

ERG S.p.A.
“2Q 2020 Results”
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MODERATORS:

LUCA BETTONTE, GROUP CEO

PAOLO MERLI, CORPORATE GENERAL MANAGER & CFO

Operator:

Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the ERG 2Q 2020 Results Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Luca Bettonte, CEO of ERG. Please go ahead, Sir.

Luca Bettonte:

Good afternoon everybody and thanks for coming to this Conference Call on our 2Q 2020 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 for the quarter: I dare to say that we posted good results despite the seamless impact of Covid-19. In the 2Q the overall scenario has been worsening, and I would not be surprised if this trend will not change in the following quarter. In my view, only from the fourth quarter chances are that the trend can get better, assuming anyhow no second significant wave of Covid-19.

Let me then give you a general overview about the main business drivers and trends in our industry in the 2Q, while Paolo will take you through a deeper and thorough analysis of the figures, also for the first half of this year.

Talking about Ebitda, it came in at €107mn, slight lower than last year: we had a reduction in Hydro and Thermal generation, offset almost in full by better performance in Wind and Solar.

The energy price trend, as well as the demand of energy, have been declining in all the countries we were exposed to: in Italy the energy consumption dropped by 13.6% in the 2Q, and the average National Price (PUN) by 51%, with similar downward oriented curves also in the other European nations relevant to us.

The price of Natural Gas and of CO2 has also been decreasing but at a slower pace than energy prices, thus squeezing the margin of CCGT that has turned out to be negative. On top of that, in Hydropower water availability kept being very low, as in the first quarter.

On the positive side, we have had higher production in Wind both in Italy and abroad, that - beside the higher GRIN unit value and the effect of hedging of the energy sold - brought a significant contribution to the overall operating margin.

Net profit was even better than in 2019, I am now referring to both the 2Q and the 1H. Lower Ebitda and higher depreciation were more than offset by the strong reduction of the cost for money and by the lower taxation. The former as a result of the ongoing liability management program, the latter thanks to the rules set forth by the “*Decreto Rilancio*”, that has deferred and cancelled the balance of 2019 Corporate Income Tax, as well as the down-payment of the first instalment of the 2020 Corporate Income Tax, in addition to the positive effect of ACE.

Net profit for 1H is at €70mn versus €68mn in 2019.

As for the Net Debt, it did not change that much from the end of the previous year: up €27mn. The main items to be underlined are the strong operating cash flow of some €215mn, Capex of about €90mn, and dividend distribution of some €114mn.

Flipping the page, as usual, every 6 months we share with you a quick update of the Business Plan deployment: here on **page no. 5** and also on page no. 6 you find a snapshot of the ongoing operations.

By and large all is being carried on as per budget, after taking into account the impact of Covid-19: as you remember, during the webcast related to the 1Q results we forecast some 6-month delay, on average.

Page no. 6: in Repowering the latest piece of news is the signature of the “*Decreto VIA*” by the Minister of Environment for three Sicilian wind farms amounting to 218MW, that represent 53% of the repowerable megawatts in our Business Plan. Next step is the signature by the Minister of Fine Arts, that is expected to follow shortly. These are very important steps of the overall authorization procedure, as they mark the conclusion of the process at the highest bureaucratic level.

Let me only highlight that in this second quarter on 12th June we finalized the reblading of Greci 2 wind farm, a small one totaling just 2MW, but gathered data in this initial period further confirm the significant upgrade, in the range of 15-20%, of the energy production.

In this respect I deem it is important to bring to your attention some new rules being introduced by the so called “*Decreto Semplificazioni*”, though it has just started its path to be converted into law that will be finalized by mid-September, thus the actual version could be further amended.

Anyhow, what counts much for us, amid different other items, has to do with some of the provisions set forth in art. 56:

1. The procedure to authorize from an environmental standpoint the Repowering of a wind farm should become differential, that means by making a comparison between the actual - say pre-repowering layout - with the post-repowering layout. At present, the regulation envisages a comparison between the post-repowering layout and a theoretical greenfield. This should streamline and speed up the procedure
2. As for Reblading, if the larger dimension of the rebladed WTG is less than 15% of the actual tower, the operator can start upgrading the tower filling out just a certified declaration form, without any need of specific authorization
3. As you may have noticed, broadly speaking, the actual version of art. 56 opens up the possibility for the wind farms that did not adhere to the “*Spalmaincentivi Decree*” to take part to the future auctions at certain conditions. In my opinion, for the time being, this provision represents a first (modest) step forward to unleash a potential huge amount of investments in the Country, though it still needs some amendments and integrations in order to have a concrete and significant impact on the Italian

Renewables industry. Such amendments might well be introduced during the conversion period.

And now, as usual, I will hand you over to Paolo for his analysis

Paolo Merli:

Thanks Luca, and good afternoon everybody. I will start as usual by commenting on the price scenario over the period, then I will take you through results business by business, and finally we will give a look at the Profit & Loss, and Cash Flow.

So, let us get started. I am on **page no. 8**.

Power Demand in Italy was down 14% YoY in 2Q, so quite a huge drop, very much related to the lockdown. Here you can see the trends for the different sources covering that demand. Basically, only Renewables posted a rising contribution, whilst thermal generation - being basically the swing producer in the system - absorbed all the drop. Looking at our assets, Hydro unfortunately was down 21% YoY versus the +3% at a national level. Unfortunately, and unlike the north of the Country, the dry season continued in Central Italy again in 2020. And there is nothing we can do about that. As regards Wind, our productions were up 2%, below the trend in the Country which – I remind you - benefited from new capacity additions YoY in the period. Solar: +2% YoY, slightly worse than national level, but basically for the same reasons. As far as the CCGT plant is concerned, volumes were down 11% YoY, slightly better than national level, due to the specificity of the plant, given its captive market towards the Industrial Site nearby.

Now I am commenting on electricity prices in Italy: the chart is self-explanatory. A fairly weak price scenario in Italy, mainly as a consequence of the downturn in electricity demand and the drop in gas prices, very much associated to the lockdown. The all-in price for Renewables, from €143 to €124, went down less given the higher value of incentive, which as you know is calculated on the basis of last year's average national price. So, if you want to see the glass half full, given the current trend, the value of incentive is expected to be even higher next year. But coming back to 1H 2020, it is important to underline here that not all but a big part of the merchant effect was neutralized by the hedging actions taken over the period, according to our risk policies.

Let us see now the Clean Spark spread for our CCGT: it collapsed YoY from the positive 13€/MWh to -3€/MWh – I think it is the lowest level in a quarter that I can recall – driven by lower gas prices, more than offset by lower merchant prices, which squeezed completely the marginality. These numbers also reflect a decline of premium vs PUN in Sicily, from 13€/MWh registered in 2Q 2019 to 2€/MWh – only 2 - in 2Q 2020, which is a very abnormal number for the local market. Nevertheless, the performance of the plant was quite solid anyway, as it benefited from the hedging against the Spark Spread and

some positive reimbursement associated to insurance and settlements of the utility contract in place within the Industrial Site. And above all, its captive market provides the plant with a strong resilience against the merchant scenario.

To finish, let us see abroad. In the graph at the bottom-right of the chart you can see here the average reference selling prices for our productions, country by country. Here it is worth noting the significant downward trend in prices in Romania, due to the weaker merchant price (in the country, you know, there is a Green Certificate mechanism), and in Bulgaria, given this trend to higher productions of the plant, because the FIP mechanism is in a way inversely related to productions.

So, not that bad in the end.

Now Ebitda in a nutshell. I am on **page no. 9**.

Ebitda amounted to €107mn, slightly down (-3% YoY only): I think it is a quite good performance, considering the general context of Covid-19 and the relevant lockdown.

In a nutshell, from left to right:

1. Slightly better results in Wind Italy, thanks to a recovery in volumes partly offset by a very weak price scenario, as already mentioned.
2. Wind abroad slightly down YoY, as the better wind conditions were more than compensated by the poorer price scenario.
3. Hydro down again YoY, on top of the price scenario... I would say, especially volumes remained well below historical average, and even weaker than last year, which had already been a weak year
4. Contribution of solar slightly up YoY. And, last but not least,
5. CCGT, as said, only slightly down notwithstanding the very tough trading environment in Sicily.

But let me here make a very general comment: during the quarter the price scenario was very very weak across all the technologies and all the countries, due to the lockdown. A good part of those effects - maybe not all, but a big part - was offset by the hedging carried out against the scenario.

I will go now segment by segment, starting with Wind, as per **page no. 10**.

Ebitda in 2Q was €57mn, up 3% YoY. As I mentioned – and I still want to repeat it - slightly up in Italy and slightly down abroad, higher volumes, worse price scenario. Maybe the only comment I can make here is that you see abroad the volumes were up 1%: not that good (as we had consolidated new assets in France), and in particular in France productions suffered on a like-for-like basis from poor wind conditions.

Maybe a comment just to give evidence of the hedging we put in place: the selling price on average in Italy was broadly in line with that of last year (117€/MWh), as the lower merchant component, net of hedging, was compensated by the higher value of incentives, while abroad it was slightly down (80€/MWh compared to 84€/MWh in 2Q

2019), mainly hit by specific countries such as Romania and Bulgaria, which I think I have already commented at the very beginning of this review.

No more to say here. Let us move on, on **page no. 11**, commenting on Solar.

Ebitda here was up 7%, mainly thanks to the following 2 effects:

1. on one hand, higher production (+2% YoY), and the fact that average unitary revenues were slightly higher during the quarter, as
2. the lower merchant price was more than compensated by the hedging and by the incentive mix, because you know every plant enjoys a different “*Conto Energia*” scheme, so it depends on which one is producing more, and the balance in this quarter was positive.

So, as a matter of fact, the average selling price in this quarter for our Solar portfolio was €311/MWh against €306/MWh in 2Q 2019. This once again proves the resilience of our portfolio, even in a backdrop of extraordinary low merchant prices.

Moving on, now on Hydro. I am on **page no. 12**.

Ebitda was €16mn, down 21% YoY – so a big drop - driven by weaker volumes.

It is fair to say that production was really disappointing, especially when considering that even last year was weak. Unfortunately, a very dry season continued in Central and Southern Italy, while in the North we encountered the opposite conditions, as we commented during the scenario part of this review. So, a level of production which is well below our budget, well below the historical average in that area, and even below last year’s level, which had already been extraordinary poor. And this unfortunately continued also in July, so we keep seeing more or less the same numbers also for the full year, as Luca will explain to you later on.

As far as prices, the comment is practically the same: the weaker merchant price was more than offset by the higher level of incentives, the hedging and in this case also the higher modulation the plant was able to perform in a more volatile price environment. As such, unitary revenues were 115€/MWh, higher than the 102€/MWh registered in 2Q 2019. So, if you want to have a single message, the underperformance has entirely to do with the lack of water.

One positive piece of news is that our water reservoirs at the end of the quarter were, and still are, filled with an equivalent amount of energy in excess of 100GWh of energy.

So, moving on, I am now on **page no. 13**, commenting our CCGT results.

EBITDA in the quarter was €15mn, down 12% YoY. But I think we can fairly say that these results are very very solid, given the trading environment in the quarter. The worse scenario was mostly offset by the hedging, and the results also benefited from some insurance reimbursements in the period and some settlements related to site contracts. Spark spread, as I have already commented, was hit by a much lower premium in Sicily, and I think it is important to underline that, because it is a very abnormal situation.

Let me move onto **page no. 14**, commenting on investments. And here let me focus on the First Half, which is more representative of what we are doing.

We invested €86mn versus €307mn invested over the same period of last year, when - I remind you - we had €280mn of M&A Capex referred to the acquisition of Andromeda in the solar portfolio, and Polaris wind farms in France. So, let us focus just on what we invested in the first half of 2020.

During the First Half of 2020 Capex is composed as follows:

- €44mn in M&A, which includes the Trinity acquisition in France (€42mn) and a couple of million for the acquisition of Lasky project in Poland, which is now under construction
- about €24mn was invested organically in wind development, in initiatives especially for the business development in UK (where we have started the construction of 200MW), and in Poland, where we are building up the Lasky wind farm.
- about €9mn was invested ahead of the so called "CAR2" (CAR means High level Cogeneration), and namely for the refurbishment with a new and more efficient steam turbine of Module 1 of our CCGT plant. Following this investment, we expect to renew the eligibility of the Module for another wave of White Certificates as of 2023. And, last but not least,
- about €9mn of maintenance Capex, spread across all our technologies, which brings to the usual guidance of €18-20mn of maintenance Capex for the full year.

Let us now move on to Financials, commenting on P&L on a recurring basis, as per **page no 16**.

Let me again remind you that these figures are shown on an adjusted basis, so without including the effect of IFRS16 and IFRS9, as we believe this gives you a representation that is more consistent with our cash profile. In any case, all the related effects are reported and explained in our P&L statements.

That said, let us continue. I have already commented on Ebitda. So, going down and looking at 2Q 2020:

- Higher depreciation reflects the new wind assets in France and Germany
- Net Financial expenses were at €12mn, 20% lower YoY, so we continued the trend of lowering cost of gross debt, and this mainly reflects the swap of project finance with corporate debt (in particular the Green Bond, issued last year in May) and the consequent liability program carried out following the issuance of the Green Bond.
- Taxes. I think here it is important to comment because you see that the Tax rate was just 12% in the quarter (19% during the semester), against 33% in 2Q 2019. This mainly reflects a couple of items: the re-introduction of the tax breaks known as ACE, which I remind you was abolished at the very beginning of 2019, and then reintroduced in the fourth quarter of 2019, so this effect should anyway reverse in the second half of this year, but in the quarter we enjoy the benefit on a year-on-year

basis. In addition, in the quarter we benefited from some tax breaks of about €2mn related to IRAP as referred to the “*Decreto Rilancio*”, which gave exactly the opportunity not to pay the first account of IRAP for 2020. So, a similar effect should be seen also for the second half of the year.

- Minorities as usual are referred to the 21.5% stake in Andromeda, held by Soles Montalto GmbH, our partner in the Solar business.

And, most important, as a result of all I said, adjusted Net Profit amounted to €16mn in 2Q 2020 vs €14mn in 2Q 2019.

So here the good piece of news is that bottom line is up despite lower Ebitda. And this is true for the quarter and for the semester.

So, let us move to my last chart: I am on **page no. 17**, commenting on Cashflow statement, here focusing on the first half of the year.

Net Financial Debt closed at €1,503mn, up by €27mn from the end of 2019, and leverage was at 46% at the end of the period.

So, touching on all the items from left to right – but I have already substantially commented on everything - we have our Ebitda (€263mn), the Investments made over the period, a negative working capital which is typical for this period of the year and is mainly related to the timing of cash in of incentives (which are stronger at year-end, so this effect should reverse in some way in the fourth quarter), Financial charges (€25mn) over the semester, dividends paid in the period in May, and other items for about €16mn, mainly referred to cash flow hedge and taxes.

Let me here comment that these numbers – especially for taxes - include €12mn paid as a substitute tax for the exemption of goodwill stemming from the merger of Andromeda and its controlling sub-holding, which would translate into a tax asset we will benefit from in the next five years.

So, all these effects led to a Net Debt of €1,503mn I have already commented.

I hope I have touched everything, and I will now hand you over to Luca for his final remarks.

Luca Bettonte:

Thanks Paolo.

Page no. 19, now. We have made again a quite deep analysis of the business environment in the so-called new normal way of life under Covid-19 influence, in order to scrutiny the existing projections for the full year.

We have gone over the key elements of the scenario and of our operating performance, as usual including in the projections July’s actual results. As for the latter, they were bad due to low wind and water availability, along with low energy prices.

In general terms, anyhow, we see that the energy price curve gets steeper going forward across Europe, but at a slower pace than expected. In details, we see a slower recovery

over the next quarter, while there should be an acceleration in the fourth quarter. At present for instance the forward curve proposes a price above 50€/MWh in Italy in the first months of 2021. Let me drink a bit ...

As for the production, we have factored in the actual results as at the end of July, and confirmed the budget projections for the months to come. Based on the above analysis, and taking into account that we had already sold most of 2020 Renewables production in previous years, we confirm the guidance to year-end.

As for Ebitda, let me just bring up that the final outcome could be in the lower half of the range: Ebitda then would come in between €480–500mn.

In Wind power, in Italy we should post a worse result versus last year, due mainly to the loss of production already accounted for at the end of July; the outcome from abroad, on the contrary, is expected to be better, thanks to a larger production on a like-for-like asset base, plus also a wider asset perimeter.

As for Solar power, chances are that we have a slightly better result, stemming from a larger production.

Hydro power should post a result slightly lower than last year, combining the persisting low availability of water along with lower energy prices.

Thermal power will post a lower result too, due to quite depressed Clean Spark Spreads despite of hedging, and a lower contribution from White Certificates, as the plant is phasing out from the initial ten years of co-generative generation.

Capex is foreseen in the range €150–180mn. We keep confirming there is a delay of about six months, on average, in deploying our Capex plan: this represents by nature a delay that will be recovered in the months afterwards. This delay is mainly referred to the UK assets under construction, due to TSOs slower pace to finish their works.

Let me remind that such longer timeframe, as it affects assets that will be up and running by 2021-2022, does not imply any reduction in 2020 Ebitda.

Net Financial Position is seen between €1.35bn and €1.43bn. No significant changes to be underlined: lower Ebitda versus last year is offset by better net working capital dynamics and lower cash out from tax standpoint.

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 Sara Piccinini with Mediobanca. Please go ahead.

Sara Piccinini:

Hi, good afternoon and thanks for taking my questions. I have 3 questions. The first one is on the Simplification Decree: obviously, this could be subject to modifications, but I would like to ask the following. First, regarding the possibility of repowering to participate to auctions: do you see any opposition so far that may imply that this rule is not approved? And second, even if the VIA authorization procedure could be significantly accelerated, what happens if this is not respected after 6 months because of problems in the Public Administration? I mean, is the authorization approved with tacit consent? So, this would be the first question.

The second question is about the new Green Deal and all the sources that will come from the Recovery Fund, that obviously give a lot of opportunity for operators like you. Is there any upside for your investment plan, and where do you see the opportunity? Would you prefer to proceed with Greenfield projects, or are you looking at accelerating the growth through M&A, and which geographies are you looking at, at the moment?

And the final question is on your hedging policy. You say most of the production is for 2020: can you please be more specific on how much the production is as for 2020 and 2021 is, and also at which price? Many thanks.

Luca Bettonte:

Okay. As for the "*Decreto Semplificazioni*", I am not sure I have got your question, but I heard the word "opposition" to the approval of the decree, or to the amendment of the decree. I think there should not be any position, it is not the right time.

Sara Piccinini:

I can repeat the question, if you want.

Luca Bettonte:

Okay.

Sara Piccinini:

Yes. Thank you. So, is this rule about the possibility to participate to auctions, even if you do not adhere to the "*Decreto Spalmaincentivi*"? Do you see if there is any risk, any opposition so that this may not be approved? That was the question.

Luca Bettonte

Ok, so I had got your question the way that you posed it now. So, it is not a matter of opposition, it is a matter of the discussion among the different authorities that are taking part into the process to convert the law. On my side, I can just tell you that, as

always, there is the likelihood that these amendments - that should improve the existing base, the existing wording - will be passed and put into the decree. That is quite simple.

And, by saying that, I am also answering your second question about the Green Deal or, even better, Recovery Fund. The investment in Renewables is a big opportunity, but it also something that is essential for the member States in order to have the right to get a relevant amount of the funds of the Recovery Fund. So repowering represents a way of investing massively in the Country, and should be part of the plan that the Italian Government could present and bring to the European Union attention in order to take part properly into the Recovery Fund distribution, at the end of the day.

So, answering in a straightforward way, I do not see any opposition, as far as I know. That is a discussion, because anyhow it is a big change in Italian regulation, as for the authorization of the investment. But at the end of the day it is worth doing that for many reasons. So, I do not see any opposition, I do not see any reason why it should not be allowed. What I deem is simply that in 2014, when this *“Decreto Spalmaincentivi”* was issued, they did a good job because at that time there were some needs from the Regulator standpoint that justified the introduction of such a decree.

Now, based on the evolution of the industry, based on the needs for lands that we have in the Country in order to install new capacity (and it is not sure that we got them), based on the Recovery Fund, there are many reasons why it should be amended. Elettrocità Futura is writing to the regulators, to all the relevant authorities, and they already presented specific amendments, specific additions to the existing wording. So wait and see, but I am really positive oriented. I do not see any opposition; at the same time I could not understand why it should not be amended in the right way.

Could you please say again the second question about the tacit consent, or something like that? I did not get the point.

Sara Piccinini:

Yes, sure: it is about the acceleration on the authorization. You said that there is also a big improvement in the VIA authorization. But obviously, it is a job that the Public Administration has to do. So, the law is saying you need to accelerate, but if the Public Administration still gets a lot of time to do all the procedure, what happens after 6 months? Do you obtain in any case the authorization, or do you have still to wait for the Public Administration which, in this way, would actually delay your Capex?

Luca Bettonte:

See, as long as the regulation remains as it is now, for sure we have to comply with it, so we have to wait for it. Let me bring to your attention that I see a quite positive evolution

of the regulation, also in this first draft of the Article 56 - that is what counts much for us - but in general terms looking at the “*Decreto Semplificazioni*”, for sure. Let me remind you one of the last analysis made by Wind Europe. They made an analysis of each national green plan, and they made a comparison among the different plans and an executive summary, from which you can easily understand that the main problem has to do with permitting all across Europe.

If I take what has been written so far in the “*Decreto Semplificazioni*”, I see that there is a willingness to improve and accelerate the permitting procedure.

For instance, if you take the approval from an environmental standpoint of repowerable asset, so far - and this is still the case, because we have to wait for the conversion into law of the decree - if you want to reblade a wind farm, the Authority makes a comparison between the new wind farm you propose them to install and a sort of theoretical Greenfield on the land where you are repowering. Now in the decree, it is written that it should be changed, in the sense that they should compare the new one with what is already installed. And so, it should facilitate to get the approval, and at the same time it should accelerate the process to get the approval. And it makes sense, because you are getting your asset evolving.

And now it is not right, it is not appropriate the way that they give you the authorization, and the comparison that they made. So, in the decree there are many positive news. The decree is still a draft - let me call it this way - because it is under the conversion process. But the signals I see are almost all positive in that direction. So far, we have to wait. But you know, now it is August, everybody takes a break, and then maybe the decree should be approved by the Parliament in mid-September, on the 24th September, then we have time to see the final outcome, and I think that at the end of the day it will be positive.

As for the hedging, so far, looking at the 2020 renewable energy source generation, we have hedged some 70% of the production, while it is at 55% referring to 2021. And price, the hedging level is in between 55 and 60€/MWh.

Sara Piccinini:

Very clear. Many thanks.

Operator:

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

Roberto Letizia:

Yes, good evening. I have some questions. I would like to stay a little bit on the decree and the possibility to participate into the tender, in connection with the step ahead you did in the authorization procedure for what regards the 3 Sicilian plants. I was

wondering, if the decree is finally approved within the natural time with no significant modifications – so, let us say that this is quite fair - would you be able to participate in the tender already in the first auctions at the end of the year, at least for these 3 plants, which have got already a VIA to get into that, or will it take longer for you? And, in case you cannot, when do you expect for these 3 plants to reasonably be possible to participate in the tenders? Staying also on this, you mentioned the discussion and the possible changes or modification. But what would you expect actually in terms of amendment to this law? So, do you think they will discuss on the possibility to participate as residual offers, or change in the cutting on the price for the assets? What is the level of discussions that you are actually monitoring for this decree?

The second question is a more technical one. So, you have got some benefits on the fiscal level. So, what is the expectation for the full year tax rate, considering the fiscal measure implemented this year? And actually, also in 2021, also taking into consideration the fiscal benefits on the Andromeda operation that you just mentioned, I would like to understand if there is space to do something more on the debt side, considering that the bond market conditions are really favorable, and the new measure on green bond, the sustainable bond, the massive request from the market may actually accept other placements, thus allowing you to make additional steps into the reduction of the cost of debt?

And the last one, it is more general... I beg your pardon if it takes me a little bit, but actually, the environment is really fantastic and the stars seem really aligned. You get everything on the table, you have got the political sustain, you have got the European economic push, you have got the Green Deal, you have got the ESG push, you have got the social attention, you have got the phase-out of coal, you have got the technology improvement. You have the price, at least on the forward curve. And you have got now the possibility to participate into the auctions also with the repowering. And the final stage, you have got the oil industry that is probably is green passed, basically, and they are pushing to move into the renewables. So the stars are aligned, but that means actually that the speed of development of the industry will accelerate a lot, thus requiring you to move as fast as you can on the authorization, on the pipeline and on the construction, otherwise you risk to miss the 2-3 big step-up that you are going to face on.

Starting from that consideration, isn't this the best time to capitalize the Company, both at equity and bond level, to face this acceleration of the market and not to lose the time on the ground? I know it is a more difficult and general question, but it is crucial, because really, the industry is picking up and I do not want to see the Company positioned to lose the grounds because they do not have enough cash or equity, which is actually really available in the market for the market condition today. Thanks a lot.

Luca Bettonte:

Okay. Stars are aligned and I have got a crystal ball, and also and magic wand. So, let me answer you, starting from your last question. Everything is like you have just underlined, for sure. I think we got everything to take part into this game, but we must be down-to-earth, in the sense that I am referring to what I have just mentioned while answering to your colleague, relating to the analysis made by Wind Europe. There is a lot of work that has still to be done by the single member State, because what they have shared with the European Union is quite positive in terms of announcements. We want to get that result.

But looking in details at what is written in terms of how we can get this result, there is a lot of job still to be done. I was referring previously to the permitting procedures, and then I was also referring to the way the auctions are depicted, applied and the like. I am sure that also under the procedures to obtain the money from the Recovery Fund - I am referring not just to Italy but to all the member States - they have to re-analyze and re-propose in full these national energy plans. And so, by that time we will see what they will have introduced in order to answer the European Union, in order to address all these matters in the right way. So, everything is aligned, but on a pragmatic standpoint something has still to be done in that direction.

As for ERG, we are working in the right direction, in my opinion: we are developing our pipeline, we are looking for further megawatts to be installed (Greenfield but also M&A), as usual. And if in the new version of these environmental plans made by the member States, we will see a real improvement, in the end everything will speed up. Are we ready to jump on this train? Yes, because it is what we have been doing so far. If you look at the speed we have been growing over the last 5 years, we are quite in line with all the other peers in terms of number of megawatts installed every year. If you look at what we are doing in terms of geographical diversification, in these first 6 months of the year, the power produced by our wind fleet abroad was higher than what we produced in Italy. So, it means that we are making more power outside of Italy, and that is what we are aiming at in terms of diversification. And when you have, in the end, good projects, it is never a matter of finding the money to do the project: either through equity injection or through bond issue - and you may have noticed that the Board has given me the power to issue in the next 12 months another green bond - it is never a problem.

It is important to leap at the opportunity, in the sense of going out in the market and when it is the best moment to do that. But I think we know how to do it. So, everything is aligned, but there is still a lot of job that has to be done at a member State level, as for the environmental plan and climate plans. But from a financial standpoint, we got everything in the right place, because the leverage is under control, we got investment

grade rating just confirmed - also through the Covid-19 impact - by Fitch, that has also increased, enlarged the headroom for us to raise new fund. But it is important to see how the PNIEC will be amended and improved by the single member States.

As for the “*Decreto Semplificazioni*”, what is important is that they have to clarify that all the wind farms that did not adhere to the “*Decreto Spalmaincentivi*” - regardless whether or not they are still benefiting from the incentivized schemes - have the right to take part to the tender process: that is the main amendment that has to be introduced. It is quite clear to everybody who is working on the subject, on both Elettricità Futura’s side and Authorities’ side. There have been a lot of discussions, we have shared our view. And let me say that I am positive oriented, in the sense that my expectation is to see this amendment to pass and to allow the Country to unleash a huge amount of investment, also under the Recovery Fund umbrella. As for taking part to the auctions, if the decree is approved the way that we would like it to be, please consider that we have got the signature from the Minister of the Environment as for the “*Decreto VIA*”, relating to the 3 Sicilian projects amounting to some 220MW, after repowering. These decrees are on the Minister of Finance’s table, and he should sign them shortly because, at the end of the day, this is something that should not be questioned, and put under any discussion, because all the authorizations we needed to get to this point were well obtained. But we have still to get the *Autorizzazione Unica* at regional level: so, we have finalized the authorization process at central level, and then we have to go to the Sicilian Region to get the *Autorizzazione Unica*. We have already that process and we have got more than half of the 28 different opinions that we needed to get the *Autorizzazione Unica* finalized and approved.

So today, my expectation - based on our experience, and based also on the impact from Covid-19 - is that we should get this *Autorizzazione Unica* signed, approved in the first quarter of next year, which is in line with our Business Plan. If we were faster, good: we would be in a better position. Would we be in a position to take part of the auctions? It is difficult to say because, on one hand, it is important to have the “*Decreto Semplificazioni*” approved the way that we like it to be. On the other hand, we do not know whether or not there will be some other specific rules to be approved or added in order to allow the repowerable wind farms to take part into the auctions. Someone is telling that we should have specific auctions for the repowerable assets. Someone else is saying that - but we do not like it, and I do not think that it should stay as it is - repowerable assets will take part in the auctions just for the residual amount of what will have been assigned to the new wind farms. But this way, at the end of the day, it should not change the picture, it should not help the regulator to squeeze the price of energy, because the auction would not be competitive that much by that. And that is something that everybody is aware of.

So, I do not know: for sure, we should not be in a position to take part into any auction in 2020. Maybe we could take part into some auctions in 2021, but wait and see which kind of auction, because this is another item under discussion. If we applied the European regulation, there should not be any question about that, in a sense that if you go to Germany, to France, there is just an auction for everybody with the right to take part into it, regardless if you are talking about repowerable assets or new ones. So that is where we are. Please consider that the “*Decreto Semplificazioni*” has been drafted just a week ago. So we have just begun the conversion process, let us work: all the operators are aligned, like your stars, and Elettricità Futura and one of the Vice President with a specific duty to look after the wind industry in the Country are purporting the process. There is a lot of good reasons to do that in Italy, there is a lot of reasons to do that in order to approach properly the European Union under the Recovery Fund umbrella. But, you know, be a bit patient: wait and see.

As for the two technical questions, I will let the technical man, Paolo... sorry, I am joking with you...

Paolo Merli:

Thank you. Hi, Roberto, I will try to answer your question about the tax rate for the full year and the last one about the opportunity for the issuance of a new green bond. So, starting from the tax rate, let me say that the one you saw for the first half is sustainable for the full year, because in the first half of this year we had the benefit from the cancellation of part of IRAP, which will be seen even in the second half of the year for the same extent. Then for the second half of the year we will still have the ACE tax break, as it was in the first half, and consider that the third element lowering the tax rate in the first half was the recoverability of the carry forward losses in financial charges that has been accelerated by the issuance of the green bond and the contextual liability management program we performed in 2019 that became effective from this point of view in 2020, allowing the company to accelerate the recoverability of these carry forward losses. All these effects combined brought the tax rate below 20% in the first half, and you can consider this 20% as a guidance also for the full year.

About the green bond, over the last Board of Directors at the beginning of July you know - and we made it public - that the Board ruled in favor of the extension and the renewal of a Euro Medium Term Note up to €2bn. And in today's Board, the Directors ruled in favor of authorizing a new issuance for a green bond up to €500mn. And this as you said, is more an opportunity than a necessity for the Group. Especially over the last few months, we have seen in the market a window of opportunity reopening: so we are fully ready to capture and reap the benefits of these market conditions, if they will be confirmed in the second part of the year. And the aim is what you said: lowering the

financial charges going forward, and making our debt structure even stronger than today.

Roberto Letizia:

Can I ask you really briefly if you believe that generally - if conditions continue this way for your new emissions - you are below initial budget expectation with regards to interest rate charges, and by how much would you say?

Paolo Merli:

Absolutely, right. Right now - I do not say anything secret - if you take our green bond as listed, you see that the performance of our green bond on the screens is even better than that of some peers, maybe for all the reasons you mentioned: we are ESG, we are green, we are *blah, blah*. And right now, the yield to market of our green bond is well below 1%: consider that last year we placed it at 1.8%-1.9%, so it is half the value it was 1 year ago. This created a huge opportunity. Of course, in case these conditions are confirmed in September/October or when it will be - because in August, as usual, the market is going to take a rest - we are ready to do it at exceptional conditions. So...

Roberto Letizia:

The new one that you consider as an opportunity: will that close down expensive existing debt, or will you pay for it?

Paolo Merli:

The idea is, as usual, to raise new fresh money at a cost which should be in line with the numbers I have just said, and close down, prepay other project finance with a double effect. On one hand lowering the financial charges because the project financing we have elected to prepay are the more expensive ones. And on the other hand, this will further reduce the structural subordination of the Group, improving our merit of credit and supporting our investment grade rating. So I think it is not a secret that, if you see the numbers in the first half, it is true that on one hand we had a slightly lower Ebitda but, bottom line, the net profit was even higher than last year: that because of the lower taxes, but also thanks to €7mn of lower financial charges, compared to the first half of 2019.

Roberto Letizia:

No, that is exactly the point. So last time you did it, you actually generated €10mn benefits on the P&L on a yearly base. Is that something that you could probably achieve with the new placements?

Paolo Merli:

We want to do our best. We hope so, let us see.

Let us say that out of our €500mn, 1% is worth €5mn of financial charges per year. Simply take what our green bond costed last year, and what is its quote right now in the screens: then take this difference (which is more or less 1%), multiply it for the outstanding amount, and you have more or less the potential - potential, I repeat - saving. I underline it, because we are in a context of very volatile markets. So, let us see what is going on.

Roberto Letizia:

Thanks a lot, and sorry for my many questions.

Luca Bettonte:

Thank you, Roberto.

Operator:

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

Emanuele Oggioni:

Good afternoon everyone, and thank you for taking my questions. My first question is on the simplification draft law. I wonder to what extent the 6-month delay for repowering in Italy may be recovered in 2021-2022, thanks to the simplification draft law. The second question is on the Capex, also for 2021: could you elaborate an update on Capex for 2021 due to the 6-month delay for the lockdown? And the third question, always on 2021, is on the tax rate: can we assume also a lower tax rate for 2021? Thank you.

Luca Bettonte:

Right. As for the potential recovery of the 6 months delay, it is not just a matter of authorization. The reason why we have this delay is based on what happened during the Covid-19 lockdown, because during that period the civil servants did not work that much, for many reasons. So, I would say that with a shorter time frame for the authorization we might recover the delay, but please do not ask me to make such a projection because, you know, what is important for us is mainly that the decree is amended the way we have discussed and we are pushing towards. Then a 6-month delay is not something that changes our profit and loss because, as I said a couple of months ago, we are talking about assets that should be up and running in 2022-2023. So, at the end of the day, the impact on Ebitda is negligible. If we are able to reduce the time frame, for sure, it will be better. Let me finalize this way, and that is all.

As for the Capex related to 2021, there is no big impact in terms of investment that we should deploy in that year, which is going to be in the range of €350mn from different sources, in a sense that we have been investing in the last 10 years also in M&A. So, let us see at the end of 2021 what the number will be. Do we think today that this delay will

affect our Capex plan? I do not think so, because - as we did in the past - if we had a delay in deploying our Business Plan relating to the Greenfield project, we could anyhow improve the way we will invest in the M&A sector. So, at the end of the day, on the one hand for us it is mainly a matter of flexibility - and that is what we have been doing so far, and that is what we are going to do also in the future - which is a quite important feature of ERG way of working and developing. On the other hand, everything should be in compliance with the rating agency requirements, because to fund such a relevant growth, we need to stay in touch on a regularly basis with the debt capital market. That is the point.

As for the last question, I do not remember it: was it about the tax rate?

Paolo Merli:

About the tax rate for 2021. Of the 3 elements I have talked about and elaborated about before for 2020, 2 will remain (I mean the carry forward losses and the ACE), while the IRAP is not expected to remain on a structural basis. So you have to increase the absolute taxes by about €4mn, which is the saving we are expecting in 2020 from IRAP, following the “*Decreto Italia*”. But consider that a fourth element will be added to our tax rate, which is the fact that we paid €12mn of substitute tax in the first half of 2020, in order to make the goodwill stemming from the merger of Andromeda and its controlling sub-holding free for fiscal reasons, and this should bring a slight upside (about €1.5mn more or less) in benefit at tax level in 2021. So all-in-all, the tax rate should be between 20% and 30% for 2021. If you put it in the middle, you should not be wrong.

Emanuele Oggioni:

Thank you. May I have also a clarification? Maybe I missed your explanation on the low Spark Spread, the ancillary service contribution in 1H 2020, and also on the outlook for 2H 2020. Thank you.

Paolo Merli:

As for the Spark Spread, it is a matter of fact that it was squeezed very much from these current market conditions. But, as we have commented, the result for our plant was quite solid, because the plant enjoyed some millions of euro coming from the ancillary contract we have in the industrial site in Priolo, and this is a contract that will remain even in the years to come. And we had also - frankly speaking - some insurance reimbursement, which helps us compensate for the lowest scenario. But having said that, we expect the margins and the Spark Spreads to improve considerably going on, because the second quarter was an exceptional quarter, with the average national price at 25€/MWh: it was the first percentile of the distribution of the last 10 years. So we expect these margins - as well as the general price in the market - to recover quite

substantially. As a matter of fact, the forwards for 2021 are pointing at almost 50€/MWh for the merchant price, and Spark Spread much higher than the current one. So, it is difficult to say: we expect the plant maybe to remain below last year, but still solid.

Emanuele Oggioni:

Thank you, very clear, thank you.

Operator:

The next question is from Roberto Ranieri with Intesa Sanpaolo. Please go ahead.

Roberto Ranieri:

Yes, good afternoon everyone. Sorry for keeping you out of your business for long. 2 questions - hopefully very quick – on two items: the first one is on the Green Deal and Recovery Fund as well. Do you expect some competitive funding versus the green bond, I mean in terms of the cost of funding? The second question is related to the time schedule: from the time you present your projects - just for example, at the beginning of 2021 - which is the time you expect to have a start-up of the construction? My last question, very quickly, is on strategy. Do you think that hydrogen could be an opportunity of additional revenues for you, not in terms of hydrogen seller, I mean, but in terms of hydrogen and sales of electricity to electrolyzers, coupled with your renewable plants? Thank you very much.

Paolo Merli:

About the green bond, let me repeat what I have already said, to cut the story short. I repeat: it is an opportunity, not a necessity. So of course, we are going to do it just if the cost of funding will allow us to dilute and reduce our current one, and create a positive net present value. So...

Roberto Ranieri:

No, Paolo, sorry to interrupt you. My question is, if using Recovery Fund grants or other funding from EU could be very competitive with the green bonds...

Paolo Merli:

No, I would not say that. And the only quite certain thing is that if we are going to issue a green bond, the European Central Bank - being ERG Investment grade - should cover part of the book (30%-40% of the book), and that should help the pricing. But we do not need any particular help from this point of view because of that.

Roberto Ranieri:

Okay.

Luca Bettonte:

In terms of construction, the problem has to do, as usual, with the authorization process. Once we got that, you can start building very, very quickly. So as for the Repowering, assuming that the decree will pass the way we like it to be, and then we can take part in the auctions in 2021, because we got the *Autorizzazione Unica* in March 2021 - if there is an auction in May 2021 - we can start building also in 2021, in the second or third quarter of 2021. So, now we are on time, on budget, as for the - conservative to a given extent – 6-month delay from Covid-19. So, wait and see: I think the situation is much better now than it was 6 months ago, or 3 months ago. And looking forward, it is going to be even better in that direction.

As for hydrogen, as you have said, for sure we are not interested in entering such an industry to generate, to produce hydrogen. What is quite interesting to us is that the European Union is pushing towards a huge amount of investment in order to have a very large production of hydrogen going forward. In that respect, what counts much for us is to be behind the electrolyzer plant. So, the more electrolyzers you will install, the more there will be the need for renewables, because you have to generate and to create hydrogen by using renewable energy sources, otherwise it is not worth going forward in that direction. So, I think it is another opportunity for us.

As usual, we are again talking about new exciting targets to de-carbonize Europe, and maybe also the world. But it is important to stay focused, to stay down-to-earth, in order to sort out all the detailed problems that today are, to a given extent, getting harder and harder to allow the renewables industry to develop. And I go back singing the same song: permitting is crucial. And permitting can be improved quite quickly in a very simple manner: we are talking about taking a pen and changing the rule. A different thing is if you go ahead on the land, and you see that you have to install a new network and grid capacity in order to allow renewables to develop the way they should do, and at the same time the shutdown of the coal plants and the like... but you know very well the environment. So, everything is moving into that direction, at a faster pace with still a huge and very important boost from the European Union that today, for the first time ever, has got also a lot of money to be used for the purpose. And that could change the picture, going forward.

Roberto Ranieri:

Yes. Thank you very much. Have a good holiday and stay safe.

Luca Bettonte:

And you also. Thank you.

Paolo Merli:

Thank you.

Paolo Merli

Okay, I think it is over.

Operator:

Gentlemen, the floor is back to you for any closing remarks.

Paolo Merli:

No, we have finished everything.

Luca Bettonte

Good summer break to everybody, and thanks for being with us today, but also being working with us in the first 6 months of this year. And see you soon.

Paolo Merli:

I join Luca's wishes. See you soon. Bye.

Luca Bettonte

Bye-bye.