

ERG S.p.A.
“3Q 2019 Results”
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MODERATORS:

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PAOLO MERLI, CORPORATE GENERAL MANAGER & CFO

Operator:

Good morning. This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 3Q 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 3Q 2019 results. As usual here with me there is Paolo Merli, Corporate General Manager and CFO.

We start from **page no. 4** showing you the highlights of the 3Q 2019: like in the previous quarters, we posted slightly higher results in each technology of our generation portfolio but for Hydropower.

Let me give you a general overview about the main business drivers and trends in our industry, that affected the performance for this third quarter, while Paolo will take you through a deeper and thorough analysis of the figures, also for the 9 months.

Talking about EBITDA, it is worth focusing on energy prices, that in Italy on average were lower year-on-year in all the different zones. It was due mainly to the drop of natural gas prices, that began in January and became even stronger also over the third quarter, and despite the significant growth of the CO2 costs per tonn., while electricity demand in the Country was almost stable in the period.

On one hand these trends - associated with a very poor wind availability - have penalised the results in Wind in Italy (though partly mitigated by hedging transactions), but on the other hand they have underpinned the good performance in Thermal generation: +39% year-on-year. It has to be brought up that in Wind just 30MW phased out from the incentivised scheme in this quarter.

On the contrary, energy prices abroad were higher than last year: this trend - associated with an overall higher production, also boosted by a larger perimeter of 83MW in France and 55MW in Germany - allowed us to post in Wind abroad very good and higher results, thus doubling last year results for the quarter.

In Hydro generation the performance was very low year-on-year (-47%), for - on top of the mentioned lower energy prices - we had lower price volatility, and above all a very low water availability, if compared with last year. The low availability of water has also reduced the modulation and flexibility of the Hydropower plant to take part, as usual, in the Dispatching Market Services. Today we can define 2019 a dry year for Central Italy, as it was 2017, while it is fair to remind you that 2018 was an extraordinary wet year.

Let me conclude with Solar generation, whose results have been very high: +85% versus last year. That witnesses once again the very high quality of the solar panels acquired in January.

Net profit was lower year-on-year: €75mn vs €92mn, looking now at 9 months. This was as a result of EBITDA just commented, coupled with much higher depreciation from the larger asset perimeter, all of that partly offset by the quite lower financial charges thanks to the positive outcome from the efficient liability management program, carried out over the last several quarters.

As for the Net Debt, it grew to €1.57bn, taking into account the latest acquisition of 34MW in Germany (paid some €84mn), and the benefits from the reduction of the timing of the payment of the incentives accrued, that had been made by the GSE. So far it includes some €400mn Capex, €112mn dividend distribution and some €43mn costs related to the reversal effect of the fair value (booked at the purchase price allocation date of ERG Wind in 2013) of the Project Financing loans early repaid.

That is very quickly what happened in this third quarter 2019.

On **page no. 5** you can see our latest relevant developments. We keep on deploying the Business Plan through a mix of increasing capacity, associated with stable cash-in flows from medium-term contracts. As for the new capacity, we keep on investing - by seizing any opportunity - in our selected countries, where we are developing also our pipeline of about 1,000MW adding up France and Germany, while in the UK there are some 200MW under construction.

We have also entered an agreement with ACEA to sell some 1.5TWh over the next three years. We deem this contract as very important, as it paves the way for much larger and long standing supplies of energy to ACEA, as well as because it includes a specific provision to sell - under the mechanism defined “pay as produced” - all the energy generated by our first ever rebladed wind factory of Avigliano: this is a pure fixed price medium-term PPA.

And now let me also mention we have entered the Capacity Market, for we took part last week in the first auction of capacity in Sicily, and we have been awarded with some 340MW, thus securing some €11mn revenues in 2021: once again our Thermal plant confirms it is a solid source of profit.

On the last bullet we have reported a further ESG reward: let me put it this way, simply we all are proud of it.

Now I will hand you over to Paolo.

Paolo Merli:

Thanks Luca, and good morning everybody.

Let us comment the quarter, which was not as good as we could have reasonably expected in August, when presenting our June results: it was poor in terms of both price scenario and volumes (volumes driven down by a prolonged dry season in Central Italy, where we have our hydroelectric plants), and also because of poor, or weak, wind availability in some regions in Italy, where we have significant exposures. These negatives were nevertheless compensated by the contribution of the new assets (which is the main key message of this set of results) and the solid performance of our CCGT plant in Sicily. But as I mentioned, the price scenario was not supportive, so let us start commenting on that.

I am on **page no. 7**, where you see that power demand in Italy was up 1% year-on-year in the quarter, and you can see also the trends for different sources in Italy: all up year-on-year, in particular Hydro and Wind, up 7% and 8% respectively in the Country. So, the rise in Hydro was particularly due to the heavy rains in the North, but they were very, very poor in Central Italy, as said. This should explain the gap between the performance of Hydro on average in the Country and for ourselves.

Wind was more in line, because the 8% increase was backed by the increase in installed capacity in the Country, which more or less rise for the same amount. In our case, with an asset base which remains flat year-on-year, we had a reduction in wind production also because of our exposure in some regions like Puglia and Calabria, where the anemology was particularly weak. These shortages from Hydro and Wind was nevertheless offset - in terms of volumes - by higher solar production in Italy (thanks to the larger perimeter), and as well as by a higher production from Wind, in particular in France and Germany, where we had a significant increase of our assets.

Last, but not least, our CCGT volumes were up, driven by very favorable trading conditions in Sicily. As said, electricity prices in Italy were not so good during the third quarter. I think that the chart is self-explanatory: weak PUN (national price of electricity), driven by the pressure we have seen over the last few months – but in particular during the summer - on gas price. This was only partly offset by the rising CO2 price.

All-in-all, the price indicator for Renewables in Italy was €143MWh because at the weakness of the electricity price you should add the lower value of the incentive from €99MWh last year to €92MWh in 2019. As said, the hedging actions taken over prices both in nine months and then in Q3, mitigated the effects of the price scenario, which was very supportive in terms of thermal generations. You can see here from the chart that the spark spread moved up from €16MWh to €23MWh and was particularly good in Sicily, because there we still enjoy €15MWh premium compared to the national average price.

Abroad: again you have here all the unitary revenues related to our assets in the different countries. Remember that in France and in Germany we have basically a feed-in tariff system: so, the prices are related to the tariffs actually, while in Poland and Romania, the prices are partly made of the merchant price, and we shall underline that the trend of the prices are quite good in Poland and Romania, but basically in Poland they related to the increase in the Origin Certificates value.

Let us move now to **page no. 8**. Here I will comment in a nutshell the results for the first nine months: it is the only page where I am going to focus on the nine months, but just to give you a better and comprehensive picture of our trends in this year. So, we posted €380mn (slightly up, basically in line with last year), but this is an incredible result in a zero-sum game but actually there are very, very different effects, as you can see here.

First of all, I comment on Hydro. You see a drop of €54mn: it is a very, very large drop. I have already commented in several ways: let us say that in the end the volumes turn out to be much weaker than we could reasonably expect because of the very dry season started at the end of 2018 and prolonged until a few weeks ago, when fortunately it started raining and our reservoirs now are starting raising a little bit more.

And then the higher wind production: here the increase in production was mainly driven by the new assets in France and Germany. And Solar: we have a solid contribution from Solar, and this is due to the new asset we have consolidated since January 1st. While as far as the CCGT, on a like-for-like basis, it is the same plant but the business environment was much, much better for this plant. So, all these segments are up, but unfortunately offset by a large drop in the Hydro segment.

So, let us now comment on segment by segment, starting from **page no. 9**, with Wind: 3Q19 EBITDA was €43mn, almost 8% up for the reasons I have already commented. Let me just underline, stress the large increase in volumes we had in our countries outside Italy, and particularly in France (you see from the chart: plus 80% volumes) and in Germany (plus 131%).

I would also like to say that this growth in terms of megawatts came about 60% from M&A, it is true, but 40% came from the development of our pipeline, which is the first evidence of the delivery and the roll-out of our business model, which relies on different growth stream, and this trend should accelerate, going forward.

Let us move now to **page no. 10**, Solar. Here again, there is no more to say compared to what we have already commented. Let me just underline the huge, again huge increase in volume, 75GWh produced over the quarter, which means plus 68%, and this reflects the larger perimeter. And consider also that the unitary revenues went up from roughly €300MWh to roughly €320MWh, because the new asset Andromeda enjoys an even better incentive scheme than the portfolio of ForVEI.

So, let us moving on Hydro (we are on **page no. 11**): I think really there is no more to say as we have already touched from different angles the performance of the Hydro business, but let me add that everything played against the economic performance: not only the availability of water, not only the scenario, the incentive, but also the MSD market, so, the Secondary Dispatching Service Market, which provides very, very little revenues to the plant in the quarter and, actually, in the nine months.

Let me add, maybe as a relevant information, that our water reservoirs at the end of the quarter were broadly in line compared to the same period last year, but higher than the situation at the end of December. And fortunately, they have been rising in recent days, in recent weeks, following heavy rains finally also in Central Italy.

CCGT results, now I am on **page no. 12**: here EBITDA was €25mn, plus 39% year-on-year. I think this plant once again proved itself fit in our portfolio, which is quite complementary to the other assets. The performance - I have already commended – was given by the higher clean spark spreads, the location of the plant in Sicily and higher volumes driven by the better business environment, and let me also underline that the €59mn of EBITDA posted by the plant in the first nine months are already higher than the amount posted for the full year 2018. So, this I think speak by itself that the performance of the plant is very good.

Let us now comment quickly on investments (I am on **page no. 13**), because I think Luca has already touched all the factors that drive our portfolio. Our installed capacity grew up quite considerably. Let me comment on the nine months, which I think gives a better presentation of what the Group is doing. We invested €401mn over the nine months, out of which €364mn were invested in M&A, including the Andromeda acquisition in the Solar in Italy, the acquisition of 52MW in France, and the 34MW most recent acquisition in Germany. I think all these operations have been object of specific press releases, so you know everything, but I think it is important to underline the considerable amount of investments we went through during 2019. €25mn was invested organically in wind development, i.e. the conclusion of the construction of Linda wind farm in Germany (which has been up and running since June), plus other activities in the UK and the carry-on of the preliminary activities for repowering and reblading.

I shall also remind you that in the third quarter the reblading at Avigliano in Basilicata (13MW) was completed with good satisfaction and is now up and running. €12mn of maintaining Capex spread across all our technology, so I think it is an important number, because if extended to the fourth quarter, it would lead to a number, which is below €20mn, which gives us a sign of how much we are investing to grow, and how much we are investing to maintain our plants, considering also that maintenance Opex are already in our profit and loss.

Let us now comment on financials, on adjusted profit and loss as per **page no. 15**; let me again remind you that these figures are shown on an adjusted basis - i.e. without including the effects of IFRS 16 and 9 - as we believe this gives you a representation that is more consistent with our cash items. In any case, all these effects are included in the reported figures and well explained in our profit and loss statements.

So, that said, let me comment on the profit and loss. I have already said about EBITDA; depreciation is quite on its upward trend (given the capital intensity of our investments) and mainly reflects all the new assets we have already commented. It is positive to see that -- despite the increase in the asset base - the financial expenses were in line with last year, even though the net debt has increased following the investments, because the cost of our debt is still on its downward trend. As a matter of fact, the gross debt cost was 2.5% in the quarter, compared to almost 3% in the same quarter in 2018.

The tax rate in the quarter - even though it is not very representative - was 43% against 26%, mainly reflecting the lower pre-tax. So, there is a little bit of distortion in this number, but also given to the abolition of the tax breaks, known as ACE, which counted for €2mn positive in the third quarter of 2018. Minorities: a small number, but it is still there, following the acquisition of Andromeda, of which we own 78.5%.

As a result of all this, the adjusted net profit was €7mn in the third quarter against the €17mn posted in the third quarter of 2018 but - when looking at the nine months - the number, though a little bit lower than last year, was still solid: €75mn of net profit.

But as always, we like to say it is more important to focus on the cash flow generation and see that in the quarter – when there were no dividends to be paid, and investments were a little bit lower than in the first part of the year - the deleverage is appearing again in our cash flow statements. The net debt is going down from €1,662mn to €1,569mn, underlining a leverage of 47%, against the 49% registered at the end of June.

So, just commenting item by item from left to right, we have EBITDA; the Capex (which includes a portion of M&A), a very positive net working capital - but we had said during the last webcast that we would have expected a reversal effect in the third quarter, maybe a little bit higher, because we cashed in also the White Certificates during the quarter – and then we have financial charges and tax and others, which are basically the prepayment we made for tax purposes in July.

So, all these effects resulted in a lower net debt, which I have already commented. And I hope now 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 share with you all the guidance for this year.

We confirm it for EBITDA, while a fine tuning of the projections for Capex and Net Financial Position is envisaged. Adding to the 3Q 2019 results both October's outcome (that came up in line with our estimates) and the forecast for the remaining two months, we confirm the range of €495-505mn, thus being stuck with our previous forecast.

Analysing the main reasons for such projections for each of the different technology, in Wind in Italy we expect to end up with higher production in 2019 but lower energy prices that - associated with lower incentive unit revenues - would lead to get a result below what we had got in 2018.

On the opposite, for Wind abroad we expect higher results compared to 2018, mainly due to a better performance of the existing assets (both in volumes and for the energy prices), a larger perimeter in France of about 52MW fully operating over the whole year, a larger installed capacity in Germany of about 55MW thanks to the last acquisition of some 34MW. All of that was partly off-set by a lower presence in Northern Ireland, as we sold a wind factory of 48MW in March 2018. All in all, the result in Wind will be anyway higher than last year, because the larger capacity and higher production abroad should overcome the projected domestic weaker economic results.

In Solar the result expected for year-end will be significantly higher than those in 2018 - I would say twofold - thanks to ForVEI plant's good performance and to the contribution of the newly acquired Andromeda plant.

At the same time, in Hydro we expect a quite significant lower result at year-end versus 2018, due to lower availability of water affecting both the portion of the production remunerated merchant and the one entitled to get incentives (that were very high last year), to a weaker scenario as for the energy zonal prices, and because lower availability of water reduces the capability of the plant to modulate and to take advantage of the Dispatching Market Services, as already in 2018.

As for the Thermal Generation, we expect higher results than last year, as the very low natural gas prices and higher energy prices in Sicily are more than off-setting the growing trend in carbon dioxide prices, thus resulting in higher Clean Spark Spread. As usual, the better performance is also being achieved through costs control, larger White Certificate production and finally through the medium term PPA with our large Sicilian industrial customers.

Overall, we expect that 2019 EBITDA be higher than last year, although it is worth saying that the weak performance of the Hydropower plant - also in comparison with its extraordinary high result of last year - is almost off-setting the by far better performance of all the other assets and energy management.

As for the Capex, we change the existing forecast that ranges between €340mn and €370mn to a larger €430–450mn, so taking into account the last acquisition in Germany. As of today we have already invested some €400mn, out of which some €364mn in M&A transactions and the remaining for Greenfield Development & RRP (some €25mn) and Maintenance Capex (of about €12mn).

Finally we adjust upward our projection for the Net Debt at year-end, moving from the existing range of €1.39-1.47bn to the new one of €1.50-1.56bn, so as to factor in the expected lowering of interest rate curve, that entails higher than expected mark-to-market value for the Interest Rate Swap agreements in place, on top of the higher Capex amount, already mentioned.

And 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. Please go ahead.

Roberto Letizia:

Yes, good morning. I would like to spend a few minutes on the numbers below EBITDA, because it seems actually that in the quarter the net income is being slightly lower than expected, because we saw the issue related with production, but the net income seems to be particularly weak. So can you please help us, driving on the main topics for the full year net income? Can you give us a guidance for what you expect to achieve bottom line, or - if you do not want to spend a full guidance - can you tell us at least an indication about what level of full year depreciation you are looking to achieve, and the tax rate you should assume for the full year, considering the 43% which is unusual on the third quarter?

I would like to understand what the difference is on the hydro production, but related only to the volumes rather than the price, as the volumes are more interesting. So what have been the impacts in terms of production versus the internal index in the normalized production year-to-date? Can you provide with an update on the pipeline development, including the repowering and reblading, can you update us on what you expect to add in terms of megawatts in 2020 and 2021? I would like also to ask you what you expect in terms of interest charges next year, because I understood - and I want you to confirm -

that possibly next year interest rate charges will get benefits from the refinancing program.

The very last question is related to the capacity market. So, you have got first participation with the existing capacity on the 2022, which everyone got almost 100% at the cap price, meaning that the competition in the capacity market is very low. I was wondering if you are going to participate as well for the 2023. And in case, if you are looking to participate into the capacity tender process also with the wind capacity and maybe... I was wondering if the repowering can get access to the capacity, and possibly could be considered as a new one, which would be interesting because of the 70,000MW for 15 years. So, if you can clarify, if there is an option to participate into the capacity market also with the wind capacity? Thanks a lot.

Luca Bettonte:

Fine, I will try to answer, but maybe you can help me in going back to your questions because there are many, as usual. So, as far as the net income, we usually do not give any forecast for the year-end, because our projection is based on 3 main items: Capex, EBITDA and net financial position. What I can tell you is that the trend for the year is what you have just said for the first 9 months. So, we are investing a lot, because last year we invested in the range of €400-450mn, and we have already achieved such an amount in the first 9 months of this year. So, the impact of the depreciation is the main item that explains why we have this reduction compared to the previous year. So, the trend is going to be the same from now to the end of the year. So, the expectation is to have a lower net profit, compared to last year. So that is the point. Tax rate is affected mainly because in the past we had the ACE, that we no longer have. So, that is an impact in that direction. On the other hand, we are benefiting from the reduction in the financial charges, as far as we changed our net indebtedness profile, entering the debt capital market, as you know.

Paolo Merli:

Anyway, as far as the tax rate is considered, the third quarter is a little bit distorted by the fact that the pre-tax is so low. And then if you look at the full year, you can take a tax rate in the region of 30%, which I think is a good estimate.

Luca Bettonte:

Right. Anyhow, let me put it this way: if you take the number that we landed last year as net profit - it was €107mn - the difference versus the projection should be lower, so the number as for the projection should narrow the year-end results for 2018. So, the difference between the 9 months net profit and the year-end net profit, compared to last year, is going to be lower.

Roberto Letizia:

So, you mean the fourth quarter net income is going to be higher, are you saying that?

Paolo Merli:

Please consider that the pressure on the bottom line comes mainly from the depreciation items: a good estimate for the depreciation is in the region of €300mn for the full year, just taking the 9 months and summing up what we had in the third quarter. That is the point. We tend to look at our numbers in terms of cash yield and cash flow.

Luca Bettonte:

Right. As for the hydro production, you know that we do not take any position as for our budget. We look backwards at what happened over the last 10 years, so that is the average. As for our projection, we think that by year-end the final outcome should be some 15% lower. So, something better than 2017, that what we think it should be. Although, if I look at what happened in October and what is happening in November, the production is in line with budget, so it is better than expected. As you know - just look at outside your window - you see that the weather has changed, now in our favor. But anyhow, today minus 15% is what we put in our forecast.

As for the pipeline, repowering and BD, we are happy with what we are doing: we are on time and on budget. As for the specific indication in terms of number of megawatts that we are going to install in 2021-2022, let me ask you to go back to what we have already said as for our Business Plan: we give you a specific update every 6 months, that is what we are going to say.

Roberto Letizia:

Yes, but is it everything on time, or are you actually accelerating versus...?

Luca Bettonte:

No, as for the development we have secured 95% of the pipeline. So we are opening and we have already begun working in the UK, where we have 200MW under construction.

As for the authorization abroad, we are on time and on budget: to a given extent we have anticipated for one wind farm - Picardie 1 is the name of the wind farm - in France, where we took part and won an auction. So far, so good. As for repowering, in Italy we have got most of the positive opinion from the Environmental Impact Commission that pertains to the Minister of Environment. Now, we are in the process to get the positive answer - which is our expectation - in the next months, from the Ministry of Fine Arts. And then go back to the Minister of Environment for the final authorization, I mean by the Environmental Impact Commission.

So far, so good: with them we are working very well. We have finalized most of our engagement and for the connection we do not see any problems. So far, so good. And now, looking back to the figures, they reflect the moment the Group is leading, in a sense that we have been working very hard in order to secure the pipeline we have done, and to keep on deploying the Business Plan the way that you were - and you are - expecting.

It is important to underline what we have agreed with ACEA, that witnesses as a possibility to enter in real PPAs also in the Country. Today, the agreement lasts just for 3 years because we are opening up this new revenue stream, anyhow by securing the sale at the prices that I cannot disclose, because there is a confidentiality with our customer. But in general terms, we are quite happy because we are by far higher than our LCOE. And so, that is what counts much for us in this way.

As for the capacity market, it is a new market, you know: we are very happy because at the end of the day, we secured more than €10mn of revenues for 2022, unfortunately we have to wait for 2023. There is going to be another auction in a couple of weeks, so wait and see. But you know— although Terna changed the way the auction will be held - my expectation is to achieve the same result also for 2023, because in my opinion, there should not be any relevant investment in the Grid to change the picture in terms of what then should be needed as a capacity disposal in 2023 as compared to 2022. But anyhow wait and see what it is going to happen for that.

For us, it is a good opportunity. We take part in the auction just with the gas fired turbine plant, because - due to the penalties relating to the wind farms, and to the volatility so far and going forward associated to the production from a wind farm - we are not confident to use this power for the capacity market, also because the rating is so huge that, at the end of the day, the risk to incur penalties is by far larger than the benefit to bring home some hundreds or thousands euros of revenues. So at the end, we made a decision not to proceed with wind farms as for capacity market.

Operator:

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

Sara Piccinini:

Hi, good morning and thanks for taking my question; I apologize because I have a few as well. The first question is about the contribution of the MSD that you expect this year and the comparison with last year, if it is possible to have this figure. Also, on the hedging you have already secured for next year: are you hedging your production at these lower prices?

Then another question is on Germany: the German market seems to be experiencing a tough situation, with most of the auctions not reaching the available capacity. So I would like to ask your feeling about this situation, and if this is changing your growth expectation in the country, and how you would compensate eventually for that.

Then, the other question is on the PPA with ACEA: I understand that the price you reached is higher than your LCOE. Is it possible to have an idea of the EBITDA that you expect to stabilize from these contracts? And also, what would be the factors in your view that would lead to an extension of this contract to 10 years?

And finally, the results of the Italian auctions have not been unveiled yet: when do you expect the results to be unveiled, and also have you an initial indication on how they went? Many thanks.

Luca Bettonte:

Okay, right. As for the contribution of...

Paolo Merli:

For the MSD, frankly speaking the contribution we are going to expect this year is a bit marginal for the Hydro business, incredibly because since last year we had a huge contribution from it: we are trying to understand the reasons behind this. But for the time being let me say that the contribution expected for 2019 is very limited in the Hydro and a little bit higher for the CCGT.

Luca Bettonte:

Yes. So I would say, it is approximately a bit lower than what we got, of course, at the end in the MSD in the Central North of Italy: below because of technical reasons at the end of the day, nothing but for that.

As for the hedging, we have hedged most - let us say some 70% - of the production stemming from the renewable assets (so hydro plus wind), and almost more than 85% for the CCGT. So the price impact on our profit and loss going forward is going to be quite low.

Sara Piccinini:

Sorry, you are referring to 2020 or...?

Luca Bettonte:

I am referring to 2019.

Sara Piccinini:

Okay, and is it possible to get 2020?

Luca Bettonte:

We covered more than 60% in 2020 as for renewables, and some 85% as for CCGT, as far the gas fired turbine plant. As you know, it is a rolling hedging procedure: so every year we hedge on a 3-year basis horizon...

Paolo Merli:

Anyway, let us consider that the price we had for 2020 is quite satisfactory by the low prices in 2019, because of the steeping curve of the forward market - at least still few weeks ago - with a price which pointed near €60MWh. So the price is even better than our budget in the Business Plan.

Luca Bettonte:

Right. As for the German market, it is something that we are having not just in Germany, but abroad. The amount of megawatts not allowed, not awarded through the auction is something in the range of 1.7GW. And it is a point; it is a point that is telling us that the pace, the speed is going down. But anyhow, let me go back to what we said in the past as for ERG: we had our pipeline, we are developing some 200MW that, for an operator like us, is enough headroom looking at the auctions in terms of number of megawatts to be allowed, to be awarded and in terms of price, because the lower is the number of participants, the higher - for sure -, is the price that the participant that wins can get.

As a trend, you are right, since there is a slowdown and you can intercept it also looking at what is happening as for the WTG producers and providers, see the recent events for Senvion, Nordex and the like. So the industry is in Germany but not just in Germany, in any case. In Germany it is going through a specific period of re-assessment, in my opinion. The trend is not under discussion, I mean, investment in renewables is key for the future. I think we have achieved a situation whereby by adding renewables, the marginal megawatt you install in terms of technical impact is higher and heavier than in the past. And they are going to be heavier and heavier, because the main problem today all over Europe is the grid development and to get the grid fit for the purpose.

But anyhow, all the TSO have announced that they are pushing very, very hard in order to increase the amount of investments and to speed this process, wait and see. Going back to us, in Germany we have something less than 300MW: we have a pipeline of about 200MW which we are working on, so in line with our expectation. That is what I can tell you. Anyhow, as a trend, you are right: keep an eye on what is happening. Anyhow, in my opinion the trend going forward should not change.

Paolo Merli:

Yes, she was asking about the PPA we signed with ACEA. As you can easily understand, we cannot give particularly details on it more than what we already reported in our press release, but this provides a collar. So, we give up to some upside, but we are hedged on the floor and the value of it goes around €60, that is the point around which the collar is set. So it is a quite satisfactory level. The idea in the key message through this PPA is the fact that we are working hard on securing going forward part of our portfolio, ahead of the repowering capacity, which will come on the market in a couple of years, we hope.

Luca Bettonte:

Yes, as for the last question about Italian auction, there is not any official indication so far, but for what has been said in the key energy exhibition held in Rimini, it seems that out of 730MW under auction, 772MW was the amount offered or asked for. So at the end, it is in line but, you know, it is quite different from what we saw in France and in Germany. So at the beginning the amount of megawatts that took part in those auctions was very, very high, and by far larger than what was at that time offered by the Regulator. But if these numbers are confirmed, I would say that in Italy we are already in a situation whereby the amount offered is similar, equal to the amount asked for. So I do not want that this is a quite strong signal that - just starting from the next auction - there is going to be a leakage, a lack of megawatt with enough authorizations to take part in the auction.

And then what to a great extent, we have been deeming - because you know that we are working very hard for the repowering, and one of the reasons why we did not believe and to a given extent we still do not believe that to achieve the target set forth in the climate plans - and in particular in Italy, going through the new installed capacity - is not going to be enough, for sure. So, it is important to underline also in this conference call that to debottleneck a huge amount of investment, the Regulator should take out the change, to raise the specific provision that everybody knows under the name of "*Spalma incentivi*" that is blocking, a huge amount - I am talking about billion of investments - in the Country as for repowering. We are pushing very hard in that direction, we are having many meetings with the most relevant authorities in that direction, and we hope that they could change their idea, in particular after this first auction.

When I was at the Ministry of Development, I was told that they had to look at the first auction outcome in order to go back thinking about to take away from the existing legislation this specific clause, associated with the "*Spalma incentivi*" Decree. Now the first auction is on the table: if the number is confirmed, I think that they have a lot of reasons for going back to think about the way that repowering is allowed in this Country.

Sara Piccinini:

Very interesting. Many thanks.

Operator:

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

Emanuele Oggioni:

Good morning everybody. Thank you for taking my questions as well. I have a few. The first one is on the Thermal generation: I wonder what is your outlook for the spark spread in 2020?

And the second one is on the Hydro generation: you previously mentioned that the reservoirs are recovering in Q4. So I wondered if you could give us more details on this recovery, if you quantify a bit more.

And the third question is on the Aquila Capital deal in Germany: you mentioned the potential industrial synergies which are possible, as the location of the acquired farms is near your plants. So could you add more color on that?

And the final question is on the 224MW projects acquired in Germany: also in this case, could you give us more details for example on how much of this project could enter into the pipeline for next year or for the next two years? Thank you.

Luca Bettonte:

Right. As for the hydro recovery, I will give you an answer: my colleagues are providing me with the specific figures...

Hydro recovery...no come on...I cannot tell you that much because we are talking just about 10 days in November. At the end of October production is a bit better than our expectation. As I told you, we are expecting to end up with a production that should be 15% lower than the 10-year average, and that is all for the time being, as for Hydro. And also keep our fingers crossed because that is really important.

As for the pipeline and synergies in Germany, you know that synergies are part of our insourcing processes. In the end, you can consider what we got in Italy: now, we are trying to replicate the model there. And in the end, synergies have to do with the insourcing of the operational maintenance activities as usual, and are a portion of what we got from this investment. Anyhow, this is much important, i.e. that we bought very good assets with a quite stable revenue profile.

As for the pipeline, we acquired the pipeline; as I just told you, Germany is a quite tough market based on the analysis and the discussion we just had with your colleagues from

Mediobanca. So today, we are at an early stage and we do not think to see anything installed before 2021 for this pipeline.

Clean spark spread, going forward, we are talking about the indication that is stemming from projection, as for the main relevant components of the clean spark spread: so, I am talking about cost of NG, I am talking about CO2 and the like. We are talking about something which is a bit lower than €10MWh.

Emanuele Oggioni:

Also, a quick recap on the Renvico selling process: when could we expect the outcome of the selling process?

Luca Bettonte:

See, as usual, I do not want to be impolite, but we never comment when an auction is on air, so wait and see.

Emanuele Oggioni:

Okay. Thank you.

Luca Bettonte:

Okay.

Luca Bettonte:

So, thanks for being with us and speak to you soon, anyhow when we are going to comment on the results for the year-end, and with a deeper and thorough update about our Business Plan. Thanks a lot.

Paolo Merli:

Thank you. Bye.