



# INTERIM FINANCIAL REPORT

AT 31 MARCH 2016





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# CORPORATE BODIES

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## BOARD OF DIRECTORS <sup>(1)</sup>

Chairman  
EDOARDO GARRONE *(Executive)*

Deputy Chairman  
ALESSANDRO GARRONE<sup>(2)</sup> *(Executive)*  
GIOVANNI MONDINI *(Non-executive)*

Chief Executive Officer  
LUCA BETTONTE

Directors  
MASSIMO BELCREDI *(Independent)*<sup>(3)</sup>  
MARIA ANNA RITA CAVERNI *(Independent)*<sup>(4)</sup>  
ALESSANDRO CHIEFFI *(Independent)*<sup>(4)</sup>  
BARBARA COMINELLI *(Independent)*<sup>(4)</sup>  
MARCO COSTAGUTA *(Non-executive)*  
LUIGI FERRARIS *(Independent)*<sup>(4)</sup>  
PAOLO FRANCESCO LANZONI *(Independent)*<sup>(3)</sup>  
SILVIA MERLO *(Independent)*<sup>(4)</sup>

## BOARD OF STATUTORY <sup>(5)</sup>

Chairman  
ELENA SPAGNOL

Standing Auditors  
LELIO FORNABAIO  
STEFANO REMONDINI

**MANAGER RESPONSIBLE  
(ITALIAN LAW NO. 262/05)**  
PAOLO LUIGI MERLI

**INDEPENDENT AUDITORS**  
DELOITTE & TOUCHE S.p.A.

(1) Appointed on 24 April 2015

(2) Director in charge of the Internal Control and Risk Management System

(3) With reference to the matters envisaged by Article 148.3 of the Consolidated Finance Law

(4) With reference to the matters envisaged by Article 148.3 of the Consolidated Finance Law and the matters contained in the current Corporate Governance Code furthered by Borsa Italiana S.p.A.

(5) Appointed on 3 May 2016

# INTRODUCTION

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The Interim Financial Report at 31 March 2016, pending definition of the regulatory framework, has been drawn up - on a voluntary basis consistently with the interim reports of the previous years - in compliance with the accounting and measurement standards established by the International Financial Reporting Standards (IFRS) and will consequently be published in compliance with the disclosure provided to the market to-date.

The consolidation principles and the evaluation criteria are the same indicated in the Consolidated Financial Statements for 2015, to which reference is made.

## Disclosure pursuant to Articles 70 and 71 of the Issuers' Regulations

The Company has selected the option, introduced by CONSOB with its resolution No. 18079 of 20 January 2012, of waiving the obligation to make available to the public an information document upon carrying out significant transactions, i.e. mergers, demergers, capital increase by transfer in kind, acquisition and sale.

## Results at replacement cost

To enhance understandability of business performance, the operating results are also shown at replacement cost, excluding non-recurring items<sup>1</sup>.

You are reminded that at the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.a. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated in full as from 1 January 2016.

In consideration of the commented on change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which includes the portion relating to ERG of the economic results at replacement cost of said joint venture LUKERG Renew GmbH (50%).

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<sup>1</sup> Non-recurring items include significant but unusual earnings.

## Change in the business scope

The comparison with the results for the first quarter of 2015 was affected significantly by the change in the scope of the Group which essentially took place in the second half of 2015 and in particular:

- acquisition of six wind farms (63 MW) in France from the Macquarie group in July 2015;
- start-up of the wind farm of EW Orneta 2 (42 MW) in July 2015;
- acquisition of the wind farms in Poland (40MW) from the PAI group in the first quarter of 2015 and launched at the beginning of 2016;
- acquisition of the integrated hydroelectric complex in Italy (527 MW) from E.ON on 30 November 2015;
- acquisition of eleven wind farms in France (124 MW) and six in Germany (82 MW) from Impax Asset Management Group in the first quarter of 2016.

## BUSINESS DESCRIPTION

The ERG Group has completed a fundamental transformation process, from leading Italian private oil operator to leading independent operator in the production of energy from renewable sources, differentiated by non-programmable sources (wind) and programmable sources (thermoelectric and hydroelectric), as well as in terms of geographic presence (with a rising presence on the foreign wind market, particularly in France and Germany).

Today on the wind market, the Group is leader in Italy and has a prominent position in Europe; furthermore, it is among the leading operators active in the production of energy from water sources in Italy and is also active in high-efficiency low-environmental impact heat production in the thermoelectric sector with a CCGT plant which is modulable and high-output co-generative, as well as on the energy markets by means of Energy Management activities.

The ERG GROUP, via its subsidiaries, operates in the Electric power generation sectors using:

### Non-programmable sources

Through ERG Renew (93% owned subsidiary), ERG is active in the generation of electricity from wind sources with 1,720 MW of installed power at 31 March 2016. ERG Renew is the leading wind power operator in Italy and one of the first ten in Europe.

The wind farms are mainly concentrated in Italy (1,094 MW), but with a significant and rising presence also abroad (626 MW), in particular in France (252 MW), Germany (168 MW), Poland (82 MW entirely developed by ERG in 2015) as well as in Romania and Bulgaria (70 MW and 54 MW after the termination of the Joint Venture with Lukoil). These figures include the additional capacity deriving from the acquisitions finalised at the end of 2016 in France and Germany, respectively for 124 and 82 MW.

Via ERG Renew O&M, the company essentially completed the insourcing of the management and maintenance activities for all the wind farms in Italy.

### Programmable sources

The Group is active in the production and marketing of electric energy and utilities via:

- ERG Power S.r.l.: a company which owns the so-called "Centrale Nord" (480 MW) located in the industrial estate in Priolo Gargallo (SR) in Sicily, which operated during the period as an Essential Unit on the basis of the Mucchetti Amendment<sup>2</sup>. This is a high-output co-generation plant (C.A.R.), based on latest generation combined cycle

<sup>2</sup> Law converting Decree Law No. 91/14 ("Competition Decree"). For additional details, please see the section Thermoelectric.

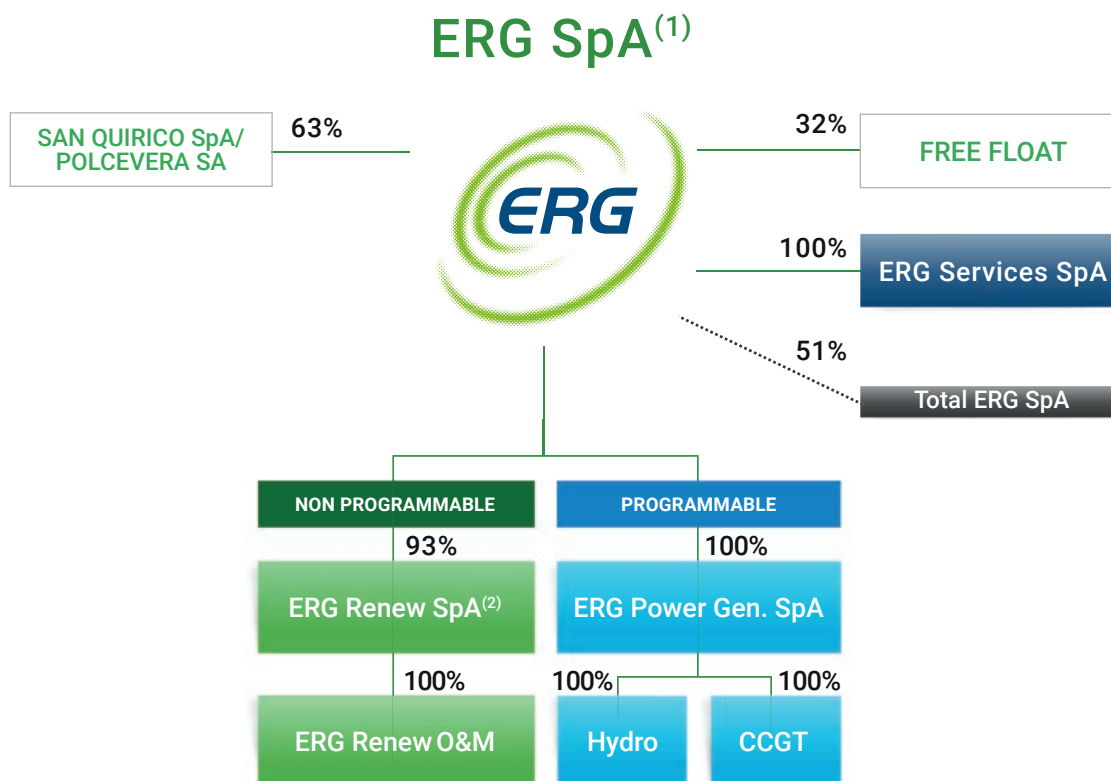
technology using natural gas, which came into stream commercially in April 2010 and other ancillary plants for the production of steam and other utilities.

- **ERG Hydro S.r.l.:** a newly-formed company to which the hydroelectric business segment acquired from E.ON Produzione at the end of 2015 was transferred. The integrated asset portfolio of ERG Hydro is made up of 16 plants, 7 dams, 3 reservoirs and a pumping station, located geographically throughout Umbria, the Marches and Lazio, with a capacity of 527 MW;
- **ERG Power Generation S.p.A. (wholly-owned):** a company which carries out Energy Management activities for the whole of the ERG Group, as well as the O&M activities for the ERG Power S.r.l. plant.  
ERG Power Generation holds 100% of ERG Power S.r.l. and ERG Hydro S.r.l..

The ERG organisational model also envisages the centralisation of the services transversal to the Group in ERG Services, a company delegated with achieving operational excellence in the supply of shared services.

The ERG Group also has an investment of 51% in TotalErg, a joint venture in the integrated downstream sector, which is not considered part of the core business of the Group and whose results are included using the equity method.

## GROUP STRUCTURE AS AT 31 MARCH 2016



(1) ERG holds 5% of its own shares

(2) UniCredit owns 7.18% of ERG Renew



## ERG'S STOCK MARKET PERFORMANCE

At 31 March 2016 the reference price of ERG's shares was EUR 11.96, down (-4.1%) from the end of 2015, in the presence of a drop in the same period in the FTSE All Share index (-14.8%), the FTSE Mid Cap index (-10.3%) and the Euro Stoxx Utilities Index (-5.8%).

During the period under review, the listed price of the ERG stock disclosed a minimum of EUR 10.55 (9 February) and a maximum of EUR 12.45 (4 January).

Figures relating to the prices and exchange volumes of ERG's shares at 31 March are set out below:

| Stock price                             | Euro  |
|---|-------|
| Reference price as at 31.03.16          | 11.96 |
| Highest price (04.01.16) <sup>(1)</sup> | 12.45 |
| Lowest price (09.02.16) <sup>(1)</sup>  | 10.55 |
| Average price                           | 11.42 |

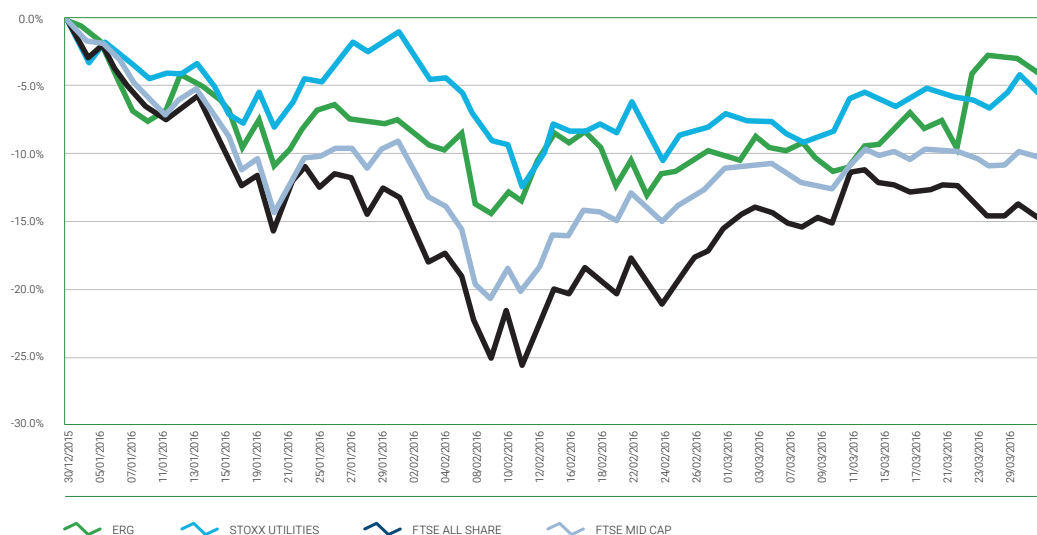
(1) lowest and highest price reached during the day's trading; hence they do not match the official and closing prices on the same date

| Traded volumes            | N. azioni |
|---------------------------|-----------|
| Maximum volume (23.03.16) | 932,125   |
| Minimum volume (11.03.16) | 93,543    |
| Average volume            | 302,222   |

Market capitalisation as at 31 March 2016 was approximately EUR 1,798 million (EUR 1,874 million at the end of 2015).

### ERG's share price performance compared with leading indices (normalised)

ERG vs Euro Stoxx Utilities, FTSE All Share e FTSE Mid Cap - % change from 31.12.2015 to 31.03.2016





# PERFORMANCE HIGHLIGHTS

| FY 2015       | (EUR million)   |                                   | 1st quarter  |              |
|---------------|---|-----------------------------------|--------------|--------------|
|               |   |                                   | 2016         | 2015         |
|               |   | <b>MAIN INCOME STATEMENT DATA</b> |              |              |
| 944           | Revenues  |                                   | 295          | 275          |
| <b>350</b>    | <b>EBITDA at replacement cost</b>                                 |                                   | <b>163</b>   | <b>111</b>   |
| <b>179</b>    | <b>EBIT at replacement cost</b>                                   |                                   | <b>99</b>    | <b>71</b>    |
| 24            | Net income  |                                   | 51           | 40           |
| 21            | of which Group net income   |                                   | 48           | 38           |
| <b>96</b>     | <b>Group net profit (loss) at replacement cost <sup>(1)</sup></b> |                                   | <b>57</b>    | <b>34</b>    |
|               |   | <b>MAIN FINANCIAL DATA</b>        |              |              |
| <b>3,124</b>  | <b>Net invested capital</b>                                       |                                   | <b>3,454</b> | <b>2,015</b> |
| 1,676         | Shareholders' Equity  |                                   | 1,713        | 1,758        |
| 1,448         | Total net financial indebtedness                                  |                                   | 1,741        | 335          |
| 1,285         | of which non-recourse Project Financing <sup>(2)</sup>            |                                   | 1,461        | 1,376        |
| 46%           | Financial leverage  |                                   | 50%          | 13%          |
| <b>37%</b>    | <b>EBITDA Margin%</b>   |                                   | <b>55%</b>   | <b>40%</b>   |
|               |   | <b>OPERATING DATA</b>             |              |              |
| <b>1,506</b>  | <b>Installed capacity at period end - wind farms</b>              | MW                                | <b>1,720</b> | <b>1,341</b> |
| 2,614         | Electric power generation from wind farms                         | millions of kWh                   | 1,226        | 860          |
| <b>480</b>    | <b>Installed capacity - thermoelectric plants</b>                 | MW                                | <b>480</b>   | <b>480</b>   |
| 2,632         | Electric power generation from thermoelectric plants              | millions of kWh                   | 695          | 614          |
| <b>527</b>    | <b>Installed capacity at period end - Hydroelectric plants</b>    | MW                                | <b>527</b>   | <b>-</b>     |
| 84            | Electric power generation from hydroelectric plants               | millions of kWh                   | 384          | -            |
| <b>10,113</b> | <b>Total sales of electric power</b>                              | millions of kWh                   | <b>3,281</b> | <b>2,666</b> |
| 106           | Investments <sup>(3)</sup>  | Eur millions                      | 4            | 13           |
| <b>666</b>    | <b>Employees at period end</b>                                    | units                             | <b>715</b>   | <b>610</b>   |
|               |   | <b>MARKET INDICATORS</b>          |              |              |
| 52,3          | Reference price of electricity <sup>(4)</sup>                     | Euro/MWh                          | 39.6         | 51.9         |
| 100,1         | Feed In premium (former Green Certificates)                       | Euro/MWh                          | 100.1        | 101.6        |
| 57,49         | Sicily zone price   | Euro/MWh                          | 43.8         | 57.9         |
| 147,8         | Average selling price per unit of ERG Wind energy in Italy        | Euro/MWh                          | 136.4        | 149.9        |
| 96,2          | Feed In Tariff (Germany) <sup>(5)</sup>                           | Euro/MWh                          | 91.9         | 96.1         |
| 90,4          | Feed In Tariff (France) <sup>(5)</sup>                            | Euro/MWh                          | 88.6         | 91.6         |
| 80,3          | Feed In Tariff (Bulgaria) <sup>(5)</sup>                          | Euro/MWh                          | 96.7         | 96.6         |
| 37,1          | Price of electricity - Poland                                     | Euro/MWh                          | 31.5         | n.a.         |
| 26,0          | Price of GCs - Poland   | Euro/MWh                          | 26.3         | n.a.         |
| 29,7          | Price of electricity - Romania <sup>(6)</sup>                     | Euro/MWh                          | 27.5         | 32.0         |
| 29,5          | Price of GCs - Romania <sup>(7)</sup>                             | Euro/MWh                          | 29.5         | 29.6         |

To enhance understandability of business performance, the operating results are shown at replacement cost, excluding non-recurring items.

You are reminded that at the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleis farm in Romania, whose economic contribution is therefore consolidated in full as from 1 January 2016.

In consideration of the commented on change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which includes the portion relating to ERG of the economic results at replacement cost of said joint venture LUKERG Renew GmbH (50%).

(1) does not include inventory gains (losses) of TotalErg, non-recurring items and related applicable theoretical taxes

(2) including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates

(3) in tangible and intangible fixed assets. Do not include the M&A investments amounting to EUR 306 million,

(4) Single National Price

(5) the values of the Feed In Tariff abroad refer to the prices obtained by ERG Renew plants

(6) the Romania EE price refers to the price fixed by the company via bilateral agreements

(7) price referred to the unit value of the green certificate,

## PERFORMANCE HIGHLIGHTS BY SEGMENT

| FY 2015 | (EUR million)  | 1st quarter |      |
|---------|--|-------------|------|
|         |  | 2016        | 2015 |
|         | <b>REVENUES FROM ORDINARY OPERATIONS</b>                   |             |      |
| 345     | <b>Non Programmable Sources</b>                            | 145         | 118  |
| 345     | Wind power   | 145         | 118  |
| 602     | <b>Programmable Sources</b>                                | 152         | 160  |
| 592     | Thermoelectric power <sup>(1)</sup>                        | 122         | 160  |
| 11      | Hydroelectric power  | 30          | –    |
| 22      | <b>Corporate</b>   | 8           | 7    |
| (25)    | <i>Intra-segment revenues</i>                              | (9)         | (10) |
| 944     | <b>Total revenues</b>                                      | 295         | 275  |
|         | <b>EBITDA</b>  |             |      |
| 254     | <b>Non Programmable Sources</b>                            | 117         | 95   |
| 254     | Wind power   | 117         | 95   |
| 115     | <b>Programmable Sources</b>                                | 48          | 22   |
| 107     | Thermoelectric power <sup>(1)</sup>                        | 27          | 22   |
| 8       | Hydroelectric power  | 21          | –    |
| (19)    | <b>Corporate</b>   | (2)         | (6)  |
| 350     | <b>EBITDA at replacement cost</b>                          | 163         | 111  |
|         | <b>AMORTISATION, DEPRECIATION AND WRITE-DOWNS</b>          |             |      |
| (134)   | <b>Non Programmable Sources</b>                            | (41)        | (33) |
| (134)   | Wind power   | (41)        | (33) |
| (34)    | <b>Programmable Sources</b>                                | (22)        | (7)  |
| (30)    | Thermoelectric power                                       | (7)         | (7)  |
| (5)     | Hydroelectric power  | (15)        | –    |
| (3)     | <b>Corporate</b>   | (1)         | (1)  |
| (171)   | <b>Amortisation and depreciation at replacement cost</b>   | (64)        | (41) |
|         | <b>EBIT</b>  |             |      |
| 120     | <b>Non Programmable Sources</b>                            | 75          | 62   |
| 120     | Wind power   | 75          | 62   |
| 81      | <b>Programmable Sources</b>                                | 26          | 15   |
| 78      | Thermoelectric power <sup>(1)</sup>                        | 20          | 15   |
| 3       | Hydroelectric power  | 6           | –    |
| (22)    | <b>Corporate</b>   | (3)         | (7)  |
| 179     | <b>EBIT at replacement cost</b>                            | 99          | 71   |
|         | <b>INVESTMENTS ON TANGIBLE AND INTANGIBLE FIXED ASSETS</b> |             |      |
| 95      | <b>Non Programmable Sources</b>                            | 2           | 11   |
| 95      | Wind power   | 2           | 11   |
| 9       | <b>Programmable Sources</b>                                | 2           | 2    |
| 9       | Thermoelectric power                                       | 1           | 2    |
| –       | Hydroelectric power  | 1           | –    |
| 2       | <b>Corporate</b>   | 1           | –    |
| 106     | <b>Total investments</b>                                   | 4           | 13   |

(1) includes Energy Management contribution

## SALES

### POWER GENERATION

The electricity sales of the ERG Group, carried out in Italy via the Energy Management of ERG Power Generation S.p.A., refer to the electricity generated by its plants, wind power (ERG Renew), thermoelectric (ERG Power) and, as from December 2015, hydroelectric (ERG Hydro), as well as purchases on organised markets and through physical bilateral agreements. During the first half of 2016, total sales of electricity came to 3.3 TWh (2.7 TWh in the same period in 2015), in the presence of an overall value of production for the Group plants of around 2.3 GWh, of which roughly 0.5 TWh abroad and 1.9 TWh in Italy. The latter balance corresponds to around 2.4% of electricity demand in Italy (1.6% in the first quarter of 2015). The breakdown of sale volumes and electricity production volumes, with reference to the type of source, is shown in the following table<sup>3</sup>:

| FY            | SOURCES OF ELECTRIC POWER (GWh)                  | 1st quarter  |              |
|---------------|--|--------------|--------------|
|               |  | 2016         | 2015         |
| 1.910         | ERG Renew - Italy wind production                | 774          | 680          |
| 705           | ERG Renew - Foreign wind production              | 452          | 180          |
| 2.632         | ERG Power Generation - thermoelectric production | 695          | 614          |
| 84            | ERG Power Generation - hydroelectric production  | 384          | –            |
| 4.782         | ERG Power Generation - purchases                 | 975          | 1.192        |
| <b>10.113</b> | <b>Total</b>                                     | <b>3.281</b> | <b>2.666</b> |

| FY            | SALES OF ELECTRIC POWER (GWh)                | 1st quarter  |              |
|---------------|--|--------------|--------------|
|               |  | 2016         | 2015         |
| 535           | Electric power sold to customers Priolo site | 128          | 129          |
| 2.015         | Electric power sold to IREN                  | 502          | 497          |
| 7.563         | Electric power sold Wholesale                | 2.651        | 2.041        |
| 6.858         | - of which Italy                             | 2.200        | 1.861        |
| 705           | - of which Abroad                            | 452          | 180          |
| <b>10.113</b> | <b>Total</b>                                 | <b>3.281</b> | <b>2.666</b> |

Steam sales<sup>4</sup> amounted to 246 thousand tons in the first quarter of 2016 (208 in the first quarter of 2015).

Electric power sold wholesale includes the sales on the IPEX electricity exchange, both on the “day before market” (MGP), the “intraday market” (MI) and the “dispatching services market (MSD), as well as the sales to the main operators of the sector on the “over the counter” (OTC) platform. The latter are carried out by Energy Management with a view to developing the forward contracting activities also with the aim of hedging the generation, in line with ERG Group risk policies.

<sup>3</sup> The sources of electricity refer to the production of the Group plants and the purchases made on the wholesale markets; the uses include the sale made via physical bilateral agreements and on markets, spot and forward. The 2015 comparative balances which in the previous reports represented the net balance of the energy bought and resold on the wholesale markets, were consistently reclassified.

<sup>4</sup> Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

## COMMENTS ON THE PERIOD'S PERFORMANCE

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During the first quarter of 2016, **revenues from ordinary operations** amounted to EUR 295 million, up with respect to the EUR 275 million in the first quarter of 2015, further to significant increased generation in Italy, both in wind and thermoelectric, the contribution from new wind capacity operative in France, Germany and Poland, as well as the contribution from the newly acquired hydroelectric complex. The additional volumes more than offset the average decrease in the prices of energy, with the exception of the thermoelectric business in Sicily.

The **EBITDA at replacement cost** amounted to EUR 163 million, up compared with EUR 111 million in the first quarter of 2015. The change is a result of the following factors:

### Non-programmable sources

EBITDA amounted to EUR 117 million, up sharply compared to the same period in the previous year (EUR 95 million) thanks to the significant increase in production, in light of both the contribution of the new wind farms in France, Germany and Poland, and to the better wind conditions in the period, which more than offset the impact of the lower average sales prices.

### Programmable sources

EBITDA of EUR 48 million, greater with respect to the previous year (EUR 22 million) essentially further to the result of EUR 21 million provided by the hydroelectric business, despite the scarce water availability in the period following an increase also in the greater result from thermoelectric result, EUR 27 million compared with EUR 22 million last year, having benefited from the elevated efficiency of the plants and the recoveries of costs in accordance with current legislation of the Essential Units, as well as the contribution from Energy Management activities. The new acquisition of the hydroelectric complex contributed EUR 21 million to the results despite the scarce water availability during the period.

**EBIT at replacement cost** was EUR 99 million (EUR 71 million in the first quarter of 2015) after amortisation and depreciation amounting to EUR 64 million (EUR 41 million in the first quarter of 2015).

**Group EBIT at replacement cost** amounted to EUR 57 million, up compared to EUR 34 million in the first quarter of 2015, mainly as a result of the reasons already illustrated when commenting on the operating results as well as the improved contribution to equity of the TotalErg investment.

**Group EBIT** amounted to EUR 48 million (EUR 38 million in the first quarter of 2015) and was affected, with respect to the Group EBIT at replacement cost, mainly by the losses on the value of the inventory of TotalErg linked to the trend of the prices of the OIL market.

In the first quarter of 2016, **Group capital expenditure** totalled EUR 4 million (EUR 13 million in the first quarter of 2015), of which 49% in the Non-programmable sector (84%) and 37% in the Programmable sector (13%). This balance does not include the value of the investments and acquisitions in wind amounting to EUR 306 million in the first quarter of 2016.

**Net financial indebtedness** was EUR 1,741 million, up EUR 294 million compared with the 31 December 2015 figure mainly due to the acquisition of the French and German wind farms from the Impax group (EUR 293 million) as well as the initial investment for entering the UK market (EUR 13 million). The operating cash flows partly offset the effects deriving from this change in the scope of consolidation, despite the negative trend of the working capital in the period (- EUR 90 million), partly linked to the change in legislation on Green Certificates and the regime of the Essential Units, envisaged to be absorbed by year end.

## SIGNIFICANT EVENTS DURING THE QUARTER

02  
February  
2016

ERG Renew finalised an agreement to purchase eleven wind farms in France from a fund managed by the Impax Asset Management Group,

with an installed output of 124 MW, along with six in Germany, with an installed output of 82 MW, for a total of 206 MW. The wind farms, which became operative between 2009 and 2014 in France and 2004 and 2014 in German, present an estimated average annual production of approximately 410 GWh.

The scope of the transactions also include two companies, one French and one German, which provide technical, operational and commercial assistance, via a team comprising twenty-eight professionals, to wind farm operators in France, Germany and Poland, both captive and third parties, for a total of around 800 MW (of which 206 MW subject to purchase and another 83 MW belonging to ERG Renew in Germany).

The value of the acquisition comes to around EUR 290 million in terms of enterprise value, equal to a multiple of approximately EUR 1.4 million per MW. The farms are already entirely financed with limited recourse Project Financing. The estimated Gross Operating Margin will be around EUR 30 million in 2016. The overall consideration for the equity comes to EUR 135 million.

29  
February  
2016

ERG Renew acquired, from TCI Renewables ("TCI"), 100% of the capital of Brockaghboy Windfarm Ltd ("BWF"), a UK company owning the

authorisations required for the construction of a wind

farm in Northern Ireland, in the county of Londonderry, with planned capacity of around 45 MW and energy output estimated at around 150 GWh/year when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO<sub>2</sub> emissions. ERG Renew expects to start work for the construction of the wind farm in the second quarter of 2016 and complete construction by the end of the first quarter of 2017. The total estimated investment for construction of the farm is approximately GBP 60 million (around EUR 80 million), including the initial consideration for the purchase of the company.

The project meets the conditions for the accreditation in line with the current incentive mechanisms (NIRO) envisaged by the bill being examined by the UK parliament. On the basis of the agreements, on conclusion of the construction and having obtained the accreditation in line with the incentives (NIRO), the possibility of BWF being transferred to third parties is envisaged. ERG Renew will have the right to present a supplementary offer to TCI so as to maintain the ownership definitively. If this offer is not accepted and only in the event that higher offers have been received and accepted from third parties, steps will be taken to transfer BWF and subsequently calculate and divide up the capital gain on the basis of the agreed contractual mechanisms. By means of this transaction, ERG Renew will enter the UK wind market as envisaged in the ERG 2015-18 Strategic Plan by means of an innovative and flexible contractual structure which makes it possible to develop the industrial expertise gained by ERG Renew and to optimise the creation of value.

## BUSINESS SEGMENTS

### NON-PROGRAMMABLE SOURCES

The ERG Group operates in the Wind segment through the subsidiary ERG Renew.

Wind farms consist of wind-power generators able to transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.

Business performance is also influenced by the sale price of electricity, which can also vary in relation to the geographic areas where the plants are located, and by the incentive systems for renewable energy sources, which differ from country to country.

#### REFERENCE MARKET <sup>(1)</sup>

| FY<br>2015 |   | 1st quarter |        |
|------------|---|-------------|--------|
|            |   | 2016        | 2015   |
|            | <b>Italian Renewable Energy Sources Market <sup>(2)</sup> (GWh)</b> |             |        |
| 89.832     | Generation from renewable sources <sup>(3)</sup>                    | 19.134      | 20.698 |
|            | of which:   |             |        |
| 44.751     | Hydroelectric   | 7.907       | 9.592  |
| 5.816      | Geothermal  | 1.489       | 1.438  |
| 14.589     | Wind  | 5.772       | 5.195  |
| 24.676     | Photovoltaic  | 3.966       | 4.473  |
|            | <b>Sale prices (Euro/MWh)</b>                                       |             |        |
| 52.3       | PUN (Italy) <sup>(4)</sup>  | 39.6        | 51.9   |
| 100.1      | Substitute incentive (former Green certificates)                    | 100.1       | 101.6  |
| 50.9       | EE price Central-South area   | 38.4        | 50.6   |
| 49.4       | EE price South area   | 38.0        | 49.5   |
| 57.5       | EE price Sicily   | 43.8        | 57.9   |
| 51.1       | EE price Sardinia   | 38.5        | 50.6   |
| 147.8      | Average unit value for sale of ERG power in Italy <sup>(5)</sup>    | 136.4       | 149.9  |
| 96.2       | Feed In Tariff (Germany) <sup>(6)</sup>                             | 91.9        | 96.1   |
| 90.4       | Feed In Tariff (France) <sup>(6)</sup>                              | 88.6        | 91.6   |
| 80.3       | Feed In Tariff (Bulgaria) <sup>(6)</sup>                            | 96.7        | 96.6   |
| 37.1       | EE price Poland   | 31.5        | n.a.   |
| 26.0       | CO price Poland   | 26.3        | n.a.   |
| 29.7       | EE price Romania <sup>(7)</sup>                                     | 27.5        | 32.0   |
| 29.5       | CV price Romania <sup>(8)</sup>                                     | 29.5        | 29.6   |

(1) estimated output for March

(2) source: Terna S.p.A. monthly report on the electrical system. Estimated data. subject to correction

(3) sources considered: hydroelectric, geothermal, wind power and photovoltaic

(4) Single National Price – Source: GME S.p.A.

(5) the average value in Italy does not consider the Feed in Tariff of EUR 123.8/MWh acknowledged to the Palazzo S. Gervasio plant

(6) the values of the Feed in Tariff abroad refer to the prices obtained by ERG Renew plants

(7) the Romania EE price refers to the price fixed by the company via bilateral agreements (for comparative purposes, in the absence of similar bilateral agreements in the period, the market price is indicated)

(8) price referred to the unit value of the green certificate (the number of green certificates recognised and the timeline are discussed in the section describing the scenario in Romania)



## MARKET SCENARIO IN ITALY

In the first quarter of 2016, domestic electricity generation (net) amounting to 65,309 GWh (-0.7%) was 29% covered by renewable sources, down slightly compared to 31% in the same period of 2015 essentially due to the minor water availability registered; in detail, this production derives from hydroelectric sources (12%), from wind sources (9%), from photovoltaic sources (6%) and from geothermal sources (2%).

With respect to the previous year, wind (+11%) and geothermal (+4%) were up, while hydroelectric production reported a net decrease (-18%), as did photovoltaic production (-11%).

## TARIFF SCENARIO

### Italy

The incentive system in Italy envisaged, for on-shore wind farms in operation before the end of 2012<sup>5</sup>, the continuation of the green certificates system until 2015 and the subsequent conversion, for the residual period of entitlement to incentives, to a premium feed-in tariff calculated using the same formula and paid on a quarterly basis by the last business day of the second quarter after that of pertinence. In detail, the GSE established that the payment of the incentive which replaces the Green Certificates will take place for the first quarter of 2016 by 30 September while for the second quarters of 2016, by 31 December 2016.

With regard to the Green Certificates relating to 2015 production, withdrawal takes place on a quarterly basis with reference to the following timescales: by 30 September 2015 with payment on 31 October for 1st quarter 2015 generation, 31 December 2015, with payment by 31 January 2016 for the 2nd quarter of 2015, 31 March 2016, with payment by 30 April 2016 for the 3rd quarter of 2015 and in conclusion, for the last quarter of 2015, 30 June 2016 with payment by 31 July 2016.

With regard to the value of the 2015 Green Certificates withdrawal price and the 2016 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 29/2016/R/EFR dated 28 January 2016, the average annual value registered in 2015 for the electric power sales prices for incentive purposes, amounting to EUR 51.69/MWh. Therefore, the price for the withdrawal of the 2015 Green Certificates and 2016 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year<sup>6</sup>, amounts to EUR 100.08/MWh<sup>7</sup>. Wind plants with more than 5 MW capacity built from 2013 onwards (starting operations after April 2013) instead shall gain access to the incentives by participating in a Dutch auction<sup>8</sup>. As a result of the first auction, 442 MW were assigned for on-shore wind power (the total amount allocated for 2013 was 500 MW), whilst the second auction, completed on 10 June 2013, led to the assignment of the entire amount available for 2014, i.e.

<sup>5</sup> There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.

<sup>6</sup> Electricity sales price defined by the Italian Authority for Electricity and Gas implementing Article 13, Paragraph 3, of Italian Legislative Decree No. 387 of 29 December 2003.

<sup>7</sup> It is hereby recalled that with regard to the Green Certificates for the first and second quarter of 2015, the price of EUR 96.00/GS was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.

<sup>8</sup> Base price of 127 EUR/MWh.



399.9 MW versus a capacity demand of 1,086 MW<sup>9</sup>. With the third auction, relating to the amount for 2015, which was completed on 26 June 2014, the entire amount available for onshore wind power, i.e. approximately 356 MW, was assigned once again (capacity demand greatly exceeded the available amount, at approximately 1,261 MW). To-date, the ministerial decree which will discipline the access to the new incentives has not yet been published.

Starting from 2013, moreover, for all entities accessing the incentive schemes for the generation of electricity from plants powered by renewable sources (with the exclusion of photovoltaic plants and of plants admitted to the Inter-ministerial Price Committee Order 6/92), a contribution of EUR 0.5 is provided for each MWh of subsidised energy, to be paid to the Italian National Grid Operator (GSE).

### Italian Stability law No. 208/2015

By means of the approval of Italian Stability Law No. 208/2015, new regulations were launched, as from 1 January 2016, for the determination of the cadastral income of the real estate property units used for generation purposes. Specifically, in Article 1, sections 21-24 the 2016 Stability Law envisaged that for the electric power generation plants, the components of the wind turbine generators are no longer subject to taxation.

### Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type. Based on the<sup>10</sup> 2014 EEG (which confirms the will to grow in the future), the tariff for new on-shore wind farms amounts to 89 EUR/MWh for 20 years (constant)<sup>11</sup>. This value falls by 0.4% for each quarter after 1 January 2016. The existing plants also have the option of choosing an alternative incentive system, of the feed-in premium type (mandatory for new plants). If this option is selected, electricity is sold directly on the market and the Operator receives, on a monthly basis, a premium equal to the difference between the basic value of the feed-in tariff and the average monthly market price of electricity, to which would be added a management premium (amounting to 4 EUR/MWh for 2015 - inclusive of the remote control bonus), decreasing over the years, which represents an approximation of the charges tied to the management of the sale of electricity on the market.

The 2009 version of the same law had introduced a System Service Bonus, i.e. 7 EUR/MWh for work carried out no later than 2010, acknowledged if technological enhancements are made to the plant (to improve its performance related to voltage and frequency regulation), for the first 5 years from the completion of the work.

The tariff for ERG Renew's farms varies between 87 and 89 EUR/MWh (constant in nominal terms). The Sallgast and Brunsbüttel wind farms passed to the direct market system in 2014, while the remaining 3 wind farms continued to apply the fixed tariff system. All of ERG's German wind farms (with the exception of the Gembeck wind farm, 4 WTG)

<sup>9</sup> As a result of the decision by the Regional Administrative Court of 14 February 2014, 66 MW were reinstated, after they had been excluded from the second auction (after the end of the period for submitting auction bids) because they belonged to the transitional period. Consequently, said capacity was subtracted from the 2015 amount.

<sup>10</sup> Erneuerbare Energien Gesetz, German law reform of renewable sources.

<sup>11</sup> The incentive period is in reality divided up into two stages: the first of 5 years, the second of 15. The tariff for the first 5 years is confirmed for the remaining 15 if generation does not exceed 80% of the reference generation and the incentive drops in line with the increase in generation.

have benefited from this bonus (SDL) of 7 EUR/MWh in 2015. With regard to the new plants constructed as from 2017, a feed-in premium type incentive is envisaged (by means of contracts for difference - CfD), awarded by means of competitive Dutch auctions. The new law (EEG 2016), is currently being defined and will be applicable as from 2017 and contains the detailed rules on the definition of the Dutch auction system envisaged also for the new wind farms (the auctions should already be held in 2017) in replacement of the current FIT system.

## France

The incentive system for on-shore wind power is of the feed-in tariff type. The incentive for existing plants is recognised for 15 years and it is updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products<sup>12</sup>. For the first 10 years of operation it is the initial tariff, depending on the year of stipulation of the agreement, and it is updated annually, whilst for the subsequent 5 years the value to be indexed is decreasing if annual hours of operation exceed 2,400. For 2006, the initial tariff value was 82 EUR/MWh. To define the starting value for new plants in subsequent years, the tariff is reduced by 2% with respect to the previous year, starting from 2008, and it is updated to take into account changes in the aforementioned indices. The value thus determined, for each plant, is then updated annually, according to the scheme described above. Further to the appeal before the Council of State against the 2008 decree for the alleged incompatibility with EC rules on state aid, the 2008 decree itself was repealed on 28 May 2014 (by virtue of the failure to notify the European Commission before its implementation), and a new decree was issued on 17 June 2014, which confirms the same incentive system (for existing facilities as well). The decree had previously been definitively approved by the European Commission's General Directorate for competition, which found the text compatible with current State aid regulations.

## Law for energy transition

With regard to the stances for the future, the Law for energy transition was enacted on 17 August 2015. The law defines the objectives for the energy transition and, among the qualifying points, envisages the commitment to reduce greenhouse gas emissions by 40% in 2030 compared to 1990, the reduction of consumption of fossil fuels by 30% in 2030 with respect to 2012, the increase of the portion of renewable energy as a percentage of final consumption to 32% in 2030 (to 40% with regard to electric power generation), the reduction of final consumption by 50% with respect to 2012, and the reduction of the nuclear portion as a percentage of electric power generation to 50% in 2025 (compared with the current approximate 75%).

## Bulgaria

For on-shore wind farms, current regulations prescribe a feed-in tariff (FIT) based on hours of operation, which is constant in nominal terms. In particular, in the case of Tchergera, since it is a farm existing as at 3 May 2011, the

<sup>12</sup> The indicators considered are ICHTrevTS ("indice du coût horaire du travail (tous salariés) dans les industries mécaniques et électriques", or index of hourly cost of labour (all personnel) in mechanical and electrical industries") and the PPEI ("indice de prix de production de l'industrie française pour l'ensemble de l'industrie", or index of production prices of French industry for the industry as a whole).

incentive is recognised for the first 15 years of operation; the value of the tariff is 188.29 BGN/MWh (approximately 96.3 EUR/MWh) below 2,250 annual hours of operation and 172.95 BGN/MWh (approximately 88.4 EUR/MWh) above 2,250 annual hours of operations. In the case of Hrabrovo, since it is a farm commissioned after this date and no later than June 2012, the incentive is recognised for the first 12 years of operation; the value of the tariff is 191 BGN/MWh (approximately 97.7 EUR/MWh) below 2,250 annual hours of operation and 173.1 BGN/MWh (approximately 88.5 EUR/MWh) above 2,250 annual hours of operation<sup>13</sup>.

With reference to these initially envisaged tariffs, in July 2015 annual running thresholds were in any event introduced, above which generation is acquired at a significantly lower price, rather than at FIT.

On 2 March 2015, an amendment to the legislation was approved which does not permit access to the incentive system for the new plants. This measure, which did not have retroactive impacts, is justified by the achievement of the 2020 objectives already in 2013.

### Access to the transmission and distribution networks and fees on revenues

In September 2012, a charge for accessing transmission and distribution networks was introduced by the local Regulatory Authority for renewable source producers in operation since March 2010. The value, based on a detailed analysis of the actual costs of operation of the grids, applicable as from 13 March 2014 comes to around EUR 1.3 MWh until July 2015 and was then increased to around EUR 3.7 MWh.

Furthermore, a fee was introduced as from July 2015, equal to 5% of the revenues relating to the plants fuelled by renewable sources.

### Electricity trading

As from June 2014, the responsibility for balancing also for non-programmable renewable sources was introduced.

### Romania

Incentives for renewable energy in Romania are provided through Green Certificates for the first 15 years of operation. The obligation to place a certain yearly quantity of green energy on the grid (or to purchase an equal quantity of green certificates) is on the final consumption of electricity. For wind farms commissioned before 2014, 2 green certificates are provided for each MWh generated until 2017 and 1 green certificate from 2018 onwards, and the unit price of the green certificates ranges between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed to inflation on an annual basis. The green certificates have an annual validity and, on the basis of the legislation currently in force, they are recognised on the minimum value between the envisaged energy and that effectively generated. Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in

<sup>13</sup> Furthermore, an additional threshold of annual running hours has been introduced, whose value depends on the annual production of the plant, above which the average market price of the electric power is acknowledged rather than the tariff. This provision does not however apply to all the farms. In the case of LUKERG Renew, it only applies to the Hrabrovo farm (14 MW).

March 2014<sup>14</sup>. The law was approved by the European Commission - DG Competition in May 2015.

The Law introduced certain amendments to the incentive system; in particular, for existing wind farms, 1 Green Certificate is to be retained in the 1 July 2013-31 March 2017 time interval. The withheld Green Certificates will be progressively “released” starting from 1 January 2018 and in any case no later than 31 December 2020, with procedures that are still to be defined. In the meantime, the Government, following the indications of the ANRE, changed the maximum annual percentage of electricity generation from renewable sources that can benefit from incentives in 2016, from 17%, as prescribed by the previous regulations, to 12.15%. Based on the changes introduced by the new law, the ANRE has the task of defining this mandatory percentage on an annual basis.

Wind farms that became operational after 1 January 2014 are instead subjected to the reduction in the number of GCs (“over-compensation”), as prescribed by the Governmental Decision that endorsed the decision of the Regulator, ANRE. Consequently, the wind farms in question access 1.5 GC for each MWh generated through 2017 and 0.75 GC for each MWh generated from 2018 onwards.

The Gebeleisis wind farm (70 MW) accesses the incentive scheme whereby 2 GC are recognised through 2017, one of which will be retained until 31 March 2017.

In October 2014 Directorate-General for Competition of the European Commission approved the exemption for energy-intensive industries from the law-mandated obligation to purchase green certificates, and the related decree has been in force since January 2015.

Further to the legislative amendments (negative for wind power), in particular relating to the lowering of the mandatory quotas, the GC market is in a situation of excess supply and consequently the price dropped to the floor (equal to around EUR 29.4/MWh) and the liquidity of the spot market reduced drastically.

## Polonia

The incentive system in Poland for the plants running by June 2016 is based on the Certificates of Origin (CO) for the first 15 years of activities. Mandatory annual quotes are envisaged and the new law on providing incentive for renewable sources, signed on 11 March by the Polish President (subsequently amended in December 2015), introduced a number of measures aimed at reducing the current CO supply excess (which, what is more, do not have an expiry). In detail, as from 2016 the incentive for co-combustion “non-dedicated” plants will be halved and the incentive for hydroelectric plants with output greater than 5 MW will be written off. The annual mandatory quota is equal to 14% and 15% for 2015 and 2016 respectively (as per the previous law), while as from 2017 this figure will be increased to 20%, with the possibility for the Minister to review the same downwards on an annual basis. The so-called Substitution Fee, alternative to the purchase of Certificates of Origin for the obliged parties, which in fact represents a cap on the price of the COs, has been fixed as 300.03 PLN/MWh and will remain constant in nominal terms for the coming years. The new law also introduces a discount auction system, with contingents on Generation, for the awarding of the incentives

<sup>14</sup> Decree No. 270/2014 approving Law 23/2014, which approves the Emergency Ordinance No. 57/2013, amending and supplementing Law No. 220/2008 for the Green Certificate incentive system.

under the form of Contracts for Difference (CfD) for 15 years (value inflated on annual basis). This system is optional for the plants which have had access to the COs (for the remaining period of right to the incentive), while it is mandatory for the plants which will enter into service as from July 2016 (initially the law envisaged this incentive system as from January 2016, but the amendments of December 2015 postponed the adoption by six months).

The enforcement of the auction system with CfD is subordinate to the approval of the scheme by the European Union's Directorate General for Competition.

## HIGHLIGHTS OF PERFORMANCE ITEMS AT REPLACEMENT COST

You are reminded that at the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleis farm in Romania, whose economic contribution is therefore consolidated in full as from 1 January 2016.

The comparative economic balances for 2015 include the portion relating to ERG of the operating results at replacement cost of said joint venture LUKERG Renew GmbH (50%).

| FY<br>2015 |   | 1st quarter |       |
|------------|---|-------------|-------|
|            |   | 2016        | 2015  |
|            | <b>OPERATING RESULTS</b>                                    |             |       |
| 345        | Revenues from ordinary operations                           | 145         | 118   |
| 254        | EBITDA at replacement cost <sup>(1)</sup>                   | 117         | 95    |
| (134)      | Amortisation, depreciation and write-downs <sup>(1)</sup>   | (41)        | (33)  |
| 120        | EBIT at replacement cost <sup>(1)</sup>                     | 75          | 62    |
| 95         | Capital expenditure on tangible and intangible fixed assets | 2           | 11    |
|            | <b>MAIN FINANCIAL DATA <sup>(2)</sup></b>                   |             |       |
| 1.827      | Net invested capital  | 2,128       | 1,687 |
| 679        | Shareholders' equity  | 711         | 669   |
| 1.148      | Total net financial indebtedness                            | 1,418       | 1,018 |
| 1.135      | of which non-recourse Project Financing <sup>(3)</sup>      | 1,311       | 1,125 |
| 74%        | EBITDA Margin % <sup>(4)</sup>                              | 81%         | 81%   |

(1) not including non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

(2) figures from the ERG Renew Consolidated Financial Statements In 2015, the adjusted values were stated which also include the contribution, for the portion attributable to ERG of LUKERG Renew (joint venture with the LUKOIL Group).

(3) including cash and cash equivalents

(4) EBITDA at replacement cost over revenues from ordinary operations

The breakdown of EBITDA at replacement cost between the various geographic areas of the Wind business was as follows:

#### EBITDA AT REPLACEMENT COST

| FY<br>2015 |          | 1st quarter |      |
|------------|----------|-------------|------|
|            |          | 2016        | 2015 |
| 213        | Italy    | 87          | 84   |
| 41         | Abroad   | 29          | 12   |
|            | of which |             |      |
| 12         | Germany  | 6           | 3    |
| 13         | France   | 16          | 3    |
| 4          | Bulgaria | 2           | 2    |
| 8          | Romania  | 3           | 3    |
| 4          | Poland   | 3           | –    |
| 254        | Total    | 117         | 95   |

The consolidated revenues reported in the **first quarter of 2016** were significantly higher than those in the first quarter of 2015, mainly thanks to the sharp increase in generation abroad further to the full contribution of the new wind farms in France (187 MW), Germany (82 MW) and Poland (82 MW), as well as the additional generation in Italy further to the greater generation (+14%) which more than offset the significant reduction in total sales prices in the country (-9%).

With regard to the decrease in sale prices, for ERG Renew in Italy, the sale price of electricity amounted on average to 36.3 EUR/MWh, down 25% with respect to the figure of 48.3 EUR/MWh recorded in the first quarter of 2015; this value corresponds to the sales price to Energy Management of the ERG group, which reflects the formation of the price on the spot market (IPEX). Overall, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and that of the incentives (former green certificates), was 136.4 EUR/MWh, down from the value of 149.9 EUR/MWh of the first quarter of 2015.

This decrease is linked to the sharp drop in sales prices of energy noted in the various geographic areas, while the value of the incentives / green certificates, equal to 100.1 EUR/MWh, is essentially in line with respect to the value of 101.6 EUR/MWh in the same period of 2015.

In fact, it is disclosed that, as from 2016, the reference value of the incentives / green certificates is calculated on the basis of the prices of the energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) in the prices of the incentive acknowledged in the year, but will have an impact on the value of the incentive for the subsequent year; in light of the sharp drop in the PUN in 2016, an increase in the value of the incentive is therefore expected in the coming year.

The average unit revenue of wind farms abroad in the first quarter of 2016 was approximately 83.9 EUR/MWh, down compared to 87.1 EUR/MWh recorded in the previous year mainly due to the afore-described change in the tariff and market context in Bulgaria, and the bringing onto stream of the wind farms in Poland, with lower average unit revenues.

EBITDA at replacement cost for the first quarter of 2016 amounted in total to EUR 117 million, up with respect to the balances reported in the same period last year, for the reasons indicated above.

The EBITDA margin amounted in total to 81%, in line with the first half of 2015, standing at a high absolute value, thanks to the increased profitability in Italy and despite the rise in the incidence of generation from abroad. Such production presents - with respect to Italy - sales prices and margins lower on average, but the latter increased due to the contribution of the recent acquisitions in France and Germany which did not lead to a related and correspondent rise in the operating costs at Group level.

#### INSTALLED POWER (MW)

| FY<br>2015 |   | 1st quarter |       |
|------------|---|-------------|-------|
|            |   | 2016        | 2015  |
| 1,087      | <b>Italy</b>  | 1,094       | 1,087 |
|            | of which  |             |       |
| 239        | Campania  | 247         | 239   |
| 120        | Calabria  | 120         | 120   |
| 249        | Puglia  | 249         | 249   |
| 79         | Molise  | 79          | 79    |
| 89         | Basilicata  | 89          | 89    |
| 198        | Sicily  | 198         | 198   |
| 111        | Sardinia  | 111         | 111   |
| 2          | Other   | 2           | 2     |
| 420        | <b>Abroad</b>   | 626         | 254   |
|            | of which  |             |       |
| 86         | Germany   | 168         | 86    |
| 128        | France  | 252         | 64    |
| 82         | Poland  | 82          | n.a.  |
| 54         | Bulgaria  | 54          | 27    |
| 70         | Romania   | 70          | 77    |
| 1,506      | <b>Total installed power at period end <sup>(1)</sup></b> | 1,720       | 1,341 |

(1) power of plants installed at period end

The installed power as of 31 March 2016 comes to 1,720 MW, up 379 MW with respect to the figures as of 31 March 2015, further to the acquisition of 17 wind farms in France for an additional 187 MW and 6 wind farms in Germany for 82 MW, as well as the development by ERG of wind farms for 82 MW in Poland and the changes which took place as from the end of December 2015 in Bulgaria (+27 MW) and Romania (-7 MW) at the same time as the transaction which led to the winding up of the joint venture with LUKOIL.

**GENERATION (GWh)**

| FY<br>2015   |                                   | 1st quarter  |            |
|--------------|-----------------------------------|--------------|------------|
|              |                                   | 2016         | 2015       |
| <b>1,910</b> | <b>Italy</b>                      | <b>774</b>   | <b>680</b> |
|              | of which                          |              |            |
| 414          | Campania                          | 185          | 138        |
| 240          | Calabria                          | 81           | 75         |
| 472          | Puglia                            | 178          | 150        |
| 155          | Molise                            | 54           | 54         |
| 164          | Basilicata                        | 63           | 59         |
| 274          | Sicily                            | 126          | 126        |
| 192          | Sardinia                          | 88           | 78         |
| <b>705</b>   | <b>Abroad</b>                     | <b>452</b>   | <b>180</b> |
|              | of which                          |              |            |
| 156          | Germany                           | 81           | 49         |
| 206          | France                            | 208          | 44         |
| 68           | Poland                            | 63           | n.a.       |
| 74           | Bulgaria                          | 46           | 26         |
| 201          | Romania                           | 54           | 62         |
| <b>2,614</b> | <b>Total wind farm production</b> | <b>1,226</b> | <b>860</b> |

In the first quarter of 2016, ERG Renew's electricity output amounted to 1,226 GWh, higher than in the first quarter of 2015 (860 GWh), with higher output in Italy by around 14% (from 680 GWh to 774 GWh) and growth abroad of 151% (from 180 GWh to 452 GWh).

The increase in output in Italy (+94 GWh) is linked to the wind conditions which overall were better than those in 2015, in particular in Campania, Puglia and Sardinia.

With regard to abroad, the increase of 272 GWh is essentially attributable to the contribution of the new farms in France, Poland and Germany, for a total of around 260 GWh plus the general increase in the output of nearly all the countries installed power being equal.



The following table shows wind farm load factor by main geographic area; the figure, estimated taking into account the actual start of operations of the wind farms in individual years, provides a measure of the level of generation of the various farms in relative terms, and it is influenced not only by the characteristics of the farm and the wind conditions in the period considered, but also by the level of availability of the plants and any limitations on the energy transport networks.

**LOAD FACTOR %**

| FY<br>2015 |                                   | 1st quarter |            |
|------------|-----------------------------------|-------------|------------|
|            |                                   | 2016        | 2015       |
| <b>20%</b> | <b>Italy</b>                      | <b>32%</b>  | <b>29%</b> |
|            | of which                          |             |            |
| 20%        | Campania                          | 34%         | 27%        |
| 23%        | Calabria                          | 31%         | 29%        |
| 22%        | Puglia                            | 33%         | 28%        |
| 22%        | Molise                            | 31%         | 32%        |
| 21%        | Basilicata                        | 32%         | 31%        |
| 16%        | Sicily                            | 29%         | 30%        |
| 20%        | Sardinia                          | 36%         | 32%        |
| <b>26%</b> | <b>Abroad</b>                     | <b>33%</b>  | <b>33%</b> |
|            | of which                          |             |            |
| 21%        | Germany                           | 22%         | 26%        |
| 24%        | France                            | 38%         | 31%        |
| 37%        | Poland                            | 35%         | n.a.       |
| 31%        | Bulgaria                          | 39%         | 45%        |
| 30%        | Romania                           | 35%         | 37%        |
| 21%        | <b>Load factor <sup>(1)</sup></b> | <b>33%</b>  | <b>30%</b> |

(1) actual output in relation to maximum theoretical output (calculated taking into account the actual date of initial operation of each individual wind farm)

During the **first quarter of 2016**, the overall load factor, 33%, was higher than that in 2015, with a load factor up from 29% to 32% in Italy, and stable overall at 33% abroad, thanks in particular to the optimum results in France and the contribution of Poland.

## PROGRAMMABLE SOURCES

### Reference market

| FY<br>2015   |                                    | 1st quarter |        |
|--|------------------------------------|-------------|--------|
|  |                                    | 2016        | 2015   |
| <b>ITALIAN ELECTRICITY MARKET (GWh) <sup>(1)</sup></b> |                                    |             |        |
| 315,234  | Demand                             | 77,632      | 78,805 |
| 1,850  | Pumping consumption                | 606         | 450    |
| 46,381   | Import/Export                      | 12,929      | 13,499 |
| 270,703  | Internal generation <sup>(2)</sup> | 65,309      | 65,756 |
|  | of which                           |             |        |
| 180,871  | Thermoelectric                     | 46,175      | 45,058 |
| 44,751   | Hydroelectric                      | 7,907       | 9,592  |
| 45,081   | Other renewables                   | 11,227      | 11,106 |
| <b>SALE PRICES (EUR/MWh)</b>                           |                                    |             |        |
| 52.3   | PUN <sup>(3)</sup>                 | 39.6        | 51.9   |

(1) Source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction

(2) output net of consumption for auxiliary services

(3) Single National Price Source: GME S.p.A.

The demand for electricity<sup>15</sup> of the Italian electric system in the first quarter of 2016 came to 77.6 TWh, in decline (-1.5%) compared with the values recorded in the first quarter of 2015. With regard to Sicily, region in which ERG is present with its CCGT plant, in the first quarter of 2016 a requirement of around 4.7 TWh was registered, down (-6.6%) with respect to the same period in 2015, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the request for electricity came to 10.9 TWh (-1.6%).

In the same period, net internal electricity generation amounted to 65.3 TWh, down by 0.7% compared with the first quarter of 2015, whilst the net balance of trading with foreign countries recorded net imports of 12.9 TWh (-4.2% compared with the first quarter of 2015). 71% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 29% from renewable sources. With respect to the same period last year, there was an increase in generation from thermoelectric sources (+2%) and a minor contribution from renewable sources (-8%). Said decrease is due to the drop in hydroelectric (-18%) and photovoltaic (-11%) generation partly offset by the additional generation from other sources, in particular wind (+11%) and geothermal (+4%).

The average value of the PUN (Single National Price) in the first quarter of 2016 was 39.6 EUR/MWh, down by 23.7% compared with the value of the first quarter of 2015 (51.9 EUR/MWh).

<sup>15</sup> Including grid losses and net of electricity consumed for the pumping plants.

## Evolution of the regulatory framework

### Thermoelectric: the Mucchetti amendment

Article 23.3 bis of Italian Decree Law No. 91 dated 24 June 2014, converted by Italian Law No. 116 dated 11 August 2014 establishes that as from 1 January 2015, until the bringing onto stream of the doubling of the “Sorgente-Rizziconi” power line between Sicily and the Continent: (i) the electricity generating units in the Sicily area with over 50 MW of power, with the exclusion of non-programmable renewable units, shall be considered essential units for the security of the electrical system (UESSE); (ii) the Authority shall define the bidding and remuneration procedures of the aforesaid units no later than ninety days from the date of entry into force of the law converting Law Decree no. 91/14, following the criteria of the timely recognition, for each individual generating unit, of the variable costs and of the fixed costs of an operational nature and of fair remuneration of the residual invested capital related to the same units, in order to assure the reduction of costs for the electrical system. Executing the provisions of the aforesaid Law Decree, on 24 October 2014 the Authority published the Instruction No. 521/2014/R/EEL, pertaining to provisions on essential facilities in Sicily, directed at regulating, inter alia, the offering and remuneration criteria for units defined as essential in accordance with Decree Law. In October 2014, the Authority also published its Resolution No. 500/2014/R/EEL; while it pertains to essential units under ordinary rules, it does clarify and revise certain parameters of the Recognised Variable Cost which also have effect on essential units under Italian Law Decree No. 91/2014. Lastly, with its Resolution 667/2014/R/EEL, the AEEGSI approved a number of significant parameters for the calculation of the Recognised Generation Costs of the essential units under Italian Decree Law No. 91/2014. The regulatory framework described above had a significant impact on the sales prices of ERG and in particular on the spot energy markets in the market area in which it operates (Sicily). In fact, the supply restriction on these markets at prices no higher than the related variable cost acknowledged to the generation units identified UESSE in accordance with the afore-mentioned Italian Decree Law No. 91/2014, significantly reduced the price differential between the Sicily area and the PUN with a marked decrease in 2015 and in the first quarter of 2016 with respect to the values reported in previous years. It is necessary to emphasise, nevertheless, that the contraction of the revenues on the spot markets (MGP, MI and MSD) for the reasons described above, was mitigated by the consideration acknowledged to the UESSE as per Italian Decree Law No. 91/2014 to reintegrate the variable generation, operating and investment costs, including the fair remuneration of the invested capital. The application period for the regulations of the essential units on the basis of Italian Decree Law No. 91/2014 ends with the bringing onto stream of the afore-mentioned doubling of the Rizziconi-Sorgente power line and with the completion of the work on the ancillary works in Sicily. From the notes published by Terna S.p.A. as per section 4.7 of the AEEGSI resolution No. 521/2014/R/eel, the bringing onto stream of the afore-mentioned power line is currently envisaged by 30 June 2016.

### Hydroelectric: concession fees

The Regional Council of the Umbria Regional Authority by means of resolution No. 1067 dated 22 September 2015 took steps to re-calculate the concession fees for the large water offtakes for hydroelectric purposes. The new unit

tariff of 31.02 EUR/kW of nominal concession power per module, which applies as from 1 January 2016, comes to double that in force until 31 December 2015. In December 2015, ERH Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways in Rome, to request the cancellation of the afore-mentioned resolution. The results for the period prudently reflect the afore-mentioned increase.

### Italian Stability law No. 208/2015

By means of the approval of Italian Stability Law No. 208/2015, new regulations were launched, as from 1 January 2016, for the determination of the cadastral income of the real estate property units used for generation purposes. Specifically, in Article 1, sections 21-24 the 2016 Stability Law envisaged that for the electric power generation plants, the components of the wind turbine generators are no longer subject to taxation.

### Remarks on the period performance highlights

As from the end of 2015, the ERG group is present in a differentiated manner in the sector of **programmable sources**, handled by the Power Generation business units in terms of organisation. In particular, the ERG Group operates:

- in the **hydroelectric sector**: via the investment in the newly established ERG Hydro S.r.l., owner of the Terni hydroelectric complex (527 MW), including a system of programmable and flexible plants throughout central Italy;
- in the **thermoelectric sector**: via the investment in ERG Power S.r.l., owner of the CCGT high output, high efficiency, low emission, highly modulable and flexible co-generation plant (480 MW).

The ERG Group has therefore concluded an important industrial development process, completing the transformation of the pre-existing portfolio of thermoelectric assets in Sicily (which also included the 528 MW IGCC plant sold off in 2014 to Lukoil at the same time as the early termination of the "CIP 6" agreement), in a portfolio of assets differentiated by technology, geographic area and featuring high flexibility, thanks to the purchase at the end of 2015 of the Terni Hydroelectric Complex, whose concessions expire in 2029.

### Summary of the period performance highlights

The tables which follow show the results of the programmable sources, while in the following sections the results of the thermoelectric and hydroelectric sectors are commented on separately.

#### OPERATING RESULTS

| FY<br>2015 | (EUR million)   | 1st quarter |      |
|------------|---|-------------|------|
|            |   | 2016        | 2015 |
| 602        | Revenues from ordinary operations                           | 152         | 160  |
| 115        | EBITDA at replacement cost <sup>(1)</sup>                   | 48          | 22   |
| (34)       | Amortisation, depreciation and write-downs <sup>(1)</sup>   | (22)        | (7)  |
| 81         | EBIT at replacement cost <sup>(1)</sup>                     | 26          | 15   |
| 9          | Capital expenditure on tangible and intangible fixed assets | 2           | 2    |
| 19%        | EBITDA Margin %   | 32%         | 14%  |

(1) the figures shown here do not include the non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

## Thermoelectric

### OPERATING RESULTS

| FY<br>2015 | (EUR million)   | 1st quarter |      |
|------------|---|-------------|------|
|            |   | 2016        | 2015 |
| 592        | Revenues from ordinary operations                           | 122         | 160  |
| 107        | EBITDA at replacement cost <sup>(1)</sup>                   | 27          | 22   |
| (30)       | Amortisation, depreciation and write-downs <sup>(1)</sup>   | (7)         | (7)  |
| 78         | EBIT at replacement cost <sup>(1)</sup>                     | 20          | 15   |
| 9          | Capital expenditure on tangible and intangible fixed assets | 1           | 2    |
| 18%        | EBITDA Margin %   | 22%         | 14%  |

(1) the figures shown here do not include the non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

During the first quarter of 2016, ERG Power's net electricity generation amounted to 695 GWh, up with respect to the first quarter of 2015 (614 GWh) which in March was affected by the start of the scheduled general maintenance of module 1 of the CCGT plant. The revenues decreased both further to the reduction in the overall quantities sold, and further to the general reduction in sales prices for electricity and utilities.

In both periods this reduction in prices on the Sicily market was due to the application of the legislation on the Essential Units which poses a maximum threshold for the supply price corresponding to the variable production cost.

The net supply<sup>16</sup> of steam to captive customers of the petrochemical site of Priolo Gargallo involving around 246 thousand tons, increased with respect to the 208 thousand tons in the first quarter of 2015. Approximately a quarter of ERG Power's generated power was used to cover the consumption of the Priolo industrial site, also including the net supplies of steam in the energy sector.

The EBITDA at replacement cost in the first quarter of 2016 was EUR 27 million (up by roughly EUR 5 million with respect to that reported in the same period of 2015) despite the decrease in the sales prices, thanks partly to the significant decrease in the price of gas and consequent increase in the margin (Spark spread).

As indicated on the section relating to the evolution of the reference legislative framework, also the first quarter of 2016 was characterised by a drop in prices on the spot market in the Sicily area as a result of the application of Italian Decree Law No. 91/2014, and led to a reduction in the margins on the energy markets (MGP and MI) and on the dispatch services (MSD). These reductions were more than mitigated by the consideration reintegrating the generation costs due to the ERG Power production units, defined Essential Units for the Safety of the Electricity System pursuant to the aforementioned Italian Decree Law No. 91/2014.

The achievement of results higher than last year is ascribable also to the improvement of the performances of the ERG Power CCGT plant and the industrial efficiency action achieved in the period. Again in the first quarter of 2016, the plant continued to benefit from great reliability and efficiency, pursued by means of targeted investment measures, as well as via the first scheduled general maintenance carried out between March and April 2015 on one of the two units of the ERG Power CCGT plant.

<sup>16</sup> i.e. the supply of steam to the industrial site of Priolo Gargallo excluding pipeline losses, net of steam withdrawal from customers.

The positive results also reflect the efficacy of the management of the energy with the adoption of effective coverage of the generation margin. These policies contemplate, inter alia, the multi-year forward sale of electricity to IREN Mercato, the use of instruments for hedging the price risk and the sale of steam and electricity, through multi-year agreements, to the customers of the petrochemical site in Priolo Gargallo.

## Hydroelectric

### OPERATING RESULTS

| December |   | 1st quarter |      |
|----------|---|-------------|------|
| 2015     | (EUR million)   | 2016        | 2015 |
| 11       | Revenues from ordinary operations                           | 30          | –    |
| 8        | EBITDA at replacement cost <sup>(1)</sup>                   | 21          | –    |
| (5)      | Amortisation, depreciation and write-downs <sup>(1)</sup>   | (15)        | –    |
| 3        | EBIT at replacement cost <sup>(1)</sup>                     | 6           | –    |
| –        | Capital expenditure on tangible and intangible fixed assets | 1           | –    |
| 74%      | EBITDA Margin %   | 70%         | 0%   |
| 84       | Total hydroelectric plants production                       | 384         | –    |

(1) the figures shown here do not include the non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

The EBITDA for the first quarter of 2016 was EUR 21 million.

The revenues, amounting to EUR 30 million, relate to sales of electricity for EUR 15 million, revenues from green certificates and incentives for EUR 12 million, revenues from MSD for EUR 2 million and other revenues for roughly EUR 1 million.

The costs, amounting in total to EUR 9 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The average sales prices reflect the sales price of the electricity, higher than the Single National Price thanks to the modulation of the plants, and the value of the replacement incentive (former green certificate), acknowledged on a portion equal to around 40% of the generation and for a value of around EUR 100/MWh.

ERG Hydro's overall production (384 GWh) therefore benefited from an average unit revenue, considering the sales price of the energy and that of the green certificates, equal in total to around EUR 77/MWh.

The EBITDA margin came in total to 70%, reaching particular high values.

The total capacity of the plants at the Terni complex came to 526.5 MW, of which 512.4 MW relating to large offtakes and 14.1 MW related to small offtakes

The level of the reservoirs of lakes Turano, Salto and Corbara were respectively around 529, 530 and 130 metres above sea level, with an increase with respect to the historic average corresponding overall to around 50 GWh.

The final load factor in the period came to 33% and was affected by the scarce water availability in the period.

## CAPITAL EXPENDITURE

The capital expenditure in tangible and intangible fixed assets of the ERG Group in the first quarter of 2016 was EUR 4 million (EUR 13 million in the first quarter of 2015), including EUR 3.3 million for tangible fixed assets (EUR 12 million in the first quarter of 2015) and EUR 0.7 million for intangible fixed assets (EUR 1 million in the first quarter of 2015). The breakdown of capital expenditure by business segment is shown in the following table:

| FY<br>2015 | (EUR million)                                  | 1st quarter |           |
|------------|--|-------------|-----------|
|            |  | 2016        | 2015      |
| <b>95</b>  | <b>Non-programmable sources <sup>(1)</sup></b> | <b>2</b>    | <b>11</b> |
| 95         | Wind   | 2           | 11        |
| <b>9</b>   | <b>Programmable sources</b>                    | <b>2</b>    | <b>2</b>  |
| 9          | Thermoelectric                                 | 1           | 2         |
| –          | Hydroelectric                                  | 1           | –         |
| <b>2</b>   | <b>Corporate</b>                               | <b>1</b>    | <b>–</b>  |
| <b>106</b> | <b>Total</b>                                   | <b>4</b>    | <b>13</b> |

(1) the capital expenditure of the Non-programmable Sources in the first quarter 2015 includes ERG's share of the capital expenditure made by LUKERG Renew

### Non-programmable sources

The capital expenditure in the first quarter of 2016 mainly refers to a number of outlays linked to the completion of the new wind farms in Poland for a total of 40 MW, all realised directly by ERG Renew.

In particular, the Szydłowo farm, comprising seven 2MW Vestas V100 wind turbine generators, for a total of 14 MW, came onto stream at the end of December 2015 and the Słupia farm, whose project passed during the year from 12 to 13 wind turbine generators further to the extension of the authorisations, equipped with Vesta V90 machines for an overall output of 26 MW, was completed at the end of 2015 and started up during the first few days of 2016.

Progress was also made on the planned Health, Safety and Environment projects.

The figure does not include **two important acquisitions** finalised in the period:

- the acquisition at the start of 2016 from a fund managed by Impax Management Group **of eleven wind farms in France and six wind farms in Germany**, with total installed capacity of 206 MW (and estimated annual average generation of 410 GWh), plus the two companies which provide technical, operational and commercial assistance to wind operators in France, Germany and Poland, both "captive" and third parties, for a total of 800 MW (of which 206 MW subject to purchase, 83 MW owned by ERG Renew in Germany and over 500 MW belonging to third parties); the purchase value came to around EUR 290 million in terms of enterprise value, equal to a multiple of around EUR 1.4 million per MW. The farms are already entirely financed with limited recourse Project Financing. The estimated Gross Operating Margin will be around EUR 30 million in 2016;

- the acquisition from TCI Renewables of Brockaghboy Windfarm Ltd ("BWF"), a UK company owning the authorisations required for the construction of a **wind farm in Northern Ireland**, with planned capacity of around 45 MW and energy output estimated at around 150 GWh/year when fully operational.

ERG Renew expects to start work for the construction of the wind farm in the second quarter of 2016 and complete construction by the end of the first quarter of 2017.

The total estimated investment for construction of the farm is approximately GBP 60 million (roughly EUR 80 million), already including the initial consideration paid for the purchase of the company.

As at 31 March 2016, the transaction lead to an investment of around 13 million.

### Programmable sources

The investments in the first quarter of 2016 (1.5 million) mainly refer to ERG Power (0.9 million), which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects.

The figure also includes the investments made by ERG Hydro (0.6 million).



## TOTALERG

ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A. in ERG Petroli S.p.A. The Company is positioned as one of the foremost operators in the downstream market. As indicated in the Introduction, as from the Interim management report at 31 March 2015 the adjusted balances of the Group no longer include the contribution of the joint venture TotalErg since it is no longer considered to be a core activity in the new strategic and industrial set up of the Group. The investment will continue to be consolidated using the equity method. Given the importance of the investments and in continuity with the disclosure indicated in the previous financial reports, this section contains a summary of the economic and financial indicators and the operating performance for the period.

## HIGHLIGHTS OF TOTALERG PERFORMANCE

The following figures refer to 100% of the Consolidated Financial Statements of the company, which has operated since 1 October 2010.

| FY<br>2015          |   | 1st quarter |      |
|---------------------|---|-------------|------|
|                     |   | 2016        | 2015 |
| OPERATING RESULTS   |   |             |      |
| 144                 | EBITDA at replacement cost <sup>(1)</sup>                   | 30          | 22   |
| (82)                | Amortisation, depreciation and write-downs                  | (18)        | (20) |
| 61                  | EBIT at replacement cost <sup>(1)</sup>                     | 12          | 2    |
| 24                  | Net profit (loss) at replacement cost <sup>(2)</sup>        | 5           | (6)  |
| 65                  | Capital expenditure on tangible and intangible fixed assets | 11          | 11   |
| MAIN FINANCIAL DATA |   |             |      |
| 530                 | Net invested capital  | 655         | 710  |
| 236                 | Shareholders' equity  | 224         | 254  |
| 294                 | Total net financial indebtedness                            | 431         | 456  |

(1) the figures shown do not include the inventory gains (losses) of around -21 million in the first quarter of 2016, (-4 in the first quarter of 2015), they also do not include non-recurring items amounting to around -0.2 million in the first quarter of 2016 (+6 in the first quarter of 2015)

(2) the figures shown do not include the inventory gains (losses) and non-recurring items, commented on in note (1a), net of the related tax effect

TotalErg operates in the marketing sector via its Italy Network, comprising 2,611 stations (of which 1,674 are owned by the Group and 937 are leased), compared with 2,608 stations at 31 December 2015. You are hereby reminded that at the end of 2012, the network comprised 3,248 stations and that the decrease in sales outlets is due to the process for restructuring of the fuel network continued over the last few years, which led to the closure of outlets which have a low fuel turnover, the modernisation / automation of those owned which have a higher fuel turnover and the termination



of contracts for third party stations which are not very profitable.

TotalErg also operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the subsidiaries Restiani and Eridis, as well as on the Specialities market, via the marketing of Lubricants, Bitumen and LPG.

TotalErg also operates in the refining and logistics sector, by means of the Sarpom Refinery in Trecate, located in one of the areas featuring the greatest intensity of consumption, with a total annual balanced distillation capacity, as far as TotalErg's share is concerned, of 1.6 million tons (approximately 30 thousand barrels/day).

The Sarpom Refinery is equipped with catalytic conversion, more focused on the production of light distillates and it processes mainly crude oils with low sulphur content.

EBITDA at replacement cost in the first quarter of 2016 amounted to approximately EUR 30 million, up sharply with respect to that reported in the same period of the previous year (EUR 22 million).

With regard to the marketing sector, the results were affected by a globally unfavourable market scenario, distinguished by demand up slightly with respect to the first quarter of 2015 but with market margins down considerably due to the significant and progressive rise in prices of the commodities with respect to the minimum at the beginning of the year. These effects have only been partly mitigated by the cost containment and efficiency action put together by the company and by the process for the restructuring of the fuel network.

In the Wholesale sector, the economic result for the period increased, while in that of the Specialities the result was down slightly with respect to the first quarter of 2015.

With regard to refining and logistics, the results for the first quarter of 2016 were higher than those reported in the same period last year benefiting also from the additional processing with respect to 2015 (423 thousand tons with respect to the 387 thousand tons in the first quarter of 2015) and unit contribution margins higher than those reported in the first quarter of 2015.

The transformation of the Rome Refinery into a logistics hub has now been completed and the consequent achievement of the target configuration is making it possible to optimise the operations involved in receiving products by sea and the storage and shipment of finished products.

At 31 March 2016, TotalErg's net financial position was EUR 431 million, up compared to EUR 294 million at 31 December 2015 as a result of time-limited events involving working capital.

In conclusion, on 3 November 2015 TotalErg entered into a five-year loan agreement denominated in Euro with a group of primary Italian and foreign credit institutions. The loan, represented by a term credit line of EUR 200 million and a revolving credit line of EUR 500 million, for a total amount of EUR 700 million, is senior and it is not secured by any collateral or other guarantees provided by the two shareholders. The loan replaces the EUR 900 million "Term Loan and Multicurrency Revolving Credit Facility Agreement", whose maturity was envisaged for 4 August 2016, and it permits TotalErg to be financially autonomous for its operations and for recurring development activities.

### TotalErg capital expenditure

During the first quarter of 2016, TotalErg made investments for around EUR 11 million, in line with the same period in 2015 (EUR 11 million).

Most of the capital expenditure (approximately 69%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.) and the activities tied to the optimisation and enhancement of the Rome logistical facility. A significant portion was also destined to Health, Safety and Environment maintenance and improvements.



## FINANCIAL STATEMENTS

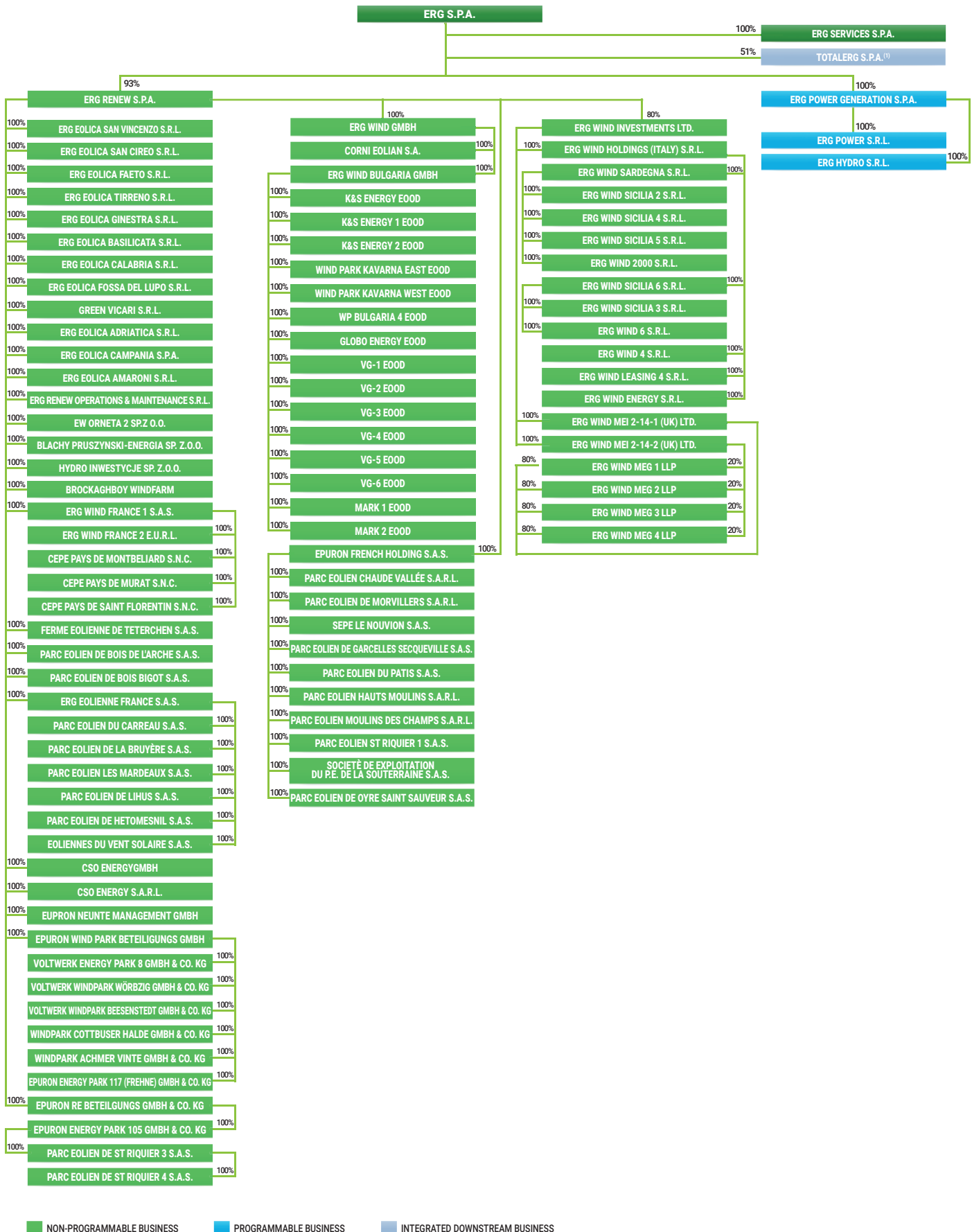
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### SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 31 March 2016.

Compared with 31 December 2015, the following is noted:

- acquisition from Impax Asset Management Group of thirteen French companies and ten German companies, and two companies, CSO Energy Sarl which is French and SCO Energy GmbH which is German, which provide technical, operational and commercial assistance to wind operators in France, Germany and Poland;
- acquisition from TCI Renewables ("TCI") of 100% of the share capital of Brockaghboy Windfarm Ltd.



(1) Companies measured under the equity method of accounting

# FINANCIAL STATEMENTS

## INCOME STATEMENT

The income statement and balance sheet results shown below include non-recurring items.

Please see the section "Alternative performance indicators" for the analysis of the results net of these items which more fully represent the operating performance of the Group.

### RECLASSIFIED INCOME STATEMENT

| FY<br>2015   | (EUR million)  | 1st quarter  |              |
|--------------|--|--------------|--------------|
|              |  | 2016         | 2015         |
| 920,3        | Revenues from ordinary operations                          | 295.4        | 267.3        |
| 16,3         | Other revenues and income                                  | 3.2          | 1.7          |
| <b>936,6</b> | <b>TOTAL REVENUES</b>                                      | <b>298.5</b> | <b>269.0</b> |
| (412,6)      | Costs for purchase and changes in inventory                | (73.3)       | (118.6)      |
| (157,5)      | Costs for services and other operating costs               | (48.9)       | (31.7)       |
| (58,2)       | Cost of labor  | (14.6)       | (12.6)       |
| <b>308,3</b> | <b>EBITDA</b>  | <b>161.8</b> | <b>106.1</b> |
| (163,0)      | Amortisation, depreciation and write-downs of fixed assets | (64.1)       | (38.7)       |
| <b>145,2</b> | <b>EBIT</b>  | <b>97.7</b>  | <b>67.4</b>  |
| (54,8)       | Net financial income (expenses)                            | (20.7)       | (13.4)       |
| (54,2)       | Net income (loss) from equity investments                  | (5.5)        | 1.6          |
| <b>36,2</b>  | <b>Profit before taxes</b>                                 | <b>71.5</b>  | <b>55.7</b>  |
| (12,6)       | Income taxes   | (20.6)       | (15.3)       |
| <b>23,7</b>  | <b>Profit for the period</b>                               | <b>50.9</b>  | <b>40.4</b>  |
| (3,1)        | Minority interests   | (3.1)        | (2.5)        |
| <b>20,6</b>  | <b>Group's net profit (loss)</b>                           | <b>47.8</b>  | <b>37.9</b>  |
| 35%          | Tax rate   | 29%          | 27%          |

### Revenues from ordinary operations

2016 first quarter revenues were EUR 295 million, compared with EUR 267 million in the first quarter of 2015. The change is a result of the following factors:

- the increase in revenues **of the Wind sector** mainly linked to the changed reference scope thanks to the increase in the installed wind capacity in France, Germany and Poland. The revenues for 2015 indicated here do not include the contribution of the wind farms in Romania and Bulgaria, consolidated line-by-line as from 1 January 2016.
- the decrease in the revenues **of the Thermoelectric sector** mainly as a result of the reduction of the sales prices;
- the contribution **of the Hydroelectric sector** acquired in December 2015.

### Other revenues and income

These consist mainly of rental income, insurance indemnification, gains on disposals, indemnities and expense recoveries.

### Costs for purchases and changes in inventory

Costs for purchases include costs for the purchase of gas, utilities and steam intended to fuel the ERG Power S.r.l. CCGT plant and costs for electric power intended for resale on the market within the sphere of the energy management activities.

In the first quarter of 2016 they totalled EUR 73 million: -46 million compared with the first quarter of 2015 due to lower costs for gas purchases.

The change in inventories, linked to spare part inventories, was not significant.

### Costs for services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, for consulting services (ordinary and connected with extraordinary transactions), insurance, marketing and for services rendered by third parties.

The other operating costs mainly relate to cost of labour, rent, provisions for risks and charges and to taxes other than income taxes.

### Amortisation, depreciation and write-downs

Amortisation and depreciation refer to wind farms, the plants of the hydroelectric sector and the CCGT plant and were significantly higher with respect to those in the same period in 2015 as a consequence of the afore-mentioned change in scope.

### Net financial income (expenses)

Net financial expenses in the first quarter of 2016 totalled EUR 21 million, compared with EUR 13 million in the first quarter of 2015. The increase was essentially attributable to the higher medium/long-term interest expense and the lower income relating to the liquidity handled as a consequence of the additional average indebtedness for the period when compared with the same quarter last year.

In detail, the item mainly includes net short-term financial income of approximately EUR 1 million (EUR 3 million in 2015) deriving mainly from cash management, and medium-long term financial expenses of approximately EUR 20 million (EUR 16 million in 2015); the medium and long term amounts also reflect the effects of the derivatives hedging against the risk of interest rate fluctuations. The first quarter of 2016 also included non-recurring expenses for around EUR 1 million pertaining to the refinancing of Tranche A of the ERG Hydro acquisition loan.



### Net income (loss) from equity investments

The item in the first quarter of 2016 reflects the result of the joint venture TotalErg S.p.A. (EUR - 5.5 million) while the comparative figure for the same period in 2015 included not only the results of TotalErg S.p.A. (EUR 0.7 million) but also the results of LUKERG Renew GmbH (EUR 0.9 million) carried at equity.

### Income taxes

Income taxes in the first quarter of 2016 were EUR 21 million (EUR 15 million in the same period in 2015).

The tax rate obtained from the ratio between income taxes and pre-tax profit amounted to 29% (27% in the first quarter of 2015).

The tax rate at replacement cost, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 26% (29% in the first quarter of 2015).



## STATEMENT OF FINANCIAL POSITION

### RECLASSIFIED STATEMENT OF FINANCIAL POSITION

| 31/03/2015     | (EUR million)                                  | 31/03/2016     | 31/12/2015     |
|----------------|--|----------------|----------------|
| 2,102.2        | Fixed assets                                   | 3,508.7        | 3,223.9        |
| 210.4          | Net working capital                            | 294.2          | 202.1          |
| (4.3)          | Employees' severance indemnities               | (5.9)          | (5.5)          |
| 343.8          | Other assets                                   | 375.3          | 324.7          |
| (637.0)        | Other liabilities                              | (718.3)        | (621.1)        |
| <b>2,015.1</b> | <b>Net invested capital</b>                    | <b>3,454.0</b> | <b>3,124.2</b> |
| 1,708.1        | Group Shareholders' Equity                     | 1,660.1        | 1,626.0        |
| 49.7           | Minority interests                             | 52.6           | 50.3           |
| 257.3          | Net financial indebtedness                     | 1,741.4        | 1,447.9        |
| <b>2,015.1</b> | <b>Shareholders' equity and financial debt</b> | <b>3,454.0</b> | <b>3,124.2</b> |
| 13%            | Financial leverage                             | 50%            | 46%            |

As at 31 March 2016 net invested capital amounted to approximately EUR 3,454 million, up with respect to 31 December 2015.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 50% (46% at 31 December 2015). The increase in the financial leverage also reflects the effects of the acquisition of the French and German wind farms.

### Fixed assets

This item includes tangible, intangible and financial fixed assets. The increase is mainly attributable to the effect of the acquisition of the French and German wind farms, partly offset by the amortisation/depreciation for the period.

### Capitale circolante operativo Net working capital

This balance includes the spare part inventories, the receivables mainly for green certificates, the sale of electric power with application of the incentive tariff, for the recovery of the costs linked to the regulation of the Essential Units of ERG Power Generation (Mucchetti Decree), and the trade payables mainly regarding the purchase of electric power, the maintenance of the wind farms and other trade payables.

### Other assets

These mostly comprise deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services.

## Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis (mainly concessions, fixed assets and inventories), the estimate of income taxes owed for the period, and the provisions for liabilities and charges.

## Net financial indebtedness

### SUMMARY OF THE GROUP'S INDEBTEDNESS

| 31/03/2015   | (EUR million)   | 31/03/2016     | 31/12/2015     |
|--------------|---|----------------|----------------|
| 1,329.4      | Medium/long-term financial indebtedness                       | 2,076.2        | 1,987.8        |
| (1,072.1)    | Short-term financial indebtedness (cash and cash equivalents) | (334.8)        | (540.0)        |
| <b>257.3</b> | <b>Total</b>  | <b>1,741.4</b> | <b>1,447.9</b> |

The following table illustrates the medium/long-term financial debt of the ERG Group:

### MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

| 31/03/2015     | (EUR million)                             | 31/03/2016     | 31/12/2015     |
|----------------|---|----------------|----------------|
| 13.6           | Medium/long-term bank borrowings          | 593.1          | 694.6          |
| (13.6)         | Current portion of mortgages and loans    | –              | –              |
| 191.5          | Medium/long-term financial payables       | 181.7          | 153.4          |
| <b>191.5</b>   | <b>Total</b>                              | <b>774.8</b>   | <b>848.0</b>   |
| 1,302.5        | Total Project Financing                   |                |                |
| (164.7)        | Current portion of Project Financing      |                | (144.7)        |
| <b>1,137.8</b> | <b>Medium/long-term Project Financing</b> | <b>1,301.4</b> | <b>1,139.9</b> |
| <b>1,329.4</b> | <b>TOTAL</b>                              | <b>2,076.2</b> | <b>1,987.8</b> |

Medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 182 million (EUR 153 million as at 31 December 2015).

Medium/long-term amounts due to banks relate to the bank loan disbursed to ERG Power S.p.A., for the acquisition of ERG Hydro S.r.l., underwritten by a pool of seven Italian and international mandated lead arrangers and bookrunners. During the quarter, a partial repayment of the bank loan granted to ERG S.p.A. was made for an amount of EUR 350 million, and two new bank loans were disbursed for EUR 250 million. As at 31 March 2016, the loans amounted to EUR 593 million.

The payables for “medium/long-term Project Financing” are for:

- loans of EUR 1,135 million issued to companies in the Non-programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 563 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 94 million;
- EUR 150 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

In compliance with IAS 39, the accessory expenses incurred to obtain the loans are presented as a reduction of the payable to which they refer, according to the amortised cost method.

With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing is measured at fair value. Said fair value was lower than the nominal value, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition. The difference between the positive fair value of the liability and its nominal value is consequently managed through the amortised cost method throughout the duration of the loan.

The breakdown of short-term financial indebtedness is shown below:

#### SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

| 31/03/2015       | (EUR million)   | 31/03/2016     | 31/12/2015     |
|------------------|---|----------------|----------------|
| 39.9             | Short-term bank borrowings                            | 94.1           | 110.0          |
| 13.6             | Current portion of mortgages and loans                | –              | –              |
| 12.9             | Other short-term financial debts                      | 9.1            | 68.7           |
| <b>66.4</b>      | <b>Short-term financial liabilities</b>               | <b>103.1</b>   | <b>178.7</b>   |
| (1,057.7)        | Cash and cash equivalents                             |                | (627.0)        |
| (32.9)           | Securities and other short-term financial receivables | (26.8)         | (92.9)         |
| <b>(1,090.6)</b> | <b>Short-term financial assets</b>                    | <b>(360.6)</b> | <b>(719.8)</b> |
| 164.7            | Short-term Project Financing                          | 159.5          | 144.7          |
| (212.6)          | Cash and cash equivalents                             | (236.9)        | (143.6)        |
| <b>(47.9)</b>    | <b>Project Financing</b>                              | <b>(77.4)</b>  | <b>1.1</b>     |
| <b>(1,072.1)</b> | <b>TOTAL</b>  | <b>(334.8)</b> | <b>(540.0)</b> |

The other financial payables mainly include liabilities linked to fair value of the derivatives and payables for purchases of equity investments.

The amount of the cash and cash equivalents essentially decreased during the quarter further to the partial early repayment of the Corporate loan and the purchases during the period.

“Short-term financial assets” also comprise short-term securities for use as liquidity.

The change in “Securities and other short-term financial receivables” refers in particular to a different temporary utilisation of liquidity of the securities described above.

The breakdown of changes in net financial indebtedness is as follows:

| FY<br>2015       | (EUR million)   | 1st quarter    |               |
|------------------|---|----------------|---------------|
|                  |   | 2016           | 2015          |
|                  | <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>               |                |               |
| 207.2            | Adjusted cash flow from current operations <sup>(1)</sup> | 145.4          | 81.0          |
| (125.5)          | Income tax paid   | –              | –             |
| 29.2             | Change in working capital                                 | (90.9)         | (21.2)        |
| 81.2             | Change in other operating assets and liabilities          | (19.9)         | 32.8          |
| <b>192.1</b>     | <b>Total</b>  | <b>34.7</b>    | <b>92.7</b>   |
|                  | <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |                |               |
| (113.2)          | Net investments on tangible and intangible fixed assets   | (8.2)          | (12.1)        |
| (1.4)            | Net investments in financial fixed assets                 | 0.8            | 0.5           |
| (0.5)            | Adjustment for sale of ERG Oil Sicilia                    | –              | –             |
| <b>(115.1)</b>   | <b>Total</b>  | <b>(7.4)</b>   | <b>(11.6)</b> |
|                  | <b>CASH FLOW FROM SHAREHOLDERS' EQUITY</b>                |                |               |
| (71.4)           | Distributed dividends                                     | –              | –             |
| 5.2              | Other changes in equity <sup>(3)</sup>                    | (14.5)         | (1.4)         |
| <b>(66.2)</b>    | <b>Total</b>  | <b>(14.5)</b>  | <b>(1.4)</b>  |
| <b>(1,128.6)</b> | <b>CHANGES IN SCOPE OF CONSOLIDATION <sup>(2)</sup></b>   | <b>(306.3)</b> | <b>(6.9)</b>  |
| <b>(1,117.8)</b> | <b>CHANGE IN NET FINANCIAL INDEBTEDNESS</b>               | <b>(293.5)</b> | <b>72.8</b>   |
| <b>330.1</b>     | <b>INITIAL NET FINANCIAL INDEBTEDNESS</b>                 | <b>1,447.9</b> | <b>330.1</b>  |
| <b>1,117.8</b>   | <b>CHANGE IN THE PERIOD</b>                               | <b>293.5</b>   | <b>(72.8)</b> |
| <b>1,447.9</b>   | <b>FINAL NET FINANCIAL INDEBTEDNESS</b>                   | <b>1,741.4</b> | <b>257.3</b>  |

(1) the item does not include inventory gains (losses) and current income tax for the period

(2) the change in the scope of consolidation in the first quarter of 2016 refers principally to the line-by-line consolidation of the companies acquired from Impax Asset Management

(3) the other changes in shareholders' equity mainly refer to the changes in the cash flow hedge reserve linked to the financial derivatives

**Net financial indebtedness** was EUR 1,741 million, up EUR 294 million compared with the 31 December 2015 figure mainly due to the acquisition of the French and German wind farms from the Impax group (EUR 293 million) as well as the initial investment for entering the UK market (EUR 13 million). The operating cash flows partly offset the effects deriving from this change in the scope of consolidation, despite the negative trend of the working capital in the period (- EUR 90 million), partly linked to change in legislation on Green Certificates and the regime of the Essential Units, envisaged to be absorbed by year end.

A detailed analysis of capital expenditure made may be found in the specific section.

## CONSOLIDATION OF THE IMPAX GROUP COMPANIES

On 2 February 2016 ERG Renew finalised an agreement to purchase eleven wind farms in France from a fund managed by Impax Asset Management Group, with an installed output of 124 MW, along with six in Germany, with an installed output of 82 MW, for a total of 206 MW. The scope of the transactions also includes two companies, one French and one German, which provide technical, operational and commercial assistance, via a team comprising twenty-eight professionals, to wind farm operators in France, Germany and Poland, both captive and third parties, for a total of around 800 MW (of which 206 MW subject to purchase and another 83 MW belonging to ERG Renew in Germany).

The value of the acquisition comes to around EUR 290 million in terms of enterprise value, equal to a multiple of approximately EUR 1.4 million per MW. The farms are already entirely financed with limited recourse Project Financing. ERG acknowledged the seller a consideration for the equity of EUR 56.3 million and also took over the shareholders' loans for EUR 79.2 million for a total outlay of around EUR 135 million. At the time of this Report, steps were taken to carry out a purchase price allocation exercise on the basis of the available information: consistently with the indications of IFRS 3 and in consideration of the reduced period of time between the acquisition and the preparation of the document, the exercise shall be deemed provisional and subject to changes and refinements.

Additional details, inclusive of any updates relating to the allocation of the capital gains, and the related accounting effects, shall be indicated in the half-year financial Report as at 30 June 2016. In this regard, based on the provisions of IFRS 3, the measurement of the assets and liabilities may be subject to changes in the twelve months following the acquisition date. The method used for the first consolidation of the acquired companies, as required by reference accounting standards, is described below.

The acquisition was measured according to the provisions of IFRS 3 on business combinations; based on this standard, for the transaction to be properly accounted for, the following is necessary:

- determining the total acquisition cost;
- determining the fair value of the acquired assets and liabilities;
- allocating, at the date of acquisition, the cost of the business combination to the acquired assets and the liabilities assumed, including those not recognised before the acquisition;
- recognising any goodwill acquired in the business combination.

In determining the fair value of the acquired assets and liabilities, the main differences identified refer to the valuation of fixed assets and in particular of the contracts and authorisations for the generation of electricity at subsidised prices for operating wind farms. These assets were provisionally evaluated with the support of models set up when assessing the validity of the investment. In the period between the date of first consolidation (1 January 2016) and the closing date of the quarter, the ERGWind Group contributed approximately EUR 8 million to the ERG Group's EBITDA. The impact of the transaction on the Group's net financial indebtedness is estimated to be EUR 293 million and refers to the acquisition price (EUR 56 million), the consideration for taking over the existing shareholders' loans (EUR 79.2 million) and the project financing net of the available cash and the liabilities of the fair value of the derivatives (EUR 157 million).

## ALTERNATIVE PERFORMANCE INDICATORS

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To enhance understandability of business performance, the operating results are also shown at **replacement cost**, excluding non-recurring items.

The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting.

Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method used by other operators and so these might not be fully comparable.

The components used to determine the calculation of results at adjusted replacement cost are described below.

**Non-recurring items** include significant but unusual earnings.

**Inventory gains (losses)**<sup>17</sup> are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

The investment in the TotalErg joint venture is consolidated using the equity method of accounting.

You are reminded that at the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.a. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated in full as from 1 January 2016.

In consideration of the commented on change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which includes the portion relating to ERG of the economic results at replacement cost of said joint venture LUKERG Renew GmbH (50%).

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<sup>17</sup> The inventory gains and losses refer solely to the item "income from equity investments" and relate to the joint venture TotalErg

## Reconciliation with operating results at replacement cost

### EBITDA

| FY<br>2015 | (EUR million)  | 1st quarter |       |
|------------|--|-------------|-------|
|            |  | 2016        | 2015  |
| 308,3      | EBITDA   | 161,8       | 106,1 |
|            | Exclusion of non-recurring items:                          |             |       |
|            | <b>Corporate</b>   |             |       |
| 1.3        | - Ancillary charges - extraordinary operations             | -           | -     |
| 11.2       | - Ancillary charges transactions concerning ERG Hydro      | -           | -     |
| 2.6        | - Write-down of environmental certificates                 | -           | -     |
| -          | - Ancillary charges - previous years                       | -           | -     |
| 1.7        | - Charges for company reorganisation                       | -           | -     |
|            | <b>Programmable Sources</b>                                |             |       |
| 1.7        | - Corporate reorganisation expenses                        | -           | -     |
| 5.2        | - Ancillary charges transactions concerning ERG Hydro      | -           | -     |
|            | <b>Non Programmable Sources</b>                            |             |       |
| 6.3        | - Ancillary charges - extraordinary operations             | 0.8         | 0.2   |
| 338.1      | EBITDA at replacement cost                                 | 162.6       | 106.3 |
| 11.9       | LUKERG Renew 50% contribution at adjusted replacement cost | -           | 4.9   |
| 350.0      | EBITDA at adjusted replacement cost                        | 162.6       | 111.2 |

### AMORTISATION, DEPRECIATION AND WRITE-DOWNS

| FY<br>2015 | (EUR million)  | 1st quarter |        |
|------------|--|-------------|--------|
|            |  | 2016        | 2015   |
| (163.0)    | Amortisation and depreciation at replacement cost          | (64.1)      | (38.7) |
| 7.8        | LUKERG Renew 50% contribution at adjusted replacement cost | -           | (2.0)  |
| (170.9)    | Amortisation and depreciation at adjusted replacement cost | (64.1)      | (40.7) |

### EBIT

| FY<br>2015 | (EUR million)  | 1st quarter |      |
|------------|--|-------------|------|
|            |  | 2016        | 2015 |
| 175.1      | EBIT at replacement cost                                   | 98.5        | 67.6 |
| 4.1        | LUKERG Renew 50% contribution at adjusted replacement cost | -           | 3.0  |
| 179.1      | EBIT at adjusted replacement cost                          | 98.5        | 70.6 |

**GROUP'S NET PROFIT (LOSS)**

| FY<br>2015  | (EUR million)  | 1st quarter |             |
|-------------|--|-------------|-------------|
|             |  | 2016        | 2015        |
| 20.6        | <b>Group net result</b>  | <b>47.8</b> | <b>37.9</b> |
| 21.9        | Exclusion of inventory gains / losses  | 7.9         | (1.4)       |
|             | Exclusion of non-recurring items:  |             |             |
| 0.5         | Exclusion for capital gain on sale of ERG Oil Sicilia                                  | –           | –           |
| (2.9)       | Exclusion of write-off resulting from Robin Tax on deferred tax assets and liabilities | –           | –           |
| 13.1        | Exclusion of ancillary charges - ERG Hydro acquisition                                 | –           | –           |
| 1.9         | Exclusion of write-down of environmental certificates                                  | –           | –           |
| 1.6         | Exclusion of TotalErg non-recurring items  | 0.1         | (2.4)       |
| –           | Exclusion of contribution and other proceeds (charges) pertaining to prior years       | –           | 0.1         |
| –           | Exclusion of Corporate loan prepayment effects   | 0.9         | –           |
| (8.4)       | Exclusion of tax adjustment effects  | –           | –           |
| 6.4         | Exclusion of ancillary charges - extraordinary operations                              | 0.7         | –           |
| 2.5         | Exclusion of charges for company reorganisation  | –           | –           |
| 0.3         | Exclusion of extraordinary gains - LUKERG joint venture dissolution                    | –           | –           |
| 0.9         | Exclusion of provision for equity investment risks                                     | –           | –           |
| 38.0        | Exclusion of financial charges on minorities option                                    | –           | –           |
| <b>96.3</b> | <b>Group net profit (loss) at replacement cost <sup>(1)</sup></b>                      | <b>57.5</b> | <b>34.2</b> |

(1) in 2015 it also corresponds to Group net profit (loss) at adjusted replacement cost



## SIGNIFICANT EVENTS AFTER THE PERIOD

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On **6 April 2016** ERG sold the entire equity investment held in I-Faber S.p.A. (23%) to Unicredit S.p.A. for an equivalent value of EUR 4.2 million.

On **13 April 2016** ERG exercised the call option on the remaining 20% of the share capital of ERG Wind Investments Ltd (company formerly known as IP Maestrone Investments Ltd acquired from International Power Consolidated Holdings for 80%), as envisaged by the agreements entered into with International Power Consolidated Holdings Ltd in 2012.

## BUSINESS OUTLOOK

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The expected outlook for the main operating and performance indicators in 2016 is as follows:

### Non-programmable sources

ERG Renew continues with its international development strategy, thanks to which already at the beginning of 2016 it achieved 626 MW of installed power abroad, equal to 37% of the 1,720 MW installed in total, permitting the Group to become the eighth onshore wind operator in Europe.

2016 will benefit in particular from the full contribution of the three new wind farms whose construction was completed in Poland for a total installed capacity of 82 MW, (whose realisation was progressively completed by ERG during 2015), as well as the acquisition in July 2015 of another six farms in France for a capacity of 63 MW and the increase in the installed capacity by 20 MW in Bulgaria and Romania, (further to the winding up at the end of 2015 of the joint venture LUKERG Renew).

Mention is also made of the purchase at the beginning of 2016 of eleven wind farms in France (124 MW) and six in Germany (82 MW) with a total installed capacity of 206 MW, which will make it possible to further increase presence in these countries which consider renewable sources to be essential for their energy policies, as well as the acquisition of two companies specialised in asset management activities which will contribute to the attainment of synergies and the development of the presence of ERG as industrial operator in the two countries. These assets will be consolidated as from 1 January 2016.

Lastly, activities aimed at further growth of the company continue, through the assessment of new investment opportunities, particularly abroad and which in 2016 will see the company involved in the construction of a new plant, for around 45 MW, in Northern Ireland (UK).

The 2016 results, at EBITDA level, are therefore expected to rise significantly thanks to the contribution of the new plants, even if they will feel the effect of energy prices which are expected to decrease significantly with respect to 2015. This impact, in 2016, will also be affected by the new incentive development mechanism in Italy, which links the latter to a final PUN (national single price) value registered in the previous year (2015).

### Programmable sources

The ERG Group has finalised a transaction of great strategic importance, which makes it possible to diversify the sources of production entering into the hydroelectric sector with a significant dimension, consistent with the growth strategy in the renewables sector by means of investments in high quality assets.

Thanks to this diversification, the 2016 results of the programmable sources are expected to rise overall when compared with 2015.

- **Hydroelectric:** further to the transaction finalised on 30 November 2015, ERG Power Generation acquired the entire hydroelectric business of E.On Produzione, comprising a portfolio of plants present in Umbria, Marche and Lazio, with an overall capacity of 527 MW; the contribution of the newly formed ERG Hydro will make it possible to significantly increase the economic results and cash generation, while the considerable increase in the generation portfolio will make it possible to improve the results thanks to the additional energy management activities.
- **Thermoelectric:** with regard to the ERG Power plant, decreasing results are envisaged as from the commissioning of the Sorgente-Rizziconi power line, currently envisaged by Terna for 30 June 2016. However, until that date, satisfactory results in line with 2015 are envisaged. Furthermore, the flexibility and efficiency of the ERG Power CCGT plant, the long-term supply agreements and the action for coverage of the generation margin will make it possible to maintain profitability higher than that registered on average by the same types of plant in Italy.

Overall in 2016, an EBITDA of around EUR 440 million is expected, in line with the indications provided to the Financial Community at the time of Presentation of the 2015-2018 Plan (EUR 350 million in 2015).

### Risks and uncertainties facing the business outlook

With reference to the estimates and forecasts contained herein, it should be pointed out that actual results may differ even significantly from those announced in relation to a multiplicity of factors, such as: future price trends, the operating performances of plants, the impact of regulations for the energy and fuel distribution industry and for the environment, other changes in business conditions and in competitors' action.

Genoa, Italy, 12 March 2016

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





## **STATEMENT BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 154 BIS, PARAGRAPH 2 OF ITALIAN LEGISLATIVE DECREE 58/1998 (ITALIAN CONSOLIDATED FINANCE ACT)**

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The Manager responsible for preparing the financial reports of ERG S.p.A., Paolo Luigi Merli, declares in accordance with paragraph 2 of Article 154 bis of the Italian Consolidated Finance Act that the accounting information contained in this Interim Report matches the documental evidence, the accounting books and records.

Genoa, Italy, 12 March 2016

The Manager Responsible for preparing  
the company's financial reports



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