



INTERIM FINANCIAL REPORT

AT 31 MARCH 2017





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CORPORATE BODIES

BOARD OF DIRECTORS¹

Chairman
EDOARDO GARRONE *(Executive)*

Deputy Chairman
ALESSANDRO GARRONE² *(Executive)*
GIOVANNI MONDINI *(Non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(Independent)*³
MARA ANNA RITA CAVERNI *(Independent)*⁴
ALESSANDRO CHIEFFI *(Independent)*⁴
BARBARA COMINELLI *(Independent)*⁴
MARCO COSTAGUTA *(Non-executive)*
PAOLO FRANCESCO LANZONI *(Independent)*³
SILVIA MERLO *(Independent)*⁴

BOARD OF STATUTORY AUDITORS⁵

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 Board of Directors appointed on 24 April 2015. On 20 April 2017, at the end of the Shareholders' Meeting of ERG S.p.A. Mr. Luigi Ferraris – Independent Director and member of the Strategic Committee – submitted his resignation, with immediate effect, from the office of Director of ERG S.p.A.

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

³ With reference to the provisions of Article 148, Paragraph 3 of the Consolidated Finance Law.

⁴ With reference to the provisions of Article 148, Paragraph 3 of the Consolidated Finance Law and the matters contained in the Corporate Governance Code furthered by Borsa Italiana S.p.A.

⁵ Board of Statutory Auditors appointed on 3 May 2016.

INTRODUCTION

On 23 February 2017, the Board of Directors of ERG S.p.A. resolved, pursuant to Article 82-ter of the Issuers' Regulations, to continue to prepare, on a voluntary basis, the interim reports on operations (at 31 March and at 30 September) in line with the contents of the interim reports of the previous years, in accordance with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRS) – which will be approved and consequently published consistently with the disclosure provided to the market to date, i.e. within 45 days from the end of the first and of the third quarter of the year.

The consolidation principles and the evaluation criteria applied for this Report are the same indicated in the Consolidated Financial Statements for 2016, 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.

RECURRING RESULTS

To enhance understandability of business performance, the operating results are also shown excluding non-recurring items⁶ and inventory gains (losses)⁷. Starting with the present Report, these results, previously defined as "at replacement costs", shall be indicated with the definition "recurring".

The results also reflect the energy sales on markets by Group Energy Management (in relation to generation in Italy of thermoelectric and wind power and, starting on 1 July 2016, hydroelectric power), in addition to the adoption of effective coverage of the generation margin. The latter contemplate, inter alia, the use of instruments to hedge the price risk.

For a clearer representation of the business at the technology level, the results of wind and hydroelectric power include the hedges carried out in relation to the renewable sources ("RES") by the Energy Management of ERG Power Generation.

⁶ Non-recurring items include significant income entries of an unusual nature.

⁷ TotalErg's equity contribution is reported net of inventory gains (losses) and non-recurring items.

BUSINESS DESCRIPTION

In 2016 the ERG Group completed a profound transformation process from leading Italian private oil operator to leading independent operator in the generation of energy from prevalently renewable sources, both non-programmable (wind) and programmable (thermoelectric and hydroelectric), also expanding abroad with a rising presence, in particular on the French and German wind market.

Today the Group is leader in the wind power market in Italy and has a prominent position in Europe; it is among the leading operators active in the generation of energy from water sources in Italy, it is active in low-environmental impact thermoelectric production with a high-efficiency, modular cogeneration CCGT plant, as well as on the energy markets through the Energy Management activity.

The management of the industrial and commercial processes of the ERG Group is carried out by the subsidiary ERG Power Generation which directly carries out:

- the unified Energy Management activity for all 3 technologies in which the ERG Group operates;
- the Operation & Maintenance activities of the “North Plant”, of its own Italian wind farms and of some of the wind farms in France and Germany. Through the CSO Energy companies it performs technical and administrative services in France and Germany both in favour of Group companies and of third parties.

ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the Electric power generation sectors using:

Non-programmable sources

ERG operates in the generation of electricity from wind sources with 1,720 MW of installed power at 31 March 2017. ERG 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 operational and 47.5 MW under construction), in particular in France (252 MW), Germany (168 MW), Poland (82 MW) as well as in Romania and Bulgaria (70 MW and 54 MW), in addition to 47.5 MW under construction in Great Britain, expected to be commissioned in 2017. In the month of May 2017, ERG further consolidated its own position in the German on shore wind power market, through the acquisition of six German wind farm, with an installed capacity of 48 MW.

Programmable sources

- ERG operates in the generation of electricity from thermoelectric sources through the “Centrale Nord” plant (480 MW) located in the industrial site of Priolo Gargallo (SR) in Sicily, which operated until 27 May 2016 as an

Essential Unit in accordance with the Mucchetti Amendment⁸. This is a high-efficiency co-generation plant (C.A.R.), based on latest generation combined cycle technology fuelled with natural gas, which came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities;

- ERG operates in the sector of the generation of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 16 plants, 7 dams, 3 reservoirs and one pumping station, geographically located throughout Umbria, Marche and Lazio, with a capacity of 527 MW.

Starting from 1 January 2017, all services across the Group have been centralised within ERG S.p.A.

The ERG Group also has an equity 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. At the end of 2016 a process was launched to identify any parties potentially interested in acquiring the equity investment in TotalErg S.p.A.

One Company



On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

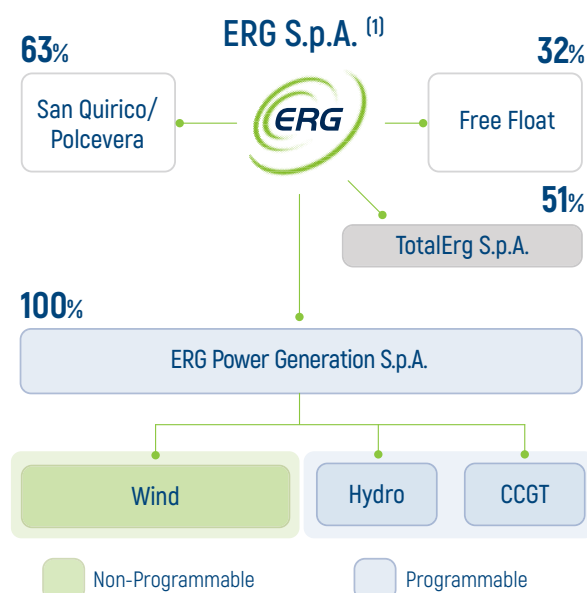
- ERG S.p.A. – corporate – which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. The company is organised into the following 5 areas:
 - Business Development, with the mission of ensuring business development in various geographical, technological and market areas;
 - Administration, Finance, Planning and Control, Risk Management, M&A, IR and Purchasing;
 - Human Capital, ICT and General Services;
 - Institutional Relations and Communication;
 - Legal and Corporate Affairs.
- ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes, organised into:
 - Wind, Thermo and Hydro generation technologies, which in turn are organised into production units on a geographical basis;
 - Energy Management, as the single entry point into organised markets;
 - a commercial structure dedicated to Key Accounts;
 - a centre of technological excellence in charge of the Engineering & Construction processes;

⁸ Law converting Decree Law No. 91/14 ("Competition Decree"). For additional details, please see the Thermoelectric Section.

- a hub of specialised skills in regulatory, planning and performance control matters, across all business processes;
- a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

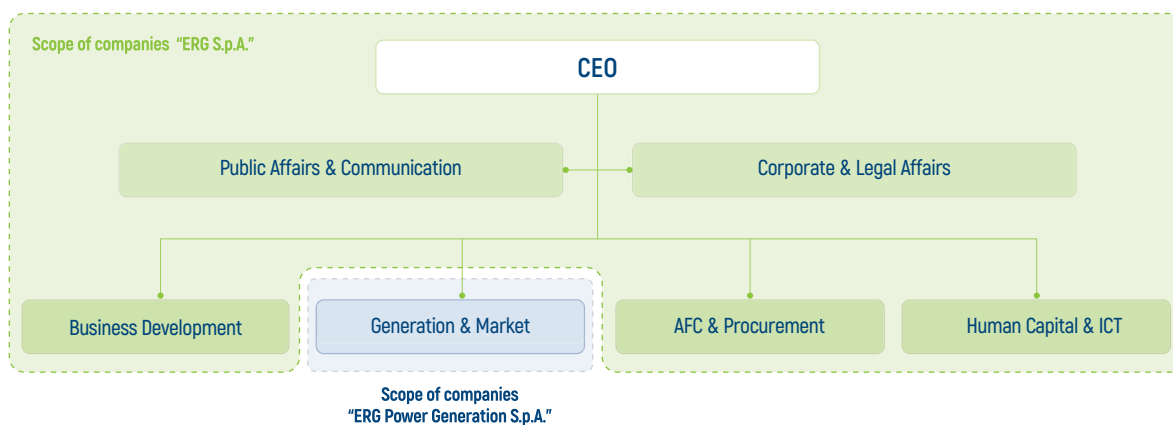
Implementation of the new Group Organisational Model, partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A., was planned to take full effect starting on 1 January 2017, specifically through:

- the merger of ERG Services S.p.A. into ERG S.p.A.;
- the merger of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. into ERG Power Generation S.p.A.



(1) ERG owns 1% of treasury shares

The new organisational/corporate model can be summarised as follows:





ERG'S STOCK MARKET PERFORMANCE

At 31 March 2017, the closing price of ERG's shares was EUR 11.80, up (+15.7%) from the end of 2016, in the presence of a rise, in the same period, of the FTSE All Share index (+7.8%), of the FTSE Mid Cap index (+17.5%) and of the Euro Stoxx Utilities Index (+7.9%).

During the period under review, the listed price of the ERG stock varied from a minimum of EUR 9.96 (9 January) and a maximum of EUR 11.80 (31 March).

Some figures relating to the trading prices and volumes of ERG's shares at 31 March are set out below:

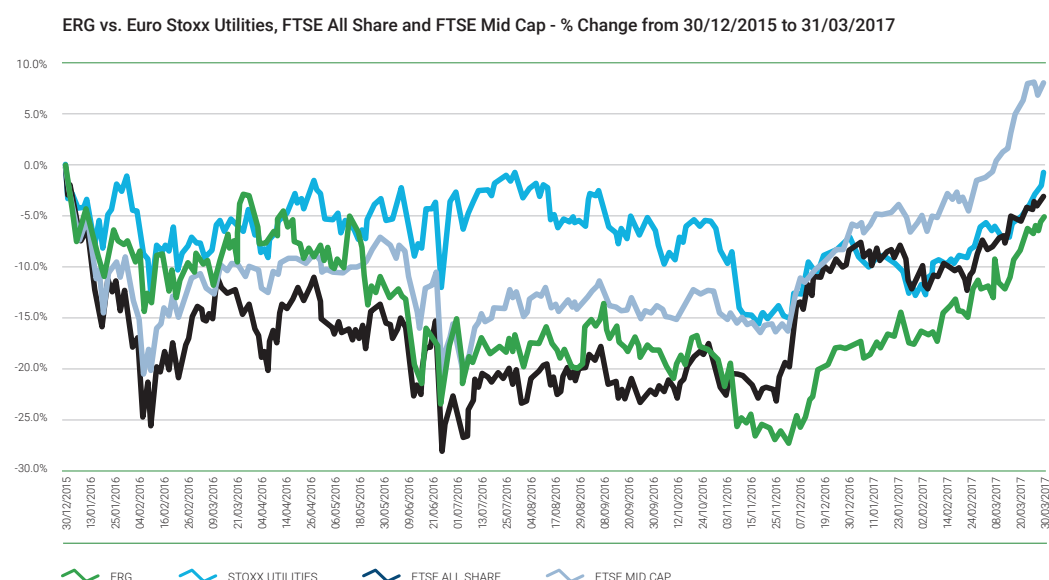
Stock price	EUR
Closing price at 31/03/2017	11.80
Highest price (31/03/2017) ⁽¹⁾	11.80
Lowest price (09/01/2017) ⁽¹⁾	9.96
Average price	10.73

(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	No. of shares
Maximum volume (08/03/2017)	1,054,084
Minimum volume (02/02/2017)	97,159
Average volume	245,434

Market capitalisation was approximately EUR 1,774 million (EUR 1,535 million at the end of 2016).

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



PERFORMANCE HIGHLIGHTS

Year			1 st quarter	
2016	(EUR million)		2017	2016
MAIN INCOME STATEMENT DATA				
1,025	Revenues from ordinary operations		303	295
455	Recurring EBITDA		151	163
202	Recurring EBIT		90	99
125	Net income		65	51
122	of which Group net income		65	48
107	Recurring Group net profit (loss) ⁽¹⁾		61	57
MAIN FINANCIAL DATA				
3,286	Net invested capital		3,269	3,454
1,729	Shareholders' equity		1,805	1,713
1,557	Total net financial indebtedness		1,464	1,741
1,276	of which non-recourse Project Financing ⁽²⁾		1,279	1,461
47%	Financial leverage		45%	50%
44%	% EBITDA Margin		50%	55%
OPERATING DATA				
1,720	Installed capacity at period end – wind farms	MW	1,720	1,720
3,501	Electric power generation from wind farms	millions of KWh	1,062	1,226
480	Installed capacity at period end – thermoelectric plants	MW	480	480
2,693	Electric power generation from thermoelectric plants	millions of KWh	600	695
527	Installed capacity at period end – hydroelectric plants	MW	527	527
1,358	Electric power generation from hydroelectric plants	millions of KWh	386	384
12,303	Total sales of electric power	millions of KWh	3,538	3,281
60	Capital expenditure ⁽³⁾	EUR million	11	4
715	Employees at the period end	Units	715	715
MARKET INDICATORS				
42.8	Reference price of electricity - Italy (baseload) ⁽⁴⁾	EUR/MWh	57.5	39.6
100.08	Feed-In Premium (former Green Certificates) - Italy	EUR/MWh	107.3	100.1
47.6	Sicily zone price (baseload)	EUR/MWh	56.5	44.3
47.6	Centre North zone price (peak)	EUR/MWh	67.8	43.1
139.0	Average unit value of sale of ERG wind energy - in Italy	EUR/MWh	147.4	136.4
92.6	Feed-In Tariff - Germany ⁽⁵⁾	EUR/MWh	93.8	91.9
88.7	Feed-In Tariff - France ⁽⁵⁾	EUR/MWh	89.0	88.6
84.0	Feed-In Tariff - Bulgaria ⁽⁵⁾	EUR/MWh	96.7	96.7
33.4	Electricity price - Poland	EUR/MWh	36.0	31.5
10.8	Certificate of origin price - Poland	EUR/MWh	5.8	26.3
27.3	Electricity price - Romania ⁽⁶⁾	EUR/MWh	28.7	27.5
29.5	Green Certificate price - Romania ⁽⁷⁾	EUR/MWh	29.4	29.5

To enhance understandability of business performance, recurring revenues and operating results are shown, therefore excluding non-recurring items.

(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 306.5 million carried out in 2016.

(4) Single National Price

(5) the values of the Feed-In Tariff abroad refer to the prices obtained by the wind farms

(6) the Electricity price Romania 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

Year		1 st quarter	
2016	(EUR million)	2017	2016
REVENUES FROM ORDINARY OPERATIONS			
423	Non-programmable sources	137	145
423	Wind power	137	145
601	Programmable sources	165	152
479	Thermoelectric power ⁽¹⁾	119	122
122	Hydroelectric power	46	30
32	Corporate	10	8
(31)	<i>Intra-segment revenues</i>	(10)	(9)
1.025	Total revenues from ordinary operations	303	295
EBITDA			
308	Non-programmable sources	104	117
308	Wind power	104	117
161	Programmable sources	50	48
77	Thermoelectric power ⁽¹⁾	14	27
84	Hydroelectric power	35	21
(13)	Corporate	(2)	(2)
455	Recurring EBITDA	151	163
AMORTISATION, DEPRECIATION AND WRITE-DOWNS			
(163)	Non-programmable sources	(38)	(41)
(163)	Wind power	(38)	(41)
(88)	Programmable sources	(23)	(22)
(30)	Thermoelectric power	(8)	(7)
(58)	Hydroelectric power	(15)	(15)
(3)	Corporate	(1)	(1)
(254)	Recurring amortisation and depreciation	(62)	(64)
EBIT			
145	Non-programmable sources	65	75
145	Wind power	65	75
73	Programmable sources	27	26
47	Thermoelectric power ⁽¹⁾	7	20
26	Hydroelectric power	21	6
(16)	Corporate	(3)	(3)
202	Recurring EBIT	90	99
CAPITAL EXPENDITURE ON TANGIBLE AND INTANGIBLE FIXED ASSETS			
44	Non-programmable sources	8	2
44	Wind power	8	2
13	Programmable sources	2	2
10	Thermoelectric power	2	1
4	Hydroelectric power	1	1
3	Corporate	–	1
60	Total capital expenditure	11	4

(1) includes Energy Management contribution

SALES

POWER

The electricity sales of the ERG Group, carried out in Italy through the Energy Management of ERG Power Generation S.p.A., refer to the electricity generated by its wind farms, its thermoelectric plants and its hydroelectric plants, as well as purchases on organised markets and through physical bilateral agreements.

During the first quarter of 2017, total sales of electricity amounted to 3.5 TWh (3.3 TWh in the same period of 2016), in the presence of an overall output for the Group plants of approximately 2.0 TWh (2.3 TWh in the same period of 2016), of which roughly 0.4 TWh abroad and 1.6 TWh in Italy. The latter balance corresponds to approximately 2.1% of electricity demand in Italy (2.0% in the first quarter of 2016).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table⁹:

Year		1 st quarter	
2016	SOURCES OF ELECTRIC POWER (GWh)	2017	2016
2,220	Wind - wind power generation Italy	658	774
1,281	Wind - wind power generation Abroad	405	452
2,693	CCGT - thermoelectric power generation	600	695
1,358	CCGT - hydroelectric power generation	386	384
4,751	ERG Power Generation - purchases	1,490	975
12,303	Total	3,538	3,281

Year		1 st quarter	
2016	SALES OF ELECTRIC POWER (GWh)	2017	2016
542	Electric power sold to captive customers	130	128
2,020	Electric power sold to IREN	497	502
8,460	Electric power sold wholesale (Italy)	2,506	2,200
1,281	Electric power sold Abroad	405	452
12,303	Total	3,538	3,281

Steam sales¹⁰ amounted to 200 thousand tons in the first quarter of 2017 (246 thousand tons in the first quarter of 2016). Electricity sold wholesale includes the sales on the IPEX electricity exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), as well as 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 generation, in line with Group risk policies.

⁹ Electric power sources refer to the output of the Group's plants and to the purchases made on wholesale markets; uses include sales made through physical bilateral agreements and on the spot and forward markets.

¹⁰ Steam supplied to end users net of the quantities of steam withdrawn by the users and of pipeline losses.

COMMENTS ON THE QUARTER'S PERFORMANCE

In the first quarter of 2017, **revenues from ordinary operations** amounted to EUR 303 million, slightly higher than the value of EUR 295 million of the first quarter of 2016, in the presence of lower output, more than offset by the average increase in energy prices. This item also includes the higher sales carried out within the price fluctuation hedging activities performed by Energy Management, the lower revenues relating to the wind farms no longer covered by the incentive scheme, partly offset thanks to the mechanism for recovering the incentives relating to the missed generation for shutdowns required by Terna in the previous years. The first quarter of 2016 included the "reintegration consideration" paid in view of the constraints imposed on the modulation of the CCGT plant to enforce regulations on Essential Units for the security of the electrical system, amounting to approximately EUR 18 million.

The **recurring EBITDA** amounted to EUR 151 million, lower than EUR 163 million recorded in the first quarter of 2016. The change is a result of the following factors:

Non-programmable sources

EBITDA of EUR 104 million, down compared to the same period of the previous year (EUR 117 million), mainly as a consequence of weaker wind conditions and lower output in Italy and in France, where the wind conditions were particularly unfavourable. These effects were only partly offset by a more favourable price trend in Italy, as well as by additional cost containment actions. In addition, in the first quarter of 2017 nearly all wind power generation in Italy benefited from the feed-in premium (former Green Certificate), for a unit amount of approximately 107 EUR/MWh, up compared to the same period of 2016 (approximately 100 EUR/MWh)¹¹.

Programmable sources

EBITDA of EUR 50 million, substantially in line compared to the previous year (EUR 48 million). The contribution provided by the hydroelectric complex amounted to EUR 35 million, markedly higher than EUR 21 million in 2016 mainly as a result of the flexibility of the plants to benefit from particularly favourable peak prices during the quarter in the Centre-North area with substantially unchanged water availability compared to the same period of the previous year.

In addition, between the end of 2016 and the first quarter of 2017, at the end of a series of audits with the GSE, the IAFR revocation was revoked for the plants at Cotilia (48 MW) and Sigillo (5 MW), which therefore are entitled to receive incentives (in addition to the recovery of past incentives).

¹¹ Please refer to the comments on the paragraph concerning regulations in Italy, shown in the in "Non-programmable Sources" business segment.

The result of the thermoelectric business, amounting to EUR 15 million, declined compared to EUR 27 million of the first quarter of 2016 which still benefited from the “reintegration consideration” recognised against restrictions imposed on the modulation of the CCGT plant, enforcing the regulations on Essential Units for the security of the electrical system, in force until 27 May 2016, amounting to approximately EUR 18 million.

Lastly, of note is the important contribution to margins provided by the revenues for Energy Efficiency Certificates to which the CCGT plant is entitled inasmuch as it is qualified as a high efficiency cogenerating plant, to such an extent as to make it one of the foremost beneficiaries of Energy Efficiency Certificates in Italy.

Recurring EBIT was EUR 90 million (EUR 99 million in the first quarter of 2016) after amortisation and depreciation of EUR 62 million (EUR 64 million in the first quarter of 2016).

The **Recurring Group net profit** amounted to EUR 61 million, up compared to the profit of EUR 57 million of the first quarter of 2016, as a result of the aforesaid lower operating results, more than offset by lower depreciation and amortisation, lower net financial expenses and, and of the higher income from the equity investment in TotalErg (consolidated at equity). The result of 2016 also included the negative value of approximately EUR 3 million from minority interests.

The **Group net profit**¹² amounted to EUR 65 million (EUR 48 million in the first quarter of 2016). It should be recalled that the 2016 result was affected, with respect to the recurring Group net profit, by the significant impairment losses on TotalErg’s inventories as a result of the drops in the price of crude oil and of petroleum products.

In the first quarter of 2017, **Group capital expenditure** totalled EUR 11 million (EUR 4 million in the first quarter of 2016), of which 73% in the Non-programmable sector (49% in the first quarter of 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, and 23% in the Programmable sector (37% in the first quarter of 2016).

Net financial indebtedness amounted to EUR 1,464 million, down by EUR 93 million compared to 31 December 2016 mainly for the net positive operating cash flows, partly offset by the seasonal trends in working capital and by the capital expenditure of the period.

¹² Includes gains (losses) on inventory amounting to EUR 4 million (EUR -8 million in the first quarter of 2016) and non-recurring items of EUR 0 million (EUR -2 million in the first quarter of 2016). Values are after tax effects. Additional details are provided in the chapter “Alternative performance indicators”.

SIGNIFICANT EVENTS DURING THE QUARTER

08
March
2017

ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and from DIF RE Erneuerbare

Energien 3 GmbH 100% of the capital of six German companies that own six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW have an expected average output of approximately 84 GWh, equal to approximately 66,000 t of CO₂ emissions avoided. They came on stream in 2007 and have an average incentive expiry date of 2027.

The price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million, with average annual EBITDA forecast at approximately EUR 5 million.

The transaction's closing date was **2 May 2017**.

The operation, in keeping with the strategy of international growth and diversification, enables ERG to consolidate its position in the German onshore wind power market, with installed power of 216 MW.

BUSINESS SEGMENTS

NON-PROGRAMMABLE SOURCES

The ERG Group operates in the Wind segment through the subsidiary ERG Power Generation.

Wind farms consist of wind-power generators able to transform the kinetic energy of wind into mechanical energy, which in turn is used 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 ⁽¹⁾

Year 2016		1 st quarter	
		2017	2016
	Italian Renewable Energy Sources Market ⁽²⁾ (GWh)		
88,188	Generation from renewable sources ⁽³⁾	18,897	19,236
	of which:		
42,323	Hydroelectric	7,535	7,906
5,865	Geothermal	1,459	1,488
17,455	Wind	5,311	5,865
22,545	Photovoltaic	4,592	3,977
	Sale prices (EUR/MWh)		
42.8	Reference price of electricity - Italy (baseload) ⁽⁴⁾	57.5	39.6
100.1	Feed-In Premium (former Green Certificates) - Italy	107.3	100.1
41.6	Electricity price - Centre-South zone	53.2	38.4
40.4	Electricity price - South zone	51.2	38.0
47.6	Electricity price - Sicily	56.5	44.3
41.6	Electricity price - Sardinia	53.2	38.5
139.0	Average unit value of sale of ERG energy - in Italy ⁽⁵⁾	153.9	136.4
92.6	Feed-In Tariff - Germany ⁽⁶⁾	93.8	91.9
88.7	Feed-In Tariff - France ⁽⁶⁾	89.0	88.6
84.0	Feed-In Tariff - Bulgaria ⁽⁶⁾	96.7	96.7
33.4	Electricity price - Poland	36.0	31.5
10.8	Certificate of origin price - Poland	5.8	26.3
27.3	Electricity price - Romania ⁽⁷⁾	28.7	27.5
29.5	Green Certificate price - Romania ⁽⁸⁾	29.4	29.5

(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 123.8 EUR /MWh paid to the Palazzo S. Gervasio plant

(6) the values of the Feed-In Tariff abroad refer to the prices obtained by the wind farms

(7) the Electricity price Romania refers to the price fixed by the company via bilateral agreements

(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 2017, 27% of (net) domestic electricity output of 70,426 GWh (+6.4%) was covered by renewable sources. In particular, 11% of the output derives from hydroelectric power, 8% from wind farms, 7% from photovoltaic plants, and 2% from geothermal sources.

Compared to the first quarter of 2016 photovoltaic generation grew (+15%), while wind power generation declined sharply (-9%), as did hydroelectric generation (-5%) and geothermal generation (-2%).

REGULATORY SCENARIO

Italy

The incentive system in Italy prescribes, for on-shore wind farms in operation before the end of 2012¹³, the continuation of the Green Certificates system until 2015 and the conversion from 2016, for the residual period of entitlement to incentives, to a feed-in premium calculated using a similar formula and paid on a quarterly basis no later than the last business day of the second quarter after that of accrual. With regard to the value of the 2017 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 31/2017/R/EFR dated 27 January 2017, the average annual value recorded in 2016 for the electric power sales prices for incentive purposes, amounting to 42.38 EUR/MWh. Therefore, the value of the 2017 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year¹⁴, amounts to 107.34 EUR/MWh¹⁵.

In accordance with the Ministerial Decree of 6 July 2012, wind farms 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 auction¹⁶. The Ministerial Decree of 23 June 2016 regulated the auctions that were held in 2016.

As to the rules on imbalances, with its Resolution no. 800/2016 the Energy Authority confirmed the current regulations for generating units, significant or otherwise, powered by non-programmable renewable sources (application of the single price measurement system), and scheduled a revision of the procedures for calculating the current aggregate zonal imbalance sign, following a specific consultation started in April 2017.

Lastly, after the end of the quarter, in the month of May 2017, the Group was notified by the AEEGSI of prescriptive measures relating to the subsidiary ERG Power Generation inasmuch as it is a dispatching user of the wind powered Generating Units of the Group. The notices pertain to the manner of participating in the electricity market for the period between January 2015 and July 2016, whilst the prescriptive measures refer to the period between January 2016 and July 2016. The merit assessments are ongoing, along with the quantification of any economic impacts, estimated in any case not to be significant.

¹³ There is a transitional period until 30 April 2013, for plants already authorised no later than 11 July 2012.

¹⁴ 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.

¹⁵ It should be recalled that with regard to the Green Certificates for the first and second quarter of 2015, the price of 96.00 EUR/GC was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.

¹⁶ Starting price 127 EUR/MWh.

Italian Stability Law no. 208/2015

With 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, Paragraphs 21-24 the 2016 Stability Law prescribes that for electricity generation plants, the components of the wind turbine generators are no longer subject to taxation with a consequent positive impact in terms of lower tax costs. More recently (June 2016), the Agency specified that in its opinion, the exemption should not be extended to the wind turbine support towers, as these are complex constructions, often equipped with vertical connection structures (stairways, lifts). However, all operators and their trade associations consider the exclusion of the wind turbine towers to be correct in form and substance, as it complies with the new criteria introduced by the 2016 Stability Law, and, thus, that the “functional” classification prevails over the specific production process of those components which, due to their specific technical-physical characteristics, are generally integrated plant parts, functional to the wind farm and certainly cannot be considered buildings.

Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type, based on the plant's entry into operation:

- plants that entered into operation by July 2014 access FIT tariffs and, on an optional basis, FIP tariffs plus a management premium (EEG 2012);
- plants that entered into force from August 2014 to December 2016 may benefit exclusively from an FIP tariff pursuant to EEG 2014;
- plants that entered into operation from 2017 onwards access FIP incentives through Dutch auctions pursuant to EEG 2017.

The latter are regulated by the “Renewable Energy Sources Act” 2016 (EEG 2017), adopted on 8 July 2016, which marks a move to an auction scheme for all Electric Renewable Energy Plants > 750 KW, operating from 1 January 2017.

For wind power plants authorised by the end of 2016 and in operation by 2018, a transition period is provided, in which it is possible to continue to benefit from the tariffs set out in the 2014 EEG¹⁷.

The tariff in force at 1 January 2017 for plants covered by the transitional rules is 83.8 EUR/MWh for the first 5 years of operation, and 46.6 EUR/MWh for the following 15 years. Application of the maximum tariff provided for the first 5 years may be extended to the remaining period: the extension varies according to the ratio between the actual hours of operation of the plant and the reference hours (amounting to 3,300 hours)¹⁸.

¹⁷ In this regard, the BNetzA disclosed that: (i) 8,365 MW of new wind capacity should start operations between 2017 and 2018 (5,000 MW in 2017 and 3,365 MW in 2018) accessing the FIP in accordance with the 2014 EEG; (ii) 475 MW of capacity, which would have been entitled to access the FIP under the 2014 EEG, instead selected to participate in the auctions to be held in 2017-2018.

¹⁸ The ratio between actual hours of operation of the plant and the reference hours (amounting to 3,300 hours) fluctuates between a minimum value of 80% (below which the maximum tariff shall be applied to the entire duration of the incentive period) and 150% (above which the maximum tariff shall be applied only in the first 5 years).

Starting from March 2017, the tariff undergoes reductions according to a pre-set schedule¹⁹ and from October 2017, additional cuts are applied depending on whether installed wind power during the year exceeds 2,500 MW or not. For plants that access the auction system, the 20-year incentive is equal to the FIP awarded, corrected by applying an adjustment factor specific to the plant, based on the actual wind strength of the site (Reference Revenue Model), which can be revised every 5 years based on the plant's actual yield in the previous 5 years of operation. The starting bid price for wind power auctions for 2017 is 70 EUR/MWh. From 2018 it will amount to the average of the three highest tariffs awarded in the three previous auctions, increased by 8%. Three auctions will be held in 2017 (1 May, 1 August and 1 November), four auctions in 2018 (1 February, 1 May, 1 August and 1 October) and three sessions in 2020 (1 February, 1 June and 1 October). The amounts of power made available for the wind auctions amount to: 2,800 MW/year for the years 2017, 2018 and 2019 and 2,900 MW/year from 2020 onwards, with the goal of reaching a portion of renewable energy sources of 40-45% by 2025, of 55-60% by 2035, and of 80% by 2050. Moreover, between 2018 and 2020, multi-technological auctions are planned for onshore wind power and photovoltaic for a total amount of power of 400 MW. The assigned volumes shall be deducted from the respective annual amount reserved to the specific technology.

France

The incentive system for on-shore wind power is of the feed-in tariff (FIT) type, governed by Decree dated 17 June 2014, for plants that stipulated the application to purchase electricity generation by December 2015, and of the FIP type plus a premium (with a total value in line with the FIT pursuant to Decree dated 17 June 2014), for plants that finalised the application to purchase electricity generation in 2016, pursuant to Decree dated 13 December 2016.

The feed-in tariff (FIT) pursuant to Decree dated 17 June 2014 is disbursed for 15 years, and is defined based on the year the application to purchase electricity production was made and 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. For 2006, the initial tariff was set at a value of 82 EUR/MWh. For wind farms with applications to purchase submitted from 2008 onwards, the value of the tariff is decreased by 2% per year, and subsequently updated annually in accordance with the mechanism illustrated above. After 10 years of operation, the tariff, determined based on the year the application was made, will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400 (otherwise, the initial tariff will also be confirmed for the subsequent 5 years of operation).

The system of FIP plus bonus introduced with the decree of 13 December 2016 (which is applied to wind farms with purchase application stipulated in 2016) comprises several components: the incentive component (complément de rémunération), calculated as the difference between current FIT (equal to approximately 81 EUR/MWh) and the average monthly price of average weighted on the national wind profile, plus the management premium of 2.8 EUR/MWh, to

¹⁹ The incentive period in fact is divided in two phases: 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 duration of the period of recognition of the higher incentive is reduced in line with the increase in generation. Additional details are provided in the chapter "Regulatory Scenario".

cover the costs of managing energy sales. The total value of that incentive is in line with the FIT pursuant to the Decree dated 17 June 2014.

Starting from 2017, France intends to introduce an auction-based incentive with the possibility of waivers for wind farms of up to 6 turbines. The decree pertaining to wind farms up to 6 turbines and the implementing regulation for auctions pertaining to the new incentive system were promulgated in the first half of May.

The Government's goal is to increase the efficiency of the incentive system, facilitating the integration of renewable sources in the market.

As regards the climate objectives, the energy transition law of July 2015 set ambitious targets for the reduction of emissions (-40% by 2030 compared with 1990), reduction of fossil fuel consumption (-30% by 2030 compared with 2012), reduction of energy consumption (-30% by 2030 and -50% by 2050, compared with 2012), reduction of nuclear energy generation (-50% by 2025) and increase in renewable energies, which were then confirmed in October 2016. The targets for growth in onshore wind power are as follows: 15 GW by 2018 and between 22 to 26 GW by 2023 (from the current 11 GW of installed wind power). Offshore wind power should reach 3,000 MW by 2023, while photovoltaic power should rise from 6,200 MW to 18,200 MW or 20,200 MW, again by 2023. Based on these growth targets, France thus aims to reach 2030 with a total installed capacity from renewable sources of 175 GW.

Bulgaria

For on-shore wind farms, current regulations prescribe a feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years (Hrabrovo wind farm) or 15 years (Tcherga wind farm). In particular, below the first bracket (on average equal to approximately 2200 equivalent hours of operation annually), the FIT recognised amounts to approximately 97 EUR/MWh, while the changes to legislation significantly reduced revenues for higher production levels. These legislative amendments are currently the subject of an appeal by renewable source producers.

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.

The charges for accessing transmission and distribution networks (introduced in September 2012 for renewable source producers in operation since March 2010) were increased by about 3.7 EUR/MWh starting in July 2015.

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

As from June 2014, the responsibility for balancing also for non-programmable renewable sources was introduced, which resulted in a significant charge for plants.

Romania

Incentives for renewable energy in Romania are provided through Green Certificates for the first 15 years of operation. The obligation to purchase the green certificates is on the operators who sell electricity to end consumers.

The number of the GC pertaining to wind farms depends on their start-up date:

- for wind farms that started operating before 2014, 2 green certificates are provided for each MWh generated. From 1 July 2013 to 31 March 2017, the second GC produced by existing wind farms, however, is withheld and returned subsequently, in accordance with the new Emergency Ordinance 24/2017 published on 31 March 2017, the return shall take place at constant instalments through the years 2018-2025 (formerly, the time interval was between 2018 and 2020). The Gebeleisis wind farm (70 MW) receives 2 GC until 2017, of which one is withheld until 31 March 2017;
- wind farms in operation after 1 January 2014 instead access 1.5 GC for each MWh generated until 2017 starting from 2018 to 0.75 GC, being subject to the reduction of the number of GC ("overcompensation") as prescribed by Emergency Ordinance 23/2014.

The recently promulgated Emergency Ordinance 24/2017, in addition to changing the recovery period of the GCs withheld, introduced various amendments to Law no. 220/2008, which pertain to:

- the period of validity of the GCs, which is extended to 31 March 2032. Only the GCs issued before 31 March 2017 maintain the validity of 12 months;
- the cap and the floor between which the price of the GCs may fluctuate, set respectively at 29.4 EUR/MWh (from 27 EUR/MWh) and 35 EUR/MWh (from 57 EUR/MWh);
- the definition of the mandatory quota, which from 2018 onwards shall be determined according (i) to a pre-set fixed volume of GCs on the market, the "annual green certificates static quantity" calculated by ANRE every 2 years, which for the period 2017-2018 is set at 14,910,140 GC; (ii) to a maximum average expense on the end consumer that may not exceed 11.1 EUR/MWh;
- the creation of two "anonymous" centralised markets to trade GCs starting from September 2017: in one market, only GCs will be traded by the parties anonymously, in another market it will instead be possible to sell the GCs together with the underlying electricity (the GCs at the closing price of the "GC only" market and the energy at market price);

With regard to the 2017 mandatory quota, the ANRE with its Ordinance 27/2017 established that for the April-December 2017 time interval it shall be equal to 0.358 GC/MWh, up compared to the value set for the January-March 2017 time interval with Ordinance 119/2016, equal to 0.320 GC/MWh (and equal to 0.306 GC/MWh for 2016). This quota corresponds to the maximum quota of output of renewable energy incentivised with the GCs set by the Government for 2017, i.e. 8.3% of the final consumption of energy estimated for 2017 (a decrease compared to the quota set for 2016, equal to 12.15% of final consumption).

Poland

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 operation, with mandatory quotas of consumption of electricity (with the exception of energy-intensive entities). The annual mandatory quota amounted to 15% for 2016 and 16% for 2017 in line with the trajectory

set by the Law of 18 October 2012, which prescribed an annual increase by 1% from now to 2021 (17% for 2018, 18% for 2019, 19% for 2020, 20% for 2021). However, the Polish Government may revise them annually. The law on providing incentives for renewable sources, approved in March 2015 (and amended in December 2015) introduced a number of measures aimed at reducing the current CO supply excess (which, in fact, do not have an expiry). In detail, as from 2016 the incentive for co-combustion “non-dedicated” plants has been halved and the incentive for hydroelectric plants with output greater than 5 MW has been written off. However, at the end of June 2016, the new version of the law on providing incentives for renewable sources was approved which, inter alia, sets out less strict requirements to define dedicated “co-combustion”. To date, these regulations have not succeeded in re-balancing the demand/supply ratio for CO, whose prices continued to decline. A discount auction system was also introduced, with contingents on generation, for the awarding of feed-in premiums under the form of Contracts for Difference (CfD) for 15 years (value inflated on annual basis). This system is mandatory for plants that will be commissioned from July 2016 onwards. The version of the law approved in June²⁰ introduced changes to this system as well, changing the rules for conducting the auctions, introducing separate technological baskets and, de facto, delaying their start. The new version of the law has to be approved in the framework of the notification to the Competition DG activated for the previous version of the law, which has not yet been concluded by the Commission.

In June 2016, the wind turbine investments act was also approved, which, inter alia, modified the calculation of property tax starting from 2017, significantly increasing its amount and also introducing the rules regarding the minimum distance from other buildings for the construction of new wind farms.

The Polish government has already stated that it may revise the severity of some of these rules (including those on the calculation of the minimum distance and on property tax).

United Kingdom

The incentive system in the United Kingdom is currently based on two systems:

- **RO** (Renewable Obligation – the certificates granted are ROC), with annual mandatory quotas of electricity consumption, defined year by year based on (i) the expected output from Renewable Energy Sources (plus 10% headroom) and (ii) the expected electricity consumption, with the goal of keeping the market balanced/short. The quota calculated for the period April 2017 – March 2018 amounts to 40.9% for Great Britain and 16.7% for Northern Ireland. The incentive is recognised for 20 years. As a result of the approval of the new Energy Bill in 2016, access to this system is substantially prescribed for the plants planned no later than 31 March 2016 and completed no later than 31 March 2017. Grace periods are recognised if construction delays are not directly caused by the producer.
- **CfD** – for new, renewable source plants, a CfD incentive is recognised, awarded through multi-technological Dutch auctions. The incentive is recognised for 15 years (inflated). However, the approach to the governing Conservative party has created uncertainty concerning the future of CfD for onshore wind farms and at the moment no set amounts are prescribed for this technology.

²⁰ Additional details are provided in the chapter “Regulatory Scenario”.

HIGHLIGHTS OF RECURRING PERFORMANCE ITEMS

OPERATING RESULTS

Year 2016		1 st quarter	
		2017	2016
423	Revenues from ordinary operations	137	145
308	Recurring EBITDA ⁽¹⁾	104	117
(163)	Amortisation, depreciation and write-downs ⁽¹⁾	(38)	(41)
145	Recurring EBIT ⁽¹⁾	65	75
44	Capital expenditure on tangible and intangible fixed assets	8	2
74%	EBITDA Margin % ⁽²⁾	76%	81%

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

(2) recurring EBITDA over revenues from ordinary operations

The breakdown of recurring EBITDA between the various geographic areas of the Wind business was as follows:

RECURRING EBITDA

Year 2016		1 st quarter	
		2017	2016
235	Italy	81	87
72	Abroad	23	29
	of which		
18	Germany	6	6
32	France	11	16
8	Bulgaria	3	2
8	Romania	3	3
6	Poland	1	3
308	Total	104	117

The consolidated revenues recorded in the first quarter of 2017 from non-programmable sources were affected by the lower output (-13%) observed compared to the same period of the previous year, when particularly high output had been recorded, especially in Italy.

During the quarter, the incentivised period ended for some wind farms, so approximately 68 MW (equivalent to 60 GWh) of output no longer benefited from the replacement incentive; however, in the period said wind farms benefited from the extension regime through reimbursement of the missed wind power generation of previous years totalling 38 MW (equivalent to 32 GWh), for an amount of EUR 3.4 million.

Concerning sale prices in the first quarter of 2017, for ERG in Italy the average unit revenue of wind output and related sales, considering the energy sale value and the value of the incentives (former green certificates), amount to 147.4 EUR/MWh, up compared to the value of 136.4 EUR/MWh of the first quarter 2016.

This increase is tied to the marked rise of energy sale prices observed in the various geographic areas (for ERG, mainly in the islands and in the South), to energy management actions on organised energy markets and to the rise in the value of the incentives (former green certificates) from 100.1 EUR/MWh to 107.3 EUR/MWh. In fact, as from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of 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.

Sales by foreign farms were specifically concentrated in France and Germany, whose average unit revenues were 89.0 EUR/MWh and 93.8 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution to generation of the wind farms abroad was approximately 405 GWh (-10%).

The recurring gross operating margin (EBITDA) of the first quarter 2017 totalled EUR 104 million, in decline compared to the values recorded in the same period of the previous year (EUR 117 million), for the reasons referenced above, partly offset by the lower operating costs as a result of the higher efficiency made possible by closer control over them, thanks to the new organisational structure.

The total EBITDA Margin totalled 76%, at a high absolute value, albeit in decline relative to the particularly high values recorded in the first quarter of 2016, mainly due to the significant reduction of the volumes by effect of the weaker wind conditions observed in the quarter compared to the record values of the same period of the previous year, as well as the phase out of the incentives of some wind farms, commented above.

INSTALLED POWER (MW)

Year		1 st quarter	
2016		2017	2016
1,094	Italy	1,094	1,094
	of which		
247	Campania	247	247
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
626	Abroad	626	626
	of which		
168	Germany	168	168
252	France	252	252
82	Poland	82	82
54	Bulgaria	54	54
70	Romania	70	70
1,720	Total installed power at period end ⁽¹⁾	1,720	1,720

(1) power of plants in operation at period end

The installed capacity at 31 March 2017, amounting to 1,720 MW, was unchanged compared to the figure of the first quarter of 2016.

GENERATION (GWh)

Year		1st quarter	
2016		2017	2016
2,220	Italy	658	774
	of which		
502	Campania	152	185
256	Calabria	61	81
529	Puglia	164	178
167	Molise	55	54
190	Basilicata	55	63
342	Sicily	102	126
233	Sardinia	68	88
1,281	Abroad	405	452
	of which		
240	Germany	77	81
499	France	156	208
213	Poland	63	63
148	Bulgaria	49	46
181	Romania	60	54
3,501	Total wind farm output	1,062	1,226

In the first quarter of 2017, the electricity output from wind power amounted to 1,062 GWh, lower than in the first quarter of 2016 (1,226 GWh), with the output declining by approximately 15% in Italy (from 774 GWh to 658 GWh) and by 10% abroad (from 452 GWh to 405 GWh).

The decline of output in Italy (-117 GWh) is tied to weak wind conditions compared to the usual seasonal values, and significantly lower than the particularly high conditions recorded in the first quarter of 2016, particularly in Sicily, Campania, Calabria and Sardinia. Abroad, the overall decline by 47 GWh is mainly due to the lower output of the wind farms in France.

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 wind farms and any limitations on the energy transport networks.

% LOAD FACTOR

Year 2016		1 st quarter	
		2017	2016
23%	Italy	28%	32%
	of which		
23%	Campania	29%	34%
24%	Calabria	23%	31%
24%	Puglia	31%	33%
24%	Molise	32%	31%
24%	Basilicata	29%	32%
20%	Sicily	24%	29%
24%	Sardinia	28%	36%
23%	Abroad	30%	33%
	of which		
16%	Germany	21%	22%
23%	France	29%	38%
30%	Poland	35%	35%
31%	Bulgaria	42%	39%
29%	Romania	40%	35%
23%	Load factor ⁽¹⁾	29%	33%

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

In the first quarter of 2017, the overall load factor, equal to 29%, was lower than the particularly high value recorded in the first quarter of 2016, with a decline from 32% to 28% in Italy, and a decline from 33% to 30% abroad, mainly because of a worse result in France.

PROGRAMMABLE SOURCES

Reference market

Year 2016		1 st quarter	
		2017	2016
ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWh)			
310,251	Demand	78,962	78,489
2,424	Pumping consumption	666	606
37,026	Import/Export	9,202	12,930
275,649	Internal generation ⁽²⁾	70,426	66,165
	of which		
187,461	Thermoelectric	51,529	46,929
42,323	Hydroelectric	7,535	7,906
45,865	Other renewable energy sources	11,362	11,330
SALE PRICES (EUR/MWh)			
42.8	PUN ⁽³⁾	57.5	39.6
47.6	Sicily zone price (baseload)	56.5	44.3
47.6	Centre North zone price (peak)	67.8	43.1

(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.

Market scenario in Italy

The demand for electricity of the Italian electric system in the first quarter of 2017 amounted to 79.0 TWh, slightly higher (0.6%) compared with the values recorded in the same period of 2016. With regard to Sicily, a region in which ERG is present with its CCGT plant, in the quarter of 2017 the requirement amounted to approximately 4.7 TWh, up slightly (+1.2%) compared to the first quarter of 2016, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its own hydroelectric plants, the request for electricity amounted to 11.0 TWh (+0.4%).

In the same period, net internal electricity generation amounted to 70.4 TWh, up by 6.4% compared with 2016, whilst the net balance of exchanges with foreign countries recorded net imports of 9.2 TWh (-28.8% compared to 2016). Of the (net) domestic production, 73% was provided by thermoelectric plants and the remaining 27% by renewable sources. Compared with the previous year, there was greater output from thermoelectric sources (+10%) and a drop in hydroelectric output (-9%), against greater output from other renewable sources (+11%), particularly due to greater photovoltaic output (+15%) and the slight decline in geothermal output (-2%).

The average value of the PUN (Single National Price) in the first quarter of 2017 was 57.5 EUR/MWh, up by 45.1% compared with the value of 2016 (39.6 EUR/MWh).

Regulatory framework

Thermoelectric: the Mucchetti amendment

The period for application of the discipline to the units which are essential pursuant to Law Decree 91/2014 and the resolution 521/2014 as subsequently amended and supplemented, ended on 27 May 2016 following the commissioning of the aforementioned doubling of the Rizziconi-Sorgente power line.

In the month of July 2016, the balance of the 2015 reintegration was thus requested in accordance with Article 65.28 of the 111/06 resolution, in September 2016 the advance payment of the reintegration price for the first quarter was requested, in accordance with Article 3.1, Letter aa.2) of Resolution no. 521/2014, as amended by Resolution no. 496/2015.

On 30 December 2016 approximately EUR 28 million was collected as an additional advance on 2015 and approximately EUR 18 million as an advance on 2016, while approximately EUR 26 million still remain to be collected in 2017.

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

Italian Stability Law no. 208/2015

With 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, Paragraphs 21-24, the 2016 Stability Law prescribes that for electricity generation plants, system components are no longer subject to taxation with a consequent positive impact in terms of lower tax costs.

Lastly, after the end of the quarter, in the months of April 2017 and May 2017, the Group was notified by the AEEGSI of prescriptive measures relating to the subsidiaries ERG Hydro and ERG Power Generation. Both notices pertain to the manner of participating in the electricity market for the period between January 2015 and July 2016, whilst the prescriptive measures refer to the period between January 2016 and June 2016 for ERG Hydro and the period between January 2016 and July 2016 for ERG Power Generation. Currently, the merit assessments are ongoing, along with the quantification of any economic impacts, estimated in any case not to be significant.



Remarks on the period performance highlights

The ERG Group is present in a differentiated manner in the sector of **programmable sources**, in particular the ERG Group operates:

- in the **hydroelectric segment**: via the equity investment in ERG Hydro S.r.l., owner of the Terni Hydroelectric Complex (527 MW) including a system of highly programmable and flexible plants throughout central Italy; these plants are operated within the scope of the related hydroelectric concessions that will expire at the end of 2029;
- 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).

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

Year 2016	(EUR million)	1 st quarter	
		2017	2016
601	Revenues from ordinary operations	165	152
161	Recurring EBITDA ⁽¹⁾	50	48
(88)	Amortisation, depreciation and write-downs ⁽¹⁾	(23)	(22)
73	Recurring EBIT ⁽¹⁾	27	26
13	Capital expenditure on tangible and intangible fixed assets	2	2
27%	% EBITDA Margin	30%	32%

(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 power

OPERATING RESULTS

Year 2016	(EUR million)	1 st quarter	
		2017	2016
479	Revenues from ordinary operations	119	122
77	Recurring EBITDA ⁽¹⁾	14	27
(30)	Amortisation, depreciation and write-downs ⁽¹⁾	(8)	(7)
47	Recurring EBIT ⁽¹⁾	7	20
10	Capital expenditure on tangible and intangible fixed assets	2	1
16%	% EBITDA Margin	12%	22%
2,693	Total output by thermoelectric plants (GWh)	600	695

(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

In the first quarter of 2017, ERG Power's net electricity generation was 600 GWh, down compared to the same period of 2016 (695 GWh); in addition, the period no longer benefited from the "reintegration consideration" due until the entry into force of the Essential Units scheme, which ended on 27 May 2016, whilst in the same period of last year it did benefit from it, by approximately EUR 18 million.

These impacts, at the revenue level, were mitigated by the significant general rise of electricity sale prices and by the

increased sales of energy, leading to slightly lower revenues than in the same period of 2016.

The net supply of steam to captive customers of the petrochemical site of Priolo Gargallo amounting approximately to 200 thousand tons, decreased with respect to the 246 thousand tons in the first quarter of 2016 as a result of the lower amounts drawn by the ISAB plants. Approximately one-fourth of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, including the net supply of steam.

The recurring EBITDA of the first quarter of 2017 amounted to EUR 14 million (EUR 27 million recorded in 2016), in line with expectations but lower than the first quarter of 2016, mainly as a result of the absence, among the 2017 revenues, of the former UESSE reintegration consideration, which in the first quarter of 2016 amounted to EUR 18 million, which therefore affected the percentage of the operating result. This trend was partially mitigated by the rise in the value of the energy efficiency certificates held by the CCGT as a high efficiency co-generating plant, of which approximately EUR 6 million relate to the higher value of the Energy Efficiency Certificates (TEE) accrued in the previous year, as well as by the increase in the margin (Spark spread) as a result of the higher rise of the sale prices compared to the cost of gas, as well as by the improved performance of ERG Power's CCGT plant and the industrial efficiency-boosting actions carried out during the period.

Hydroelectric power

The contribution of the hydroelectric assets to the results of programmable sources is shown below, considering that in July 2016 ERG Power Generation S.p.A. became a market operator and user of dispatching of the main plants of ERG Hydro S.r.l.

OPERATING RESULTS

Year		1 st quarter	
		2017	2016
2016	(EUR million)		
122	Revenues from ordinary operations	46	30
84	Recurring EBITDA ⁽¹⁾	35	21
(58)	Amortisation, depreciation and write-downs ⁽¹⁾	(15)	(15)
26	Recurring EBIT ⁽¹⁾	21	6
4	Capital expenditure on tangible and intangible fixed assets	1	1
68%	% EBITDA Margin	76%	70%
1,358	Total output by hydroelectric plants (GWh)	386	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

Of the revenues of the first quarter of 2017, amounting to EUR 46 million, EUR 24 million refer to the sales of electricity, EUR 21 million to the revenues from feed-in premium (former green certificates), of which approximately EUR 8 million referred to the recovery of prior incentives following the repeal of the revocation of the IAFR qualification mainly of the Sigillo plant (5 MW) as well as revenues from MSD of approximately EUR 2 million.

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

The EBITDA for the first quarter of 2017 was EUR 35 million.

The average sale prices reflect both the electricity sale price, higher than the single national price due to the zone price changes noted in the Centre-North area of Italy during the period as a result of the increased net balance of energy imports/exports to and from France, and also due to the modulation of the plants, and the value of the feed-in premium (former green certificate), recognised on a portion of approximately 40% of output and for a value of approximately 107 EUR/MWh.

ERG Hydro's total output (386 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity, the revenues from MSD and the replacement incentives, totalling approximately 96 EUR/MWh, excluding the recoveries of prior incentives, already commented.

The EBITDA margin of the first quarter of 2017 totalled 76%.

The load factor recorded in the period, i.e. 34%, was affected by the poor rain conditions (output of 386 GWh in the first quarter of 2017, in line with the value of the first quarter of 2016 and lower than the ten-year historical average).

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 approximately 525, 524 and 130 metres above sea level, slightly lower than both the levels of 31 March 2016 (respectively 530, 529 and 130 metres above sea level) and the ten-year historical average (respectively 533, 528 and 133 metres above sea level).

CAPITAL EXPENDITURE

The figure of capital expenditure for the first quarter of 2016 does not include two **important acquisitions** carried out in the period in the area of non-programmable sources:

- 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 expected 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. 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 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 over 47.5 MW and energy output estimated at over 150 GWh/year when fully operational. The operation involved an initial outlay of around EUR 13 million, in addition to the investments made downstream of the acquisition of the project, illustrated in the section below. The total estimated investment for construction of the farm is approximately EUR 80 million, already including the initial consideration paid for the purchase of the company.

The capital expenditure in tangible and intangible fixed assets of the ERG Group in the first quarter of 2017 was EUR 10.7 million (EUR 4 million in the same period of 2016), including EUR 10.1 million for tangible fixed assets (EUR 3.3 billion in the first quarter of 2016) and EUR 0.6 million for intangible fixed assets (EUR 0.7 million in the first quarter of 2016).

The breakdown of adjusted capital expenditure by business segment is shown in the following table:

Year		(EUR million)	1 st quarter	
			2017	2016
44	Non-programmable sources		8	2
44	Wind power		8	2
13	Programmable sources		2	2
10	Thermoelectric power		2	1
4	Hydroelectric power		1	1
3	Corporate		–	1
60	Total		11	4



Non-programmable sources

The capital expenditure in the first quarter of 2017 refers mainly to the outlays made by ERG Power Generation following the works for the construction of the aforementioned wind farm in Northern Ireland for approximately EUR 7 million. In greater detail, the Brockaghboy wind farm will consist of nineteen 2.5 MW Nordex N90 wind turbine generators, totalling 47.5 MW whose construction is expected to be completed, consistently with the timing of the connection to the distribution grid, by the third quarter of 2017, with the commissioning phase expected to be completed in the fourth quarter.

Programmable sources

The investments in the first quarter of 2017 refer mainly to the CCGT plant of ERG Power, which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants, including the unification of the control centre and IT systems. Progress was also made on the planned Health, Safety and Environment projects.

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.

Year		1 st quarter	
2016	(EUR million)	2017	2016
OPERATING RESULTS			
135	Recurring EBITDA ⁽¹⁾	41	30
(75)	Amortisation, depreciation and write-downs	(18)	(18)
60	Recurring EBIT ⁽¹⁾	23	12
28	Recurring net profit ⁽²⁾	12	5
60	Capital expenditure on tangible and intangible fixed assets	11	11
MAIN FINANCIAL DATA			
532	Net invested capital	642	655
287	Shareholders' Equity	309	224
244	Total net financial indebtedness	334	431

(1) the data shown do not include the inventory gains (losses) of approximately +12 million in the first quarter of 2017, (-21milioni in the first quarter of 2016)

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

TotalErg operates in the marketing sector through its Italy Network, comprising 2,554 stations (of which 1,650 are owned by the Group and 904 are leased), compared with 2,585 stations at 31 December 2016. At the end of 2012, the network comprised 3,248 stations and the decrease in sales outlets is due to the process for restructuring the fuel network, carried out 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 with poor profitability values.

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, through the Sarpom Refinery in Trecate, located in one of the areas featuring the greatest intensity of consumption in Italy, 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.

The recurring EBITDA of the first quarter of 2017 amounted to approximately EUR 41 million, up compared to the value recorded in the first quarter of 2016 (EUR 30 million).

With regard to the marketing sector, the results benefited from a positive scenario, featuring substantially stable demand compared to the first quarter of 2016 but with rising market margins.

In the Wholesale segment, the operating results for the period declined slightly, whereas for Specialties they rose slightly. With regard to refining, the results were slightly higher than those recorded in the same period of the previous year as a result of substantially stable refining margins (EMC indicator up slightly from 2.8 \$/barrel to 2.9 \$/barrel); for logistics, the results of the first quarter of 2017 were lower than those recorded in the same period of the previous year.

Processing work carried out in the first quarter of 2017 amounted to 392 thousand tonnes, down from 423 thousand tonnes in the first quarter of 2016.

The recurring net profit (EUR 12 million) was significantly higher than that of the first quarter of 2016 (5 million), mainly for the reasons discussed above when commenting the operating results; it also benefited from lower financial expenses.

The net financial position of TotalErg at 31 March 2017 amounts to EUR 334 million, lower than EUR 431 million at 31 March 2016 also as a result of actions to optimise working capital.

TotalErg is financially autonomous for its operations and for recurring development activities due to 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.

TotalErg capital expenditure

During the first quarter of 2017, Total Erg made investments for approximately EUR 10.8 million, in line with the same period in 2016 (EUR 11 million).

Most of the capital expenditure (approximately 77%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.) in addition to 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.

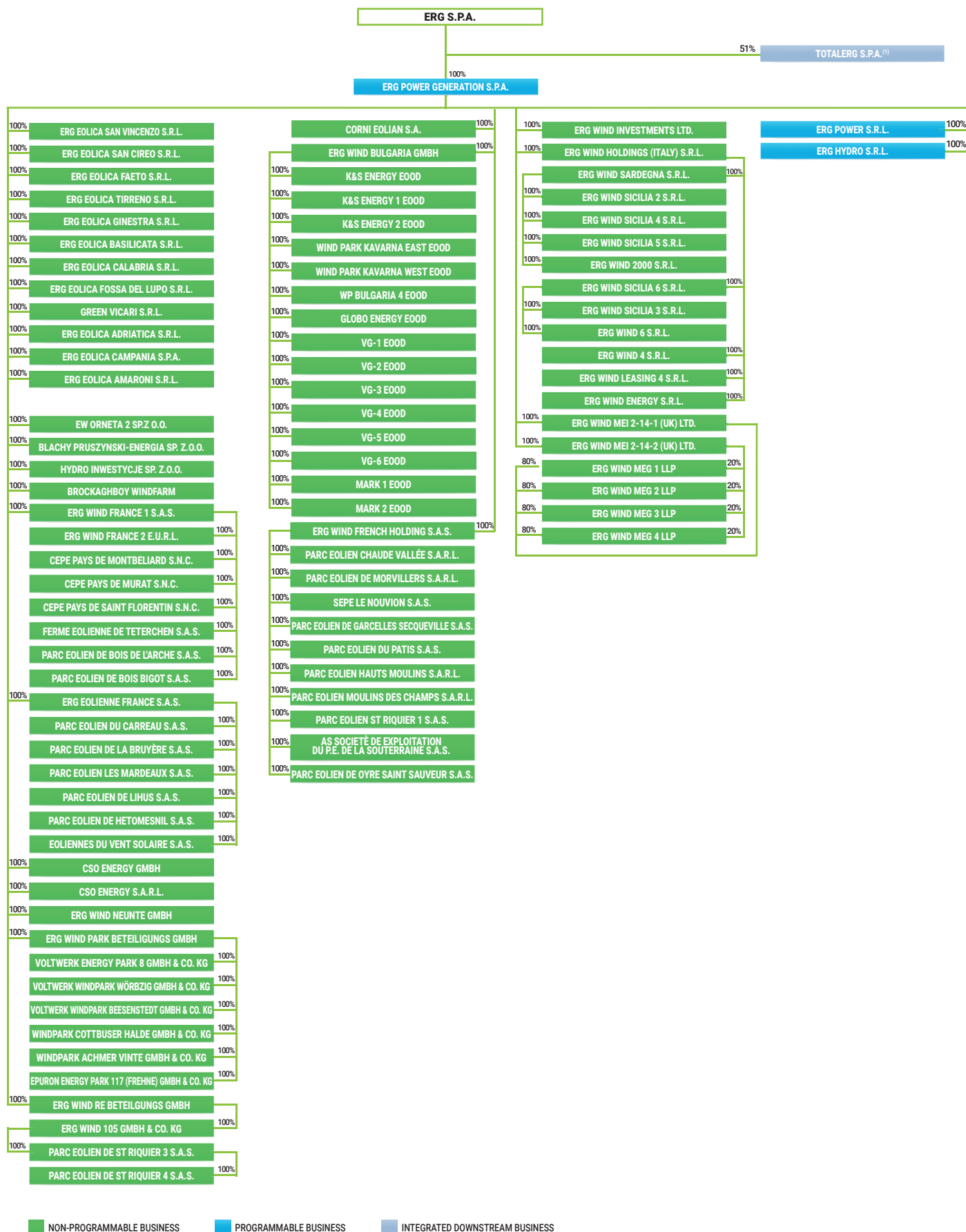
FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 31 March 2017.

Compared to 31 December 2016, the following is noted:

- the merger of ERG Services S.p.A. into ERG S.p.A.;
- the merger of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. into ERG Power Generation S.p.A.



(1) consolidated at equity

FINANCIAL STATEMENTS

INCOME STATEMENT

The income statement and statement of financial position results for the first quarter of 2016, shown below, **include non-recurring items**.

In the first quarter of 2017, there were no 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

Year 2016	(EUR million)	1 st quarter	
		2017	2016
1,025.5	Revenues from ordinary operations	302.6	295.4
16.3	Other revenues and income	2.8	3.2
1,041.8	TOTAL REVENUES	305.4	298.5
(330.2)	Costs for purchases and changes in inventory	(99.6)	(73.3)
(196.0)	Costs for services and other operating costs	(39.3)	(48.9)
(62.3)	Personnel costs	(15.2)	(14.6)
453.3	EBITDA	151.3	161.8
(253.7)	Amortisation, depreciation and write-downs of fixed assets	(61.5)	(64.1)
199.6	EBIT	89.8	97.7
(83.9)	Net financial income (expenses)	(16.5)	(20.7)
37.7	Net income (loss) from equity investments	10.7	(5.5)
153.5	Profit (loss) before taxes	83.9	71.5
(28.7)	Income taxes	(18.9)	(20.6)
124.9	Profit (loss) for the period	65.0	50.9
(2.4)	Minority interests	–	(3.1)
122.5	Group net profit (loss)	65.0	47.8

Revenues from ordinary operations

2017 first quarter revenues were EUR 303 million, compared with EUR 295 million in the first quarter of 2016. The change is a result of the following factors:

- the decrease in the revenues of the **Wind sector** tied mainly to the lower output both in Italy and abroad, partly offset by a more favourable price trend;
- the increase in the revenues of the **Hydroelectric sector** as a consequence, mostly, of the higher average sale prices and of the higher revenues for green certificates of prior years;
- the revenues of the **Thermoelectric sector** substantially in line with the previous year even though the Mucchetti cost reimbursement was no longer available.

Other revenues and income

These mainly include insurance reimbursements, indemnifications and expense repayments, chargebacks of a lesser entity to third parties, operating grants and chargebacks to Group companies which are not consolidated on a line-by-line basis.

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 2017, they amounted to EUR 100 million, up by EUR 26 million compared to the first quarter of 2016 mainly as a result of the higher costs for gas and electricity purchases.

The changes 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, costs for hydroelectric concessions, for consulting services, insurance costs, and costs for services rendered by third parties.

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

The decrease of the item is mainly referred to lower energy transportation costs.

Amortisation, depreciation and write-downs

Amortisation and depreciation refer to the wind farms, to the hydroelectric plants and to the CCGT plant and they are slightly lower than those of the same period of 2016, mainly as a result of the revision of the useful life of the wind farms in France and Germany acquired in the first quarter of 2016, within the scope of the Purchase Price Allocation defined in the 2016 Budget.

Net financial income (expenses)

The net financial expenses of the first quarter of 2017 amounted to EUR 16 million, versus EUR 21 million recorded in the first quarter 2016. The decrease is mainly due to the lower medium-long term interest payments due to the repayments that took place during the period and to the restructuring actions completed in 2016.

The first quarter of 2016 also included non-recurring expenses for approximately EUR 1 million pertaining to the refinancing of Tranche A of the ERG Hydro acquisition loan.

These effects enabled a reduction of the average cost of medium-long term debt, which in the first quarter of 2017 amounted, on average, to 3.2%, compared to 3.6% in the first quarter of 2016.

The item also includes the effects of the derivatives hedging against the risk of interest rate fluctuations.

Net income (loss) from equity investments

In the first quarter of 2017, this item reflects mainly the results of the TotalErg S.p.A. joint venture (EUR +10.6 million, versus EUR -5.5 million in the first quarter of 2016). The 2016 result was affected, with respect to the recurring Group net profit, by the significant impairment losses on TotalErg's inventories as a result of the drops in the price of crude oil and of petroleum products.

Income taxes

Income taxes in the first quarter of 2017 were EUR 19 million (EUR 21 million in the same period in 2016).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 23% (29% in the first quarter of 2016).

The recurring tax rate of the first quarter of 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 24% (26% in the first quarter of 2016).

The decrease in the tax rate is mainly tied to the benefit resulting from the reduction of the IRES rate (24% since 1 January 2017 versus 27.5% of the first quarter of 2016) which more than offset the negative effect as a result of the change to the ACE (Aid to Economic Growth) rate (2.3% in the first quarter of 2017, versus 4.75% in 2016) and of the change to the calculation of the ACE taxable amount (starting from the year 2013 and no longer from 1 January 2010).

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

31/03/2016	(EUR million)	31/03/2017	31/12/2016
3.508.7	Fixed assets	3,337.6	3,372.2
294.2	Net working capital	203.8	160.2
(5.9)	Employees' severance indemnities	(6.9)	(6.7)
375.3	Other assets	355.9	310.1
(718.3)	Other liabilities	(621.3)	(549.5)
3.454.0	Net invested capital	3,269.0	3,286.3
1.660.1	Group Shareholders' Equity	1,804.7	1,729.1
52.6	Minority interests	–	–
1.741.4	Net financial indebtedness	1,464.3	1,557.2
3.454.0	Shareholders' equity and financial debt	3,269.0	3,286.3
50%	Financial leverage	45%	47%

At 31 March 2017, net invested capital amounted to EUR 3,269 million, down with respect to 31 December 2016.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 45% (47% at 31 December 2016).

Fixed assets

This item includes tangible, intangible and financial fixed assets. The decrease compared to 31 December 2016 is mainly due to the depreciation and amortisation of the period, partly offset by the acquisitions carried out during the quarter.

Net working capital

This balance includes the spare part inventories, the receivables mainly for green certificates on foreign companies, for the sale of electricity with the application of the feed-in premium, for the recovery of costs tied to the regulations on the Essential Units of ERG Power Generation (Mucchetti Decree), and the trade payables mainly regarding the purchase of electricity and gas, 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 performance 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 and fixed assets), the estimate of income taxes accrued in the period, and the provisions for liabilities and charges.

Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

31/03/2016	(EUR million)	31/03/2017	31/12/2016
2,076.2	Medium/long-term financial indebtedness	1,929.0	1,934.1
(334.8)	Short term financial indebtedness (cash and cash equivalents)	(464.7)	(376.9)
1,741.4	Total	1,464.3	1,557.2

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

31/03/2016	(EUR million)	31/03/2017	31/12/2016
593.1	Medium/long-term bank borrowings	668.9	668.4
–	Current portion of mortgages and loans	–	–
181.7	Medium/long-term financial payables	137.9	141.9
774.8	Total	806.8	810.4
1,460.9	Total Project Financing		1,275.6
(159.5)	Current portion of Project Financing		(151.9)
1,301.4	Medium/long-term Project Financing	1,122.1	1,123.7
2,076.2	TOTAL	1,929.0	1,934.1

The “Medium/long-term bank borrowing” at 31 March 2017 total EUR 669 million (EUR 668 million at 31 December 2016), and they refer to:

- a corporate acquisition loan of EUR 350 million, subscribed by seven mandated Italian and foreign lead arrangers and bookrunners concerning the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca S.p.A. (EUR 150 million), UBI Banca S.p.A. (EUR 100 million) and UniCredit S.p.A. (EUR 75 million) entered into in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l. and the project loan for the wind farm at Corni (Romania).

“Medium/long-term financial payables” include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 138 million (EUR 142 million at 31 December 2016).

The payables for “Medium/long-term Project Financing” (EUR 1,279 million at 31 March 2017) are for:

- loans of EUR 1,157 million issued to companies in the Non-Programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 483 million relating to the wind farms of ERG Wind, net of the positive fair value compared to the notional, i.e. approximately EUR 77 million;
- EUR 122 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 positive difference between the 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)

31/03/2016	(EUR million)	31/03/2017	31/12/2016
94.1	Short-term bank borrowings	4.7	2.3
–	Current portion of mortgages and loans	–	–
9.1	Other short-term financial debts	2.7	3.8
103.1	Short-term financial liabilities	7.4	6.0
(333.8)	Cash and cash equivalents		(263.3)
(26.8)	Securities and other short-term financial receivables	(109.2)	(107.6)
(360.6)	Short-term financial assets	(403.5)	(370.9)
159.5	Short-term Project Financing	157.0	151.9
(236.9)	Cash and cash equivalents	(225.7)	(163.9)
(77.4)	Project Financing	(68.6)	(12.0)
(334.8)	TOTAL	(464.7)	(376.9)

In the first quarter of 2017, the amount of cash and cash equivalents increased as a result of the collections relating to feed-in premium receivables relating to the third quarter of 2016.

“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:

Year 2016	(EUR million)	1 st quarter	
		2017	2016
	CASH FLOWS FROM OPERATING ACTIVITIES		
381,3	Adjusted cash flow from current operations ⁽¹⁾	134,9	145,4
(14,2)	Income tax paid		–
69,5	Change in working capital		(90,9)
(34,3)	Change in other operating assets and liabilities	2,9	(19,9)
402,3	Total	97,3	34,7
	CASH FLOWS FROM INVESTING ACTIVITIES		
(55,9)	Net capital expenditure on tangible and intangible fixed assets	(10,7)	(8,2)
(0,1)	Net capital expenditure on financial fixed assets	(0,2)	0,8
(56,1)	Total	(11,0)	(7,4)
	CASH FLOW FROM SHAREHOLDERS' EQUITY		
(142,8)	Distributed dividends	–	–
(6,2)	Other changes in equity ⁽³⁾	6,6	(14,5)
(149,0)	Total	6,6	(14,5)
(306,5)	CHANGE IN SCOPE OF CONSOLIDATION ⁽²⁾	–	(306,3)
(109,3)	CHANGE IN NET FINANCIAL INDEBTEDNESS	92,9	(293,5)
1.447,9	INITIAL NET FINANCIAL INDEBTEDNESS	1.557,2	1.447,9
109,3	CHANGE IN THE PERIOD	(92,9)	293,5
1.557,2	FINAL NET FINANCIAL INDEBTEDNESS	1.464,3	1.741,4

(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 2016 refers mainly 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

The **net financial indebtedness** amounted to EUR 1,464 million, down by EUR 93 million compared to 31 December 2016 mainly for the net positive operating cash flows, partly offset by the seasonal trends in working capital

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

ALTERNATIVE PERFORMANCE INDICATORS

To enhance understandability of business performance, the operating results are also shown excluding and non-recurring items and **inventory gains (losses)**²¹.

Starting with the present Report, these results, previously defined as “at replacement costs”, shall be indicated with the definition “recurring”.

Recurring results are indicators that are not defined in the 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 recurring results are described below.

Non-recurring items include significant income entries of an unusual nature.

Inventory gains (losses)²² are equal to the difference between the replacement cost of products sold 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 equity investment in the TotalErg joint venture is consolidated using the equity method of accounting.

²¹ Inventory gains and losses refer solely to the “income from equity investment” and refer to the TotalErg joint venture.

²² Inventory gains and losses refer solely to the “income from equity investment” and refer to the TotalErg joint venture.

Reconciliation with recurring operating results

EBITDA

Year		1 st quarter	
2016	(EUR million)	2017	2016
453.3	EBITDA	151.3	161.8
	Exclusion of non-recurring items:		
	Programmable sources		
0.3	- Charges for company reorganisation	-	-
	Non-programmable sources		
0.9	- Charges for company reorganisation	-	-
0.9	- Ancillary charges on extraordinary transactions	-	0.8
455.4	Recurring EBITDA	151.3	162.6

GROUP NET PROFIT (LOSS)

Year		1 st quarter	
2016	(EUR million)	2017	2016
122.5	Group net profit (loss)	65.0	47.8
(15.7)	Exclusion of inventory Gains / Losses	(4.4)	7.9
	Exclusion of non-recurring items:		
0.8	Exclusion of ancillary charges on extraordinary transactions	-	0.7
4.1	Exclusion of TotalErg non-recurring items	-	0.1
5.9	Exclusion of effects of loan prepayment	-	0.9
0.8	Exclusion of charges for company reorganisation	-	-
(11.0)	Exclusion of financial expenses/income on minorities option	-	-
107.3	Group recurring net profit (loss)	60.6	57.5

SIGNIFICANT EVENTS AFTER THE QUARTER

On **20 April 2017**, at the end of the Shareholders' meeting, Mr. Luigi Ferraris, Independent Director and member of the Strategic Committee, tendered his resignation, effective immediately, from the office of Director of ERG S.p.A. to pursue other professional opportunities. At the time of his resignation, Mr. Luigi Ferraris did not hold any shares of the Company.

The Board of Directors of ERG S.p.A. of 11 May 2017 is called upon to pass a resolution, at the proposal of the Nominations and Remuneration Committee, concerning the appointment of a new Directors in accordance with Article 2386 of the Italian Civil Code.

On **2 May 2017** ERG, through its subsidiary ERG Power Generation, closed the acquisition from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH of 100% of the capital of six German companies owning six wind farms in Germany, with total installed capacity of 48.4 MW.

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2017 is as follows:

Non-programmable sources

ERG continues with its international development strategy in Wind power, thanks to which in 2016 it achieved 626 MW of installed power abroad, equal to 37% of the 1,720 MW installed in total, enabling the Group to become the eighth onshore wind operator in Europe. The year 2017 will benefit from the contribution of new wind farms abroad, with the entry into operation in the last part of the year of the plant of approximately 48 MW, built in Northern Ireland (UK) and the new wind farms acquired in Germany for 48.5 MW, with which ERG consolidates its position at about 216 MW, becoming the eighth wind operator in the country.

As regards Italy, the EBITDA is expected to decrease following the gradual exit from the incentive system of approximately 214 MW during the year and the lower forecast wind conditions, which already include the low winds recorded in the early months of the year. These effects will be partially offset by the higher price of the incentive, whose value is determined based on the average price of electricity recorded in 2016, by a partial recovery in the price scenario in light of the trend in the initial months of the year, and by the recognition of the value of the production limits set by the TSO in the previous years with regard to the MW exiting the incentive system.

In general, the total EBITDA of the Wind sector is thus expected to decrease slightly.

Programmable sources

During 2017, ERG will continue consolidating the hydroelectric complex in Terni and improving the operating efficiency of the ERG Power CCGT plant.

With regard to the hydroelectric complex, the results are expected to grow thanks to the better sale prices, to the better incentive price benefiting approximately 40% of output, which is expected to decline slightly compared to the previous year, to the greater incentivised capacity as a result of the IAFR recognition for the Cotilia and Sigillo plants and to participation in the dispatching services market and to the continuous efficiency-boosting actions.

The results of the Thermoelectric plant are expected to decrease as the legislation on Essential Units is no longer applicable, and the related contribution to the coverage of fixed costs will no longer apply, in relation to the full entry into force of the Sorgente-Rizziconi power line on 28 May 2016, which tends to compress profitability. This is partially mitigated by participation in the dispatching services market, the maximisation of high-yield cogeneration, improvements in operating efficiency and Energy Management activities.

On the whole, the EBITDA for 2017 is expected to be approximately EUR 430 million, despite the decrease in incentives

in wind power in Italy and the lack of reintegration of costs of the essential units in the thermoelectric sector. Those effects will be partially offset by the development of new wind power generation capacity abroad, the maximisation of Energy Management activities on all markets and the continuous pursuit of efficiencies on central and business-based operating costs.

ERG's cash generation will reduce indebtedness by approximately EUR 100 million to approximately EUR 1,450 million (EUR 1,557 million in 2016) against new planned capital expenditure of approximately EUR 140 million, the ordinary distribution of dividends of EUR 0.5 per share and the payment of financial expenses.

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' actions.

Genoa, Italy, 11 May 2017

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 LEGISLATIVE DECREE 58/1998 (ITALIAN CONSOLIDATED FINANCE ACT)

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, 11 May 2017

The Manager Responsible for preparing
the company's financial reports



ERG S.P.A.

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Share Capital Euro 15,032,000.00 fully paid

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Company Register Genoa

and Fiscal Code 94040720107

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