly lower result: €54m vs €56m in 1Q 2018, mainly due to higher depreciation from the latest acquired Solar plant, while Financial charges were in line with previous year despite a larger average gross indebtedness. The result was also negatively affected by the abrogation of ACE (tax allowances on re-invested profit) in 2019.

In the end, Net Financial Position of €1.5bn grew by some €171mn as a result of the investments made in the period, mainly for the acquisition of the solar plant.

So, turning to **page no. 5** we have a recap of our recent developments. We have enhanced our technological diversification by acquiring some 51MW of high-quality Solar panels, we have increased our installed capacity in France to 360MW by acquiring 52MW in Wind, we pursued our growth in the UK with the authorization to build further 25MW in Northern Ireland. So, the overall secured capacity is in the range of 75%, as for the Business Plan in that specific country. And, last but not least, we issued our first Green Bond of €500mn within the EMTN Program with a BBB- Investment Grade rating. I will tell you something more about it in the next chart.

So, as a conclusion, let me say that ERG has more than 3,000MW of installed capacity in Europe. So, keep growing.

In the next **page no. 6** let me say a couple of words on the issuance of our first Green Bond. It is a six-year fixed rate bond amounting to €500mn, listed in the Luxembourg Stock Exchange. The yield – quite effective – is at 1.933%, a Green Bond issued with a rating of BBB- investment grade, assigned by Fitch. What I like to say is that the request exceeded six times the amount offered (we are talking about more than €3bn), and the bond was successfully distributed across Europe with a significant ESG component among investors. It is quite easy to remember but let me say the strategic rationale: proceeds are used to refinance Wind and Solar investments and to prepay the big Maestrale Project Financing, in compliance with the requirements of the Business Plan, and it underlines the evolution of the Group financial structure from Project Financing to a more adequate Corporate Financing structure. Moreover, the bond is a proof of the high confidence of investors in ERG reliability and our execution capability, and a recognition of the strong orientation of our business model towards a sustainable development.

On my side this is all for the time being, now I will hand you over to Paolo.

Paolo Merli:

Thanks Luca, good morning everybody. So, let us get started by commenting on the price scenario over the first quarter in more detail.

I am on **page no. 8**. Let us start commenting Power Demand in Italy (top-left of the chart), then move anticlockwise.

Power Demand in Italy was down 1% YoY. The quarter was characterized by lower water availability offset by rising contribution of Wind, Solar and Thermal generation. Looking at our assets, they did not make any exception to this trend: Hydro production in the quarter declined significantly YoY (-36% in the quarter, even worse than national level) due to a particularly dry season where our Plant is located, as opposed to the

exceptionally wet season we saw last year. On the positive side, wind conditions were positive with productions up +10% in Italy and +8% over the border. Our solar production benefited from the consolidation of the newly acquired assets, together with rising solar availability. Our Thermal generation – in line with the national trend - showed a 23% rise in production, thanks to favorable trading conditions in Thermal generation in Sicily. So much better than the trend seen in the Mainland.

As for prices, we had still a very solid environment with National Average Price in Italy at 59€/MWh, +10% year-on-year; here the main takeaway is that prices start to reflect the rising CO₂ cost. Price indicator for Renewables in Italy, including Feed-in-premium, was 152€/MWh, slightly down YoY due to the lower incentives made up for the higher merchant price. And this is quite a leit motiv through our results. Price in Sicily traded at a premium vs. PUN, even though in line more or less with the value seen last year.

Our CCGT's Clean Spark Spread was significantly up YoY from 2 to 4€/MWh, even though the numbers in absolute terms are not that high. Again, the Spark Spread started reflecting the higher cost for CO₂.

In the graph at the bottom-right of the chart you can see the average reference selling prices for all our productions, country by country. Here it is worth noticing 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. So it seems that those countries started rewarding more renewables.

Let us see now the Economics for the Group in a nutshell. I am on **page no. 9**.

EBITDA was €164mn – so, slightly up, up 1% YoY – driven by the following main effects:

1. significantly higher wind production both in Italy and abroad. The scope effect was slightly negative, as the contribution from new capacity in France (about a couple of million euro) was more or less compensated by the exit of Brockaghboy wind farm in Northern Ireland, which – I remind you - was sold on March 2018, thus contributing to 1Q 2018;
2. contribution of solar assets more than doubled, thanks to the acquisition of Andromeda (consolidated as of January 1, 2019) in a backdrop of a better sun availability in the period;
3. Hydro – as already commented - driven down by consistently lower volumes;
4. CCGT only slightly down as higher volumes and spark spreads, and lower fixed costs were unfortunately slightly more than offset by lower revenues from White Certificates, fully linked to price effects.

I will tell you a little bit more in detail later on, but here I think it is important to pass to you the following takeaway: the price scenario effect was basically neutral as the higher merchant prices for electricity, which benefited all our renewable sources, were more or less compensated by the lower price of incentives in Italy. So the performance we are commenting right now is more a matter of volumes rather than of prices.

Let me now comment on each business segment, starting from Wind, I am on **page no. 10**.

EBITDA in Q1 was €115mn (up 8% on average YoY) mainly as a result of stronger productions both in Italy and abroad. As said, we enjoyed a higher MW installed capacity in France, but this effect from an economic point of view was wiped out by the absence of the contribution from Brockaghboy wind farm in Northern Ireland.

A few more details on productions: just excluding the Brockaghboy effect, which is anyway reported in the chart, you can appreciate that the increase in productions abroad would have been of 15%. So, keep growing where we want to grow.

Let us comment on Solar results - I am on **page no. 11** - which as of January 1, 2019 includes 51MW of new capacity, following the successful acquisition of Andromeda portfolio, with two solar plants located in Montalto di Castro, near Viterbo in Central Italy.

You can see that production was more than doubled compared to last year, partly (16GWh) deriving from the newly acquired assets, while the remaining is related simply to a better performance because of the higher sun availability. As a matter of fact, the Load factor for the entire portfolio was 15% vs. less than 11% last year.

But let me also underline the higher unitary revenues of about €327/MWh in the first quarter, up compared to €289/MWh in 1Q 2018: this is because the new assets we acquired enjoy an even stronger incentive scheme.

The mix of higher productions and selling prices ended up with an EBITDA of €13mn in the quarter compared to €5mn in 1Q 2018. Let me also remind you about Solar seasonality, with Q1 and Q4 usually the weakest and Q2 and Q3 the strongest in a year. So, this is just to say that the best has yet to come, at least according to statistics.

Now Hydro. I am on **page no. 12**.

EBITDA was €23mn, so quite an important drop: -33% YoY, driven by the lower production, down 36% YoY. We have been particularly unlucky because the rains in the area where our plants are located – as already commented - were very, very poor if not nothing.

First comment is that it was a tough comparison as 1Q 2018 benefited from exceptionally strong conditions. We knew that, and it was already factored into our budget. But, frankly speaking, the period turned out to be much weaker than we could expect.

Unitary revenues even for the Hydro operations were higher: 108€/MWh (already including the incentives) vs. 94€/MWh, which mainly reflects for sure the better merchant prices, only partly offset by the lower incentives (and the incentives insist only on just 40% of the production). But undoubtedly with lower volumes we were able to modulate more and then enjoy a better price.

Vice versa, with lower available water in our reservoirs even revenues associated to the Secondary Dispatching market (the so-called MSD Market) were a little bit lower than in the same period last year.

Finally let me add, as relevant information, that our water reservoirs at the end of the quarter were lower compared to the same period last year, but higher than the situation we had at the end of December 2018. In other words, the current level of our lakes falls just in the middle between the very high-level seen at the end of 1Q 2018 and the very low-level seen at year-end 2018. So it is recovering, and hopefully it will rain in our areas.

Now CCGT results. I am on **page no. 13**.

EBITDA in 1Q 2019 was €17mn, -6% YoY, so slightly down. This performance – as already said - is mainly driven by three positive factors:

1. higher volumes: both electricity and steam. And, as a consequence of the higher steam production, we also generated more White Certificates;
2. higher Clean Spark Spreads, which started reflecting the higher CO₂ costs, and
3. lower fixed costs YoY.

These positive effects, unfortunately, were compensated by the lower contribution from White Certificates and MSD.

Let me remind you that in 1Q 2018 we benefited by more than €3mn from the write-up of the entire stock of White Certificates, including those generated in 2017, at a price of nearly 290€ per certificate, then it followed the measure taken by the authority, keeping the price at €250, which is the current price at which we are accounting our White Certificates. So a huge difference, which explains the slightly downward trend of our performance in the period... a fact that will disappear in the forthcoming months.

And now investments. I am on **page no. 14**.

In 1Q 2019 we invested a consistent amount of money: €233mn, composed as follows:

- a. €220mn related to the acquisition of Andromeda's 51.4MW Solar plants; while
- b. €10mn invested in Wind development, of which about €8mn in Germany related to the construction of Linda Wind Farm (22MW), almost completed, which should be up

and running by the end of June, while the remaining Capex was spent for preliminary activities for repowering and reblading in Italy.

c. €3mn of maintenance Capex, spread across all our technologies.

In the end: still significant investments in growth, consistent with our Business Plan, though lower than in 1Q 2018, when we accounted the Capex for the ForVEI acquisition.

Let us now move on to Financials. I will now comment on P&L on a recurring basis. I am on **page no. 16**.

Let me remind you that these figures are shown on an adjusted basis, so without including the effect of IFRS 16. Anyway, these effects are clearly reported in our Q1 P&L statements. We did these adjustments basically for two reasons: first to provide you with a consistent set of numbers with our Business Plan and a like-for-like comparison on a YoY basis; and second because we believe this way provides you with the most accurate measure of our P&L and Balance Sheet results, reflecting our real cash flows.

Done this premise, let me comment on it. I have already said about adjusted Ebitda. So, going down:

higher depreciation mainly reflects the consolidation of the new Solar plants as of January 1st as well as the new Wind capacity in France, less the exit of depreciation associated to Brockaghboy Wind Farm.

Net Financial expenses: you can see that, notwithstanding the higher net financial debt during the quarter, the net financial charges were more or less in line - actually they are slightly lower - as the higher medium-long term debt was associated to a lower cost of debt linked to all the actions taken in the meanwhile, which we have communicated to you in the recent months.

Taxes. Tax rate in the quarter was 27% against 26% in 1Q 2018 (so, slightly up), mainly reflecting the abolition of the tax breaks known as ACE: a couple of million euro was the impact associated to it.

Minorities not significant in the period given the seasonality of Solar, but just to remind you that they referred to the 21.5% stake in Andromeda, held by our partner in the venture.

As a result of all this, adjusted Net Profit was €54mn in 1Q 2019 vs €56mn in 1Q 2018 as the higher EBITDA was more than absorbed at the bottom line by higher depreciation and taxes.

Let us now take a look at the Cash Flow Statement, which is the metric we care most about. I am on **page no. 17**.

Net Financial Debt closed at €1,514mn, up by about €171mn from 31.12.2018, with a leverage of 44% at the end of the period vs. 42% at the end of 2018. This increase is mainly related to the huge amount of Investments, the negative Net Working Capital

trend (I will tell you a little bit more about it later on), financial charges (already commented) which all together overtook the gross cash generation, which is in line more or less with our adjusted Ebitda.

While I think the other items are self-explanatory, let me just elaborate a little bit more on NWC, which partly reflects the seasonality of the cash-in, especially with regards to incentives in Wind and Hydro in Italy, seasonally higher during Q1 in terms of generation, but in terms of cash they are settled with a six-month delay, then creating this absorption in terms of NWC in the first quarter, while this effect should reverse by the end of the year, as it is embedded in our FY guidance for net financial position, Luca will tell you something more in a few minutes.

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 it is time to talk about the Guidance.

Starting from the 1Q 2019 results we have reviewed our projections for the months to come in order to factor in at best both the energy prices trends and the production estimates.

In this respect, as for the energy prices, by observing the forward curves and the latest experts' estimates, overall we see energy prices a bit lower than previously expected in the months to come, while - due to the lack of available water and the progressive inclusion of the CO₂ growing costs into the final energy price - we see in Italy a better Clean Spark Spread going forward. No change of course for the value of the green incentive that, I remind you, is lower than last year.

Looking at the production, we keep having a higher production in Wind and Solar thanks also to the larger perimeter, while we have further reduced the power generated from Hydro, assuming it should be a so-called dry year. The lower water available in Hydro, along with the larger request for steam by our Sicilian customers, will lead to a lower income from modulation but a larger one from White Certificates.

Base on that - and as usual after having included unfortunately a bad actual April with a Wind generation lower than budgeted - we could say no news good news, in a sense that we see no reason to change the year-end guidance for Ebitda we gave you a couple of months ago, and that we confirm.

As for Capex, we are on track to achieve our targets, having already made more than 65% of the projected investments, if we consider the middle point of the proposed range. So, also in this case no change.

And in the end, also for the Net Financial Position - based on the above - we see no reason to change the proposed figures.

Now we are ready to take your questions.

Questions & Answers

Operator:

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

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

Roberto Letizia:

Yes, good morning. Thanks for taking my questions. I have a few. The first one is very easy: I would like you to confirm that the IFRS16 impact on the full-year base is going to be around €8mn on EBITDA and around €65mn on debt (positive on EBITDA and negative on debt, of course). You mentioned something about the second quarter, you mentioned a weak April with regards to wind: I was asking myself if you can provide us with some indications also on Hydro in April and May, as we saw lots of rainfalls here in these weeks. I was wondering if you are observing a recovery of the Hydro production, particularly in May. Can you please provide an update on the possible approval and the final implementation of decree on a future incentive for Renewables in the next 3 years? The decree is under discussion in the European Union: I was wondering if there is an update on the possible implementation of it. And I was wondering if you are going to expect additional M&A deal to be done this year in terms capacity acquisition, and if the guidance provided on the full year eventually includes potential additional perimeter expansion by means of external acquisition. Thanks a lot.

Paolo Merli:

Yes, as regards the first question about IFRS16: yes Roberto, I confirm that the impact expected on a full-year basis on the EBITDA is in the region of €8mn positive, and on debt it is in the region of €60mn but, notwithstanding that, we still believe the best representation we can provide to the market is the one excluding these effects, because we want to represent numbers very much related to our real cash flow. That is the point.

Luca Bettonte:

Okay fine. As for the remaining questions, April went bad, in the sense that productions were lower in the Hydro business, as it is easy to be understood. At the same time we had lower production than expected as for the Wind generation in Italy, while abroad we kept growing in terms of power generation from the wind sector, so nothing new versus what we have already experienced in the first quarter.

As for May, the situation is changing a bit: so, the production is still below expected as for the Hydro plant, but it is narrowing the budget forecast. So, wait and see what is going to happen in the next days, as the climate and the weather forecast should be better on our side, of course, not for tourism.

Paolo Merli:

Anyway, the guidance is fully including the April actual results.

Roberto Letizia:

Right.

Paolo Merli:

So, we anyway expect better recovery in the forthcoming months, in line with the guidance we gave at the beginning of the year.

Luca Bettonte:

Yes, while on the Wind side production is on line with budget, so we hope we are recovering in the Hydro sector, but for the time being it is as Paolo has already mentioned, so April is included in our forecast.

Paolo Merli:

Also because please consider that in the second half of the year, the comparison year-on-year should become easier for us, because the Hydro contribution in the second half of the year in 2018 was weaker than in the first half, and do not forget the seasonality of Solar. Solar is going to give the most contribution in Q2 and Q3.

Luca Bettonte:

As for the remaining, I guess that we are waiting, as you are, the issuance of this decree: maybe the guys in charge for this exercise are looking after something different as the European Election is coming, you know, but we are awaiting the decree. Our Business Plan is not based on the new installed capacity anyhow in Italy. So, wait and see. Anyhow, no news about any acceleration or if there is an issuance of this decree in the coming months, so I have no information to give you about that. But I confirm that we will keep on investing in our Business Plan, and its execution is going ahead properly. And let me tell you that as for the reblading in Avigliano, we have refurbished 16 out of 20 towers and the factory refurbishment should be finished by the end of this month. So, we are quite happy the 16 turbines already in operations are performing even better than expected. And maybe a field trip with you could be something quite interesting for everybody, because it is quite a big improvement.

As for M&A, as usual, we keep working on M&A on a daily basis. And as usual we did not put any number, any figure into the forecast as for the potential M&A.

Roberto Letizia:

Sorry if I go back on this, because I know it is difficult to provide details on the M&A, but I was just looking on the probability: so, how do you feel the probability of you to close additional deal, which may contribute into 2019 results?

Luca Bettonte:

Let me bring forth the message. First: no, in our forecast there is no M&A transaction included. Second: look at our recent history, go back to the last five years, and you see that the likelihood that we do something is quite high.

Roberto Letizia:

Yes, just a very quick follow-up. I was wondering if there is any regulatory or potential regulatory update or change on the possibility of being recognized for the repowering under the incentive schemes.

Luca Bettonte:

Incentive schemes, no I do not think, of course, as incentive schemes anyhow no longer exist, you know.

Roberto Letizia:

I mean, the tenders... they exist in terms of visibility not in terms of economical contribution, but if you get a fixed price on a tender based at market price ... incentives are in a form of a fixed price, not economic incentive.

Luca Bettonte:

Yes, right. We are working with the Authorities and with the Regulator in order to identify whether or not it is possible to re-open the possibility for a repowered plant to take part in the auction, for sure. But let me go back on our theory: first of all, we are investing much as, based on our analysis, it is worth doing such an exercise because of the very high return: because we have a specific and peculiar advantage, the best sites in terms of wind availability and the weakest and the poorer technology to be changed or improved.

For sure anyhow to have the possibility to take part in the auction is quite important. Not upside in terms of return, but upside in terms of visibility in the medium term of the revenue streams. Though let me tell you, frankly speaking that though I had the possibility to take part in the auction, I will make an in-depth analysis so whether or not to bring all my repowered plants through an auction process, because the return based

on our analysis, from a merchant standpoint, is very, very interesting. Anyhow, we are working with the Regulator, because I think that also for the entire nation, so for Italy, there is a lot of opportunities, as for repowering, but if you are not quite well prepared and with large shoulders (i.e. an operator like ERG), so for most of the smaller operators it is going to be quite difficult to try to repower their fleets without having quite solid, medium long-term price signals. That is the point. So, we could take advantage of that, and I think the Regulator is becoming more and more aware about this concept, you may see everything in the public speeches that you can take part in, and that is all for the time being.

Roberto Letizia:

Thanks a lot.

Operator:

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

Roberto Ranieri:

Yes, good morning, everyone. Thank you for taking my questions. Two questions only from my side. Just a clarification on figures: could you please give us the contribution of Dispatching Services, in the first quarter and in comparison with the last quarter? And what do you expect also on a full-year basis, just to understand if this condition, you said that the poor condition, the resource condition led to a lower MSD contribution, just to understand if there could be a recovery of it, and if this recovery would be in line with your budget.

And my second question is on photovoltaic and on load factor in particular: so, basically the load factor is increasing thanks to Andromeda in your assets. So, I understand that the load factor is very solid. And could you give us the average full year expected load factor, I would say for Andromeda, and as an average for all the photovoltaic installed capacity? Thank you very much.

Paolo Merli:

Okay, Roberto, about the MSD, yes, I confirm the contribution in the first quarter of the year was well below our expectation, though it was compensated by other positive items, as the outcome was anyway positive and above our budget. The reason why the contribution of the MSD – so, the Secondary Dispatching Market - was lower is related to some specific condition of the market in Sicily. And, as regards the Hydro assets, it is linked to the fact that the reservoirs are so low that you cannot use the water with the flexibility you will be asked for, in case you participated into this kind of market.

But again, let me say and repeat that all these factors have already been included in our full-year guidance. So, it means that there are other effects. So, in the bottom-line the resilience of an integrated portfolio is providing with some up and down. But in the end, the expectation for the full year is exactly in line with our previous guidance.

As for your second question, I tried to do remember, but I would say that Andromeda is going to have a load factor in the region of 1,700 hours per year. And ForVEI (which is the first 89MW acquired in 2018, and which is not based on a tracking technology) has got 1,400 hours. So all-in-all, that is the reason why we will be able to double more or less the contribution in 2018 for two reasons. One is related to the load factor, the higher load factor, but - as I reminded in my speech - about the prices, because the incentive scheme of Andromeda is at €30 or more at premium compared to ForVEI, based on the Conto Energia those plants are enjoying.

I hope I have I addressed your question

Roberto Ranieri:

Yes, thank you very much.

Paolo Merli:

Thank you.

Operator:

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

Sara Piccinini:

Hi, thank you and good morning. And thank you for taking my questions. I have some... starting from the guidance, I understand that maybe it is early to predict weather conditions, but just to understand the moving parts, and you can correct me if I am wrong. So, basically the first quarter was very dry, and so the Hydro was below budget, while Wind production currently has been higher. And then proceeding into April and May, Hydro continues to be weak while also Wind has been weak, as I understood. So going forward, can we say that the expectation of meeting the guidance maybe could be helped also by the level of prices or maybe wind in the first quarter was better, so you believe now it matches your budget until April, May? Just to understand the moving parts, any indication is very appreciated. The second question is on PPAs: are you still working on signing PPAs in Italy, what do you think about the market, why is Italy behind other countries like Spain in terms of signing PPAs? I know that in the past you declined, but maybe do you consider buying some clients in the supply market to integrate your offer and hedge your volumes? And final question, do you see our downward trend in

the prices of White Certificates, and can you quantify how much your expectation of EBITDA is from White Certificates in 2019? Thanks a lot.

Luca Bettonte:

Alright. Okay. As for the first quarter, your analysis is correct. As for April, as I have said, Hydro performed worse than expected, and also Wind - but just in Italy - was a bit lower than expected. May is in line or is a bit better than budget: Wind is performing very well, in Italy and abroad, while Hydro is still below budget. But based on the weather forecast there is going to be some recovery going forward.

As far the entire guidance, we made an analysis in order to understand or to tell ourselves whether or not there is going to be a so-called dry year this year. And we reformulated our forecast internally based on that assumption. So, let us say that it could be also seen as a conservative exercise. But anyhow, based on the information related to the last 30 years of production, we thought it was better to be a bit conservative than we were at the beginning of the year, when we used as usual to make a forecast of the hydro production, based on the average production of the last 10 years, with reference to the year of the budget.

So as for the production, you know, in the other sectors good for Solar – as Paolo has already commented - and good for Wind also based on the larger perimeter. While from a price scenario standpoint, we have a bit lowered our projection going forward, because, you know, looking forward, in this business and having a so short horizon - and I mean, it is going to be 9 months - forward curves are something that we look quite deeply, and that we use as a proxy for our projection. You know, we have a specific situation because we are in Italy, we are in particular Sicily, so in the south, and we have our hedging policy to which we have already hedged most of the generation, at quite good prices in 2019. So, there is a lot of items to be combined, in order to understand our guidance. But anyhow, we are quite confident to land in-between the range that we gave you.

Paolo Merli:

Maybe it could help to understand why we still expect the same numbers, notwithstanding the weaker Hydro. I would say that first quarter - though in line with the consensus - was higher than our budget. We had a little bit upside in the first quarter. And consider the M&A contribution is going to be quicker than expected in our previous guidance, because the money we expected to spend were a little bit anticipated a few months ahead of what we expected in the plan. So all-in-all we can compensate the lower numbers for Hydro, also the Spark Spreads are better than what we expected in our previous guidance. So, the portfolio is compensating one segment with the others.

Luca Bettonte:

Yes. As for PPAs, it is a long story to tell: of course in Italy we are in a delay compared to Spain. Spain is doing something which is a bit different, because they have a counterpart to these, representing many authorities you know. And so we are working on that, I mean, we have had a lot of discussion with the Regulator about that, about what we are trying to do. Personally speaking, I think that I just told in many occasions that it is going to be a good tool to do something to stabilize prices, but if you take for instance the whole sector or the entire nation, I mean, looking at Italy, it is quite difficult to introduce some automation in creating a base, a mechanism or a tool through which to put together supply and demand, in order to identify a standard agreement that works for many years in a market like the energy markets, where you do not have any signal as for the energy price longer than two years. Anyhow, we have PPAs - that means that you are selling power to someone else - with the refinery, with Versalis, with other big customers... they are quite complicated agreements, and we are working on them, providing the Italian utilities with our power and the like.

But in general terms, I think that there is a lot of work still to be done by the Regulator, and I am not sure that based on the composition of the supply and composition of the demand, actors, operators... I mean it is going to be quite difficult to identify the simple standard mechanism, to identify the way to sign on a long-term basis the PPAs. On our side, no, we are not... I am not sure that I understood your question, if you asked me whether or not we are going to buy some customers or clients in order to enter the retail markets, it is not the case for us. We made an analysis in our strategy which is not of our interest and now...

Paolo Merli:

No, maybe I think there was a fourth question about phase-out of incentives. So I can remind you that the big phase-out in our Business Plan was already done in the previous years. So, we are not expecting any further significant impact during the plan period. There are some megawatts, but we are talking about some tens of megawatts phasing out between 2019 and 2022.

Sara Piccinini:

Thank you. Sorry, the last question was just on White Certificates; maybe I said Green Certificates, not White. Thank you.

Luca Bettonte:

We generated some 100,000 certificates, and so 100,000 time €250 per certificate is €25mn EBITDA. Maybe that this year based on specific request from our customer could improve with a larger production, and it is going to be an upside. But for the time being

please take these figures: 100,000 time €250 is €25mn EBTIDA, which is the contribution from the White Certificates.

Sara Piccinini:

Very clear. Many thanks.

Operator:

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

Emanuele Oggioni:

Good morning and thanks for taking my questions. The first one is on Thermal generation, as regards the Spark Spread which is a trend in Q2, and also your guidance for the full year. Then could you give us an update on the repowering authorization process, as in the last conference call you mentioned that you are expecting the green light before the summer? And the third question is on the cost of gross debt, the guidance for the full year. Thank you.

Luca Bettonte:

As for the Spark Spread, if we look at the projection as for the Baseload Clean Spark Spread that we can have in the market, it is in the range of, it is something more than 10€/MWh. This is for the market, I am talking about our projection. As for the repowering authorization process, yes: we are waiting for the green light from the VIA Commission, we are waiting to get it by the end of this month, or anyhow the next month or before summer. So now I do not have any news. We are working on that, say no news good news as I said, and it is difficult to give you an update about that, but we are pursuing our goal.

The last question is going to be on the cost of debt, you said?

Paolo Merli:

Cost of debt... sorry, was the question related to the cost of debt?

Emanuele Oggioni:

Yes, the question was: what do you expect in terms of improvement of the cost of debt this year?

Paolo Merli:

Yes, this is a good question, because after the issuance of the green bond, we have already closed two largest project finance we had in our portfolio, the one related to the assets we are going to repower, so the one bought from Engie, and the project finance associated to the CCGT, so more than €500 million which will translate in a much lower

cost of gross debt in the months to come, and- even compared to our budget - we are expecting very important saving in terms of financial charges in the second, in the third and in the fourth quarter of this year.

Emanuele Oggioni:

Thank you, very clear.

Paolo Merli:

Sorry, to be clearer, the cost of debt in terms of percentage will move well below 3%.

Emanuele Oggioni:

Below 3%?

Paolo Merli:

Yes. The gross debt will be below 3%, it is already below 3% right now.

Operator:

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

Luca Bettonte:

Okay. Thanks a lot everybody and speak to you next time for the first half results.

Paolo Merli:

Thank you.

Luca Bettonte:

Bye-bye.

Paolo Merli:

Have a good day. Bye.