

ERG S.p.A.
“4Q 2019 Results”
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MODERATORS:

LUCA BETTONTE, GROUP CEO

PAOLO MERLI, CORPORATE GENERAL MANAGER & CFO

Operator:

Good morning. This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 4Q 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 and thanks a bunch for coming to this conference call related to our 2019 annual results.

As usual, here with me there is Paolo Merli, our Corporate General Manager & CFO. In order to comply with the last Government decree to limit the diffusion of Covid19, we are talking to you from different locations, exploiting at most our remote connection systems. I apologise in advance for any potential malfunctioning during the webcast. However, if it might be the case, our Investor Relations Manager is at your disposal for further, deeper and clearer information... at the telephone of course.

As usual we start with **page no. 4**. I give you a quick overview of the main figures of the year, while Paolo will take you through them in depth, also for the fourth quarter.

Anyhow, before any comment, let me say that the fourth quarter went very well, and that we have met all expectations as for the full year guidance; and let me also remind you that 2019 saw ERG overcoming 3GW of installed capacity.

And now some numbers.

2019 EBITDA came in at €504mn, some €13mn higher than last year; Net Profit was €104mn (that is pretty in line with €107mn of 2018), while Net Financial Position ended at €1.47bn versus 1.34bn, as expected. We posted better operating results in all the technologies we had been running in 2019 but for Hydropower, due to low water availability: in this sector the production has been of 1.2GWh, lower than 1.7GWh of the very wet 2018.

Going quickly through each sector:

Wind went well, as the lower result in Italy was more than offset by the higher result abroad, where we are massively investing.

The main reason for the Italian performance has to do with the weaker energy prices and the lower Unit Green Incentive values, while power generation was some 150GWh higher. The impact from the phase out of the incentivised schemes was negligible this year, for just 32MW have gone out.

Abroad we benefitted from the larger installed capacity in France and Germany of more than 100MW at year end, that contributed with some additional 270GWh. These figures

are net of the contribution from Brockaghboy, a 28MW wind farm we built and then sold in Northern Ireland in 2018.

Talking about Solar, we doubled the result thanks again to a large perimeter, as we moved from 90MW at the end of 2018 to 141MW at the end of 2019, by acquiring a quite efficient solar plant.

As for Hydropower, in order to understand the lower result vs last year, on top of what I have just said, one must take into account the lower production flexibility of the plant still due to the drought, and the weaker energy price scenario that brought about also a lower price volatility peak/offpeak.

Thermal power posted, on the contrary, a quite higher result if compared with 2018. The main reason for such a performance comes from a significantly higher Clean Spark Spread, and from the cost of natural gas that almost dropped to its ever floor in 2019, allowing to more than offset both a decline of the energy prices and the increase of CO2 costs.

Net Profit for the year is €104mn, whilst last year it was a bit higher at €107mn. In 2019 we had a larger depreciation, due to the relevant acquisition we made in Wind and Solar, just partly offset by lower financial charges after the Green Bond Issuance. The re-introduction of ACE (tax easement on reinvested earnings) helped improving the bottom line, with retroactive effect in the fourth quarter. Let me underline it is the second year in a row that we overcome €100mn for Net Profit, and that is what counts most to me.

Net Financial Position at year end was €1.47bn. It is higher than the previous year but lower than expected, at the bottom end of our guidance. There is no specific item to be highlighted but for better net-working capital dynamic, due to a shorter collecting timeframe for green incentives as per new regulation. Let me then conclude that we have been meeting all the requirements set forth by the rating agency in order to keep deserving an Investment Grade Rating.

Now lets us go on **page no. 5**, where we have compared 2019 actual results with the last guidance.

Ebitda at €504mn is in the high-end side of the range of the revised projections, and it meets also the central point of the initial guidance. The projections were met in all the business lines but for Hydro, as 2019 was a very dry year. In Wind and Solar we had a strong contribution from the new installed capacity, while Thermal benefitted from higher Clean Spark Spread.

Capex at €432mn are in line with the revised guidance range, and above the highest limit of the initial guidance.

The larger amount versus the initial guidance is mainly due to the acquisition of Barkow wind farm and of a pipeline in Germany: both are transactions from the M&A department, that are never predictable till - I dare to say - their conclusion.

Net Financial Position is at €1.47bn, well below the lowest limit of the revised guidance range. This positive outcome was possible for the lower financial costs, thanks to the issuance of the Green Bond and the related optimisation of our gross indebtedness structure, and as a result of the net working capital dynamics, that benefitted from the shorter term to cash in Green Incentives, as per the new regulation introduced in the year.

On **page no. 6** you can see that 2019 has been a very good year for us: we have been carrying on our relevant investments, authorisation programs and obtaining some very important awards. Going through the chart very quickly:

- expansion in France: +90MW. Wind capacity at 400MW.
- expansion in Germany: +56MW. Wind capacity approaching 272MW
- expansion in Italy: +51MW. Solar capacity at 141MW
- organic growth abroad: we have secured capacity at 100% vs BP target @2022
- Repowering: very advanced stage of authorization process for 241MW As-Is, which means before being repowered.

In terms of revenues stability (which is also one step of our growth path), we signed two PPA with ACEA Energia (1.5TWh), paving the way for longer duration. As far as Capacity Market in Italy is concerned, we have been awarded 340MW for our CCGT, and we secured €11mn revenues per year in 2022 and 2023.

And last, but very important for us, the ESG reward. ERG achieved ESG rating AA from MSCI, which is very important, and we are very proud of it. Among the 100 companies ranked in the Corporate Knights Global 100 Index, we ranked 35th worldwide in this quite important index. And finally, we have been confirmed with rating B from CDP.

So, let me say: a very good year, again.

Now we have some charts that show you where we are within our Business Plan.

First of all, on **page no. 8**, there is a comparison of the MWs installed in 2019 versus 2018 in the countries where ERG is exposed. It is easy to say that 2019 shows a decline in the development of the onshore wind, due to longer permit procedures, that many times had got longer due to the accumulating delay of the Transmission System

Operator in deploying their investments, so as to get the grid fit for the development of the Renewables, as envisaged in the National Climate and Economic Plans. So, a longer time-to-market for new capacity in our core countries.

But, despite what we have seen in the previous chart, I am now commenting **page no. 9**, we are on track and on budget as for the development of our Business Plan, that we shared with you two years ago. As of today, we have increased by 342MW our capacity, that represents 40% of the 850MW that will be up and running by 2022. Let me remind you that in M&A we have overcome the Business Plan target of 250MW, for we have already acquired 265MW.

On **page no. 10** we have simply summarised what we got in 2019: we grew by 198MW. We grew in three different countries and two different technologies, and all these assets are entitled to get fixed energy prices for 11 years on average. 190MW represent some 10% of our Renewables capacity at the beginning of the year.

On **page no. 11** you find a snapshot of what we are doing abroad, with reference to our greenfield development project, which - alongside with M&A and Repowering - is one of the three streams of our growth. You can see that in the next couple of years we will be bringing under construction 285MW that, if added to 77MW already brought in operations in the previous years, allow us to confirm that we will have achieved by 2022 the target envisaged in the Business Plan.

On **page no. 12** there is our investment program in Italy, through Repowering and Reblading. All the wind farms eligible for Repowering (407MW, whose COD is expected in 2022) are at a very advanced stage, and all of them have already secured their grid connection: we are confident to have them up and running by 2022. Finally, we have started the authorisation process of further 415MW to be brought to COD from 2023 on. As for Reblading, we plan to have completed the process for all the four wind farms by 2021.

By and large we are on time and on budget, despite getting the authorisation is sometime harder than expected. And, ahead of all the Repowering projects to get the ready-to build status, today we are working hard in order to make the Regulator extend the possibility for auctions also for Repowering with the amendments of the so-called *Spalma Incentivi* Law, as we strongly believe that it would be essential for Italy to reach the target set out by the National Climate Plan. This chart lets you know that this is an area at work in progress, but very important.

Finally, on **page no. 13** let me comment about our pipeline: we show you a map of ERG, that includes both installed capacity and the pipeline. Let me bring to your attention that

ERG, by carrying out these projects, could get a dimension of some 5,000MW: 3,600MW by 2022 and the remaining afterwards, so paving the way for a steady continuing growth.

Now I will hand you over to Paolo for his analysis.

Paolo Merli

Thanks Luca, good morning everybody.

Let us start by commenting on the price scenario over the 4Q 2019. I will try to go a little bit quicker than usual, as Luca has already commented on the main effects that drove our results over the quarter and the full year. Nevertheless, I will try to add some more details for you.

I am on **page no. 15**. Power Demand in Italy went down 2% YoY in Q4. Here you have the trends for the different sources in Italy: all up YoY, with the exception of Thermal production, which was down. Looking at our operations, in general terms we can say our assets performed in line with those national trends in the Renewables space, net of course of the new installations in Italy for Wind and Solar during 2019, while our portfolio was broadly in line with last year. As far as Thermo is concerned, our CCGT plant productions were up 8% due to favorable trading conditions in Sicily, and to its higher resilience, given our captive market towards the Industrial Site nearby.

Let us now comment on electricity prices in Italy. I think the chart is self-explanatory: a fairly weak price scenario, brought down by the fall in gas prices, only partly offset by the rising CO2 price. Price indicator for Renewables in Italy, including Feed-in-premium, was 140€/MWh, driven down YoY by both the lower merchant price and the lower value of the incentive, which is calculated on the basis of last year's average national electricity price. It is important to underline here that most of the merchant effect was neutralized thanks to the hedging actions taken over the period, according to our risk policies.

Our CCGT's Clean Spark spread was up significantly YoY from 0 to 8€/MWh during the quarter. These positive numbers also reflect the higher premium vs PUN in Sicily on a YoY basis, which almost doubled: 8 versus 4€/MWh last year.

As far as abroad is concerned, 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 Bulgaria and Poland, partly offset by a poor scenario in Romania.

Let us move on: now I am on **page no. 16**, commenting on the Economics in a nutshell.

I prefer to comment here on full year results, which I think give you a more comprehensive picture of what happened during the year and its main trends.

Ebitda amounted to €504mn, at the top of our last revised guidance, but also at the low end of the initial guidance, given at the beginning of 2019. The number is anyway up +3% YoY, which is not bad considering the very tough comparison in Hydro. In fact, among the main items to comment on there are:

- a significantly weaker contribution from Hydro, that was driven down by consistently lower volumes in a business environment characterized by a weaker price scenario; conversely – I should remind you – FY 2018 was an exceptionally strong period from this standpoint. So, as I said, we suffered a very tough comparison, which in numbers translates into more than €50mn of volume effect on a YoY basis: €50mn, that gives a clear idea of what happened in the Hydro Segment. Then, fortunately,
- higher wind production, especially abroad, driven by a larger asset base in France and Germany, following the successful M&A season but also the contribution from our first greenfield installations, again in France and Germany
- the contribution of Solar assets, which doubled – and this is a quite important number - thanks to the acquisition of Andromeda (consolidated as of January 1st) and to better Solar availability in the period
- the CCGT plant which was up, thanks mainly to stronger and better profitability, especially in Sicily.

So, I think there is another and quicker way to look at our results for the full year, maybe it could be the following: on one side, as I said, we had €50mn less from Hydro. That amount was compensated more or less by €50mn more from the new assets. Therefore, these two effects neutralized each other, so the remaining growth came from the better performance in Wind and Thermo: it is as simple as that.

Let me now go segment by segment, starting with Wind and focusing on the 4Q, again. I am on **page no 17**.

Ebitda in Q4 was €87mn, up 16% YoY, thanks to a better performance both in Italy and abroad, mainly thanks to better wind conditions over the period, more or less everywhere. But in particular we had a good performance in France and Germany, also thanks to the new assets, which contributed €7mn during the quarter, and -please note and remember this number - €20mn for the full year.

I have already commented on the price scenario, so I move on.

Just a quick overview on production, which is the consequence of what I have already commented: let me once again underline the strong increase in volumes (+21%) for sure, thanks to better wind conditions in Italy, but in particular to a huge rise recorded outside

Italy, in particular in France (+51%) and in Germany (+34%), this mainly thanks to the new installed capacity in service. No more to say here.

Let us move on, commenting on Solar, which includes - as you know, - the 51MW of “Andromeda” Portfolio, effective as of January 1st. I am on **page no 18**.

Production in 4Q 2019 was 32GWh: +60% YoY, thanks to the new assets.

Unitary revenues for the entire portfolio were of about €302/MWh, up compared to €284/MWh in 4Q 2018, as the new assets – as I have already commented several times - enjoy an even stronger incentive scheme.

So, the combination of higher production and selling prices brought in from this acquisition led to an Ebitda of €7mn in the quarter compared to €4mn in the same period last year.

Probably it is more important here again to focus on FY results, which have almost doubled: €32mn in 2018 against €63mn in 2019. And here it is important to say that - notwithstanding the increase of installed capacity was about 40% - the Ebitda actually doubled, and that is the result of the outperforming capacity of the new assets.

Let us now move on commenting on Hydro, I am on **page no. 19**. As you already know, this is the biggest effect on all of our results: Ebitda in the quarter was €23mn (-18% YoY) driven by a poorer scenario, even though during the quarter we had the first recovery in volumes, with production up 7% YoY. But I think here again it is important to focus a little bit also on the full year results, with production down 30% YoY. And in terms of Ebitda you see that for the full year we had more than €50mn less, which is mostly attributable to the volume effect.

Here also the scenario was not helping. The unitary revenues on average were at 94€/MWh, down vs. 114€/MWh recorded in 2018, mainly for the same reason, i.e. the lower value of the unitary incentive price, coupled with a lower merchant price.

Let me also underline – and this is a positive item to be pointed out - that our water reservoirs at the end of the quarter (and even these days) were up YoY and even higher QoQ, following the heavy rains registered during the fourth quarter. As a matter of fact, as of today we have roughly about 90GWh of energy stocked in our lakes to be used during the course of the year.

Let me now comment on CCGT results. I am on **page no 20**.

Ebitda in 4Q 2019 was €11mn, more than doubled: +120% YoY. This strong performance is mainly explained by three factors, in order of magnitude:

1. higher Clean Spark Spreads, due to lower gas costs and a larger premium on the Sicilian market, which was almost doubled in the quarter compared to the same period of the previous year.
2. higher volumes, which are also a consequence of the increased Spark Spreads. And also
3. the greater volumes of TEE given the higher steam withdrawal from the ISAB refinery.

And now investments, I am on **page no. 21**. Here I am focusing on FY 2019, which gives a better representation of what we are doing.

We invested €432mn, which is quite a big number, composed as follows:

- €364mn in M&A: according to our Business Plan, the M&A was expected to deliver in the first two years of the plan, and that was exactly the case. As I have just said, €364mn are mostly related to the Wind acquisitions in France and Germany, as well as the acquisition of Andromeda's 51MW solar plants in Italy. This figure also includes the amount spent to buy the ready-to-build Craiggore wind project in the UK, as well as the amount related to the acquisition of a pipeline of roughly 200MW of projects at different stages of development in Germany.
- on top of these 364mn, about €40mn was invested organically in wind development, of which about €15mn in Germany related to the construction of Linda Wind Farm (which is up and running as of June 2019), while the remaining Capex was spent in other initiatives, especially for the Repowering and Reblading in Italy, but also in the UK to pave the way to start construction in 2020.
- €23mn of maintenance Capex, spread across all our technologies.

So, you can break down our investments for this year in three main streams, basically: €364mn for M&A, about €40mn for organic development in wind, and more or less €23mn in maintenance. However, the key message here is that we still invested a significant amount of money in growth in 2019 as well.

Let us now move on to Financials, commenting on P&L on a recurring basis. I am on **page no 23**.

Let me again remind you that as usual these figures are shown on an adjusted basis, so without including the effect of IFRS 16 and IFRS 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 explained in our P&L statements.

That said, let us continue. I have already commented on Ebitda so, going down and focusing again on Q4, we had higher depreciation mainly reflecting the consolidation of the new Solar plants.

Net Financial expenses were at €13mn, lower YoY despite the higher Net Debt. Please note that this was also the trend of the full year. That was made possible as the new M/LT project financing debt from the new assets was more than offset by the lower cost

of gross debt, mainly as a result of the swap of project finance with corporate debt at much better conditions, so basically we did €500mn of liability management program, and in parallel we issued a €500mn Green Bond in April 2019, with an important and significant effect on our cost of debt, which in the end was practically 1% less than it was in 2018.

As far as taxes, the tax rate in the quarter was 16% against 29% in 4Q 2018, mainly reflecting the re-introduction - with retroactive effect in 2019 - of the tax breaks known as ACE.

Minorities are a small number, but anyway I will comment on it: it refers to the only one minority we have in our portfolio, which is the 21.5% stake in Andromeda, held by Soles Montalto GmbH.

As a result of all this, adjusted Net Profit amounted to €29mn in the quarter vs €15mn over the same period in 2018, but – even more important - it was €104mn in the FY 19.

Now, to finish let me comment on the Cash flow statement for the full year. I am on **page no 24**.

Net Financial Debt closed at €1,476mn, at the bottom end of the range given in our guidance, but up by €133mn from the end of 2018, as a consequence of all the cash items shown in the picture. So: touching on all the items from left to right, we have our Ebitda, the investments made over the period, a positive working capital trend (€49mn, basically related to fewer outstanding days for payment of incentives by GSE), financial charges as already commented, the dividends paid in May, and about €40mn paid in taxes which are included in the €81mn of taxes & others, which also include €43mn associated to the write-off of a positive FV written at the time of the ERG Wind project finance acquisition, which was unwinded and early pre-paid - as I said - in April 2019, along with the issuance of the Green Bond.

So, all these effects led to the Debt I commented, with a leverage of 45%, which I believe is very much consistent with the nature of our business.

As promised, I went through results a little faster than usual, but I still hope to 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 2020, compared to 2019 actual figures.

Before going through the main assumptions and forecast ranges, let me bring to your attention that 2020 can be seen as a tipping point year for ERG: in fact for the first time since we started deploying 2018-22 Business Plan, we have included in the following Capex projections mainly investments to build wind farms from greenfield projects abroad, that were previously included in our pipeline.

Going to the figures, Ebitda would come in between €500mn and €520mn, higher than last year.

Wind is expected to post a result in line with last year, for in Italy we see a slightly lower production base on historical performance. We see also lower zonal energy prices, but they will be offset by higher Green Incentive unit value. No significant MWs will be phasing out from incentivised scheme (just 26MW), therefore Ebitda for Wind in Italy is expected to be as high as last year.

Abroad the contribution of the newly acquired Trinity wind farm, along with a better energy price scenario in Eastern Europe, will help offsetting a projected lower average production in all the countries, then bringing about a result equal to 2019.

Solar result will be also equal to what we achieved in 2019, with the same installed capacity in operation and small differences in terms of generation and energy price scenario, that in the end will offset one another.

Hydro on the opposite could achieve better results. It simply comes from normalising the annual production on the basis of the 10 years historical performance, remembering that in 2019 there was almost a drought. The Hydro plant will benefit also from higher unit value of the Green Incentive. Moreover, please do not forget that larger production improves the plant flexibility, thus it could take advantage of both modulation and Dispatching Market Service services. And last but not least, at today we have roughly 90GWh stocked in our lakes as a consequence of the rainfalls at the end of 2019, whilst in the previous year that amount was practically zero.

Thermal, in the end, would post lower result versus last year. That has to do with lower Clean Spark Spread in Sicily and the phase out from the White Certificate mechanism of the second module of the plant, whilst the first module was already out. But here we are working to renew this White Certificate Program.

About the scenario, also in light of what is going on these days, let me say that about 70% of our Renewables production and 90% of our CCGT Spark Spread are covered against price fluctuation, so the guidances we are giving you right now are update to that.

In summary, somehow, we expect 2020 result to be better than 2019 one.

Capex are foreseen in the range of €185mn-€215mn, lower than last year.

Investments in 2020 are mainly for the construction of some wind farms abroad that have been developed from our pipeline. If we exclude the newly acquisition of 38MW in

France, and the usual steady maintenance Capex, the larger remaining amount will be spent to build four wind farms in the UK (some 200MW), one in Poland (36MW) and three in France (50MW). Capex in 2020 also includes some millions referred to the initial investment in Thermal generation, in order to allow the CCGT plant to benefit once again of the White Certificate mechanism, as a component of the PNIEC (i.e. the national Energy Climate Plan) broader energy savings program.

Net Financial Position is seen between €1.36 and €1.44bn, lower than last year. Net indebtedness at year end would be lower than last year for higher expected Ebitda, lower Capex that in 2019 included some large investments through M&A transactions, and lower financial charges thanks to the positive effect from the liability management operations made in the previous years, in particular the Green Bond issuance. Dividend will be 0.75€/sh, as envisaged in the Business Plan.

I have finished my speech, 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 and thanks for taking my questions. I would like to initially focus on the guidance for 2020 and in particular on what regards the power prices. So, if it is possible, I would like to understand how much of your production margins is currently exposed to the fluctuation in the power price, and what actually includes the low end and the high end part of the guidance that you provided on Ebitda? I notice that you are well ahead in the program for the Repowering, and that the ratio by which you will increase the capacity from the repowering is very high. Can you please provide some details or any indications on what is the breakeven price for those projects on repowering, in the case you will never achieve the allowance to participate in the tenders? And can you provide more details on when you expect any decision to change the law to participate in the tenders will occur? Do you have any idea on how the second tender resolved in the past weeks, and if there is an indication on whether the tender is going to be short of capacity again, as it was for the first tender outcome?

A clarification on the water reservoir availability; so, you are mentioning the gigawatt availability in the lakes... I was wondering if this is because the beginning of 2020 has

been weak in terms of Hydro productions, or if this is simply because the water production is okay in the first weeks of the first quarter, and then these rainfalls are adding up to normalize the first quarter? Can you please clarify this picture?

The last question, and maybe some follow-up later: you are pointing to lower Spark Spreads in Sicily this year, but the gas price is actually very, very low. So, I was wondering if this may prove to be wrong, in the sense that for the remaining part of the year the very low gas price will allow you to get higher Spark Spreads. Thanks a lot.

Luca Bettonte

Okay. Thanks, I will try to answer. Let me ask you please to consider that we are connected from a different location, so the answer may rather have some delay, but anyhow... with reference to power price exposure as per our guidance, the exposure is quite low today with the fluctuation of the prices in the markets because, as you know, we have a 3-year rolling hedging procedure. Based on that, the year of delivery, power to be delivered in the specific year has to be hedged during the 3 years before the year of delivery. So now we have already hedged most of our production, more than 65% of the production relating to the unpredictable sources of energy, and almost more than 9% of the Spark Spread related to the CCGT. Having made such an exercise in 2019, 2018 and 2017, the level for the hedging price is quite higher than the former curve of the price that you can see on the screen today. So, the amount of power subject to the risk of fluctuation is quite small compared to the total amount of power that we are about to sell this year. Moving to...

Roberto Letizia

Sorry if I interrupt you, when you say about 65% of the unpredictable sources, for what regards the Hydro, is that 65% to be accounted on the portion that does not have Green Certificates?

Luca Bettonte

Yes. Hydro, Solar and Wind altogether, they are classified as Renewables in our hedging policy, and then we have the Spark Spreads related to the CCGT, because they have two different cost structures and different volatility.

Repowering: good question, and very important to us. As I said when I launched this project two years ago, it is very difficult to predict what the price on the long run will be, but we made a quite strong and deep stress test on the return, and I said that, also with the poorest and weakest scenario applicable, the return on this investment would have been worth having, and then making it. So what counts much in this moment is not really the price in the long run... in particular, if we take into consideration the actual situation, that could not be affordable in the medium term, that is a specific situation

worldwide, but for the virus, but also for the price of gas and the like. But, on a normalized situation, and based on the stress test we made - that are still valid - it is important to go ahead with these investments. And it is worth having them in terms of value creation.

A different story has to do with the stability of the prices, and then we go back talking about the famous *Spalma Incentivi* Decree that you have been mentioning. We have been working very hard for the last 18 months with the most relevant Authorities. We are also working along with our peers, because not everybody right now, but almost everybody recognizes that the power is crucial to open up a wave of new investments in Italy, with a very important amount of investments, which is positive to the country, in order to support the achievement of the PNIEC targets. And then we are still in discussion with the Minister of Economic Development but, let me tell you that, we are not alone now, we have good companions with us and maybe - also on the basis of the outcome of the auctions - something could change going forward.

Based on the deployment of our investments in that specific direction, I dare to say we have still time for this change in law. And I am confident that at the end of the day something could really change, because it is a win-win situation for everybody. But for the time being, let me say - with what I said, and what I am telling you now - investment is worth doing, also in a quite low price scenario, because investments are efficient, production is very, very high, and we are talking about the most windy sites in our country.

As for the last auction, I do not have any information about that. But we must say that I have heard exactly that it should not have gone like that, that is what I can tell you. But there are rumors. So please consider that. Anyhow, it would be normal to see that, going forward, also in Italy auctions could be undersubscribed. And that should help us, on the other hand, as for the change in law, allowing also the wind farms to be repowered to take part to tenders.

In terms of Hydro production, let us say that the Hydro production is eligible to get incentives. So, we try to optimize the production in that direction. So far, let us say that by and large, after a couple of months, we are even more than on budget as for the Ebitda performance of 2020, and so let me tell you just that.

We had some power stored in our lakes at the end of last year, because there were some rainfalls closed to the end of 2019. And of course, because we thought it was better to keep this power for 2020, based on what I just said to you as for the incentivized mechanism.

Last question, on Spark Spread. Yes, the price of gas is very, very low. But let us say that we tend to be conservative when we give projections regarding our natural gas-fired plant, because we expect that the power price could be a bit lower in Sicily compared to last year. So that is the main reason. We want to be conservative in that direction. And that is why I put in the forecast a lower level of Clean Spark Spreads. Although, I agree with you, the price of gas is very, very low. Anyhow, the price of gas is very, very low, and this is due to the actual situation based on the COVID-19, the impact on the price of natural gas worldwide and the like. I do not think that in the medium-term it is a situation that could be representative enough of the industry.

Paolo Merli

Luca, Paolo speaking, just for a follow-up to Roberto's question. As far as the Hydro reservoirs are concerned, this day at this precise moment in time, we have roughly 100GWh of energy stocked in our lakes, which is a number significantly higher than the one we had at this time one year ago. So, it is a positive, and we are still keeping it in our lakes, waiting for better prices. I hope to have answered this question.

For the Spark Spread, let me add a couple of considerations. Consider that we are in Sicily, so one of the reasons behind the strength of our Spark Spread is also the premium we are enjoying in Sicily, which was 10€/MWh in 2019.

When coming to 2020 - as Luca said, but let me elaborate a little bit more on that - we are assuming much more conservative projections for 2020, both for the baseload Spark Spread and for the Sicilian premium. So that is why our guidance is already updated to this more conservative projection. But let us see what happens, because Sicily in a way or another keeps surprising us on the upside. Roberto, I hope I have answered your question.

Roberto Letizia

Yes. There is only one remaining on the list I did, sorry for taking so much time: if the Hydro is going very well, if the majority of the margins are hedged and the exposure of the profits, if the production is low due to the power crisis, what actually is the case of the low end of the guidance at current stage?

Paolo Merli

I would say the range of the guidance reflects the volatility of production, but for an integrated portfolio, because we have four different technologies and from time to time we can demonstrate more or less empirically that when there is good wind maybe there is no water, or it is compensated by higher Solar, if the Renewables are weaker, then the CCGT is performing well, so this is based on the volatility of production, and also on the volatility of prices. So it is what we call the profit at risk. And the range is more or less consistent with the profit at risk we have right now after two months of actual numbers.

Because - as Luca said and I repeated - January and February went well, so we are more than in line with our budget, and the volatility of the range is then consistent with the profit at risk we see at today. And consider that almost 70% of the production is covered, is fully hedged against the price, for sure.

Operator

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

Sara Piccinini

Hi. Good morning and thanks for taking my questions. I hope you and your families are well in this critical situation. So, the first question is on the long-term guidance. So, for 2022 we are expecting €560mn according to your Business Plan. So, starting from €520mn – i.e. the higher end of your guidance for this year - are these €40mn mainly coming from Repowering?

And again - sorry for coming back on the guidance for 2020 - is it correct that starting from this year basically you would have the negative effects from CCGT, the expiration of White Certificates? So basically, going back to the level of last year, around €50mn of CCGT, which means less €20mn on CCGT, and that this should be more than compensated by the Hydro production, coming to a more normalized level, and also maybe benefitting from the ancillary services? It is just to see if the moving parts that I am assuming are correct...

Then, I have a specific question on Repowering: what is the duration of the contract for the right of use of the land? And when you extend this contact because of the Repowering, is there a risk that the landowners may ask to increase the fee? Thanks a lot.

Luca Bettonte

Right. As for the 2022, it is a very difficult projection, you know, to make a reconciliation between the numbers. Let us say that we are on track on budget and on time of budget, and then we are happy with that. As you know, this Ebitda at the end of the Business Plan is today confirmed. We started a quite important development program and - if you want to put it this way - a transformation of the Group, in the sense that till last year we had been growing mainly through M&A. Starting from this year - and you have seen in our projection for the Capex - we have changed: it is a turning point for us. And now we are investing only once we have been able to develop on our own, in the sense that we have got a pipeline and we develop from Greenfield. And that is very important, because it is a quite relevant proof of the evolution of the Group from oil to renewables, through M&A and now - being in the Renewables industry – of our ability to grow on our own two feet, let us say. That is important.

So, the growth from now on is mainly linked to the capability we have to build new capacity. It is a mix of different revenue streams, a portion from Repowering and a portion from what we call Business Development abroad. The amount from Business Development could be a bit higher than the one from Repowering, because it is faster abroad to add some new capacity. As you have seen in this presentation, we are working, we are building almost 300MW, and all of them are outside of Italy: in fact, we are talking about Poland, France and the U.K.

And so, it is telling you that the speed outside could be faster than in this country. So let me say: so far so good, in a sense that we are meeting the expectations we shared with you a couple of years ago, and the program to transform this Group from an M&A investment to an own builder of its pipeline... and this is very, very important.

As for the guidance relating to this year, apart from the specific number - about which maybe Paolo could give you some more precise figures - it has been really very, very easy to identify the number for 2020, simply because we are relying on the same asset base of the previous year, more or less. There are sometimes differences, because some assets came into force, became operating during the year in 2019, so there may be some impact in terms of larger perimeter, but not relevant that much. So, we are forecasting to have better results as we have a bit larger perimeter, because we have already hedged most of our production, as for the Repowering related to. And because we are forecasting that 2020 should be a normal year. Normal: what does it mean? It means that Solar in Italy and abroad could bring back approximately the same results of last year, while we are simply bringing to normality the production of the Hydro plants. Last year, there was a drought, let me say, and now we are simply forecasting that in 2020 the production should be aligned with the 10-year average, as it should be. So, nothing particularly new or difficult to be understood and to be projected. And we have some power stored in our lakes, that could give me the opportunity to tell you that we are confident to achieve such a result by year-end.

On the other side of the coin, I have already discussed the projected performance of the gas-fired plants, based on what I just said, on what Paolo has just told you, and based on the valuation of the White Certificate that is in line with the existing regulation (we are talking about €250€/MWh), based on the production that is affected by the fact that we are phasing out from this specific White Certificate mechanism. So, lower performance for a natural reason - we are exiting White Certificate mechanism - and higher performance from Hydro, simply taking it to its normality, a normal production over the last 10 years average.

As for the land relating to the repowering, I would say it is a part of the game. So, we have been discussing for months and have been closing agreements for months, as for the landowners, when it is the case; sometimes we have still agreements in place that last for a long period of time. Anyhow, for sure, before starting the construction, we have in our hands all the right to that, as for the land.

Increasing amount of fees: yes, but not that much. That is something that we had already included in our projections when we made the decision to start this program of investments, and they are already reflected in the numbers that I have just commented.

Sara Piccinini

Thanks a lot.

Operator

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

Emanuele Oggioni

Hi, good morning everyone. Actually, my questions have already been addressed. So, thank you so much for the clarification.

Operator

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

Roberto Ranieri

Yes. Good morning, everyone, and thanks for taking my questions. I will try to be very short, two quick questions on figures. The first one is on the 2019 results, on Ebitda. It is not clear to me if the lower Ebitda in Hydropower is only due to Hydro volumes, or if there are also ancillary services contributions lower than last year. My second question is on maintenance cost, €22mn: can we assume this figure as a stable value, of course related to a different asset base also in the longer term, or can you give us some value on maintenance cost in the long run? The other two questions are on competitive scenario, as Terna is announcing a very huge Capex program for the national grid. I am wondering if there is also an important investment in connecting peninsula with Sicily and Sardinia. I wonder if this could be a risk for the Thermal power generation in Sicily, in terms of margins or also in terms of the premium price. And my very last question is on the Greenfield development all over Europe. Many companies, also non-renewable companies, are entering into the renewable sector. Do you see this new scenario and new competitors to have an impact on power auction prices, or to cause any cost inflation for equipment supply in the mid-long term? Thank you very much.

Paolo Merli

Luca, maybe I will try to answer the first question, which is really related to the results of Hydro in 2019. As said during the webcast, the main effect is related to the volumes. But consider that the volume is anyway associated to the selling price, because part of the production is eligible for green incentives, through a mechanism which tends to award the extra production. So in 2018, when we had productions well above the budget, for sure we had the benefits of the merchant price on that production. But we also enjoyed incentives on part of that production. So that is the reason why on a year-on-year basis, the Hydro Ebitda in 2019 was more than €50mn less compared to the one recorded in 2018. I mean, it is only related to volumes, but part of the economic value is also associated to the fact that we had less contribution from incentives.

And for the maintenance Capex, let me say that €20mn, €25mn - which is the amount spent in 2019 - is more or less stable going forward, because the capacity additions are mostly related to wind, where more or less everything is expensed in the profit and loss. So, the maintenance Capex for the asset base of the Group should remain in that region.

Luca Bettonte

Okay, right. As for your question no. 3, we are very happy that Terna wants to invest a lot on the grid in order to get it fit for the purpose of receiving more green energy from operators like us. But I do not have any fear of the cable - I do not remember how they call it - the cable that should connect Sicily to Sardinia, and then both of them to the Mainland, because there is our CCGT. But for the specific impact of the differential in zonal price of Sicily versus the rest of the Mainland, the profitability is mainly linked to the long-term agreements, that we have with our customers in the region. We are providing steam and power to ISAB refinery, to Versalis and, as we have just mentioned, we are working in order to obtain again the right to be considered highly co-generative, and then to benefit for some 10 years further of the White Certificates mechanism. We have already obtained all the authorizations from the GSE. We are improving the agreement with our customers as for the supply of power and steam. And so, wait and see: when we are ready we may give you specific numbers, that are quite interesting figures. So, at the end, no: I am not afraid, I am not worried about this cable as for the impact on the CCGT although, roughly speaking, for sure - with the connection put in place - maybe some impact on the price could happen. But you know, it was the same when we were talking about what would happen when they have finished the connection between Sicily and the Mainland: they did it, and we are still here benefiting from the location named Sicily. On the opposite, I am really very, very curious to see when Terna will be able to deploy these investments, because they could improve the way that they can accept, receive and manage larger amount of power coming from the intermittent sources of energy.

As for your last question: yes, there is a lot of competition coming. For sure, everybody like to invest in this industry: also the major oil companies, maybe you were referring to them. And for sure, when competition is fierce, price could try to increase as for the components, and for the time-to-market and the like. But you know, it depends when you started: we started three years ago and now we are on track. We are on time, we are on budget because, as I just told you, we have announced that this year we will be building almost 300MW. But in order to get the authorizations on that, you had to start your work even earlier. So, competition could be fiercer, but we have already set up all instruments and organization, and we are still improving them in order to be competitive.

In terms of supply chain, we have almost finalized a medium-term agreement with our suppliers in order to be sure that we will get all the items we need in due course, so as to meet our expectations in terms of both cost and timing. Anyhow, the industry is quite interesting to a lot of operators, and some of them are coming from outside the box.

Roberto Ranieri

So basically, for the investments you have to do in this Business Plan, you already secured all the equipment supply: is that correct?

Luca Bettonte

Yes.

Roberto Ranieri

Okay. Very good. Thank you.

Luca Bettonte

We have medium-term agreements with the main wind turbine suppliers: that is what we have been working on for many, many months, and now, we are about to close these agreements. So, I am not worried about that.

Roberto Ranieri

Okay. Thank you very much indeed, and take care.

Luca Bettonte

Thank you.

Operator

Gentlemen, there are no more questions registered at this time. Back to you for any closing remarks you may have...

Luca Bettonte

Right. Take care everybody, and... stay at home: now I am going to my house, after this conference call. Thanks for being here with us anyhow, and we are at your disposal. Have a good day. Bye-bye.

Paolo Merli

Bye everybody.