



ERG S.p.A.
“Third Quarter 2011 Results”
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MODERATORS:

ALESSANDRO GARRONE, GROUP CEO

PAOLO MERLI, CORPORATE FINANCE, CONTROL & INVESTOR RELATIONS

Operator:

Good afternoon. This is the Chorus Call Conference Operator. Welcome and thank you for joining the ERG Third Quarter 2011 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. Alessandro Garrone, Chief Executive Officer of ERG. Please go ahead, Sir.

Alessandro Garrone:

Thank you, and good afternoon ladies and gentlemen. Welcome to this third quarter and first nine months 2011 ERG results. I am here with Paolo Merli, Head of Corporate Finance, Control and Investor Relations. As usual I will open our agenda for today with key figures for the period and recent developments. Paolo will then take you through our results for the third quarter in more details, while in the end I would like to provide you with some guidance for the full year, before opening the Q&A session.

Let me also remind you that, in line with the past quarters, adjusted results include our stakes in ISAB (51% in Q1, and 40% since Q2) and 51% of TotalErg, which is effective as of October 1, 2010.

So let me start with key financials for Q3 and the first nine months of 2011. The Q3 adjusted EBITDA at replacement cost came in at €120 million, well above the €79 million over the same period last year. All our business segments reported better results year-on-year, in particular power and renewables.

The first nine months adjusted EBITDA at replacement cost was at €229 million, compared to €213 million in 2010. The year-on-year growth was the result of a higher contribution from power and renewable business, partly offset by weaker results in refining & marketing, which suffered for a very tough refining scenario, exacerbated by the Libyan crisis.

It is worth also to remember that the first nine months 2010 results of power benefited from €45 million of insurance reimbursement related to the ISAB Energy accident occurred in 2008.

The Q3 replacement cost net profit was at €8 million, compared to a loss of €14 million in the same period last year, mainly related to the strong growth of EBITDA.

The nine months replacement cost net profit was in fact a loss of €32 million, compared to a loss of €13 million last year, as a consequence of higher depreciations and taxes. I remind you that 2010 results benefited from one-off fiscal benefits, or the so called Tremonti-ter (in 2010 taxes were lower roughly by €14 million).

Looking at our balance sheet, the adjusted net financial position closed at €1,156 million at September-end, compared to €1,082 million at 2010 year-end and to €1,025 million in June 2011. The leverage increased slightly from 36% in 2010 year-end to 37% in September.

The increase in net financial position in the nine months of 2011 is mainly related to the acquisition of the 112 megawatt wind assets of ERG Eolica Campania from IVPC Group, the investments of the period and also the dividend distribution, partly offset by the proceeds from the sale of 11% stake in ISAB. The increase in net financial position in the third quarter is mainly related to the acquisition of the mentioned ERG Eolica Campania from IVPC, partly compensated by the cash flow of the period.

Looking now at some recent developments, I would like first to focus on the renewable business. As we have announced on June 23, 2011 we acquired IVPC Power 3 which owns 5 wind parks in operation as of 2008 for a total installed capacity of 111.8 megawatt. The closing of the operation was finalized at the beginning of August, when those assets entered into our scope of consolidation.

In terms of enterprise value, the price paid based on financial debt at the end of June 2011 was about €2 million per megawatt, and we really believe this valuation reflects the very good quality of the assets (the productivity is above 2,100 equivalent hours, well above the national average), and the recent start of operation date, thus giving ERG the possibility to benefit from a safe incentive scheme for the remaining 12 years.

The equity value paid for this deal was €133 million. All those wind parks were financed partly with a project financing, and partly with a financing under Law 488 with very favorable financing conditions.

In addition, at the beginning of September ERG Renew acquired Amaroni Energia, which owns a fully authorized wind farm project for an installed capacity of 22.5 megawatt. The construction of the park already began at the end of September, while the start-up is expected within the end of 2012. The Amaroni project is located in Calabria, very close to Fossa del Lupo - our wind park - and will be based on the same technology, i.e. Nordex N90 wind generators.

All these developments will represent a further step, after the acquisition of 102 megawatt made last year, in the consolidation of our presence in Italy, where ERG is now a leading operator, being the third wind player in Italy. In fact, in the graph of the next slide you can see the position of ERG Renew compared with the other players in Italy.

The acquisition of IVPC Power 3, together with the completion of Fossa del Lupo (which was fully on stream in the third quarter) and the ongoing ramp-up of Ginestra (expected to be completed by year-end), provides ERG with a solid asset base of almost 500 megawatt of installed capacity in Italy, which means being the third operator after International Power and Enel Green Power.

As you see from the graph, we have more than doubled our installed capacity in Italy compared to 2010, and more than tripled compared to 2009 through a right mix of buying and making. But I would also like to stress that it is not only a matter of size, but also of quality. Our asset base in Italy is best-in-class, with average nominal productivity above 2,000 equivalent hours per year.

About the future, we want to consolidate our positioning in Italy, while we are looking via LUKERG at entering some new countries mainly in East Europe, again by means of a right mix of buying and making. This is something we are working hard towards, and I am confident I will be able to say more on this issue in the forthcoming months, as we are already considering some good opportunities.

And now I would like to focus on an important achievement in our Power and Gas segment, that we have announced yesterday evening: this is the agreement we have signed yesterday with IREN Group, which is a listed company and one of the main Italian local utility. The agreement is based on the following key items: a power purchase agreement for 2,000 terawatt hour per year (which means 12 terawatt hour in the period of six years), and we will sell this power from 2012 to 2017 with a cap-and-floor mechanism based on reference spark spread. The floor will allow us to secure a minimum power generation margin. The agreement includes also the disposal of power retail going concern, which size was sub-optimal on a stand-alone basis.

The agreement also includes the exploitation of possible synergies and the possibility to extend collaboration with IREN to other projects. It is also very important to say that the PPA is not in the form of tolling agreement: thus ERG will keep flexibility to either produce via its 480 megawatt CCGT plant, or buying volumes on the market at its convenience, depending on trading conditions.

ERG will also continue - and this is very important - to benefit from our zonal premium on the whole volumes produced and sold to IREN. As you know, this advantage derives from Sicily prices being generally above national average price.

As regards focus on management of our assets, I would like to say that our CCGT plant was successfully tested by Terna in August, and is now available to offer its service on demand to the Grid Manager, the so called MSD market. On top of being a clear evidence of the quality of the asset, this is also an activity from which we expect some additional revenues.

From a strategic point of view, with this agreement ERG will reach the securitization of volumes and margins without losing its location advantages. We will also reach a reduction in complexity of our business model, and focus our activities on generation to maximize reliability and efficiency of power assets.

On the other side, IREN will benefit from an important increase of its retail customer base in line with its growth strategy, as well as securing part of its supply (2TWh) which represent about 20% of its customer base.

And now I will switch on to Paolo Merli for details on the results. Thank you.

Paolo Merli:

Thank you, Alessandro and good afternoon everyone. Let me start with the Group EBITDA, which was €120 million in the period (up 53% over the same period last year)

and €229 million in the first nine months, up 7% year-on-year. As usual, I will focus my comments on the third quarter results: during the period we reported better results year-on-year in all our business segments.

As far as refining & marketing is concerned, the year-on-year increase is mainly attributable to better results of refining activities, both coastal and inland, even though in absolute terms refining results remain under strong pressure, because of the very tough scenario.

As far as power & gas is concerned, EBITDA was €94 million, up 20% year-on-year thanks to a very good performance by both ISAB Energy and ERG Power plants, in a context of very satisfactory prices for CIP6 and merchant power in Sicily.

With regard to renewables, quarterly results were boosted by full contribution from ERG Eolica Adriatica (102MW) acquired last year from IVCP, Fossa del Lupo (recently completed and fully on stream in Q3) and, since August 5, ERG Eolica Campania (112MW), recently acquired again from IVPC.

Let's move now to slide 9. Here you have a pro-forma P&L statement, which includes on a line-by-line basis stakes in our JVs. Again, let me focus on results of the third quarter versus the same period last year. Starting from EBITDA and going down, depreciations were €59 million (slightly up year-on-year) due to the increased asset base in renewables. Net financial expenses of €20 million are broadly in line year-on-year; it is important to say that this item includes a negative of about €5 million, related to the fair value of interest rate swap associated to our project financing.

Taxes were negative for €18 million, resulting in a tax rate of about 44%. Please note that, in light of the recent approval of Law 148, the so called Robin Tax was increased to 10.5% from the previous 6.5%. In addition, the application of the law has been extended also to the renewable business. This change in law had limited impact on results of the period because of the retrospective application to the first part of the year, which - I remind you - was in red.

Minorities were -€16 million in the quarter (versus -€7 million over the same period last year) as a result of the very strong contribution of ISAB Energy in the period. All these items together allow the Group to come back to profits of €8 million versus -€14 million last year. On a reported basis (which includes a non-recurring item of -€4 million related to a write-off of Water Services in ERG Renew) net profit in the quarter was positive for €3 million, versus -€14 million.

Just quickly on nine months 2011: adjusted net income at replacement cost for the period was negative €32 million, compared to -€13 million over the same period last year. It is important to say that in 2010 we had a positive fiscal item of about €14 million, related to the so called Tremonti-ter. On a reported basis, net income in the nine months was positive for €113 million, which include the capital gain for about €103 million related to the disposal of 11% stake in the refinery.

Let's now comment segment-by-segment, starting from coastal refining. In 3Q 2011 EBITDA here was -€11 million (versus -€18 million last year) and -€46 million, versus -€28 million over the first nine months. Results in the period benefited from a better performance of the refinery, after – I remind you - the general turnaround which took place in the first quarter of this year, in a context of very tough refining scenario. I remind you also that we hold just 40% of ISAB since April 1, 2011. Investments were €8 million in the period (versus €10 million last year) and €32 million in the first nine months, compared to €38 million last year, mainly related to maintenance activities.

Let's move now to slide 12: here you have some operating data such as unitary margins for ISAB Refinery, compared as usual to EMC benchmarks. In absolute terms, refining margins still remain very weak, with an EMC benchmark negative for \$2.39 per barrel in the quarter, compared to -0.79 \$/bbl last year. In this very severe scenario, ISAB margins - even if still depressed - show an increase compared to last year, with a significant growth of the premium versus EMC.

The increase in premium was mainly related to the following items: the better performance of the plant - as I already said - after the general turnaround in Q1, the optimization of runs with an important increase of fuel oil straight-runs, and the growth of diesel cracks versus gasoline (as the EMC refinery is much more gasoline oriented than our ISAB refinery). Lower volumes in the quarter are mainly related to the fact that as of April 1, ERG owns just 40% of the refinery (versus 51% last year) as well as to higher runs of straight fuel oil instead of crude.

Moving to slide 13, we are commenting the integrated downstream figures, which I remind you include 51% of TotalErg and 100% of ERG Oil Sicilia. Overall EBITDA was €30 million against €23 million last year: marketing was €29 million, compared to €37 million. The decline was due to generally weaker industry conditions in the marketing (in particular for the retail business, with a general decline of volumes), and also to a lower than expected contribution from specialty segments, which could not offset the reduction in retail inherited from Total going concern. I would like to remind you that the comparison year-on-year is not on a like-for-like basis, as we have changed our scope of consolidation since October 1, 2010.

Inland refining and logistics reported an EBITDA of €1 million, compared to a very negative result (-€14 million) last year. I remind you that last year results were penalized by the upset at Sarpom Refinery, while results in the current quarter benefiting from a positive de-stocking item of about €5 million.

Let's move now to slide 14: very, very quickly, here you have unitary margins and volumes for both refineries. There is no comparison, which would not be really meaningful as the scope of consolidation changed significantly.

Let's move on to power (see slide 15), starting from ISAB Energy: out of the €94 million of EBITDA in the Power, €59 million was from ISAB Energy versus €47 million last year. This was due to a very good performance of the plant (with a net capacity utilization of 95%), but also to a very, very low utilization of gasoil, as the plant runs fully on syngas

during the quarter. The other reason is related to the scenario, with CIP6 tariff of €104 per megawatt hour up €9 compared to last year, when it was €95 per megawatt hour. As usual, Italian GAAP EBITDA is lower than replacement cost EBITDA, reflecting the phase out of the incentive.

I would also like to say that the general turnaround of ISAB Energy (which started on October 9) was completed successfully in early November, and the plant has been at its full capacity since a few days.

Let me now comment on ERG Power. Again very very good results: €34 million in the period versus €31 million last year. Also looking at the nine months, the result from the CCGT plant was very strong: €63 million, broadly in line with last year. Despite a weak CCGT trading environment in the country, ERG Power results keep benefiting from a stronger local pricing in Sicily.

Last but not least, moving to renewables, EBITDA in the quarter was €15 million, practically three times more than €5 million reported last year. This is the result of the strong increase (+84%) in production, which reflects the items already mentioned, i.e. the full contribution during the quarter of the assets acquired in the summer of last year from IVPC, the contribution for about 98 megawatts of Fossa del Lupo (which was fully on-stream during the quarter), and since August 5 the contribution of the new acquisition for 112 megawatts from IVPC. And last, lower Grid limitations in South Italy, which is an important positive news for us, even though this effect was more than offset by very weak wind conditions during the quarter. I also remind you that usually and seasonally the third quarter is the weakest one in the year.

Let's now move to slide 18, referred to investments; in the quarter investments were €30 million (versus €46 million), just more than half in refining & marketing, i.e. €17 million, out of which €8 million for maintenance in ISAB Refinery and €9 million for integrated downstream, partly related to the restyling service stations for TotalErg.

Minor investments in power & gas were associated to some ancillary items, but some minor investments were also necessary to comply with requirements needed to participate to the so-called Dispatching Service System, or MSD market, mentioned by the Chief Executive.

In renewables, €7 million of investments are related to the work in progress in Fossa del Lupo and Ginestra.

During the nine months, investments were €117 million versus €195 million: the huge and sharp decrease is related to the phase out of investments in the power segment.

Let's now move to slide 19, where you have the cash flow of the company during the period. Net debt increased from €1,025 million to €1,156 million, while the leverage of the company moved up from 35% to 37%. Here the main effect was the €229 million cash out for the acquisition of assets from IVPC, while the other two important items were the cash flow from operations (€78 million positive) and a reduction of working

capital for the same amount (€78 million) partly absorbed by investments over the period, and €29 million of taxes and other, which also include the change of fair value in derivatives. Stripping out €315 million (our quota of net financial position of TotalErg and ISAB S.r.l., which is cash positive), our net financial position is €841 million, with a leverage of 30%.

Thank you very much for your attention, and now back to the Chief Executive.

Alessandro Garrone:

Thank you, Paolo. Just to comment the last slide on economic guidance. In general, I would like to say that - in terms of management and asset performance - 2011 compared to 2010 was a very good year in all our sectors. Looking also at the step ahead on the renewable business and growth, I think 2011 was very positive.

Sector-by-sector, as far as refining & marketing is concerned, of course the environment is still very weak: we see some benefits against this weak scenario coming from the synergies of TotalErg, and we have also lower volumes for the ISAB shutdown in Q1 and the exercise of the 11% PUT, which - due to the refining margins - has a positive effect. At the end, the refining & marketing business guidance for 2011 is a little bit lower than the one for previous year.

Looking on power & gas sector, we have three effects that at the end will give results similar or a little bit lower than previous year. One is the contribution of the CCGT plant for the full year, but with lower margins. The tough scenario for CCGT is fortunately partly offset by geographical positioning. As far as ISAB Energy is concerned, due to the scheduled maintenance the production in 2011 would be at 3.7 terawatt hour. Paolo already said that the scheduled maintenance shutdown is finished, and I can say with very good results in terms of timing; moreover we had no stoppage, no problems, no incident, and that was at the end a very good result.

As far as renewable business is concerned, the guidance is very positive for 2011, because of the contribution of the new asset (the 102 megawatt for the full year, and the 112 megawatt for the second half of the year) and also for the start-up of Ginestra and Fossa del Lupo, which represent overall 138 megawatt. And, as Paolo said, there were lower Grid limitations compared to 2010.

So, thank you for your attention. Now, we are ready for your questions.

Questions & Answers

Operator:

This is the Chorus Call Conference Operator. We will now begin the Questions and Answers session. The first question is from Ms. Joanna Exarchou of Citigroup. Please go ahead, madam.

Joanna Exarchou:

Hello everyone, thank you. I have three questions please. The first is just on your agreement with IREN: you mentioned that you may pursue synergies in collaboration to other opportunities, but I understand that gas & power is not a key growth area for ERG. Could you perhaps give us some examples of such opportunities and how this ties into your wider strategy? My second question regards the TotalErg JV: can you give us an estimate of the synergies contribution so far in 2011, and your expectations for the fourth quarter, if that is some guidance that you could give? The final question is just on Rome Refinery: do you have an update on the potential restructuring of the refinery going forward? Thank you.

Alessandro Garrone:

Yes, good afternoon. On the IREN agreement, I said that we see possible synergies in collaboration: there are some fields where we can work together. Of course there is a commercial area, like for instance the gas supply where IREN is active. IREN has also a small presence in the wind power sector, in general in renewables: in the hydro production they are quite strong, but they have also some wind power where we might find opportunities to do something together. And I think, in the future we can find also ways to help them in their commercial activities through our asset and commercial channels, which is another area on which we would like to focus. Those are the possible synergies.

Of course, I cannot imagine other synergies, but being both industrial players in the power business, we could find also in the future other possibilities to collaborate together. So in terms of our strategy, we are not leaving the power business: we have two assets representing 1GW of capacity in Sicily: both of them are particular assets because one is a CIP6, the other one is a very new CCGT in Sicily, where we have a particular market situation, and I think we want to manage those assets in the best way, with as much efficiency and flexibility as possible. This means that we want to continue to be an industrial player in the power business.

With regard to TotalErg synergies, I can say that the integration between the two entities is going very well, both in terms of management integration and asset integration *et cetera*, even if the scenario is not the best one, both in the refining and the marketing business in Italy. So, I think our strategy and the deal were very good. Looking at the synergies, at the beginning we announced that we would expect at the end of the period synergies for more than €40 million, both for revenues increase and cost savings. After one year from the joint venture, I can say that we are in line with our expectations: we have reached more or less 50% of our target on synergies. And I think that we will reach the full benefit of those synergies by 2013 on. Roughly at the end of September, we have reached about €20 million of synergies, so we will be at about 60% of the total synergies by the end of this year: that is our forecast.

Paolo Merli:

The benefits will be seen as of next year.

Alessandro Garrone:

The last question was about the Rome Refinery. Again of course, both the Rome Refinery and the Treocate Refinery are well integrated with the TotalErg activities. From Rome Refinery we produce specialties - bitumen for instance - and the wholesale in the area of Rome is very important. But of course, due to the scenario and the situation, the company TotalErg and the shareholders are considering the prospective of this business: TotalErg management is currently valuating the best option in order to optimize this asset and maximize the profitability for the future. Thank you.

Joanna Exarchou:

That's great. Thank you.

Operator:

As a reminder, if you wish to register for a question, please press "*" and "1" on your touchtone telephone. The next question is from Mr. Roberto Ranieri of Banca IMI. Please go ahead, sir.

Roberto Ranieri:

Yes, good afternoon gentlemen. Few questions please. The first one is just a clarification about the ISAB Energy performance, which was very good, especially for the thermal power generation and ISAB Energy. My question is: am I wrong or there is no one-off in the ISAB Energy EBITDA, so basically this performance is only for a high price and full utilization? That is my understanding, can you confirm that? My second question is just a curiosity on renewable sector and the acquisition of the Amaroni authorized power plants of 22.5MW: can you give us an idea of the costs of this acquisition? Third question, on renewable sector as well: you talked about growth abroad in East Europe, can you be more specific on the countries where you are targeting the renewable capacity growth in the near future? And my very last question is about your strategic option: I am afraid I have to ask about your PUT option on ISAB and Priolo refinery, I understand that it is not easy to answer this question. But just to elaborate a little bit more on this item, according to your opinion, could a new tax regime on fuel oil and oil export for the Russian oil suppliers have any impact on Lukoil decision and your decision about Priolo refinery? Thanks very much.

Alessandro Garrone:

I think normally I answer the first three questions. So you had five questions, I don't know if I would answer all of them, the fourth especially.

Roberto Ranieri:

Yes it is true, I am sorry.

Alessandro Garrone:

the ISAB Energy performance was very good due to asset performance, the scenario and price situation. We have just one one-off of €3 million due to reimbursement of Green Certificates of the past we sold. But just €3 million on very good results of ISAB Energy, nothing else.

As far as Amaroni project is concerned, the 22.5MW project is, as we said, a full authorized project. We paid for the authorization something like €3-4 million, not more, which is not a significant figure. Of course we need to build the plant in the most efficient way in order to reach our hurdle rate on the project.

As far as countries where we want to grow in the wind business, through LUKERG - the joint venture with LUKOIL - the countries where we are working on are Bulgaria, Romania, Ukraine and I think, in the future, Russia. Now we are mainly focusing on Bulgaria and Romania, where we are already looking at some opportunities. One of the country where we are at the moment is France: we are already there with 60MW, and of course we would not like to remain with just 60MW. So we have to see if we have opportunities to grow in that country, which is quite an interesting country in terms of stability in the regulations.

With reference to the fourth question, of course we have not taken any final decision at the moment. The results of 2011 were absolutely not good in the refining business. Last year we decided to exercise a partial PUT on the 11% and, as we announced, the rationale of that decision was to keep an adequate presence in the sector and to see how the refining margins were going. At the moment, there is no recovery on the margins, even if in September we have seen some good margins, but they are not stable yet. However, we have time because, as you know, after the last exercise we have 12 months of lock-up, which means that the lock-up will end at the end of January next year. Of course, we are working on that: the lock-up will end and then we have time up to the 2014 to take a decision. We are at the end monitoring very carefully the situation and the scenario, so we will be able to take the decision in the next two or three months.

Roberto Ranieri:

Thank you, Alessandro.

Alessandro Garrone:

The last one is about the change in tax on Russian crude. We have to take a decision, it is not a Lukoil decision. For us nothing changes: that issue has no impact on our decision.

Roberto Ranieri:

Okay, thank you.

Alessandro Garrone:

Thank you.

Operator:

The next question is from Mr. Domenico Ghilotti from Equita SIM. Please go ahead, sir.

Domenico Ghilotti:

Good afternoon, I have a couple of questions. The first is on your commitment to pay €0.40 dividend: at this point how confident are you on this commitment? The second

question is a clarification on the synergies that you have already achieved, so the 50% or 60% synergies expected by year end in marketing: I would like to understand if this is already the contribution to this year results, or contribution to be seen only next year. And then I have a question on the market share in Sicily, in marketing: I saw a decline in market share compared to last year, so I would like to understand what is the reason for the decline?

Alessandro Garrone:

About the dividend, I really think it is too early to say anything: we need to see how the business is going. We need to finalize our four-year business plan, which of course will be then also announced next year to the financial community. And those are two important issues we have to monitor in order to propose to the shareholders' meeting a distribution of dividend. So, I think it is really too early now to say anything.

About synergies, I am sorry if I did not say that: we will see the effect of those synergies starting from next year, because they are on process. So the full results of these 60% of synergy reached by the end of the year will be seen starting from next year. The last question was about....

Domenico Ghilotti:

ERG and Sicily: the marketing business that you retained, so the 100%. I saw a decline in the market share in Sicily and I was wondering whether you had any issue there.

Alessandro Garrone:

Not really. As you have seen, generally speaking in terms of results of EOS, our retail business in Sicily, at the end the performance was very good. So, if we had a decrease in the market share, this is a commercial decision, but on the other side we gained in terms of margins. So the performance of this business is very good and satisfying at the moment.

Domenico Ghilotti:

Thank you.

Alessandro Garrone:

Thank you.

Operator:

For any further questions, please press "*" and "1" on your telephone. The next question is from Mr. Roberto Mascarello of Kepler Capital Markets. Please go ahead, sir.

Roberto Mascarello:

Hi, good afternoon. Some of my questions have already been answered, so just a quick one has left: could you please remind us the volumes of the refining inventories you still run, as a result of your remaining interest in ISAB S.r.l.? Thank you.

Paolo Merli:

Roberto, Paolo speaking. If you do not mind, I will get you back to you with these figures in details, because I have to check them.

Roberto Mascarello:

Okay.

Alessandro Garrone:

I am sorry, Roberto. Okay, Paolo will call you.

Roberto Mascarello:

Okay, thank you.

Alessandro Garrone:

Thank you.

Paolo Merli:

Thank you.

Operator:

Gentlemen, at this time there are no more questions registered.

Alessandro Garrone:

Okay. So thank you for your attention. The next webcast will be for the full year results, so we will get in touch in the New Year. Thank you everybody.

Paolo Merli:

Thank you. Bye bye.