

**ERG S.p.A.**  
**“3Q 2020 Results”**  
**November 11, 2020**

**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 3Q 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 morning everybody, and thanks for coming to this Conference Call on our 3Q results. As usual here with me there is Paolo Merli, Corporate General Manager and CFO.

Let us start from the **page no. 4** showing you the highlights for the quarter, with an Ebitda that came in at €99mn vs €107mn in the 3Q 2019.

In order to develop a thorough understanding of this slightly lower result, and before going through the industry drivers featuring the quarter, I suggest you take into account two specific items, that have had a negative impact on the foregoing comparison.

The first one has to do with the full consolidation of Barkow windfarm's 9M 2019 Ebitda in one shot in 3Q 2019 at the time of acquisition, so the third quarter of last year included €3.9mn of Ebitda pertaining to the first half of that year.

The second item has to do with the lack of production of White Certificates by one of the two modules of the CCGT, due to the expiry of its co-generative period: this accounts for some €2.6mn.

Hence. on a like for like basis, Ebitda in this quarter would be in line with that of last year.

Focusing our attention onto the industry specifics in the 3Q, the overall scenario has kept worsening YoY, both in Italy and abroad, although improving substantially QoQ, following the end of the lockdown. On a YoY basis, energy prices were lower, thus affecting Wind, Solar, Hydro and CCGT performance; as for the latter the significant lowering of the natural gas price was not sufficient to offset the reduction of Sicily zonal price, bringing about lower clean spark spreads. Needless to remind you that this trend stemmed mainly from the impact of the pandemic, that has also implied a lower energy demand in all the countries we were exposed to. However, on a like-for-like basis, we posted results pretty in line with last year thanks to higher production and higher unit GRIN value in Italy, associated with the positive impact from our three-year rolling hedging policy.

As for the Net profit, it was on the contrary even better than in 2019: I am now referring to both the 3Q and 9M. Lower Ebitda was 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 positive effect of ACE, as well as the fiscal deduction of carry-forward losses linked to the unwinding of IRS against the

pre-paid ERG Wind Project Financing. Net profit for 9M was at €79mn versus €75mn in 2019.

As for the Net Debt, it went down some €55mn from its value at the end of 2019. The main items to highlight are the strong operating cash flow of some €341mn, Capex of about €110mn, and dividend distribution of some €114mn.

Now on **page no. 5**. In this chart we give you an overall picture of some very important achievements we reached in this quarter: the successful issuance of our second €500mn green bond (again with a six-fold oversubscription, along with a quite low coupon on a 7-year tenor), and the important worldwide award from Vigeo as for the way we analyze and disclose the Climate Change impact on our business performance and risk profile.

Furthermore, it is worth mentioning also the improvement of our development plan, as we have increased our pipeline and ready-to-build assets of some 80MW in the UK and in Poland, and we have secured a steady long-term unit revenue for some 27MW in France through successfully taking part into auctions.

And finally let me remind the relevant medium-term supply framework agreement through which we have secured some 790MW of WTG both for greenfield and repowering projects at competitive pricing.

Keeping commenting on our growth – I am now on **page no. 6** - here you see where we stand and what we are going to do next.

It is easy to say that we are ahead of our plan, whereas - adding to what we have done the capacity that we are building - we have already achieved and secured some 622MW out of 850MW to be delivered by 2022 and, on top of that, if one included the newly secured capacity coupled with the RPW in Italy at most advanced stage, we would outdo the original projected growth by some 100MW, i.e. 12% more.

So, we keep growing at a faster pace.

And now I will hand you over to Paolo for his analysis.

**Paolo Merli:**

Thanks Luca and good morning 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 take a look at the Profit & Loss and the Cashflow. So, let us get started.

I am on **page no. 8**, commenting on business environment.

Power Demand in Italy was down 3% YoY in 3Q. Here you see the trends for the different sources covering that demand. Basically, only Wind and Solar posted a rising

contribution, whilst Thermal and Hydro generation absorbed all the drop. Looking at our assets, Hydro unfortunately was still importantly down 18% YoY), well below the national average as well as our budget, based on its average historical production. So, our budget basically reflects the history of the plant. Unfortunately, the dry season continued in Central Italy again in 2020. As regards Wind, our productions instead were up 12%, broadly in line with the trend seen in the Country. Solar - flat YoY - was slightly worse than the national level. As far as our CCGT plant is concerned, volumes were down 4% YoY, slightly worse than the national level, due to higher volatility in prices, so with a greater use of modulation.

Let us now comment on Electricity Prices in Italy. The chart is self-explanatory. A fairly weak price scenario in Italy (I mean merchant scenario), mainly as a consequence of the downturn in electricity demand, coupled with a decline in gas prices. The all-in price, from 143€/MWh to 141€/MWh, went down much much less given the higher value of incentives (99€/MWh vs. 92€/MWh), which is calculated on the basis of last year's average national electricity price, as you know. Given the current trend, let me just open a window on 2021: the value of incentives is expected to be even higher next year. Coming back to 9M, 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.

Our CCGT's Clean Spark spread declined YoY to 18€/MWh from 22€/MWh, with lower price in Sicily partly offset by lower gas prices. These numbers also reflect a decline in the premium vs PUN in Sicily, from 15€/MWh to 13€/MWh. We are talking about a decrease of these thermal margins, but they are still solid numbers in absolute terms.

Abroad, now: 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 on top of the green certificate.

A similar trend you can see in Bulgaria, where there has been a change in the tariffs from FIT to a FIP, and that is the result of it.

Let us move now to **page no. 9** commenting the Group Ebitda evolution in a nutshell. Quarterly Ebitda was €99mn, down 7% YoY. Notwithstanding the challenging environment, the impact from price scenario on our results during the quarter was limited - if none - and mostly absorbed by the hedging taken over prices, and by the higher value of incentives.

So, I would comment this way this set of results. The YoY drop is almost fully determined by two effects:

1. the first one is a change in the consolidation scope, as we started accounting for Barkow Wind Farms as of 3Q 2019 but retroactively since January 1<sup>st</sup> of that year: this positive effect on 3Q 2019 was worth about €4mn;
2. the second effect, which accounts for roughly €3mn - so the sum 4+3 = €7mn explaining almost all the difference – is due to the fewer White Certificates, as a result of the First Module of the CCGT phasing out from this incentive scheme at the end of 2019. As you are aware, we are investing to refurbish this Module 1 in order to make it eligible for another wave of White Certificates starting from 2022.

The other effects offset one another more or less: better results in Wind and Solar in Italy, thanks to stronger weather conditions, while weaker Hydro as the dry season continues, as I have already commented on.

I will go now segment by segment, starting with Wind. I am on **page no. 10**.

Ebitda in 3Q was €42mn, very slightly down 4% YoY. But I think it is useful to breakdown this contribution: Ebitda was up in Italy (+22%) and down abroad (-32%). And I will explain in a moment that most of the drop abroad is related to the perimeter effect mentioned before.

Very quickly now on production: as you see on the right part of the chart, volumes in Italy were up 12% thanks to better wind conditions, whilst abroad productions were down 15% - mostly concentrated in Germany - because of the perimeter effect I have already described, so the fact that Barkow windfarm was consolidated all during the 3Q 2019 but with retroactive effect since January 1<sup>st</sup> 2019. So, basically the third quarter last year got €4mn pertaining to the first half of the year.

As far as prices, I have already commented: the merchant scenario down but compensated by the hedging policy and incentives. As a matter of fact, the selling price on average in Italy was 122€/MWh, basically in line on a year-on-year basis, while abroad it was 84€/MWh, slightly down compared to 86€/MWh in 3Q 2019.

No more to say here.

Let us move on Solar results. I am on **page no. 11**.

Ebitda was up 2%, thanks to the combination of both slightly higher production, and again Unitary Revenue slightly up at 321€/MWh versus 319€/MWh over the same period of last year. And the reasons are basically the same, so I cannot go on repeating the same story.

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

Ebitda was €18mn, down 12% YoY driven by weaker volumes, with production down 18%. Unfortunately, a very dry season continued in Central/South Italy, while in the North of the Country the picture was a little bit different... but unfortunately our plant is located in the center of Italy. The result in production was well below our budget and the historical average of the plants.

As far as prices, the story remains pretty much the same I have already commented for all the other segments, so lower merchant prices, higher value of incentives, and the value of the hedging. But in this case let me add another factor, which is the higher modulation of the plant which makes it possible to pick the best pricing day by day. So, in the end, in the bottom line the underperformance versus previous year and our budget has entirely to do with the lack of water.

Last piece of information: as far as our water reservoirs, in the quarter the level of energy stocked in our lakes decreased compared to 30 June 2020, due on one hand to lack of rains, and on the other hand to the net usage in the period. As of the end of October, our reservoirs were filled with an equivalent amount of energy in excess of 50GWh.

Let us now comment on CCGT Results. I am on **page no 13**.

Ebitda in 3Q 2020 was €21mn, so down 17% YoY: it may seem a big drop, but it is not. I think that in absolute terms the performance of the plant is still very very good: please consider that €3mn are the consequence of the phase-out from White Certificates of one of the two modules of the plant , whilst the remaining €1mn – or a little bit more than €1mn – explaining the gap is related to a slightly lower spark spread scenario in Sicily. But - I repeat – in general terms we are talking about a very very solid performance.

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

Let me here focus on the first nine months of the year, being more representative of what we are actually doing.

We invested €110mn versus €401mn invested over the same period last year when, you should recall, we had €364mn of M&A Capex mainly referred to the acquisition of Andromeda in the solar business, Polaris and Barkow wind farms in France and Germany respectively, the acquisitions of the ready-to-build Craiggore project in UK, and the pipeline of Windwarts in Germany. So, a lot of acquisitions in 2019.

During the 9M of this year, Capex is composed as follows:

- €44mn still in M&A: you should remind that we bought the Trinity windfarm portfolio in France (€42mn) at the beginning of the year, and on top of that the acquisition of a ready-to-build project in Poland, now under construction.
- Then on top of the M&A, we invested further €42mn organically in Wind developments mainly in UK, where our capacity under construction – as recently communicated - was increased from slightly less than 200MW to 250MW, following the full authorization obtained for the extension of Sandy Knowe and Creag Riabhach wind farms, which I believe is a great achievement for the Company. Construction work is also going on in Poland, on track with our targets and plan.

- Then we invested about €9mn – I touched this point earlier - related to the first works in progress, the investments for what we call the CAR2 Project, so the project to make the CCGT plant still eligible for another shot of Which Certificates starting from 2022 and lasting further ten years.
- About €14mn – which is the remaining portion of Capex – were related to maintenance over the first nine months, thus leading to slightly less than €20mn on a yearly basis, which is commonly our guidance for maintenance Capex.

So, the takeaway here is the usual one: 86% of our CAPEX was spent for new Developments.

Let us now go on, commenting on key Financials, starting from the adjusted Profit & Loss - I am at **page no. 16** – “Adjusted” for not recurring items, which are very few or none in this quarter.

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 flow profile. But, nevertheless, all the related effects and explanations are reported in our P&L statements.

That said, let us continue. I have already commented on Ebitda. So, going down with the P&L and looking at 3Q, specifically:

- slightly lower depreciation reflects the same perimeter effect, the retroactive consolidation since January 1<sup>st</sup>, 2019 of Barkow windfarms portfolio in Germany, while this consolidation took effect in the third quarter.
- net Financial expenses at €13mn, 13% lower YoY, thanks to the lower cost of gross debt mainly following the issuance of the 2019 Green Bond – not the most recent one, but the one we issued last year - and its associated liability management carried out just after that last year, but with full economic effects evident on 2020. Here let me remind you – but you already know - that as of 4Q 2020 we will be seeing the effect of the second Green Bond, issued last September at a very exceptional yield.
- Finally taxes, before commenting on net profit. Tax rate in the quarter was 22% against 43% in 3Q 2019, mainly reflecting the re-introduction of the tax breaks known as ACE, and– let me say – also the seasonality of the quarter. So, this number should not be taken as a guidance for the full year. Please also consider, for your comparison and analysis, that the positive effect related to ACE will reverse in 4Q 2020, because last year this benefit was first cancelled at the beginning of the year, and then reintroduced in 4Q 2019 when we accounted for all the full benefit in one shot, again during the fourth quarter. So, on a like-for-like basis, in the fourth quarter this effect should readjust.
- Let me also point out that during the 3Q 2020 we also wrote off – and the taxation in the quarter is penalized by this write-off – about €2mn, which was a tax benefit accounted in the First Half and related to the *Decreto Rilancio*, whose interpretation has changed after the issuance of an article in *Il Sole 24Ore*, which was unknown to

operators. So, to be as cautious as possible, we wrote off this item, and we will be waiting for further details.

- Minorities, you know, are referred to the 21.5% stake in Andromeda in the Solar business.

But let me comment – which is more important - on adjusted Net Profit, because here I think the main takeaway is that despite the lower Ebitda, leveraging on lower financial charges, lower taxation compared to last year, in the end, bottom line, it was significantly up both in the quarter and in the 9 months.

Let me move onto **page no. 17**, commenting the Cash Flow Statement.

You see that Net Financial Debt closed at the end of September at €1.421bn, down by €55mn from the end of 2019, with leverage flat at 45%. I think it is a further proof that in this company, when it lowers or slows down the Capex, at least compared to the previous year, the deleverage is very important and very very quick.

Touching on all the items from left to right, we have our Ebitda (€362mn) already commented, the Investments made over the period (€110mn), a negative working capital trend, mainly related to the timing of cash-in of incentives (which also reflects a certain seasonality), Financial charges (€38mn), dividends paid in May (for a total amount of €114mn), and some other negative items, which are mainly referred to cash flow hedge, the movements of IRS (the interest rates swap), following the step down of the interest rates curve, and taxes.

So, all these effects led to a Net Debt of €1.421bn, which is bang in line with our objectives and our guidance.

I think I have touched all the relevant items. Thank you for the attention. I will now hand you over to Luca for his final remarks.

**Luca Bettonte:**

Thanks Paolo, and now our guidance.

We have gone over the key elements of the scenario and of our operating performance, as usual including in the projections October's actual results, that went better than expected, thanks to the higher production in Wind in Italy and abroad, and on the whole to energy prices uptick.

By and large for the months to come we see slightly better energy prices than in the 3Q 2020, but still below 2019 level. As for the production, we keep our budget projections consistent with the historical trends in Wind and Solar, while we forecast another dry year in Hydro Power.

Based on the these analysis, and taking into account that we had already sold most of 2020 Renewables energy production in previous years, we see no reason to change our



view going forward, and then we confirm the Guidance to year-end, in this respect also for Ebitda, whose final outcome could be in the lower half of the range.

Having said that, Ebitda would come in between €480–500mn.

In Wind Power in Italy we should post a worse result vs last year, due mainly to the loss of production, while 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 mainly from a larger production.

In Hydro Power on the contrary we 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 of €150–180mn.

We keep confirming the delay of about six months, on average, in deploying our Capex plan, already factored in the existing forecast. This represents by nature a delay that we expect to recover in the months afterwards.

This delay is mainly referred to the UK assets under construction due to TSOs slower pace to finish their works, and - as it is referred to assets that will be up and running by 2021/2022 - it does not imply any reduction in 2020 Ebitda.

And in the end Net Financial Position is seen between €1.35bn and €1.43bn.

No significant changes to be underlined vs the existing forecast: lower operating cash flow vs 2019 - as last year there was a change in the regulation that accelerated the collection of the valuable Green Certificates - is offset by lower capex due to lower M&A investments in 2020, and by lower financial charges.

So we confirm the numbers for year-end. Thanks for being here, 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 morning and thanks for taking my questions. I have four questions. The first is starting from the participation of repowering to auctions: when do you expect to have more clarity on the rules for the auctions to allow repowering to participate? Then, obviously the participation of repowering makes a lot of sense, given the very low participation in auctions and the goal of the Government to increase the competition to reduce the prices. So are you afraid that the participation of repowering could lead to low prices awarded? And can you indicate the LCOE for repowering projects to have an idea on what prices you would be willing to accept to get interesting IRR? So, this was on repowering.

The second question is on Greenfield projects. Given the projects awarded in Poland, France and UK, could you remind us which are the markets where you will focus on Greenfield development, and what about Germany?

And the third question is on the development of the PPA market. Do you see the possibility to sign PPA, and in general how do you see the evolution of the PPA markets in Europe?

And finally just a very quick information on the hedging policy, if you can tell us: how much is your hedging policy for 2021 and 2022, and also the level of hydro reservoirs and the taxation that you expect for this year and next year? Many thanks.

**Luca Bettonte:**

Okay. I think that we have to share with Paolo some of these questions. I go for the first part, and I think that Paolo can answer the last 3 questions. Needless to say that myself and Paolo are in two different locations.

As far as clarity on the rules for the repowering auctions, there is no doubt that we can take part into the auctions, it is just a matter of authorization, permitting process. And we all work very hard: I beg that we should take part into the auction in May with a good portion of our assets to be repowered in Italy, in particular the senior assets for which we already got the authorization at central level - so the VIA decree - and now we are working on, in order to get the authorization at regional level - the so-called *Autorizzazione Unica* - and we are well positioned also in that path. Well, there is a couple of items that should be improved: I am referring to the -5% to be applied to the auction price, to the final price for the repowered assets, so we do not understand why there is such a reduction discount that we have to apply. And the second item has to do with the attribution to the repowerable assets the right to be repowered, just in case some megawatts were not attributed to the Greenfield project. It means that at the end of the day, they have created two different auctions inside the single one, because first of all there is a competition among the Greenfield developers, and then the competition

among the repowerable assets. And it could lead to have a not efficient way to allocate - from a system standpoint, in terms of pricing - the new capacity to be sold in the Country, which means that at the end of the day we could facilitate both the Greenfield operators (because they compete on their own in their specific group), and the repowerable assets, so operators such as ERG. So, better situation, more clarity on the rules... we are all working with GSE in order to see if we can improve this situation. But anyhow, from a competitive standpoint it is not better that much, but it could be an opportunity, because - being the first to start the process to get the authorization to repower our assets - we may have a commercial advantage in the auction in May due to the lack of authorization, in particular for repowering assets. So wait and see. What I can tell you is that this is a quite positive evolution of the regulation, and we are working - let me repeat - to take part into the auction in May next year, which will be in line with our expectation as for our Business Plan.

As for the LCOE and IRR, let me put it this way: if we go towards an infrastructure way to be remunerated - so through auctions, fixed price and twenty years - I guess that the remuneration and the return should be in line with this risk profile. So I am talking about - unlevered - something which is in between 6% to 7%. That is what I could tell you.

As far as Greenfield and markets: yes, we are working very hard in all the European countries that are the basis of our Business Plan. You asked for specific information about Germany, you know, where we have a pipeline which is larger than 200MW: we are working, it is going to be part of our Business Plan. So, we still believe that Germany is a country that is worth being in. And so, no relevant information to be added to what you already know. And, based on what we have described in our presentation on page no. 6, it is important to underline that we are more than on-track on balance, we are exceeding the expectation and maybe that could be something usual for ERG, but cross fingers, because now we have two very important years ahead of us to comply with what we have promised. But I am confident that we get the target promised a couple of years ago. Also because, you know, we have already secured some 622MW, and the other part of the repowering projects is going ahead very well. So I am very, very confident that we will achieve the target shared with you in 2018, or even more.

As for PPA: yes, we are working quite hard in order to finalize the construction of our pipeline in Scotland, right. You know that in Scotland there is no incentives or any incentive scheme in place today. So, we are working only to get a PPA agreement for sure with different customers in the end, in both corporate and utility PPAs. There is a market there, and we are working to get the best price. But, at the same time, we are still engaged in the consultation process as for the re-introduction in the UK - specifically in Scotland - of the CFD agreement through the competitive auctions. And, if it is the case, we are ready to take part to this new game also in that Country.

As I am used to say, we have different ways to sell the power, like many others in this industry. First of all, we would like to have a fixed price for the longer period possible, and so auctions are the best way to do that. But at the same time, PPA is a very good alternative. And the market, European wide, is on rise: it is increasing, it is developing. And my guess is that, going forward, it would be one of the most important way to sell power across Europe.

As for the last 3 questions, I ask Paolo to help me, because he has some specific numbers. I do not have here with me any specific information about that, so I would prefer Paolo to give you the right numbers.

**Paolo Merli:**

Absolutely. I will start with the tax rate for the full year. It should not be different from the one already reported over the first 9 months of the year, which is in the region of 20%-21%. Consider that our theoretical tax rate should be in the region of 30%, but we have some upside coming from ACE, as you probably know, and also some carry-forward losses, that we have accumulated throughout the liability management performed last year. So we have some upside from this in the tax rate and also - as I said before in my remarks - we are still waiting to gain a full understanding of the *Decreto Rilancio*, because at a first sight it seemed that it offered the opportunity to have a huge, an important discount on IRAP, while according to an article issued on the *Il Sole24 Ore* - which refers to a document released by the Government in June, but unknown to operators - it seems that this potential saving is kept at just €800,000. We still have to gain more details on that. So for the time being, we have to write off everything, waiting for more details on that. But this is an upside eventually, on the guidance I gave you at 20%-21%.

The second question was about the hedging policy. The question was about 2021, but let me say that in 2020 we had a coverage of 75% since the beginning of the year, because the actions taken to cover the prices over 2020 were executed in the years before, according to our policies. Coming to 2021, we have right now more or less 65% of the Renewables production in 2021 already covered - and let me add - at a price, which is not very different from the one we covered in 2020: just few euros per MWh less, but not very different.

And also consider that in 2021, we should expect a much higher value for the incentives, because, as you know, the value of incentives for 2021 is based on a mathematical formula, which is inversely correlated to the price of energy registered in this current year. So, we should expect - based on the forward in the market - that the value of

incentives will go up from 99€/MWh to roughly 110€/MWh. So, we are quite optimistic about the scenario, given the hedging and given the evolution of the incentive.

Part of the production is already covered also for 2022. This is according to our 3-years rolling hedging policy, and a 30% more or less is covered also for 2022 again at a price, which is very, very similar to the one covering 2021 production.

I think the last question was about the amount of the water of the energy stocked in our hydroelectric plants. I repeat this number is in excess of 50GWh. Consider that during the quarter we used a little bit of the previous amount, which was in the region of 85GWh. So right now, today, we have still 50GWh of production stocked in our lakes. I hope, I have answered all of your questions.

**Sara Piccinini:**

Yes. Thank you very much.

**Luca Bettonte:**

Thanks to you.

**Operator:**

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

**Roberto Letizia:**

Yes. Thank you and good morning. Actually, you showed us a picture in which you are exceeding already by 100MW the plan targets for 2022, which was originally 3.6GW. Considering actually that there are 2 years remaining on the table to reach the target, is it possible that this target will be beaten by a significantly higher amount versus the current 100MW? I am wondering if there are possibilities or chances in the short term - meaning the next 2 years - to add more megawatts to be realized in a short period of time, or if you believe this is all done right now. A clarification on the hedging: you are just a couple of euros below the power prices you hedge throughout 2019, actually. Are we talking about something in the region of 50-52€/MWh? Is that a fair range for the hedging for next year?

I have a question on the OPEX per megawatt. I wonder if we should expect, or we may expect, a significant or any type of reduction in the OPEX per megawatt, considering the enlargement of the asset base and, I guess, the always ongoing saving processes. So, what kind of benefits should we expect in a 3-4 years of time for what we guess is the OPEX per megawatt management?

I have a quick question. I am not sure if you are going to answer to that, but there is a lot of elements below the line - especially what you mentioned also about the liability management, and your new bond program - which has effects on the fourth quarter. Would it be possible for you to give a range of net income for the full year, considering there is a lot of moving parts that would help in understanding the net income generation for the full year? Then maybe I will have some follow-up later. Thanks.

**Luca Bettonte:**

Okay, right. Let me answer your first question, and for the remaining three again I will ask Paolo to help me in understanding. Right, on page no. 6 we have put our projections now for 2022. Let me underline two items, as a component of my answer. First of all, this is what we expect to get by that date, at the end of 2022, which is the original final date for our Business Plan. As you know, more than 6 months ago we said that we made an in-depth analysis on the impact of Covid-19, as for the deployment of our investments. And we said, and we keep saying, that we might have got some 6 months delay, that could be anyhow recoverable. Today let me repeat the same sentence; but at the same time, I keep confirming that we should comply with the target set forth in this chart, so finalizing everything by 2022. And on top of that, we had 100MW, which is very important because, you know, this is a pure Greenfield generation, as they are part in particular of the larger authorization that we got in Scotland, and you know how much the value of a Greenfield project is today. And for sure these projects already pertain to authorized projects: we are just improving the number, announcing the number, increasing the number of the megawatts installed in the same place with the same connection, and the like. So, well done to my colleagues: they did a very good job.

To go beyond that, based on what we are doing now, I am talking about constructions, getting authorization, finalizing construction, getting the connection... I think that is what I can tell you we will do next.

To go ahead, it means to go through M&A transactions, in order to accelerate. What we aim at achieving now is to improve or to strengthen our pipeline first of all, because in the medium-long term ERG is becoming, and wants to become, a rolling generator of new assets to be installed: that is the core business of the industry we are operating into. And so, that is what we are mainly focused on.

If you look again at page no. 6, you see that since the past we had been growing through M&A until this year when, starting particularly from 2020 and based on the Capex that you see we are projecting to year-end, we arrive at the end at a sort of tipping point, when ERG has been transformed in a pure operator, that generates revenues through the development of new capacity.

So, going beyond, exceeding this target means to accelerate through M&A transactions. For sure, why not? We did something for instance in Poland as for the ready-to-build assets, but the prices on the markets are very, very high in this moment. So, if we do that, we will do through a quite careful cherry-picking investment in the M&A. I do not see in the next year, strong, large M&A transactions for us, although we have to look at every opportunity that could come on the market; but we prefer to stay focused on this growth.

Of course, let me conclude before giving the floor to Paolo by saying that never say never with ERG: because, as you know, first we do things, and then we come here to tell you what we have achieved. Please, Paolo.

**Paolo Merli:**

So, I think the questions still to be answered are four: hedging, liability management OPEX and net profit. Let me start with hedging. I think your estimate for the price in 2021 (51-52€/MWh) is more or less accurate. Let me say that it should be even better. You can consider a 55€/MWh, as a good estimate for the 65% production already covered, which is a very good price because, I repeat, it is a 3-years rolling policy, so we have started that hedging well before 2020, and well before - above all - the lockdown and the effect of Covid-19 on merchant prices.

As far as the liability management is concerned, for sure the last issuance of the bond will have a positive impact on the financial charges starting from the fourth quarter. And on a full-year basis, the saving assured by this green bond should be in the region of €5-6mn. As a matter of fact, we issued €500mn at a cost of 0.6%, while the liability management of the project finance and the corporate loans un-winded against this issuance was more than double, it was in the region of 2%. So the saving is in the region of 1.5 percentage point on this €500mn. So, you can easily calculate the number just given, so the €6mn.

About the OPEX, let me divide the OPEX in two streams. First, the one on the current asset base: we are not expecting any particular change, because you know that the management of this cost is fully internalized, fully in-house *etcetera*. For sure, for the new developments - in particular for the repowering, but also for the Greenfield - we expect the OPEX to step down quite significantly, but this is because of the new platform of technology. So you know that we signed an important agreement with Vestas covering almost 800MW of our new developments, both in repowering and Greenfield. And for sure, the platforms we secured through this contract are those above 4MW per tower, which have OPEX consistently and considerably lower than the current megawatts. But this is already reflected in the LCOE Luca was talking about earlier, and it is already included in the LCOE, as Luca said before.

About the net profit, it is not a guidance we usually give, but let me be positive. I would say that at the end of the year we expect to keep the advantage we have accumulated over the first nine months compared to 2019, despite - I repeat - the reversal effect on the taxation with reference to the ACE, as I have already explained. I hope to have answered your questions, Roberto.

**Roberto Letizia:**

Yes. Thank you.

**Paolo Merli:**

Okay.

**Operator:**

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

**Roberto Ranieri:**

Yes. Good morning everyone and thanks for taking my three questions, if I may.

The first one is on the Hydropower production. I am just wondering if the volumes decline in the Hydropower is also given or not by an opportunistic choice to maintain some water in the reservoirs for the fourth quarter, where we can have some higher power prices.

My second question is on financials, on Capex specifically. Paolo, if I am not wrong, you mentioned the 9 months Capex at around €110mn, and 86% of this Capex is for development. So, could the remaining part annualized (basically around €20-25mn) be considered as long run Capex with this installed capacity level for the long term?

My third question is on strategy, and specifically in UK: in the past you made some asset disposal in UK. I am wondering if this past disposal was opportunistic, or within a context of asset rotation. So, if this is the case, can we see some other asset rotation likely to be involved in Romania, Bulgaria and in order to concentrate also in the UK, if the UK will be a core geography for you? So, just to have an idea: has something changed in terms of strategies and in terms of geographies? We know that Germany and France are very core geographies: I am wondering if UK will be devoted to stronger capacity developments in the near future. Thank you very much.

**Luca Bettonte:**

Right, okay. So, the first question on Hydropower: we got some water at our disposal for the fourth quarter, as we mentioned. Let us say that in the projections with which I have confirmed the guidance I am not thinking to use the water we got in the reservoirs. So, it



could be an upside. But, today, in order to achieve the results we thought we would have achieved at the year-end, we do not need to use that water. And so, it could be an upside, but for the time being, let the water where it is.

As for the Capex, I guess that some €20-25mn as maintenance Capex in the long run should not be something that you can consider as a steady number it, could be a little less: €25mn is too high, take some €20mn per year, it could be fair enough. I would say €15mn to €20mn... take €20-€17mn or something like, but not more than €20mn for sure.

As per strategy, I would say it is quite a good question. Starting from the UK, when we sold Brockaghboy - it was... I do not remember... 2 or 3 years ago - it was not an opportunity, because we would have liked to keep that asset, because our strategy is to bid and run. But, at that time remember that wind farms had the ROCK, so the incentives were at a very, very high level. We invested at that time with a financial partner. So, at the end of the day we made the right decision to sell, because we cashed a huge, an incredible amount of money. But this is not our business: our business is to grow, to install new capacity and the like.

Asset rotation: anyhow, for sure, if we want to be competitive in the industry, we must be ready also for the asset rotation. In the sense that we have spent a couple of years setting the right organization in order to be able to grow abroad: if you remember, 5-3 years ago ERG did not have anything outside of Italy. Now, we are achieving and going well beyond 1GW by the end of the Business Plan, which is a huge amount on absolute level, but in relation to our dimension it is even a bigger amount. So as far as asset allocation: yes, for sure, we do not want to have any limit in doing that, of course, at the right price.

As for the countries where we want to invest, Europe is our playfield: today we are mainly focused on UK, and Germany, and France, but why not expanding our presence in other countries?

We are working very hard in order to finalize the new Business Plan, and so, be patient a bit. I have just said that we will give you the information with this new Business Plan next year at the end of the first quarter: that is what we think today it could be the right moment to do that. And for sure, in the new Business Plan we are thinking to introduce a broader geographical exposure. We are thinking deeper to expand our presence in the Solar business. And of course, asset rotation will be part of our way to run the business, although the core business is to keep going.

In that respect, I pass on to you a thought that has to do with the pipeline. Today, we are mainly focused - when we think about pipeline - on the Greenfield pipeline. But I suggest

you take into consideration also the value of the pipeline stemming from repowerable assets, which is in my option the best pipeline that you can have. And that is what we are demonstrating to you all, through what we are doing in Italy. So, that is in a nutshell the strategy, I do not want to take away the surprise, and then suspense as for the new Business Plan. So, please let us work in order to finalize at best this year, and to prepare to meet you for the next 5 years, because the next Business Plan will cover from 2021 to 2025.

**Roberto Ranieri:**

Okay. Thank you very much.

**Operator:**

This concludes the Q&A session Mr. Bettonte. The floor is back to you for any closing remarks.

**Luca Bettonte:**

Okay. Thanks a lot everybody for staying with us. And thanks a lot to my colleagues for the very hard and good job that they are doing: keep it up, guys. Thanks a lot. And have a nice day.

**Paolo Merli:**

Thank you, bye. Have a good day.