ERG : an oil refiner who became a wind producer

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St Gallen, 22th May 2015

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ERG IN A NUTSHELL

491 (million EUR)	249 (million EUR)	76 (million EUR)	2,049 (million EUR)
EBITDA(1)	EBIT(1)	Group net profit(1)	Net invested capital

All data referred to 2014
(1) At adjustment replacement cost

Source: ERG Profile

WIND POWER

1341 *(MW)*
Wind farm installed capacity

FOSSILE POWER

480 *(MW)*
thermal installed capacity

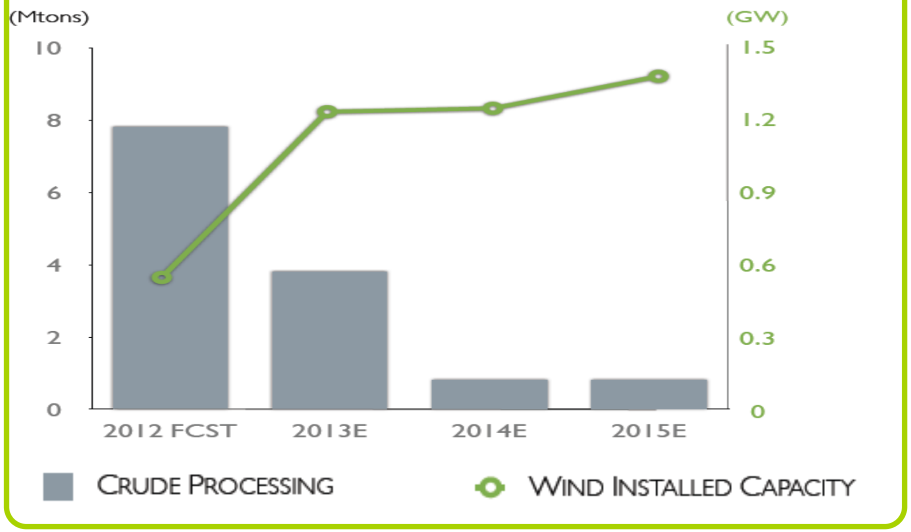
OIL MARKETING

10,6%
market share TotalErg

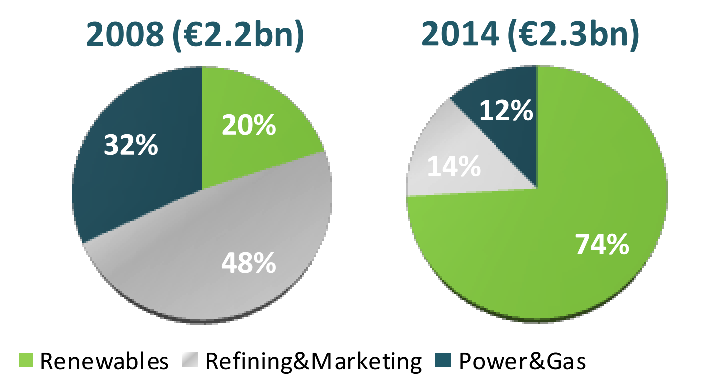
- Erg has been active in the **energy industry** for over **70 years**
- A listed company but with the share majority still in the hands of the founding families
- Three main business line :
  - ✓ ***Wind power production*** *: ERG Renew is the* *<u>largest wind energy producer in Italy and one of the first 10 onshore producers in Europe</u>*
  - ✓ ***Fossile fuel power production*** *in Italy*
  - ✓ ***Marketing of Oil Products*** *through JV TotalErg (51% ERG), one of the largest Italian players*

FROM OIL TO RENEWABLES

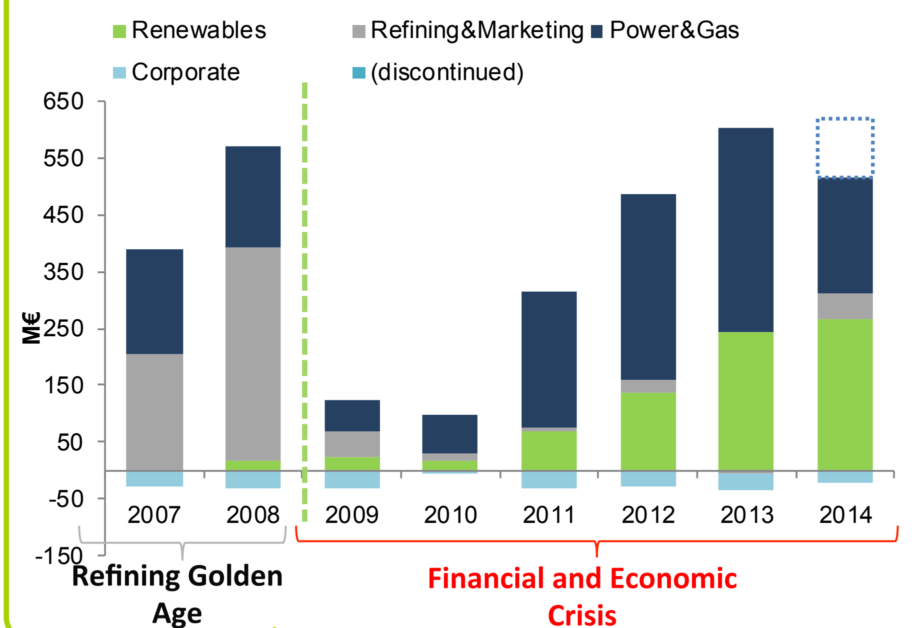
Crude oil processing vs wind capacity



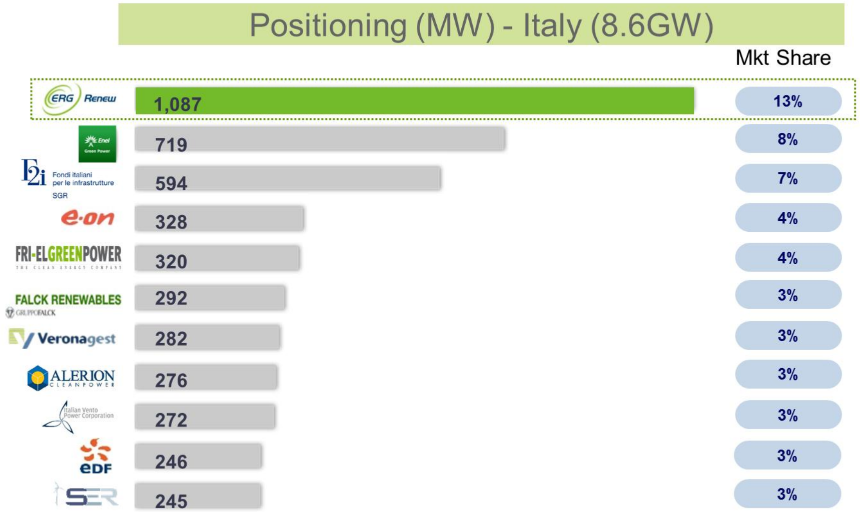
Invested capital

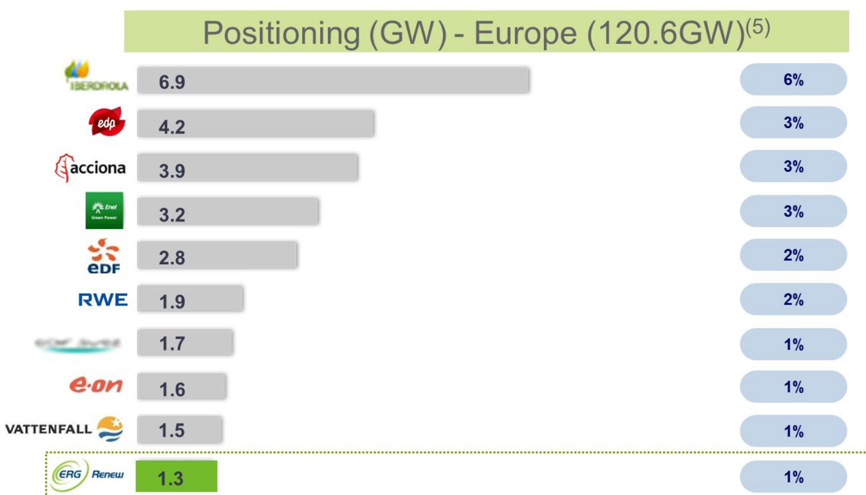


ERG EBITDA Evolution



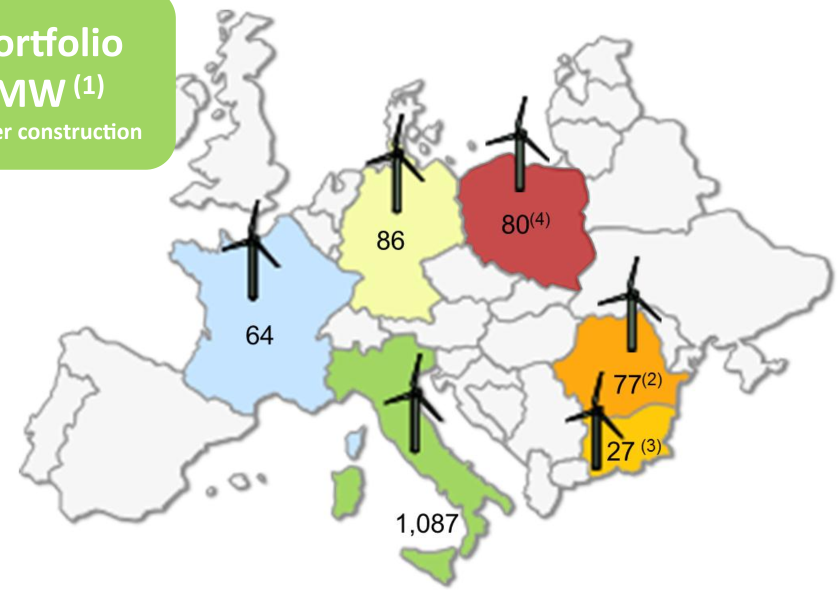
ERG RENEW - OVERVIEW





Source : ERG based on Ital.wind association and public available data as of 31.12.2014

Wind portfolio
1,341 MW (1)
**** 80 MW under construction**



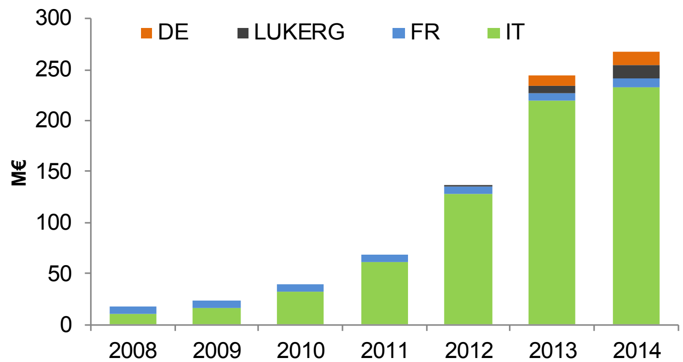
- With an operating capacity of c. 1.3GW, ERG Renew is a leading operator in the wind power industry **in Italy (#1) and in Europe (#9)**
- One of the few large European wind producers which is not an utility
- **Full internal capabilities**, from development to O&M
- Over the last five years the company implemented a focused growth strategy based on a mix of **acquisitions** and green-field developments
- Business strategy currently aimed at pursuing **international growth**
- In 2014 the company posted an **EBITDA of €267m**

(1) (2) (3) Include 50% of LUKERG's windfarms
(4) Under construction
(5) Include only onshore wind capacity

OUR GROWTH UNTIL 2013

Until 2013, Erg Renew's growth was mostly in Italy and largely based on acqusitions

EBITDA



Acquisition of O&M PROVIDER

In October 2013, Erg Renew acquired a n Italian O&M services provider. Since then, Erg Renew insourced O&M of most of Italian fleet (ca 1 GW)

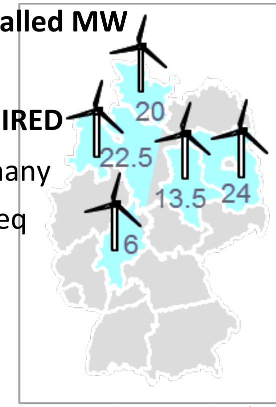
Acquisition of IP MAESTRALE

KEY TRANSACTION TERMS

- In February 2013 Erg Renew acquired from GDF Suez 80% of IP Maestrale (with a put & call agreement for the remaining 20%)
- **EV of €859mn** (excluding MtM of derivatives for ca. €130mn); equity value of €28.2mn for 80% stake
- **Implied EV of €1.35mn per installed MW**

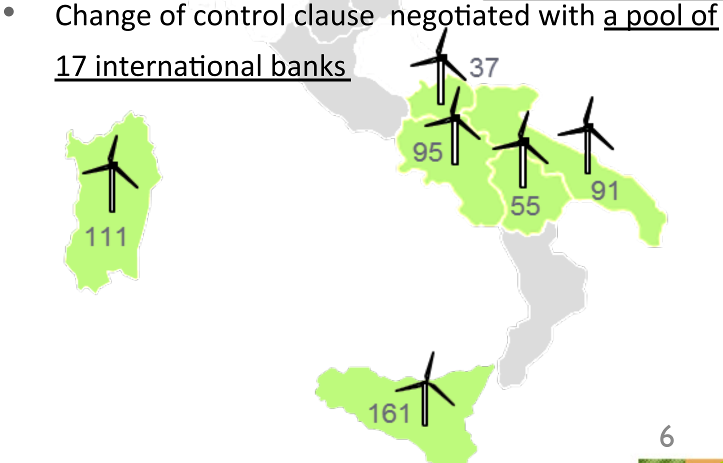
636 MW OF WIND CAPACITY ACQUIRED

- 550MW in Italy, 86MW in Germany
- Average load factor: ca. 2,000heq



PROJECT FINANCING

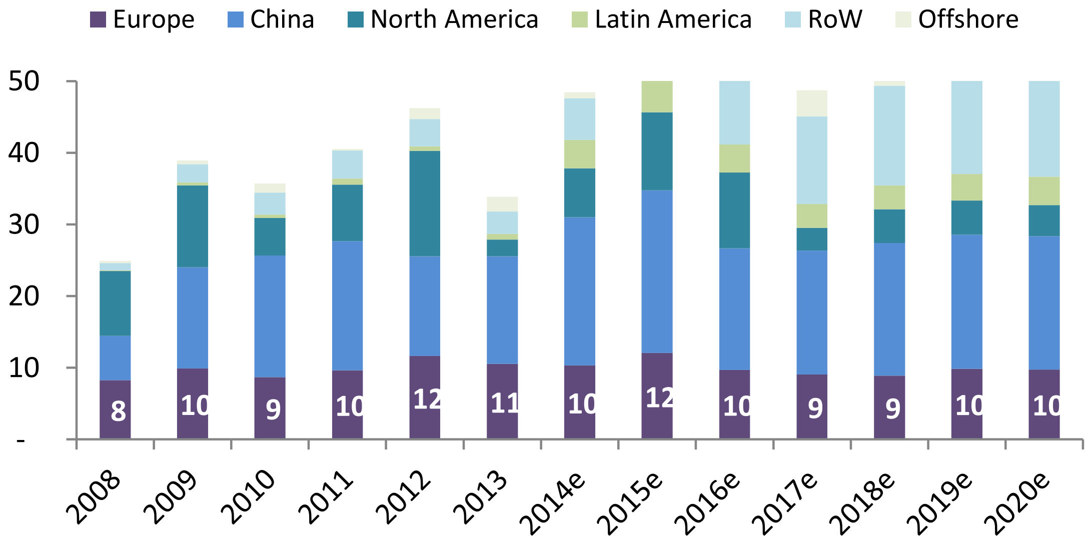
- PF until December 2022
- Change of control clause negotiated with a pool of 17 international banks



THE WIND SECTOR TOMORROW

RES have significantly grown and are expected to further increase across the world. In Europe however growth will be steady.

Global Wind electricity production by region, historical and projected



Source: BNEF

KEY FINDINGS

Worldwide ….

- **RES generation** will account for **80% of new power generation from 2013-20**
- Deployment of RES is accelerating in Asia and **emerging economies**
- **Wind and PV** are increasingly **competitive** with new-built conventional power plants

…. while in Europe

- There is an increasing focus on 2030 agenda and **Energy Union** but
- **EC guidelines on competition** are accelerating the switch to incentives awarded in **auctions**
- **Political pressure** to reduce costs related to RES support, **overcapacity in electricity production** and decrease in electricity demand led to a **freeze of incentives and retroactive changes** in some countries

EUROPE IS NOT UNIQUE

	Country risk profile				Regulatory framework				Typical Wacc
		Rating (0÷100)	Currency	Tax rate		Incentive	Duration	All-in (2014)	
				%			*years*	*€/MWh*	
FR		93	€	33%		FIT inflated	15	91	<5%
DE		99	€	30%		FIT/FIP	20	88	<5%
IT		60	€	33%		GC	15	146	6-6,5%
						CfD (auction)	20	89-124	
UK		94	£	20%		CV	20	105	5-6%
						CfD infl (auction)	15	115	<5%
RO		51	RON	16%		GC	15	56 (85)	9-10%
BG		53	BGN=€	10%		FIT	12 o 15	96 (excl.unbalancing)	8-9%
PL		69	PLN	19%		GC	15	90	8-8,5%
						CfD infl (auction)	15	-	7,5-8%

Romania:

- Second Green Certificate «banked» until 2015 for old projects
- Overcompensation cut 2 GC to 1,5 for new projects
- GC quotae lowered from 15 to 11%

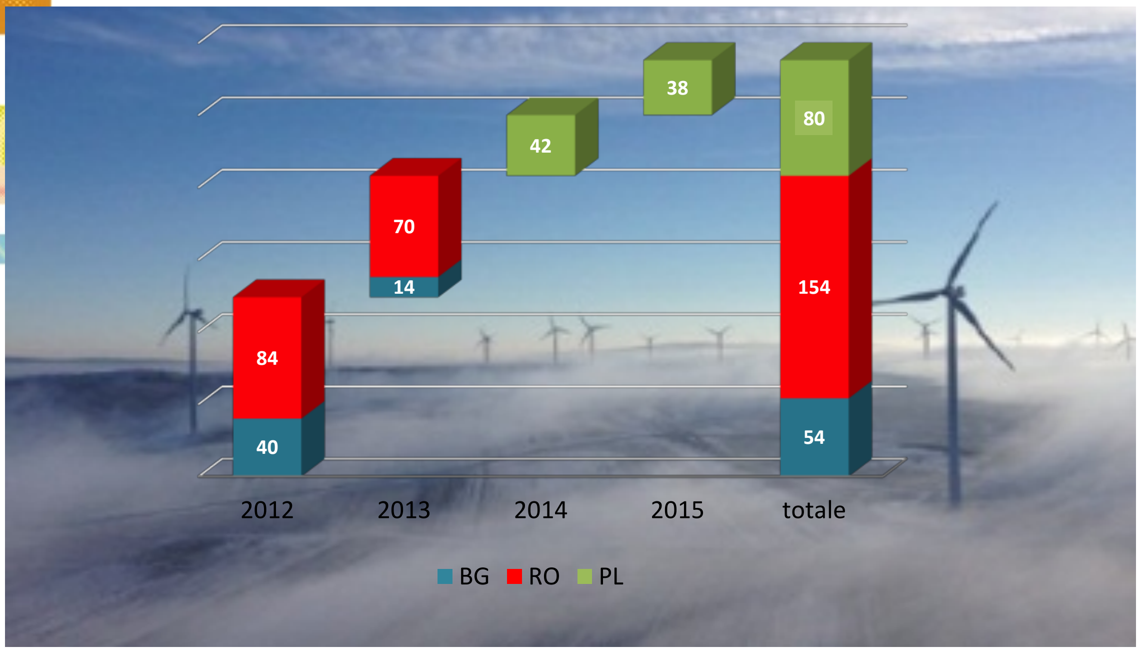
Bulgaria:

- 20% revenue tax (now declared uncostitutional)

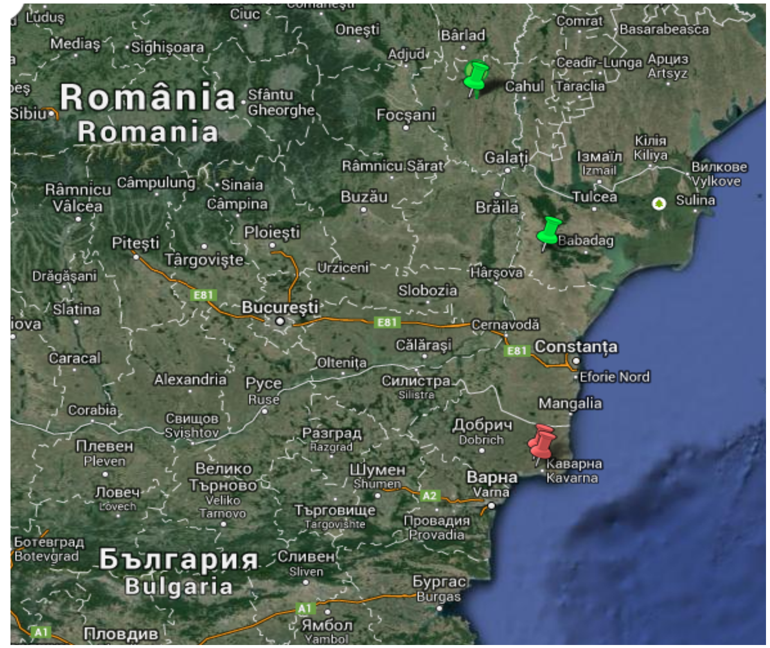
Low cost of capital is key

WHERE WE'VE GONE AND WHY

When / Where / How much



Wind farms location



Rationale for the growth

- We focused on East Europe : moderate risk and interesting returns
- We built or acquired ca. 300 MW (partially co-owned with Lukoil)
- Guidelines for the growth :
  - ✓ **High quality** projects (in terms of Load Factor)
  - ✓ **Geographical proximiity** (within a radius of ca 150 km)
  - ✓ Same **vendor and WTG** platform (Vestas 2MW)

Targeting efficiency

- O&M: value chain full ownership;
- Continuous improvement through specific projects.
  - **Lost time analysis** of to identify optimization opportunities;
  - Increasing wind farm **efficiency** through real time control;
  - Increasing wind farm **availability on energy basis**, also through short and mid term maintenance planning optimization (e.g. wind forecasts);
- Lean organization, business process optimization and "zero based" budget review to identify potential improvements;

Results

- Zero based budget → 11% saving on total fixed costs
- Plants availability → from 95 to 97% on energy basis
- Lean organisation → about 8 fte/100 MW

IN CONCLUSION

- In the future **RES are expected to increase** significantly across the world
- **Europe will proceed with decarbonization** although incentive schemes on RES are becoming more and more competitive
- **European countries are far from being equal** : country risks are different and so are the regulatory framework risks
- **Opportunities to grow will continue to exist** but..
- **..** while low risk always mean low return, **the opposite in not necessarily true**
- **There is no easy recipe to grow** : each player has to decide what is the risk/return mix he is willing to pursue and act accordingly
- Whatever is the growth model , **best in class management of operations** is a pre-requisite to provide support to declining margins


ERG Renew
Stopped
Avg. Online
Total
Wind Speed
Direction
Temp
CRC Errors
Not ACKs
Sequence Errors
ERG Renew