



INTERIM REPORT
ON OPERATIONS
AT 30 SEPTEMBER 2017





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CORPORATE BODIES

BOARD OF DIRECTORS ¹

Chairman
EDOARDO GARRONE *(Executive)*

Deputy Chairman
ALESSANDRO GARRONE ²
(Executive)

GIOVANNI MONDINI
(Non-executive)

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI ³
(Independent)

ALESSANDRO CARERI ^{3 4}
(Independent)

MARA ANNA RITA CAVERNI ⁵
(Independent)

ALESSANDRO CHIEFFI ⁵
(Independent)

BARBARA COMINELLI ⁵
(Independent)

MARCO COSTAGUTA
(Non-executive)

PAOLO FRANCESCO LANZONI ³
(Independent)

SILVIA MERLO ⁵
(Independent)

BOARD OF STATUTORY AUDITORS ⁶

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 The Board of Directors appointed on 24 April 2015. On 20 April 2017, at the end of the Shareholders' Meeting of ERG S.p.A., 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 Italian Consolidated Finance Act.

⁴ Appointed by the Board of Directors of ERG S.p.A. on 11 May 2017 following the resignation on 20 April 2017 of the Board Member Luigi Ferraris.

⁵ With reference to Article 148, paragraph 3 of the Consolidated Finance Act and the matters contained in the current Corporate Governance Code promoted by Borsa Italiana S.p.A.

⁶ 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 items⁷ and inventory gains (losses)⁸. As from the Interim Report on Operations at 31 March 2017, these results, previously defined as "at replacement costs", are 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 from 1 July 2016, hydroelectric power), in addition to the adoption of effective hedges of the generation margin. Said hedges include, 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 renewable sources ("RES") by the Energy Management of ERG Power Generation S.p.A.

Change in the business scope

It should be noted that the results of the first nine months reflect the acquisition of six wind farms in Germany (48 MW), acquired during the period and fully consolidated since 1 January 2017.

⁷ Non-recurring items include significant but unusual earnings.

⁸ TotalERG's equity contribution is reported net of inventory gains (losses) and non-recurring items.

BUSINESS DESCRIPTION

In 2016, the ERG Group completed a radical 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 the 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.

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 three generation technologies in which the ERG Group operates;
- the Operation & Maintenance activities of the “Centrale Nord” 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 is active in the generation of electricity from wind sources, with 1,768 MW of installed power at 30 September 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 (674 MW operational and 47.5 MW under construction), in particular in France (252 MW), Germany (216 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 May 2017, ERG further consolidated its position in the German on-shore wind market, through the acquisition of six German wind farms, 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) at the industrial site of Priolo Gargallo (SR) in Sicily, which operated until 27 May 2016 as an Essential Unit in accordance with the Mucchetti Amendment⁹. This is a high-efficiency co-generation plant (C.A.R.), based on latest

⁹ Law converting Italian Law Decree no. 91/14 (“Competition Decree”). For additional details, please see the Thermoelectric section.



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. It should be noted that, after a sale process started at the end of 2016, on 3 November a binding agreement was reached with the api Group for the sale of the equity investment in TotalErg, to be completed by January 2018.

One Company

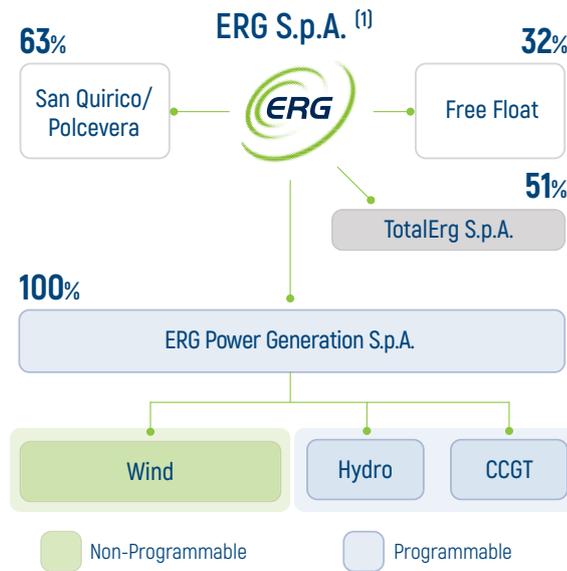


On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

- 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;
 - Administration, Finance, Planning and Control, Risk Management, M&A, Investor Relations 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;
 - 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.

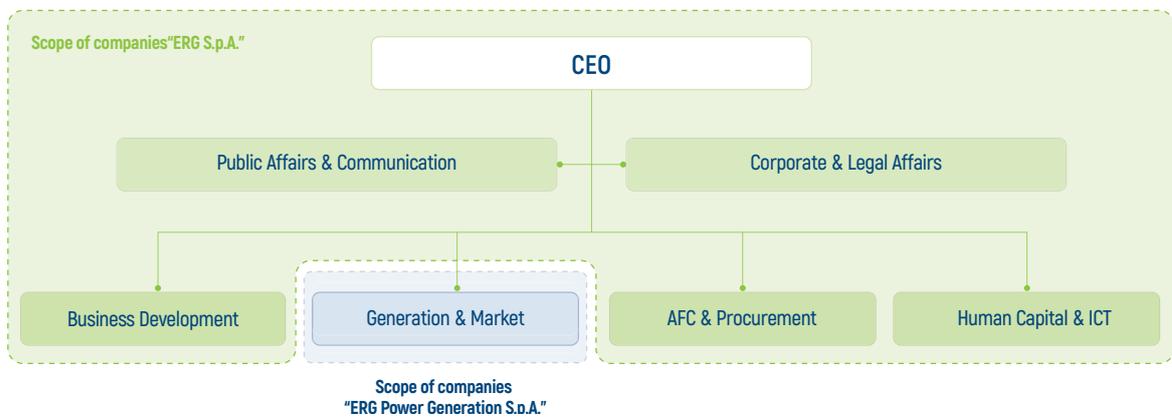
Implementation of the new Group Organisational Model, partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A., took full effect starting on 1 January 2017, specifically through:

- 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 29 September 2017, the closing price of ERG's shares was EUR 13.51, up (+32.5%) from the end of 2016, in the presence of a rise, in the same period, of the FTSE All Share index (+19.5%), of the FTSE Mid Cap index (+31.6%) and of the Euro Stoxx Utilities Index (+16.8%). During the period under review, the listed price of the ERG stock ranged between a minimum of EUR 9.96 (9 January) and a maximum of EUR 13.72 (20 September).

Figures relating to the prices and exchange volumes of ERG's shares at 29 September are set out below:

Stock price	EUR
Closing price at 29.09.17	13.51
Highest price (20.09.17) ⁽¹⁾	13.72
Lowest price (09.01.17) ⁽¹⁾	9.96
Average price	11.84

(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 (08.03.17)	1,054,084
Minimum volume (28.08.17)	75,785
Average volume	251,158

Market capitalisation was approximately EUR 2,031 million (EUR 1,535 million at the end of 2016).

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

ERG vs Euro Stoxx Utilities, FTSE All Share e FTSE Mid Cap - % Change from 30.12.2016 to 29.09.2017



PERFORMANCE HIGHLIGHTS

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
MAIN INCOME STATEMENT DATA				
227	227	Revenues from ordinary operations	765	757
98	78	Recurring EBITDA	356	351
36	13	Recurring EBIT	168	158
30	19	Net profit	114	94
30	19	<i>of which Group net profit</i>	114	92
26	9	Recurring Group net profit⁽¹⁾	113	83
MAIN FINANCIAL DATA				
3.153	3.289	Net invested capital	3.153	3.289
1.783	1.612	Shareholders' equity	1.783	1.612
1.370	1.677	Total net financial indebtedness	1.370	1.677
1.209	1.332	<i>of which non-recourse Project Financing⁽²⁾</i>	1.209	1.332
43%	51%	Financial leverage	43%	51%
43%	34%	EBITDA Margin %	47%	46%
OPERATING DATA				
1.768	1.720	Installed capacity at period end – wind farms	1.768	1.720
		MW		
723	583	Electric power generation from wind farms	2.532	2.631
		millions of kWh		
480	480	Installed capacity at period end – thermoelectric plants	480	480
		MW		
638	740	Electric power generation from thermoelectric plants	1.812	2.032
		millions of kWh		
527	527	Installed capacity at period end – hydroelectric plants	527	527
		MW		
232	277	Electric power generation from hydroelectric plants	884	1.028
		millions of kWh		
2.537	3.093	Total sales of electric power	8.601	9.140
		millions of kWh		
11	12	Capital expenditure ⁽³⁾	26	31
		(EUR million)		
717	721	Employees at the period end	717	721
		Units		
MARKET INDICATORS				
51.6	40.9	Reference price of electricity - Italy (baseload) ⁽⁴⁾	51.3	38.4
		EUR/MWh		
107.3	100.1	Feed-In Premium (former Green Certificates) - Italy	107.3	100.1
		EUR/MWh		
62.3	54.3	Sicily zone price (baseload)	58.7	46.1
		EUR/MWh		
59.9	45.4	Centre North zone price (peak)	59.1	41.8
		EUR/MWh		
143.8	138.4	Average unit value of sale of ERG wind energy - in Italy	150.1	136.2
		EUR/MWh		
91.5	91.9	Feed-In Tariff - Germany ⁽⁵⁾	91.5	92.1
		EUR/MWh		
89.1	88.6	Feed-In Tariff - France ⁽⁵⁾	89.0	88.6
		EUR/MWh		
96.7	96.4	Feed-In Tariff - Bulgaria ⁽⁵⁾	96.7	96.6
		EUR/MWh		
38.6	32.6	Electricity price - Poland	36.6	32.7
		EUR/MWh		
7.8	7.1	Certificate of origin price - Poland	7.5	11.8
		EUR/MWh		
28.8	27.2	Electricity price - Romania ⁽⁶⁾	28.7	27.4
		EUR/MWh		
28.8	29.6	Green Certificate price - Romania ⁽⁷⁾	29.1	29.6
		EUR/MWh		

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 39.5 million made in 2017 for the acquisition of the companies of the DIF Group in Germany and the M&A investments amounting to EUR 306 million made 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 Romania price of electricity 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

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
REVENUES FROM ORDINARY OPERATIONS				
87	71	Non-programmable sources	319	316
87	71	Wind Power	319	316
139	155	Programmable sources	445	440
111	129	Thermoelectric power ⁽¹⁾	341	353
29	26	Hydroelectric power	104	87
10	8	Corporate	30	24
(10)	(8)	<i>Intra-segment revenues</i>	(29)	(23)
227	227	Total revenues from ordinary operations	765	757
EBITDA				
57	43	Non-programmable sources	227	230
57	43	Wind Power	227	230
42	36	Programmable sources	136	129
23	19	Thermoelectric power ⁽¹⁾	63	70
19	17	Hydroelectric power	73	59
(0)	(2)	Corporate	(6)	(8)
98	78	Recurring EBITDA	356	351
AMORTISATION, DEPRECIATION AND WRITE-DOWNS				
(40)	(42)	Non-programmable sources	(119)	(125)
(40)	(42)	Wind Power	(119)	(125)
(22)	(22)	Programmable sources	(67)	(67)
(7)	(7)	Thermoelectric power	(23)	(22)
(15)	(15)	Hydroelectric power	(44)	(44)
(1)	(1)	Corporate	(2)	(2)
(62)	(65)	Recurring amortisation and depreciation	(188)	(193)
EBIT				
17	2	Non-programmable sources	108	105
17	2	Wind Power	108	105
20	14	Programmable sources	69	62
16	11	Thermoelectric power ⁽¹⁾	39	48
4	3	Hydroelectric power	29	14
(1)	(3)	Corporate	(8)	(10)
36	13	Recurring EBIT	168	158
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS				
7	8	Non-programmable sources	27	21
7	8	Wind Power	27	21
4	3	Programmable sources	9	8
2	2	Thermoelectric power	5	6
2	1	Hydroelectric power	4	2
0	0	Corporate	1	1
11	12	Total capital expenditures	37	31

(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.

In the **third quarter** of 2017, total sales of electricity came to 2.5 TWh (3.1 TWh in the same period in 2016), whereas the overall value of production for the Group plants amounted approximately to 1.6 TWh (1.6 TWh in the same period of 2016), of which roughly 0.3 TWh abroad and 1.3 TWh in Italy. The latter figure accounts for approximately 1.6% of electricity demand in Italy (1.7% in the third quarter of 2016).

During the **first nine months** of 2017, total sales of electricity came to 8.6 TWh (9.1 TWh in the same period in 2016), whereas the overall output for the Group plants was approximately 5.3 TWh (5.7 TWh in the same period of 2016), of which roughly 1.0 TWh abroad and 4.2 TWh in Italy. The latter figure accounts for approximately 1.8% of electricity demand in Italy (2.0% in the first nine months of 2016).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table¹⁰:

3 rd quarter			First 9 months	
2017	2016	SOURCES OF ELECTRIC POWER (GWh)	2017	2016
444	368	Wind - wind power generation Italy	1,523	1,711
279	215	Wind - wind power generation Abroad	1,009	920
638	740	CCGT - thermoelectric power generation	1,812	2,032
232	277	Hydro - hydroelectric power generation	884	1,028
944	1,494	ERG Power Generation - purchases	3,373	3,448
2,537	3,093	Total	8,601	9,140

3 rd quarter			First 9 months	
2017	2016	SALES OF ELECTRIC POWER (GWh)	2017	2016
146	140	Electric power sold to captive customers	408	403
508	508	Electric power sold to IREN	1,507	1,512
1,604	2,231	Electric power sold wholesale (Italy)	5,678	6,305
279	215	Electric power sold abroad	1,009	920
2,537	3,093	Total	8,601	9,140

¹⁰ 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.



In the **third quarter** of 2017, moreover, steam sales¹¹ amounted to 178 thousand tonnes (118 thousand tonnes in the third quarter of 2016).

In the **first nine months** of 2017, steam sales¹¹ amounted to approximately 575 thousand tonnes (570 thousand tonnes in the same period 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.

¹¹ Steam supplied to end users net of the quantities of steam withdrawn by the users and pipeline losses.

COMMENTS ON THE PERIOD'S PERFORMANCE

THIRD QUARTER

In the third quarter of 2017, revenues from ordinary operations, amounting to EUR 227 million, were in line with the third quarter of 2016, mainly as a result of the higher wind power generation compared to the same period of 2016, tied to better wind conditions, and of the average increase both in the prices of energy and of Energy Efficiency Certificates. These effects were offset by the lower revenues relating to the wind farms that were no longer covered by the incentive scheme net of the recovery of the incentives relating to the missed generation for shutdowns required by Terna in previous years and by the lower revenues tied to the lower output of the CCGT plant.

Recurring EBITDA amounted to EUR 98 million, up compared to the EUR 78 million recorded in the third quarter of 2016. The change is a result of the following factors:

Non-Programmable Sources

EBITDA of EUR 57 million, up compared to the same period of the previous year (EUR 43 million), mainly as a consequence of stronger wind conditions and higher output in all pertinent geographical area, associated with a more favourable general price trend in Italy as well as additional cost containment actions.

In addition, in the third quarter of 2017 approximately 88% (95% in 2016) of 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), during which all the energy generated benefited from the incentives.

Programmable Sources

EBITDA of EUR 42 million, up compared to the previous year (EUR 36 million). The contribution provided by the hydroelectric complex amounted to EUR 19 million, higher than EUR 17 million in the previous year mainly as a result of the flexibility of the plants able to benefit from particularly favourable peak prices during the quarter in the Centre-North area with sharply lower water availability.

The results of thermoelectric generation, amounting to EUR 23 million, grew compared to EUR 19 million of the same period of 2016, both as a result of the better trend in energy sale prices and of the contribution of revenues for Energy Efficiency Certificates pertaining to the CCGT plant inasmuch as it is qualified as a high efficiency cogenerating plant.

The **recurring EBIT** amounted to EUR 36 million (EUR 13 million in the third quarter of 2016) after amortisation and depreciation amounting to EUR 62 million (EUR 65 million in the third quarter of 2016).

The **Recurring Group net profit** amounted to EUR 26 million, up compared to the profit of EUR 9 million of the third



quarter of 2016, as a result of the aforesaid higher operating results, lower net financial expenses, and higher income from the equity investment in TotalErg (consolidated at equity).

The **Group net profit**¹² was EUR 30 million (EUR 19 million in the third quarter of 2016).

In the **third quarter** of 2017, **Group capital expenditure** totalled EUR 11 million (EUR 12 million in the third quarter of 2016), of which 61% in the Non-programmable sector (70% in the third quarter of 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, and 36% in the Programmable sector (28% in the third quarter of 2016).

The **net financial indebtedness** amounted to EUR 1,370 million, down by EUR 144 million compared to 30 June 2017 (EUR 1,514 million) mainly because of the operating cash flow of the period, of the collected incentives relating to the generation of the first quarter of 2017, in accordance with current regulations, and to the collection for the sale of the Energy Efficiency Certificates produced in 2016.

First nine months

In the **first nine months** of 2017, **revenues from ordinary operations** amounted to EUR 765 million, slightly higher than the value of EUR 757 million of the first nine months of 2016, even in the presence of significantly lower RES compared to the same period of 2016 as a result of extremely adverse weather conditions (wind and water). These effects were more than offset, mainly, by the average increase not only in energy prices but also in incentives and Energy Efficiency Certificates. This item also reflects 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 previous year up to the month of May 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 31 million.

The **recurring EBITDA** amounted to EUR 356 million, higher than the EUR 351 million recorded in the first nine months of 2016. The change is a result of the following factors:

Non-Programmable Sources

EBITDA of EUR 227 million, down compared to the same period of the previous year (EUR 230 million), mainly as a consequence of weaker wind conditions and lower output in Italy and in France, where the wind conditions were less favourable. These effects were substantially offset by a more favourable general price trend, as well as by additional cost containment actions and by the contribution of the newly acquired wind farms in Germany.

In addition, in the first nine months of 2017 approximately 90% (96% in 2016) of 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).

¹² Includes inventory gains (losses) amounting to EUR +4 million (EUR +1 million in 2016). The values are net of tax effects. Additional details are provided in the chapter “Alternative performance indicators”.

Programmable Sources

EBITDA of EUR 136 million, up compared to the previous year (EUR 129 million). The contribution provided by the hydroelectric complex amounted to EUR 73 million, markedly higher than EUR 59 million in 2016 mainly as a result of the flexibility of the plants able to benefit from particularly favourable peak prices especially in the early part of the year in the Centre-North area, albeit with lower water availability compared to the same period of the previous year.

In addition, the results benefited from the repeal of the IAFR revocation, at the end of a series of audits with the GSE, for the plants at Cotilia (48 MW) and Sigillo (5 MW), which therefore are entitled, from the current year onwards, to receive incentives (in addition to the recovery of past incentives).

The result of the thermoelectric business, amounting to EUR 63 million, declined compared to EUR 70 million of the first nine months of 2016 which benefited from the "reintegration consideration" granted to 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 31 million. This lower revenue was largely offset by the contribution from revenues for Energy Efficiency Certificates to which the CCGT plant is entitled in as much as it is qualified as a high-efficiency co-generating plant, and by the better performance of energy sale prices.

Recurring EBIT amounted to EUR 168 million (EUR 158 million in the first nine months of 2016) after amortisation and depreciation of EUR 188 million (EUR 193 million in the first nine months of 2016).

The **Recurring Group net profit** amounted to EUR 113 million, up compared to the profit of EUR 83 million of the first nine months of 2016, as a result of the aforesaid higher operating results, lower net financial expenses, and 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.

Group net profit¹³ amounted to EUR 114 million (EUR 92 million in the first nine months of 2016).

In the first nine months of 2017, **Group capital expenditures** amounted to EUR 37 million (EUR 31 million in the first nine months of 2016) of which 72% in the Non-Programmable sector (69% in the first nine months of 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, and 25% in the Programmable sector (28% in the first nine months of 2016), 4% in the Corporate sector (4% in the first nine months of 2016). To these are added approximately EUR 40 million invested for the acquisition of 48 MW in Germany from the DIF Group.

The **net financial indebtedness** amounted to EUR 1,370 million, down by EUR 187 million compared to 31 December 2016 mainly due to the net positive operating cash flows, also as a result of the collections of the incentives pertaining to the generation of the first quarter of 2017, and to the dividend received from TotalErg, which offset the impacts of the acquisition of the German wind farms from the DIF Group, the distribution of dividends, the payment of taxes, and the investments in the period.

¹³ Includes gains (losses) on inventory amounting to EUR +1 million (EUR +6 million in 2016). The values are net of tax effects. Additional details are provided in the chapter "Alternative performance indicators".

SIGNIFICANT EVENTS DURING THE QUARTER

04
July
2017

The ERG Group announced the appointment of Sergio Chiericoni as new head of business development of the ERG Group in the role of Chief

Business Development Officer.

An engineer with twenty years of experience in top positions in international companies in the energy sector, Sergio Chiericoni has managed important development, design and construction projects in various countries of the world, focusing in the last ten years in the field of renewables.

This important addition confirms ERG's strategy to give further impetus to the development of the business. The position, directly reporting to the Chief Executive Officer, is entrusted to a manager of long and proven experience in the implementation of strategic projects in the energy sector on an international scale.

19
July
2017

The process of issuing and placing with institutional investors a non-convertible bond loan amounting to EUR 100 million, with a nominal value

for each obligation of EUR 100 thousand, approved by the Board of Directors of ERG S.p.A. on **12 July**, was concluded.

The issue of the loan, which is not backed by guarantees, is aimed at obtaining additional funds for new investments in the renewable energy sector as well as refinancing the investments made on hydroelectric plants in Italy.

The bonds are unrated and are not subject to financial covenants and will be reimbursed in a one-off payment in January 2023.

The bonds were issued at a price equal to 100% of their nominal value and bear interest at a fixed rate equal to 2.175%. Interest will be paid on a deferred annual basis. The issue lengthen the duration of indebtedness, reduce the average cost and diversify the sources of financing of the Group.

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 is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.

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

REFERENCE MARKET ⁽¹⁾

3 rd Quarter			First 9 months	
2017	2016		2017	2016
Italian Renewable Energy Sources Market ⁽²⁾ (GWh)				
24.995	24.430	Generation from renewable sources ⁽³⁾	68.441	71.144
of which:				
11.775	12.427	Hydroelectric	30.849	34.937
1.432	1.458	Geothermal	4.331	4.412
3.642	3.047	Wind	12.366	13.291
8.146	7.498	Photovoltaic	20.895	18.504
Sale prices (EUR/MWh)				
51.6	40.9	Reference price of electricity - Italy (baseload) ⁽⁴⁾	51.3	38.4
107.3	100.1	Feed-In Premium (former Green Certificates) - Italy	107.3	100.1
49.9	39.8	Electricity price - Central-South zone	49.2	38.3
47.6	38.2	Electricity price - South zone	47.5	37.1
62.3	54.3	Electricity price - Sicily	58.7	46.1
49.7	39.8	Electricity price - Sardinia	49.0	38.3
143.8	138.4	Average unit value of sale of ERG energy - in Italy ⁽⁵⁾	150.1	136.2
91.5	91.9	Feed-In Tariff - Germany ⁽⁶⁾	91.5	92.1
89.1	88.6	Feed In Tariff - France ⁽⁶⁾	89.0	88.6
96.7	96.4	Feed-In Tariff - Bulgaria ⁽⁶⁾	96.7	96.6
38.6	32.6	Electricity price - Poland	36.6	32.7
7.8	7.1	Certificate of origin price - Poland	7.5	11.8
28.8	27.2	Electricity price - Romania ⁽⁷⁾	28.7	27.4
28.8	29.6	Green Certificate price - Romania ⁽⁸⁾	29.1	29.6

(1) Estimated output for September

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

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

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

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

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

(7) The Romania price of electricity 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 **third quarter** of 2017, 34% of (net) domestic electricity output of 73,397 GWh (+1.6%) was covered by renewable sources. In particular, 16% of the output derives from hydroelectric power, 5% from wind farms, 11% from photovoltaic plants, and 2% from geothermal sources.

Compared to the third quarter of 2016, wind power generation increased markedly (+20%) as did photovoltaic generation (+9%), while a decrease was recorded by hydroelectric (-5%) and geothermal (-2%) generation.

In the **first nine months** of 2017, 32% of (net) domestic electricity output of 213,108 GWh (+3.6%) was covered by renewable sources. In particular, 14% of the output derives from hydroelectric power, 6% from wind farms, 10% from photovoltaic plants and 2% from geothermal sources.

Compared to the first nine months of 2016, photovoltaic generation grew (+13%), while hydroelectric power generation declined (-12%) as did wind (-7%) and geothermal power generation (-2%).

REGULATORY SCENARIO

Italy

In Italy, for plants powered by renewable sources in operation no later than 2012¹⁴ and entitled to receive Green Certificates (GCs), the incentive system calls for the conversion of these certificates into a feed-in premium (FIP) starting from 2016 and for the residual period of entitlement to incentives. The FIP is calculated with a similar formula to the one used to calculate the price for the withdrawal of the GCs issued for production from renewable sources of the years from 2011 to 2015, and disbursed on a quarterly basis no later than the last working day of the second quarter following the quarter 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 year¹⁵, amounts to 107.34 EUR/MWh¹⁶.

Pursuant to Ministerial Decree of 6 July 2012, wind plants with more than 5 MW capacity built from 2013 onwards (starting operations after April 2013) instead shall gain access to the incentives by participating in a Dutch auction¹⁷. The Ministerial Decree of 23 June 2016 regulated the auctions that were held in 2016.

With regard to the rules on imbalances, with resolution 419/2017 of 8 June 2017 the Authority for Energy scheduled a revision of the procedures for calculating the current aggregate zonal imbalance sign based on the energy balance of the macro-zone; this new method of calculation came into force on 1 September 2017. From that date, the 'single

¹⁴ There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.

¹⁵ 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.

¹⁶ It is hereby recalled that with regard to the Green Certificates for the first and second quarter of 2015, the price of EUR 96.00/GC was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.

¹⁷ Starting price 127 EUR/MWh.

price' procedures for the setting of the imbalance price for all units not eligible (both production and consumption) will enter back into force. The Authority also introduced a macro-zonal no-arbitrage consideration in order to put a stop to any arbitration between zonal prices within the same macro-zone.

In April 2017, the AEEGSI notified the involved companies ERG Hydro S.r.l. and ERG Power Generation S.p.A. of the resolutions issued within the scope of the procedures started with resolution no. 342/2016 for the timely adoption of prescriptive and/or asymmetrical regulation measures and the assessment of potential abuses in the electricity wholesale market in accordance with Regulation (EU) no. 1227/2011 (REMIT), potentially committed in the recent past by some electric market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.). The main elements of the above-mentioned deeds are the modification of the methodology used to define the results of the assessment with respect to that used in the communications sent to said companies in September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). It is estimated that any economic impacts are not significant.

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 operation 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 for, in which it is possible to continue to benefit from the tariffs set out in the EEG 2014¹⁸.

The tariff in force at 1 January 2017 for plants covered by the transitional rules is 83.8 EUR/MWh for the first five years of operation, and 46.6 EUR/MWh for the following 15 years. Application of the maximum tariff prescribed for the first 5 years can 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 (i.e. 3,300 hours)¹⁹.

Starting from March 2017, the tariff undergoes monthly reductions on the basis of a pre-determined calendar²⁰ and

¹⁸ In this regard the BNetzA announced 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 opted to participate in the auctions to be held in 2017-2018.

¹⁹ 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).

²⁰ The incentive period is in reality divided up into two stages: the first of 5 years, the second of 15. The tariff for the first 5 years is confirmed for the remaining 15 years if generation does not exceed 80% of the reference generation and the higher duration of the period of recognition of the incentive drops in line with the increase in generation.

from October 2017 the maximum reduction of 2.4% on a quarterly basis, since the threshold of 3,500 of new power eligible for incentives from May 2016 to April 2017, set by the 2017 EEG, was widely exceeded. Therefore, for the plants of the transitional period that start operations from October 2017, a tariff of 76.8 EUR/MWh will be applied.

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 on-shore 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.

On the occasion of the first auction on 1 May 2017, 807 MW of on-shore wind power with an average rate of 57.1 EUR/MWh was assigned. 96% of the amount (in terms of MW) was awarded by the "Citizens' energy companies" with a rate of 57.8 EUR/MWh, equal to the maximum tariff at national level since for cooperatives the marginal price is applied. The August session, too, was dominated by the participation of the cooperatives, which were awarded 95% of the amount (equal to 1,013 MW), with a tariff of 42.9 EUR/MWh. The average value awarded was 42.8 EUR/MWh, down by 25% compared to the average value awarded in the first auction session in May.

In July 2017, the German Parliament approved certain amendments to the EEG 2017, providing, inter alia, that, from 2018, in order to be able to participate in auctions, projects of Citizens' energy companies must have been awarded environmental authorisation (BlmschG, abbreviation of Bundes-Immissionsschutzgesetz, federal pollution control act).

Last 18 September, the BNetzA (Bundesnetzagentur, i.e. the German energy regulatory authority) opened registration in the third and last wind power auction session for 2017, scheduled for 2 November. On or before 11 October 2017, participants presented the authorisation issued by the BlmSchG, with the exception of the cooperatives, which may also participate for this session without authorisation.

France

The incentive system for on-shore wind power is of the feed-in tariff (FIT) type, governed by the Decree of 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 or submitted the application to purchase electricity generation in 2016, pursuant to the Decree of 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 premium introduced with the decree of 13 December 2016 (which is applied to plants with acquisition application finalised or filed in 2016) comprises multiple components: the incentive component (complément de rémunération), calculated as the difference between the current FIT (amounting to approximately 81 EUR/MWh) and the average monthly price of energy weighted on the national wind power profile, plus the management premium of 2.8 EUR/MWh, to cover the costs for managing the sale of energy. The total value of that incentive is in line with the FIT pursuant to the Decree of 17 June 2014.

In May 2017, the CRE (French Energy Authority) published the procedures for the Dutch auction system for accessing the new twenty-year FIP incentives for on-shore wind power plants made up of more than 6 wind turbines or individual wind turbines with capacity greater than 3 MW each. The first auction session will take place on 1 December 2017 with a quota of 500 MW and a basic auction price of 74.8 EUR/MWh, while the last auction is scheduled for 1 June 2020. The aim is to use this mechanism to develop 3 GW of on-shore wind capacity over the years 2017-2020.

The decree of 6 May 2017 instead regulated access to the new FIP for on-shore wind power plants made up of a maximum of 6 wind turbines with up to 3 MW of power each, that have submitted a request to EDF for access to the FIP starting from 2017. The value of the FIT, on the basis of which the incentive component (complément de rémunération) is calculated, depends on the diameter of the turbine rotor, as well as the annual production of the plant, which, if it exceeds a certain production threshold (limit), incurs a reduction for the excess energy produced.

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 on-shore wind power are as follows: 15 GW by 2018 and between 22 and 26 GW by 2023 (from the current 11 GW of installed wind power). Off-shore 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 plant) or 15 years (Tcherga plant). 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.

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 (excluding energy-intensive entities). The mandatory quotas are defined on an annual basis, which means that the trajectory set until 2021 by the Economics Ministry's Law of 18 October 2012 may be amended annually.

On 31 August 2017, the Ministry of Energy defined the mandatory quotas for 2018 and 2019, respectively equal to 17.5% and 18.5% (in 2016, the value was 15%). The law on providing incentive for renewable sources, approved in March 2015 (and amended in December 2015 - RES Act 2015) had introduced a number of measures aimed at reducing the current CO excess supply (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 eliminated altogether. Nonetheless, 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 for the definition of dedicated "co-combustion". To date, these regulations have not succeeded in re-balancing the demand/supply ratio for CO, whose prices continued to decline. An amendment introduced in August 2017 to the RES Act 2015 changed the method for calculating the Substitution Fee (the penalty applied in case of non-compliance with the CO purchase obligation) tying its value to the weighted annual average of the prices of the COs recorded the previous year, plus 25%. Since September 2017, this penalty is thus equal to 92.04 PLN/MWh (sharply lower than the value of 300.03 PLN/MWh set previously).

The RES Act 2015 also provided a discount auction system, with contingents on generation, for the awarding of feed-in premiums incentives under the form of Contracts for Difference (CfD) for 15 years (value inflated on annual basis). This system is mandatory for plants entered into operation from July 2016. The version of the law approved in

June²¹ 2016 also made changes to that system, changing the rules for carrying out the auctions, introducing separate technological baskets and effectively delaying the start thereof. At the end of September 2017, the Government announced the cancellation of all auctions planned for the year, including the one for wind power, to which a basket of approximately 145 mW had been dedicated. The next auctions will probably be organised in 2018 after the entry into force of the amendment to RES Act 2015 which will follow the information "Gentlemen's Agreement" between the Polish Government and DG Comp, which had requested some changes to the auction system.

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 providing for a tightening of 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).

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 GCs pertaining to wind farms depends on their start-up date:

- for wind farms that started operating before 2014, two 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 two GCs 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.

Emergency Ordinance 24/2017, published at the end of March 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 GCs, which is extended to 31 March 2032. Only 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 35 EUR/MWh (from 57 EUR/MWh) and 29.4 EUR/MWh (from 27 €/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,

²¹ Additional details are provided in the chapter "Regulatory Scenario".

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 (GCs at the closing price of the “GC only” market and energy at the market price).

In this regard, on 29 August 2017 a regulation was published and has been in force since 1 September 2017; it regulates the structure of anonymous markets for trading green certificates; the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (PCSCV). In accordance with the new regulation, no more than 10,000 GC may be traded in a single session; in the bilateral forward market PCTCV, the producer may place a limited number of GCs defined by ANRE no later than 31 August 2017, while in the PCSCV spot market the names of the parties may be disclosed by OPCOM only at the end of the transactions. 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).

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 any 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)**.

In October 2017, the Government approved the document on Clean Growth Strategy, the strategy whereby the British Government promotes a new era of green economic growth, supported by the largest increase in public expenditures of the last three decades (2.5 billion Pounds to support innovation with low carbon emissions from 2015 to 2021). The Clean Growth Strategy regulates the extension of the tenders for the CfD which, however, do not provide onshore amounts except for projects “on remote Scottish islands”.

HIGHLIGHTS OF RECURRING PERFORMANCE ITEMS

3 rd Quarter			First 9 months	
2017	2016	OPERATING RESULTS	2017	2016
87	71	Revenues from ordinary operations	319	316
57	43	Recurring EBITDA ⁽¹⁾	227	230
(40)	(42)	Amortisation, depreciation and write-downs ⁽¹⁾	(119)	(125)
17	2	Recurring EBIT ⁽¹⁾	108	105
7	8	Capital expenditures on tangible and intangible fixed assets	27	21
65%	61%	EBITDA Margin % ⁽²⁾	71%	73%

(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

3 rd Quarter			First 9 months	
2017	2016		2017	2016
46	34	Italy	178	179
11	10	Abroad	49	51
		of which		
3	2	Germany	15	12
5	4	France	20	24
1	2	Bulgaria	5	5
1	2	Romania	6	6
1	(0)	Poland	2	3
(0)	(0)	UK	(0)	(0)
57	43	Total	227	230

The consolidated revenues recorded in the **third quarter** of 2017 from non-programmable sources benefited from the higher output (which increased by +24% overall) recognised relative to the same period of the previous year.

During the quarter, some wind farms in Italy, totalling 193 MW (equivalent to 59 GWh of output) no longer benefited from the replacement incentive because the incentive period ended; however, in the period said wind farms benefited from the extension regime through reimbursement of the missed wind power generation of previous years for an amount of EUR 3.0 million.

Concerning sale prices in the **third 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 143.8 EUR/MWh, up compared to the value of 138.4 EUR/MWh of the third quarter of 2016.

This increase is tied mainly to the rise in the value of the incentives (former green certificates) from 100.1 EUR/MWh to 107.3 EUR/MWh and, to a lesser extent, to the increase in electricity sale prices. 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 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 89.1 EUR/MWh and 91.5 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution to generation of the wind farms abroad was approximately 279 GWh (+30%).

The recurring EBITDA of the **third quarter** of 2017 totalled EUR 57 million, up compared to the values recorded in the same period of the previous year (EUR 43 million), for the reasons referenced above and because of the lower operating costs as a result of the higher efficiency made possible by closer control over them, thanks also to the new organisational structure.

The consolidated revenues recorded in the **first nine months** of 2017 from non-programmable sources were affected by the lower output in Italy (-4%) compared to the same period of the previous year.

During the period, the incentivised period ended for some wind farms in Italy, so approximately 193 MW (equivalent to 157 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 for an amount of EUR 8.4 million.

Concerning sale prices in the **first nine months** 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 150.1 EUR/MWh, up compared to the value of 136.2 EUR/MWh of the first nine months of 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 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 91.5 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution to the output of wind farms abroad was approximately 1,009 GWh (+10%).

The recurring EBITDA of the **first nine months** of 2017 totalled EUR 227 million, slightly down compared to the values recorded in the same period of the previous year (EUR 230 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 also to the new organisational structure.

The EBITDA Margin totalled 71%, at a high absolute value, albeit in slight decline relative to 73% recorded in the first nine months of 2016, mainly due to the reduction of the volumes by effect of the weaker wind conditions observed in particular in Italy in the first nine months of 2017 compared to the values of the same period of the previous year, as well as the phase out of the incentives of some wind farms, commented on above, partly offset by the contribution of the wind farms acquired in Germany.

INSTALLED POWER (MW)

Year		First 9 months	
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	674	626
	of which		
168	Germany	216	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⁾	1,768	1,720

(1) power of plants in operation at period end

The installed power at 30 September 2017, amounting to 1,768 MW, increased by 48 MW compared with 30 September 2016, following the acquisition of 6 wind farms in Germany.

GENERATION (GWh)

3 rd Quarter			First 9 months	
2017	2016		2017	2016
444	368	Italy	1,523	1,711
		of which		
100	78	Campania	346	394
63	52	Calabria	181	202
117	100	Puglia	390	417
36	31	Molise	124	128
38	32	Basilicata	131	146
51	43	Sicily	206	251
40	32	Sardinia	145	174
279	215	Abroad	1,009	920
		of which		
61	43	Germany	237	175
93	73	France	337	378
45	35	Poland	166	138
38	26	Bulgaria	116	102
42	38	Romania	153	127
723	583	Total wind farm output	2,532	2,631

In the **third quarter** of 2017 the output of electricity from wind power amounted to 723 GWh compared to 583 GWh at the corresponding period of 2016, with output increasing by 24% overall, of which +21% in Italy (from 368 GWh to 444 GWh) and 30% abroad (from 215 GWh to 279 GWh).

The increase in output in Italy (+76 GWh) is tied to the better wind conditions noted in the period compared to those of the third quarter of 2016, which had been weak relative to the historical average. Concerning output outside Italy, the increase by 64 GWh is due both to the contribution of the German wind farms (DIF) acquired in 2017 and to the higher output recorded in all foreign countries.

In the **first nine months** of 2017, the electricity output from wind power amounted to 2,532 GWh, lower than in the first nine months of 2016 (2,631 GWh), with the output declining by approximately 11% in Italy (from 1,711 GWh to 1,523 GWh) and increasing by 10% abroad (from 920 GWh to 1,009 GWh).

The decline of output in Italy (-189 GWh) is tied to weak wind conditions compared to the usual seasonal values, and lower than those recorded in the first nine months of 2016. Outside Italy, the increase by 89 GWh is attributable to the contribution of the German wind farms (DIF) acquired during the period in addition to good output levels in Poland and Romania, partially offset by weak output levels in France.

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

LOAD FACTOR %

3 rd Quarter			First 9 months	
2017	2016		2017	2016
18%	15%	Italy	21%	24%
		of which		
18%	14%	Campania	21%	24%
24%	20%	Calabria	23%	26%
21%	18%	Puglia	24%	26%
20%	18%	Molise	24%	25%
19%	16%	Basilicata	23%	25%
12%	10%	Sicily	16%	19%
16%	13%	Sardinia	20%	24%
19%	16%	Abroad	23%	22%
		of which		
13%	12%	Germany	17%	16%
17%	13%	France	20%	23%
25%	20%	Poland	31%	26%
32%	22%	Bulgaria	33%	29%
27%	25%	Romania	33%	28%
19%	15%	Load factor⁽¹⁾	22%	23%

(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 **third quarter** of 2017 the overall load factor, amounting to 19%, was higher than in the same period of 2016, increasing from 15% to 18% in Italy and from 16% to 19% abroad, thanks to the better results recorded in all countries.

In the **first nine months** of 2017 the overall load factor at 22%, declined slightly compared to the value recorded in the first nine months of 2016, with a decrease from 24% to 21% in Italy, partly offset by an increase from 22% to 23% abroad.

PROGRAMMABLE SOURCES

Reference market

3 rd Quarter			First 9 months	
2017	2016		2017	2016
ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWh)				
82,805	80,712	Demand	239,540	235,458
416	493	Pumping consumption	1,706	1,759
9,824	8,979	Import/Export	28,138	31,535
73,397	72,226	Internal generation ⁽²⁾	213,108	205,682
		of which		
48,402	47,796	Thermoelectric	144,667	134,538
11,775	12,427	Hydroelectric	30,849	34,937
13,220	12,003	Other renewable energy sources	37,592	36,207
SALE PRICES (EUR/MWh)				
51.6	40.9	PUN ⁽³⁾	51.3	38.4
62.3	54.3	Sicily zone price (baseload)	58.7	46.1
59.9	45.4	Centre North zone price (peak)	59.1	41.8

(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 electricity demand of the Italian electric system in the **third quarter** of 2017 amounted to 82.8 TWh, up (+2.6%) compared with the values recorded in the same period of 2016. With regard to Sicily, region in which ERG is present with its own CCGT plant, in the third quarter of 2017 demand amounted to approximately 5.5 TWh was recorded, up (+4.0%) relative to the third quarter of 2016, similarly to the group of regions consisting of Abruzzo-Lazio- Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants and where electricity demand amounted to 12.1 TWh (+5.1%).

In the same period, net internal electricity generation amounted to 73.4 TWh, up by 1.6% compared with 2016, whilst the net balance of trading with foreign countries recorded net imports of 9.8 TWh (+9.4% compared with 2016). 66% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 34% from renewable sources. Compared to the previous year, thermoelectric output grew (+1%) whilst hydroelectric output declined (-5%).

The average value of the PUN (Single National Price) in the **third quarter** of 2017 was 51.6 EUR/MWh, up by 26% compared with the value of 2016 (40.9 EUR/MWh).

The electricity demand of the Italian electric system in the **first nine months** of 2017 amounted to 239.5 TWh, up (+1.7%) compared with the values recorded in the same period of 2016. With regard to Sicily, region in which ERG is present with its own CCGT plant, in the first nine months of 2017 demand amounted to approximately 14.5 TWh was recorded, up (+2.0%) relative to the first nine months of 2016, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, electricity demand amounted to 33.7 TWh (+2.7%).

In the same period, net internal electricity generation amounted to 213.1 TWh, up by 3.6% compared with 2016, whilst the net balance of exchanges with foreign countries recorded net imports of 28.1 TWh (-10.8% compared to 2016). 68% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 32% from renewable sources. Compared to the previous year, thermoelectric output grew (+8%) whilst hydroelectric output declined (-12%).

The average value of the PUN (Single National Price) in the **first nine months** of 2017 was 51.3 EUR/MWh, up by 34% compared with the value of 2016 (38.4 EUR/MWh).

Regulatory framework:

Thermoelectric: the Mucchetti amendment

The period for application of the regulation on Essential Units pursuant to Law Decree 91/2014 and the resolution 521/2014 as amended, 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 remained to be collected.

In October 2017 the Authority initiated the preliminary investigation on fixed cost pertaining to the request for reintegration for the year 2015: the last amount accrued in 2015 is expected to be collected no later than 31 December 2017 (approximately 13.3 M€).

In October 2017 Terna carried out the preliminary investigation on the contribution margin of the request for reintegration (balance) accrued in 2016: an advance payment is expected to be collected on the aforesaid balance no later than 31 December 2017 (estimated at 6.2 M€ on 12.9 M€ residual).

The residual 2016 reintegration shall be collected in 2018.

Internal user networks

For operators that own “closed distribution systems”, which include the “internal user network” (RIU) in Priolo, the Authority for Electricity, Gas and Water published Resolution 539/2015, which introduces the need to adopt accounting and functional separation of distribution activities from those of sale of electricity within the RIU (so-called “unbundling”). With the subsequent resolution 788/2016, the Authority has provided for the extension of the new regulations to 1 October 2017. With its resolution 582/2017, the AEEGSI further postponed the entry into force of the new RIU regulations as at 1 January 2018, in order to align the aforesaid reform with the entry into force of the reform of the structure of the general system costs.

Lastly, Article 1 Paragraph 91 of Law 124/2017 (“2017 Competition Law”) prescribes that functional separation rules do not apply to the operators of closed distribution Systems (which includes the RIU); only the accounting separation rules apply to the aforesaid operators. The Authority initiated a process to implement the provisions of the aforesaid law (resolution no. 613/2017 of 7 September 2017).

Hydroelectric: concession fees

The Regional Council of the Umbria Regional Authority, with its resolution no. 1067 of 22 September 2015, recalculated the concession fees for 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, amounts to double that in force until 31 December 2015. In December 2015, ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways in Rome, to request the cancellation of the afore-mentioned resolution. The results for the period prudently reflect the afore-mentioned increase.

Italian Stability Law no. 208/2015

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, in April 2017, the Group was notified by the AEEGSI of two prescriptive measures relating to the subsidiaries ERG Hydro and ERG Power Generation. Both notices pertain to the procedures for participating in the electricity market for the period between January 2015 and July 2016. It is estimated that any economic impacts are not significant.

Lastly, in October 2017, the group companies ERG Hydro and ERG Power Generation received, from the Penalties and Commitments Department of the Authority, the notice that the penalty measure had been initiated for the behaviours that had been the subject of resolution no. 342/2016.

Remarks on the period performance highlights

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

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

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
139	155	Revenues from ordinary operations	445	440
42	36	Recurring EBITDA ⁽¹⁾	136	129
(22)	(22)	Amortisation, depreciation and write-downs ⁽¹⁾	(67)	(67)
20	14	Recurring EBIT ⁽¹⁾	69	62
4	3	Capital expenditures on tangible and intangible fixed assets	9	8
30%	23%	EBITDA Margin %	31%	29%

(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

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
111	129	Revenues from ordinary operations	341	353
23	19	Recurring EBITDA ⁽¹⁾	63	70
(7)	(7)	Amortisation, depreciation and write-downs ⁽¹⁾	(23)	(22)
16	11	Recurring EBIT ⁽¹⁾	39	48
2	2	Capital expenditures on tangible and intangible fixed assets	5	6
21%	15%	EBITDA Margin %	18%	20%
638	740	Total output by thermoelectric plants (GWh)	1.812	2.032

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

During the **third quarter** of 2017, ERG Power's net electricity output was 638 GWh, down compared to the same period of 2016 (740 GWh): similarly revenues declined compared to the same period of the previous year, in spite of the general increase in electricity sale prices.

Net supply of steam to the captive customers of the petrochemical site of Priolo Gargallo, at 178 thousand tonnes, increased compared to 118 thousand tonnes in the third quarter of 2016 as a result of the higher demand from site

customers. Approximately a quarter of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, where energy also includes the net supply of steam.

The recurring EBITDA of the **third quarter** of 2017 amounted to EUR 23 million, up compared to the corresponding period of the previous year (EUR 19 million), thanks in part to the increase in the value of the Energy Efficiency Certificates held by the CCGT plant, inasmuch as it is a high yield co-generation plant, as well as to the increase in the margin (Spark spread) as a result of the greater rise in sale prices compared to the cost of gas, as well as to the improvement of the performance of ERG Power's CCGT plant and to the industrial efficiency-boosting actions carried out during the period.

In the **first nine months** of 2017, ERG Power's net electricity generation was 1,812 GWh, down compared to the same period of 2016 (2,032 GWh), also as a result of the changes made to the pertinent regulatory system. It should be pointed out that the period no longer benefited from the "reintegration consideration" due until the entry into force of the Essential Units regulations, which ended on 27 May 2016, whilst in the same period of last year it did benefit from it, by approximately EUR 31 million.

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

The net supply of steam to the captive customers of the petrochemical site of Priolo Gargallo, amounting to 575 thousand tonnes, was in line with 570 thousand tonnes in the first nine months of 2016. Approximately a quarter of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, where energy also includes the net supply of steam.

The recurring EBITDA of the **first nine months** of 2017 amounted to EUR 63 million (EUR 70 million recorded in 2016), in line with expectations but lower than the first half of 2016, mainly as a result of the absence, among the 2017 revenues, of the former UESSE reintegration consideration, which in the first half of 2016 amounted to approximately EUR 31 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 11 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

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
29	26	Revenues from ordinary operations	104	87
19	17	Recurring EBITDA ⁽¹⁾	73	59
(15)	(15)	Amortisation, depreciation and write-downs ⁽¹⁾	(44)	(44)
4	3	Recurring EBIT ⁽¹⁾	29	14
2	1	Capital expenditures on tangible and intangible fixed assets	4	2
65%	66%	EBITDA Margin %	70%	67%
232	277	Total output from hydroelectric plants (GWh)	884	1.028

(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 **third quarter** of 2017, revenues, amounting to EUR 29 million, related mainly to electricity sales of EUR 13 million, to revenues from feed-in premium (former Green Certificates) of EUR 15 million, in addition to revenues from MSD of EUR 1 million.

The costs, totalling EUR 10 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for the third quarter of 2017 was EUR 19 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 overall production (232 GWh) therefore benefited from an average unit revenue, considering the sales price of energy of revenues from MSD and the replacement incentives, totalling approximately EUR 120.7 EUR/MWh (96 EUR/MWh in the same period of 2016).

The EBITDA margin of the third quarter of 2017 totalled 65%.

The load factor recorded in the period, i.e. 20%, was affected by the poor rain conditions (output of 232 GWh in the third quarter of 2017, down both compared to the value of the third quarter of 2016 and to the ten-year historical average).

In the **first nine month** of 2017, revenues, amounting to EUR 104 million, refer mainly to sales of electricity (EUR 51 million), to revenues from the feed-in premium (former green certificates) amounting to EUR 50 million (of which approximately EUR 8 million relating to the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification mainly of the Sigillo plant (5 MW) in addition to revenues of MSD amounting to EUR 4 million). The costs, totalling EUR 32 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA of the first nine months of 2017 amounted to EUR 73 million (EUR 59 million in the corresponding period of the previous year).

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 (884 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity, the revenues from MSD and the replacement incentives, totalling approximately 107.1 EUR/MWh (85 EUR/MWh in 2016), excluding the recoveries of prior incentives, already commented.

The EBITDA margin of the first nine months of 2017 totalled 70%.

The load factor recorded in the period, amounting to 26%, was affected by the poor rain conditions observed (output of 884 GWh in the first nine months of 2017, down both relative to the corresponding period of 2016 and to 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 522, 522 and 127 metres above sea level, lower than both the levels of 30 September 2016 (respectively 526, 526 and 126 metres above sea level).

CAPITAL EXPENDITURE

The capital expenditure figure for the period does not include **the acquisition of six wind farms in Germany**, acquired from the DIF Group with an installed capacity of 48.4 MW. The enterprise value of the acquisition is approximately EUR 40 million.

The figure of capital expenditure for the corresponding period of the previous year 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 purchase value amounted to approximately 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 approximately EUR 13 million, in addition to the investments made downstream of the acquisition of the project, commented 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.

In the **third quarter** of 2017 the ERG Group made capital expenditures in tangible and intangible fixed assets totalling EUR 11 million (EUR 12 million in the same period of 2016), including EUR 10.9 million for tangible fixed assets (EUR 11.5 million in the third quarter of 2016) and EUR 0.2 million for intangible fixed assets (EUR 0.5 million in the third quarter of 2016).

In the **first nine months** of 2017 the ERG Group carried out capital expenditures for tangible and intangible fixed assets totalling EUR 37 million (EUR 31 million in the same period of 2016) of which EUR 36 million relating to tangible fixed assets (EUR 29 million in the first nine months of 2016) and EUR 1 million to intangible fixed assets (EUR 2 million in the first nine months of 2016).

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

3 rd quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
7	8	Non-programmable sources	27	21
7	8	Wind Power	27	21
4	3	Programmable sources	9	8
2	2	Thermoelectric power	5	6
2	1	Hydroelectric power	4	2
–	–	Corporate	1	1
11	12	Total	37	31

Non-programmable sources

The capital expenditure in the third quarter of 2017 (EUR 7 million) and of the first nine months of 2017 (EUR 27 million) refers mainly to the outlays made by ERG Power Generation of approximately EUR 24 million following the works for the construction of the aforementioned wind farm in Northern Ireland. In more detail, the Brockaghboy wind farm, consisting of nineteen 2.5 MW Nordex N90 wind turbines, totalling 47.5 MW, was completed at the end of the month of August and the “commissioning” phase is being completed.

Programmable sources

The capital expenditure in the third quarter of 2017 (EUR 4 million) and of the first nine months of 2017 (EUR 9 million) 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 by incorporation 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 Report on Operations 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.

3 rd quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
OPERATING RESULTS				
45	44	Recurring EBITDA ⁽¹⁾	133	97
(13)	(19)	Amortisation, depreciation and write-downs	(53)	(55)
33	26	Recurring EBIT ⁽¹⁾	79	42
20	16	Recurring net profit ⁽²⁾	49	20
13	15	Capital expenditures on tangible and intangible fixed assets	40	42
MAIN FINANCIAL DATA				
444	635	Net invested capital	444	635
299	266	Shareholders' equity	299	266
145	368	Total net financial indebtedness	145	368

(1) the data shown do not include inventory gains (losses) amounting to approximately EUR +11 million in the third quarter of 2017 (EUR +1 million in the third quarter of 2016) and EUR +3 million in the first nine months of 2017 (EUR +18 million in the first nine months 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 via its Italy Network, comprising 2,526 stations (of which 1,643 are owned by the Group and 883 are leased), compared with 2,591 stations at 30 September 2016 and 2,585 at 31 December 2016. At the end of 2012, the network comprised 3,248 stations and that the decrease in sales outlets is due to the process for restructuring of the fuel network continued over the last few years, which led to the closure of outlets which have a low fuel turnover, the modernisation / automation of those owned which have a higher fuel turnover and

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

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

TotalErg also operates in the refining and logistics sector, by means of the Sarpom Refinery in Trecate, located in one of the areas featuring the greatest intensity of consumption, with a total annual balanced distillation capacity, as far as TotalErg's share is concerned, of 1.6 million tonnes (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 **third quarter** of 2017 amounted to approximately EUR 45 million, slightly up compared to the value recorded in the same period of 2016 (EUR 44 million).

With regard to the marketing sector, the results only partly benefited from a positive scenario, featuring contracting demand compared to the third quarter of 2016.

In the Wholesale segment, the operating results for the period decreased, as they did for Specialities.

With regard to refining, the results were significantly higher than those recorded in the same period of the previous year as a result of increased refining margins (EMC indicator up slightly from 1.5 \$/barrel to 4.0 \$/barrel); for logistics, the results of the third quarter of 2017 were lower than those recorded in the same period of the previous year.

Processing work carried out in the third quarter of 2017 amounted to 424 thousand tonnes, up from 400 thousand tonnes in the third quarter of 2016.

The recurring EBITDA of the **first nine months** of 2017 amounted to approximately EUR 133 million, markedly higher compared to the value recorded in the same period of 2016 (EUR 97 million).

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

In the Wholesale sector, the operating results of the period grew, while the Specialities had slightly contracting margins.

With regard to refining, the results were significantly higher than those recorded in the same period of the previous year as a result of increased refining margins (EMC indicator up slightly from 2.1 \$/barrel to 3.4 \$/barrel); for logistics, the results of the first nine months of 2017 were lower than those recorded in the same period of the previous year.

In the first nine months of 2017, 1,219 thousand tonnes were processed, up slightly from 1,203 thousand tonnes of the first nine months of 2016.

The recurring net profit of the **third quarter** of 2017 (EUR 20 million) was significantly higher than in the third quarter of 2016 (EUR 16 million), mainly for the reasons already discussed when commenting the operating results and it benefited from lower amortisation and depreciation, as a result of the sale of the Restiani subsidiary, and lower financial expenses.



The recurring net profit of the **first nine months** of 2017 (EUR 49 million) was significantly higher than that of the same period of 2016 (EUR 20 million), mainly for the reasons discussed above when commenting on the operating results; it also benefited from lower amortisation and depreciation and financial expenses.

The net financial position of TotalErg at 30 September 2017 amounted to EUR 145 million, down compared to EUR 244 million at 31 December 2016, mainly as a result of the sale of the Restiani subsidiary.

TotalErg is financially autonomous for its operations and for recurring development activities due to the 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 is not secured by any collateral or other guarantees provided by the two shareholders.

TotalErg capital expenditure

In the **third quarter** of 2017, TotalErg made capital expenditures for approximately EUR 13 million, down compared to the third quarter of 2016 (EUR 15 million).

Most of the capital expenditure (approximately 71%) involved the Network; in addition, a significant portion was destined to Health, Safety and Environment maintenance and improvements.

During the **first nine months** of 2017, TotalErg made capital expenditures of approximately EUR 40 million, in line with the same period in 2016 (EUR 42 million).

Most of the capital expenditure (approximately 75%) 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.

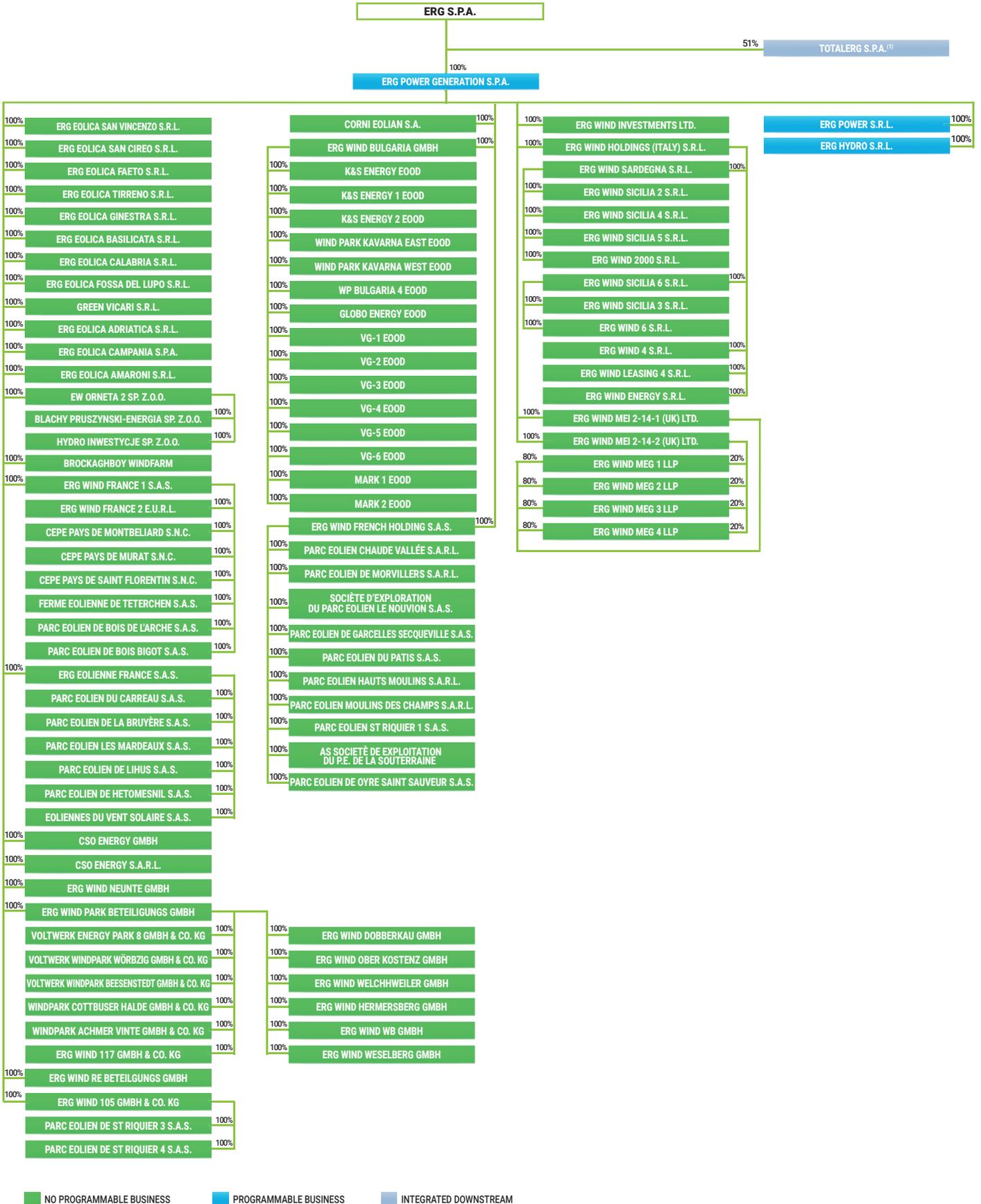
FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 30 September 2017.

Compared with 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.;
- the acquisition from the DIF Group of six German companies that own six wind farms in Germany.



(1) Consolidated at equity

FINANCIAL STATEMENTS

INCOME STATEMENT

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

In the first nine months of 2017, no non-recurring items were recognised.

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

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
227.0	226.8	Revenues from ordinary operations	765.3	757.0
2.3	3.5	Other revenues and income	7.1	11.6
229.4	230.4	TOTAL REVENUES	775.4	768.7
(76.9)	(90.7)	Costs for purchases and changes in inventory	(248.8)	(221.7)
(40.1)	(48.6)	Costs for services and other operating costs	(121.2)	(152.7)
(14.1)	(13.5)	Personnel costs	(45.9)	(45.5)
98.2	77.6	EBITDA	356.4	348.8
(62.4)	(64.6)	Amortisation, depreciation and write-downs of fixed assets	(188.1)	(193.2)
35.8	13.1	EBIT	168.4	155.6
(15.3)	(18.0)	Net financial income (expenses)	(49.3)	(64.0)
14.3	19.8	Net income (loss) from equity investments	26.2	28.1
34.8	14.9	Profit (loss) before taxes	145.3	119.6
(4.9)	4.0	Income taxes	(30.9)	(25.2)
30.0	18.9	Profit (loss) for the period	114.4	94.4
–	0.6	Minority interests	–	(2.4)
30.0	19.5	Group's net profit (loss)	114.4	92.0

Revenues from ordinary operations

The revenues of the **third quarter** of 2017 amounted to EUR 227 million, in line with the third quarter of 2016, as a result of the following factors:

- the increase of the **Wind Power sector**, tied mainly to a higher output of the period and to the average increase in the prices of both energy and incentives;
- revenues of the **Hydroelectric sector** substantially in line with the corresponding period of 2016;
- the decrease of the **Thermoelectric sector** tied mainly to the lower output.



The revenues of the **first nine months** of 2017 amounted to EUR 765 million, slightly up compared to EUR 757 million of the first nine months of 2016. The change is a result of the following factors:

- the slight increase of the **Wind power sector** tied mainly to a more favourable trend in prices, partially offset by a lower output in Italy and France;
- 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 decrease of the **Thermoelectric sector** as a result of the loss of the entitlement to the “reintegration consideration”, partly mitigated by the increase in electricity sale prices.

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 **third quarter** of 2017, they amounted to EUR 77 million, down by EUR 14 million relative to the third quarter of 2016 mainly as a result of the lower costs for purchases of electricity and other utilities, carried out in the period.

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

In the **first nine months** of 2017 they amounted to EUR 249 million, up by EUR 27 million compared to the first nine months of 2016, mainly as a result of the higher costs for gas and electricity purchases.

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

Costs for services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, 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 relates mainly 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 end of the useful life of some components of the French wind farms, the revision of the useful life of the farms in France and Germany acquired in the first half of 2016, within the scope of the Purchase Price Allocation defined in the 2016 Financial Statements, the effects of which were offset in part by higher amortisation and depreciation due to the acquisition of the German parks which occurred in the second quarter of 2017 (for approximately EUR 3 million).

Net financial income (expenses)

The net financial expenses of the **third quarter** of 2017 amounted to EUR 15 million, compared with EUR 18 million in the third quarter of 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 item also includes the effects of the derivatives hedging against the risk of interest rate fluctuations.

The net financial expenses of the **first nine months** of 2017 amounted to EUR 49 million, compared to EUR 64 million in the first nine months of 2016. The decrease is 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 half of 2016 included non-recurring expenses for approximately EUR 8 million pertaining to the prepayment of the bank loan of the Romanian company Corni Eolian S.A. and the refinancing of Tranche A of the ERG Hydro acquisition loan.

Net of the non-recurring costs referred to above, net financial expenses at replacement cost for the first half of 2016 were equal to EUR 56 million.

The effects related to financial restructuring enabled a reduction of the average cost of medium-long term debt, which in the first nine months of 2017 amounted, on average, to 3.2%, compared to 3.5% in 2016 (excluding non-recurring expenses).

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 **third quarter** of 2017, the item reflects the results of the joint venture TotalErg S.p.A. including the changes in the value of the inventory (EUR +14 million, compared to EUR 8 million in the third quarter of 2016). In the third quarter of 2016, the item also included the income deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A. (EUR +11 million) and the income deriving from the sale of the equity investment in ERG Eolica Lucana (EUR +1 million).

In the **first nine months** of 2017, the item included the results of the TotalErg S.p.A. joint venture including changes in the value of inventories (EUR +26 million, compared to EUR 16 million in 2016). The results of the first nine months of 2016 included the items already commented with reference to the third quarter.

Income taxes

Income taxes of the **third quarter** of 2017 amounted to EUR 5 million (positive taxes of EUR 4 million in the third quarter of 2016).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 14% (the tax rate was not significant in the third quarter of 2016).

The recurring tax rate of the **third quarter** of 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 16% (the tax rate was not significant in the third quarter of 2016).

Income taxes in the **first nine months** of 2017 were EUR 31 million (EUR 25 million in the same period of 2016).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 21% (28% in the same period of 2016).

The recurring tax rate of the first nine months of 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 21% (24% in the first nine months 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 nine months of 2016), this decrease was partly offset the negative effect as a result of the change to the ACE (Aid to Economic Growth) rate (1.6% in the first half of 2017, versus 4.75% in 2016).

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30/09/2016	(EUR million)	30/09/2017	30/06/2017	31/12/2016
3,409.0	Fixed assets	3,280.8	3,320.3	3,372.2
205.7	Net working capital	140.8	210.1	160.2
(6.4)	Employees' severance indemnities	(6.6)	(6.5)	(6.7)
365.6	Other assets	319.7	329.3	310.1
(685.4)	Other liabilities	(582.2)	(586.6)	(549.5)
3,288.5	Net invested capital	3,152.6	3,266.7	3,286.3
1,559.7	Group Shareholders' Equity	1,782.5	1,752.6	1,729.1
51.8	Minority interests	-	-	-
1,677.0	Net financial indebtedness	1,370.1	1,514.1	1,557.2
3,288.5	Shareholders' equity and financial debt	3,152.6	3,266.7	3,286.3
51%	Financial leverage	43%	46%	47%

At 30 September, net invested capital amounted to EUR 3,153 million, down compared to 31 December 2016.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 43% (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 attributable to the amortisation/depreciation for the period, partly offset by the acquisition of the German wind farms carried out in the period and the capital expenditure relating to the construction of a wind farm in Northern Ireland.

The decrease compared to 30 June is due to the amortisation and depreciation of the period, partly offset by the capital expenditures made in 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.

The decrease compared to 30 June is mainly due to the collections of the incentives relating to the output of the first quarter of 2017, in accordance with current regulations, and to the collection of the Energy Efficiency Certificates pertaining to 2016.

Other assets

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

Other liabilities

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

Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

30/09/2016	(EUR million)	30/09/2017	30/06/2017	31/12/2016
2,044.1	Medium/long-term financial indebtedness	1,861.9	1,841.2	1,934.1
(367.2)	Short term financial indebtedness (cash and cash equivalents)	(491.8)	(327.2)	(376.9)
1,677.0	Total	1,370.1	1,514.1	1,557.2



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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

30/09/2016	(EUR million)	30/09/2017	30/06/2017	31/12/2016
667.9	Medium/long-term bank borrowings	670.0	669.4	668.4
-	Current portion of mortgages and loans	(58.6)	-	-
171.4	Medium/long-term financial payables	222.0	120.2	141.9
839.3	Total	833.4	789.7	810.4
1,331.8	Total Project Financing	1,208.7	1,206.5	1,275.6
(127.0)	Current portion of Project Financing	(180.2)	(154.9)	(151.9)
1,204.8	Medium/long-term Project Financing	1,028.5	1,051.6	1,123.7
2,044.1	TOTAL	1,861.9	1,841.2	1,934.1

The "Medium/long-term bank borrowings" at 30 September 2017 total EUR 670 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).

The current portion of mortgages and loans refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

"Medium/long term financial payables", amounting to EUR 222 million, refer to:

- liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 123 million (EUR 142 million at 31 December 2016).
- liability deriving from the issue of the non convertible bond (EUR 99 million²² at 30 September 2017) made in the third quarter 2017, directed at raising additional funds for new capital expenditure in the sector of renewable energies and to refinance the capital expenditure made on hydroelectric plants in Italy.

²² Net of ancillary costs, recognised with the amortised cost method.

The payables for “Medium/long-term Project Financing” (EUR 1,209 million at 30 September 2017) relate to:

- loans of EUR 1,103 million issued to companies in the Non-programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 437 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 68 million;
- EUR 106 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

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

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

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

SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30/09/2016 (EUR million)	30/09/2017	30/06/2017	31/12/2016
9.6 Short-term bank borrowings	1.5	41.3	2.3
– Current portion of mortgages and loans	58.6	–	–
10.0 Other short-term financial debts	1.5	1.8	3.8
19.6 Short-term financial liabilities	61.6	43.1	6.0
(294.7) Cash and cash equivalents		(280.7)	(263.3)
(23.1) Securities and other short-term financial receivables	(107.2)	(108.1)	(107.6)
(317.8) Short-term financial assets	(551.2)	(388.8)	(370.9)
127.0 Short-term Project Financing	180.2	154.9	151.9
(195.9) Cash and cash equivalents	(182.5)	(136.3)	(163.9)
(69.0) Project Financing	(2.3)	18.6	(12.0)
(367.2) TOTAL	(491.8)	(327.2)	(376.9)

The amount of cash and cash equivalents increased in the first nine months of 2017 as a result of the collections relating to receivables for feed-in premium relating to the first quarter of 2017 and to the Energy Efficiency Certificates relating to 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:

3 rd Quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
83.3	70.5	Adjusted cash flow from current operations ⁽¹⁾	306.2	302.0
-	-	Income tax paid	(15.2)	(8.7)
69.2	107.4	Change in working capital	22.4	(2.4)
0.1	(3.1)	Change in other operating assets and liabilities	(5.6)	(32.1)
152.6	174.7	Total	307.8	258.9
CASH FLOWS FROM INVESTING ACTIVITIES				
(11.0)	(12.3)	Net capital expenditure on tangible and intangible fixed assets	(35.2)	(28.0)
(0.4)	0.9	Net capital expenditures in financial fixed assets	15.0	5.4
(11.4)	(11.4)	Total	(20.1)	(22.6)
CASH FLOW FROM SHAREHOLDERS' EQUITY				
-	-	Distributed dividends	(74.4)	(142.8)
2.7	(0.4)	Other changes in equity ⁽³⁾	13.3	(16.4)
2.7	(0.4)	Total	(61.1)	(159.2)
-	0.2	CHANGE IN SCOPE OF CONSOLIDATION⁽²⁾	(39.5)	(306.3)
144.0	163.2	CHANGE IN NET FINANCIAL INDEBTEDNESS	187.1	(229.1)
1,514.1	1,840.1	INITIAL NET FINANCIAL INDEBTEDNESS	1,557.2	1,447.9
(144.0)	(163.2)	CHANGE IN THE PERIOD	(187.1)	229.1
1,370.1	1,677.0	FINAL NET FINANCIAL INDEBTEDNESS	1,370.1	1,677.0

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

(2) the change in the scope of consolidation in the first nine months of 2017 refers to the line-by-line consolidation of the German companies acquired from the DIF RE Group. The figures relating to the first nine months of 2016 refer principally to the line-by-line consolidation of the companies acquired from Impax Asset Management.

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

The **net financial indebtedness** amounted to EUR 1,370 million, down by EUR 187 million compared to 31 December 2016 mainly due to the net positive operating cash flows and the dividend received by TotalErg, which offset the impacts of the acquisition of the German wind farms from the DIF Group, the distribution of dividends, the payment of taxes, and the investments in the period.

The **net financial indebtedness** decreased by EUR 144 million compared to 30 June 2017 (EUR 1,514 million) mainly because of the operating cash flow of the period, of the collected incentives relating to the generation of the first quarter of 2017, in accordance with current regulations, and to the collection of the Energy Efficiency Certificates pertaining to 2016.

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 non-recurring items and **inventory gains (losses)**²³.

As from the Interim Report on Operations at 31 March 2017, these results, previously defined as “at replacement costs”, are indicated with the definition “recurring”.

Recurring results are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group’s operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting. Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method used by other operators and so these might not be fully comparable.

The components used to determine the calculation of recurring results are described below.

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

Inventory gains (losses)²³ are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

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

²³ 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

3 rd quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
98.3	77.6	EBITDA	356.4	348.8
Exclusion of non-recurring items:				
Programmable sources				
-	-	- Charges for company reorganisation	-	0.3
Non-programmable sources				
-	-	- Charges for company reorganisation	-	0.9
-	-	- Ancillary charges on extraordinary operations	-	0.9
98.3	77.6	EBITDA recurring	356.4	350.9

GROUP NET PROFIT (LOSS)

3 rd quarter			First 9 months	
2017	2016	(EUR million)	2017	2016
30.0	19.5	Group net profit (loss)	114.4	92.0
(4.0)	(0.4)	Exclusion of inventory Gains / Losses	(1.2)	(6.4)
Exclusion of non-recurring items:				
-	(0.0)	Exclusion of ancillary charges on extraordinary operations	-	0.8
-	0.5	Exclusion of TotalErg non-recurring items	-	0.8
-	-	Exclusion of effects of loan prepayment	-	5.9
-	-	Exclusion of charges for company reorganisation	-	0.8
-	(11.0)	Exclusion of financial expenses/income on minorities option	-	(11.0)
25.9	8.6	Recurring Group net profit (loss)	113.2	82.9

It should be noted that during the first nine months of 2017 no non-recurring items were identified and isolated with the exception of the inventory gains (losses) of the TotalErg joint venture.

SIGNIFICANT EVENTS AFTER THE QUARTER

11
october
2017

ERG, through its subsidiary ERG Eolienne France SAS, executed with Vent d'Est SAS, a company of the French Grand Est region with industrial competencies in the management and development of wind farms and strong relationships with local communities, an agreement for the acquisition of 75% of the share capital of two companies owning two parks for a total capacity of 16.25 MW (Parc Eolienne del Voie Sacrée SAS of 12 MW, which started operating in 2007 and Parc Eolienne d'Epense SAS of 4.25 MW, which started operating in 2005). The remaining 25% is held by Renvico France SAS.

The enterprise value of the acquisition, base 100%, amounted to EUR 12.9 million. The closing, subordinated inter alia to the minority shareholders' waiving of the right of first bid, is expected by the end of the year. The transaction also provides the stipulation of a co-development agreement with Vent d'Est SAS for an early-stage pipeline of approximately 300 MW of projects, also located in France, in areas where wind speeds are very high.

The agreement will then make it possible to start a greenfield development activity in France as well, of which ERG will have the leadership in the technical definition of the projects and in the management of the costs.

With this acquisition, consistent with the Plan objectives of geographic diversification and growth abroad, ERG brings its installed capacity to approximately 270 MW in France, where a plan of progressive in-sourcing of wind farm management activities has already been launched.

03
november
2017

ERG S.p.A. and Total Marketing Services S.A.: signed a binding agreement with the api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery. The effectiveness of the transaction, expected to close no later than 31 January 2018, is subject to the approval of the Antitrust and to completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company. The total amount that ERG S.p.A. will collect for the equity value of the transaction is EUR 273 million. This amount includes the extraordinary dividends distributed by TotalErg S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017) and a deferred component of approximately EUR 36 million, regulated by a vendor loan agreement with a duration of 5 and a half years, entered into with api S.p.A.

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 it achieved 674 MW of installed power abroad, equal to 38% of the 1,768 MW installed in total, enabling the Group to become the eighth on-shore 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 48.4 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 slightly, mainly as a result of the low winds and secondarily due to the gradual exit from the incentive system of approximately 214 MW during 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, despite the year's low water availability the results are expected to grow slightly thanks to the better sale prices, to the better incentive price benefiting approximately 40% of output, which is expected to decline 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 the continuous efficiency-boosting actions.

The results of the Thermoelectric plant are expected to increase slightly although 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. This is largely mitigated by the favourable scenario (also with reference to the prices of Energy Efficiency Certificates), participation in the dispatching services market, the maximisation of high-yield co-generation, improvements in operating efficiency and Energy Management activities.

In general, the total EBITDA of the Programmable Sources is thus expected to increase slightly.

On the whole, the EBITDA for 2017 is expected to be approximately EUR 455 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 offset by more favourable price scenarios, by the contribution of the development of new wind power generation capacity abroad, by 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 to approximately EUR 1,300 million (down markedly from EUR 1,557 million in 2016).

This indication includes an estimate of new capital expenditure of approximately EUR 100 million and the collection, on 26 October 2017, of approximately EUR 50 million of extraordinary dividends from TotalErg, of 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 wind conditions, the impact of regulations for the energy sector and for the environment, other changes in business conditions and in competitors' actions.

Genoa, Italy, 10 November 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, hereby 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 on operations, matches the accounting documentation, books and entries.

Genoa, Italy, 10 November 2017

The Manager responsible for preparing
the Company's financial reports
Paolo Luigi Merli

A handwritten signature in black ink, appearing to read 'Paolo Luigi Merli'.



ERG S.P.A.

Torre WTC

via De Marini, 1 - 16149 Genoa

Phone 0102401 - Fax 0102401585

www.erg.eu



REGISTERED OFFICE

via De Marini, 1 - 16149 Genoa

Share Capital Euro 15,032,000.00 fully paid

R.E.A. Genoa n. 354265

Company Register Genoa

and Fiscal Code 94040720107

VAT 10122410151

WWW.ERG.EU

