ERG

INTERIM MANAGEMENT REPORT

AT 31 MARCH 2018

ERG

EVOLVING ENERGIES

1938
201∞

INTRODUCTION

Quarterly Information

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.

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.

Alternative performance measures (APM) and adjusted results

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and the presentation of Alternative Performance Measures in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Measures (CESR/05 - 178b), aim to promote the usefulness and the transparency of alternative performance measures in order to improve their comparability, reliability and capacity for understanding.

Some of the Alternative Performance Measures (APM) used in this document are different from the financial indicators expressly provided by the IAS/IFRS adopted by the Group.

These alternative measures are used by the Group in order to facilitate the communication of information on business performance as well as on net financial indebtedness.

Finally, it is noted that in order to facilitate the understanding of businesses' operating performance, results of operations are shown excluding special income items: as from this Report, these results, previously referred to as "recurring", are indicated with the term "**Adjusted results**".

For the definition of the indicators and the reconciliation of the amounts involved, reference is made to that indicated in the specific "Alternative Performance Measures" section.

Comparative restated data

- The sale of **TotalErg** on 10 January 2018 marked the ERG Group's definitive departure from the OIL industry. Since this date, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same periods of 2017 is therefore affected by this change in scope. As such, in order to facilitate the understanding of the performance in the two periods and in view of the Group's new strategic and industrial positioning, the 2017 comparative figures were amended so as to exclude the adjusted results[1] of the joint venture TotalErg which had previously been consolidated under the equity method and reported in the line "Net income (loss) from equity investments". In the first quarter of 2017 this contribution was positive in the amount of EUR 6 million (EUR +24 million for the whole of 2017).
- **IFRS 15 - Revenue from Contracts with Customers** has been applied as from 1 January 2018, with no significant impact on the Group's Consolidated Financial Statements. In particular, some ERG contracts were identified as "agent", requiring revenues to be shown in net values in order to highlight only the brokering margin.

MAIN INCOME STATEMENT DATA

(EUR million)	First quarter 2017	TotalErg deconsolidation	IFRS 15 Reclassifications	First quarter 2017 restated
Revenues from ordinary operations	303	(0)	(2)	300
Recurring EBITDA	**151**	**0**	**0**	**151**
Recurring EBIT	**90**	**0**	**0**	**90**
Net profit	65	0	0	54
of which Group net income	65	0	0	54
Recurring Group net profit (loss)	**61**	**(6)**	**0**	**54**

Segment Reporting

Operating results are posted and commented on with reference to the various production technologies, in line with the Group's internal methods for measuring results.

The results also reflect the energy sales on markets by Group Energy Management,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 businesses 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.

1 Net of special items and inventory gains (losses).

Risks and uncertainties facing the business outlook

With reference to the estimates and forecasts contained in this document, and in particular in the section “Business outlook”, 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, wind conditions, water availability, irradiation, the impact of regulations for the energy industry and for the environment, other changes in business conditions and in competitors’ actions.

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CORPORATE BODIES

BOARD OF DIRECTORS [1]

Chairman
EDOARDO GARRONE *(executive)*

Deputy Chairman
ALESSANDRO GARRONE *(executive)* [2]
GIOVANNI MONDINI *(non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(independent)* [3]
MARA ANNA RITA CAVERNI *(independent)* [4]
BARBARA COMINELLI *(independent)* [4]
MARCO COSTAGUTA *(non-executive)*
PAOLO FRANCESCO LANZONI *(independent)* [3]
SILVIA MERLO *(independent)* [4]
ELISABETTA OLIVERI *(independent)* [4]
MARIO PATERLINI *(independent)* [4]

BOARD OF STATUTORY AUDITORS [5]

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

MANAGER RESPONSIBLE (ITALIAN LAW NO. 262/05)

PAOLO LUIGI MERLI

INDEPENDENT AUDITORS

KPMG S.p.A.[6]

1 Board of Directors appointed on 23 April 2018.
2 Director in charge of the Internal Control and Risk Management System
3 With reference to the provisions of art. 148, paragraph 3, of the Consolidation Finance Law (TUF)
4 With reference to the provisions of art. 148, paragraph 3, of the Consolidated Finance Law and the matters contained in the current Corporate Governance Code furthered by Borsa Italiana S.p.A.
5 Board of Statutory Auditors appointed on 3 May 2016
6 Appointed on 23 April 2018 for the period 2018 - 2026 in replacement of Deloitte & Touche S.p.A.

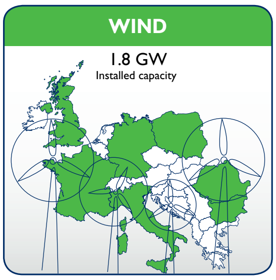
BUSINESS DESCRIPTION

In 2017, the ERG Group completed a radical transformation process from leading Italian private oil operator to leading independent operator in the generation of energy from renewable sources, wind, solar, hydroelectric and high-output co-generative thermoelectric), also expanding abroad with a rising presence on the French and German wind market.

Management of the industrial and commercial processes of the ERG Group is carried out by the subsidiary ERG Power Generation S.p.A. which directly carries out:

- centralised Energy Management activity for all the 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 its foreign subsidiaries it performs technical and administrative services in France and Germany both in favour of Group companies and of third parties.

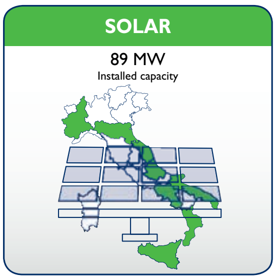
ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



Wind

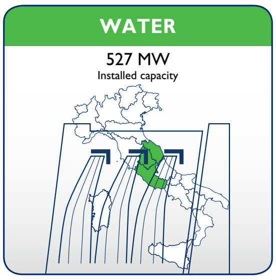
ERG is active in the generation of electricity from wind sources, with 1,783 MW of installed power at 31 March 2018. ERG is the leading wind power operator in Italy and one of the first ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and rising presence also abroad (690 MW operational), in particular in France (268 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).



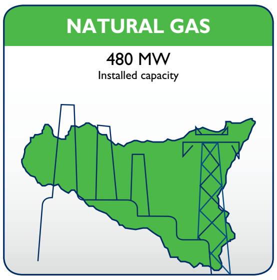
Solar

Starting from January 2018, ERG operates in the generation of electricity from solar sources, with an installed capacity of 90 MW and an annual output of approximately 137 GWh, through 31 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy.



Hydroelectric

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.

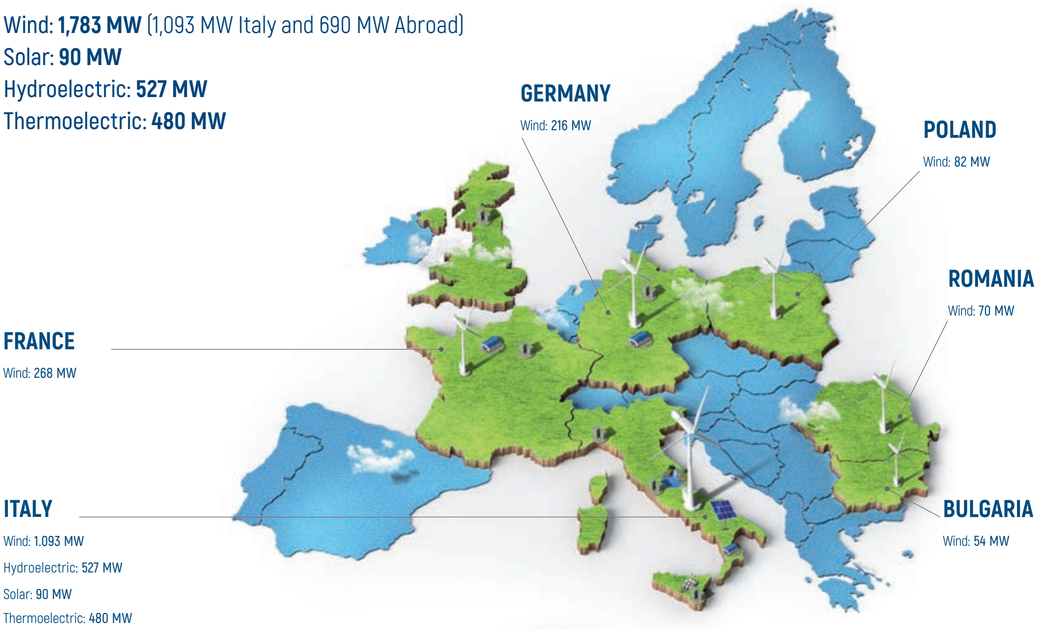


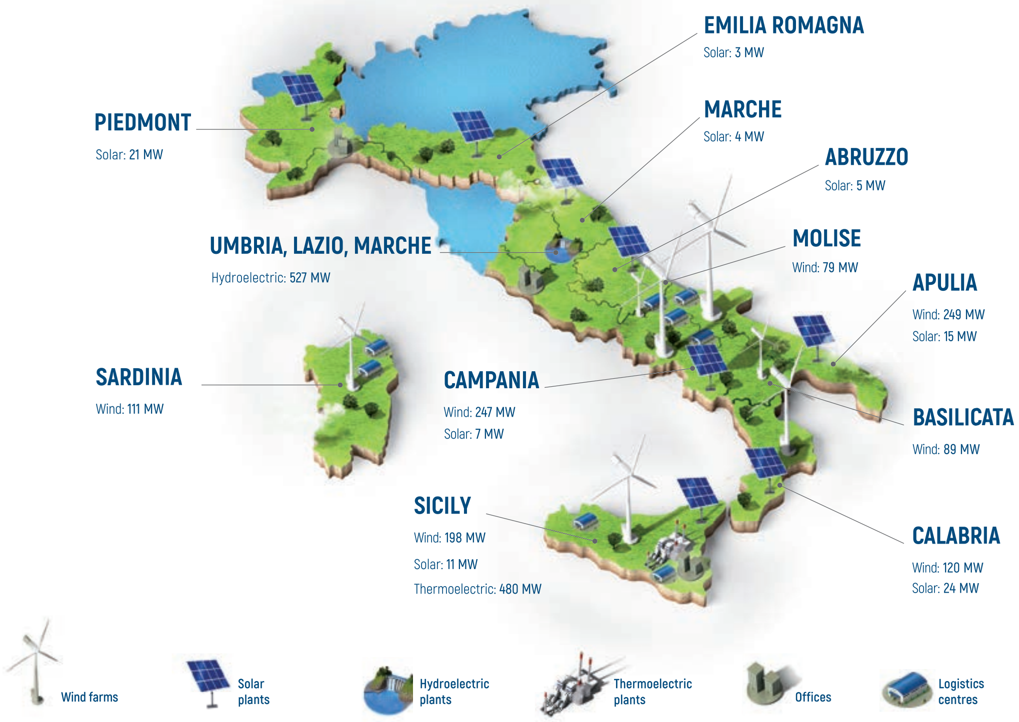
Thermoelectric

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. This is a high-efficiency co-generation plant (C.A.R.), based on 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.

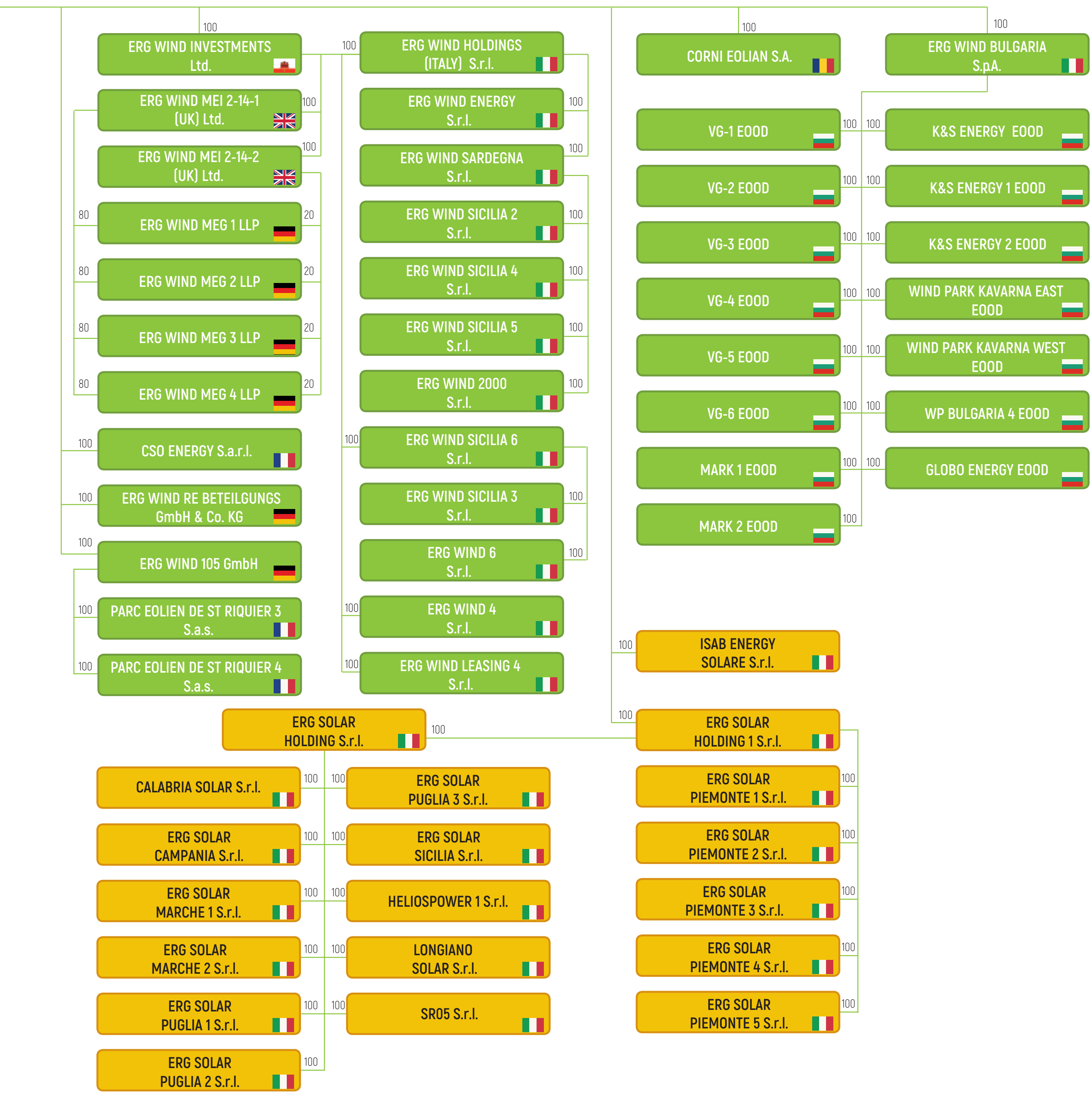
GEOGRAPHICAL BUSINESS AREAS AT 31 MARCH 2018

Wind: **1,783 MW** (1,093 MW Italy and 690 MW Abroad)
Solar: **90 MW**
Hydroelectric: **527 MW**
Thermoelectric: **480 MW**





SCOPE OF CONSOLIDATION AT 31 MARCH 2018


ERG WIND INVESTMENTS Ltd.
ERG WIND MEI 2-14-1 (UK) Ltd.
ERG WIND MEI 2-14-2 (UK) Ltd.
ERG WIND MEG 1 LLP
ERG WIND MEG 2 LLP
ERG WIND MEG 3 LLP
ERG WIND MEG 4 LLP
CSO ENERGY S.a.r.l.
ERG WIND RE BETEILGUNGS GmbH & Co. KG
ERG WIND 105 GmbH
PARC EOLIEN DE ST RIQUIER 3 S.a.s.
PARC EOLIEN DE ST RIQUIER 4 S.a.s.
ERG WIND HOLDINGS (ITALY) S.r.l.
ERG WIND ENERGY S.r.l.
ERG WIND SARDEGNA S.r.l.
ERG WIND SICILIA 2 S.r.l.
ERG WIND SICILIA 4 S.r.l.
ERG WIND SICILIA 5 S.r.l.
ERG WIND 2000 S.r.l.
ERG WIND SICILIA 6 S.r.l.
ERG WIND SICILIA 3 S.r.l.
ERG WIND 6 S.r.l.
ERG WIND 4 S.r.l.
ERG WIND LEASING 4 S.r.l.
CORNI EOLIAN S.A.
ERG WIND BULGARIA S.p.A.
VG-1 EOOD
VG-2 EOOD
VG-3 EOOD
VG-4 EOOD
VG-5 EOOD
VG-6 EOOD
MARK 1 EOOD
MARK 2 EOOD
K&S ENERGY EOOD
K&S ENERGY 1 EOOD
K&S ENERGY 2 EOOD
WIND PARK KAVARNA EAST EOOD
WIND PARK KAVARNA WEST EOOD
WP BULGARIA 4 EOOD
GLOBO ENERGY EOOD
ISAB ENERGY SOLARE S.r.l.
ERG SOLAR HOLDING S.r.l.
ERG SOLAR HOLDING 1 S.r.l.
CALABRIA SOLAR S.r.l.
ERG SOLAR CAMPANIA S.r.l.
ERG SOLAR MARCHE 1 S.r.l.
ERG SOLAR MARCHE 2 S.r.l.
ERG SOLAR PUGLIA 1 S.r.l.
ERG SOLAR PUGLIA 2 S.r.l.
ERG SOLAR PUGLIA 3 S.r.l.
ERG SOLAR SICILIA S.r.l.
HELIOSPOWER 1 S.r.l.
LONGIANO SOLAR S.r.l.
SR05 S.r.l.
ERG SOLAR PIEMONTE 1 S.r.l.
ERG SOLAR PIEMONTE 2 S.r.l.
ERG SOLAR PIEMONTE 3 S.r.l.
ERG SOLAR PIEMONTE 4 S.r.l.
ERG SOLAR PIEMONTE 5 S.r.l.

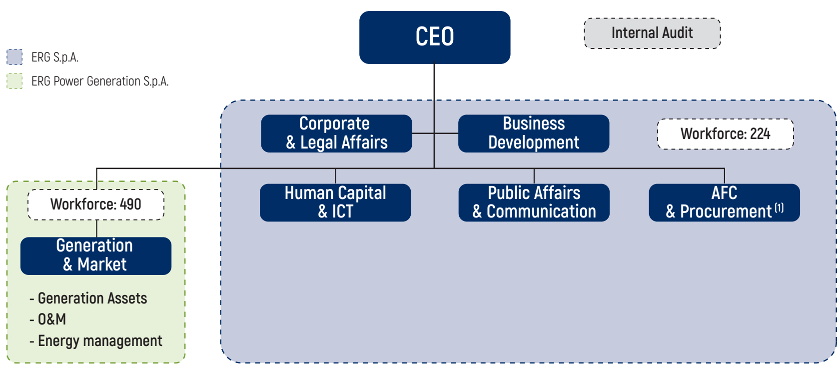
ORGANISATIONAL MODEL

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, Hydro and Solar 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.

ONE COMPANY: A LEAN ORGANIZATION
TO SPEED UP DECISION MAKING PROCESS



(1) It includes Group Administration, Finance, Planning & Control, Investor Relations, M&A, Corporate Finance & Group Risk Management and Procurement

CHANGE IN THE BUSINESS SCOPE

Wind Power

- In the first quarter of 2018, ERG, via its subsidiary ERG Eolienne France S.a.s., completed the acquisition from **Vent d'Est S.a.s.** of 75% of the capital of the two companies that own two wind farms with a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s. with 12.0 MW, which came into operation in 2007, and Parc Eolienne d'Epense S.a.s. with 4.25 MW, which came into operation in 2005). Renvico France S.a.s. therefore continues to hold a 25% investment in the capital of the two companies. The companies are consolidated as from 1 January 2018.
- On 7 March 2018, following the sales process started at the end of 2017, ERG sold to the Greencoat UK Wind PLC fund, quoted on the London Stock Exchange and specialised in investment in renewables, 100% of the capital of its subsidiary **Brockaghboy Windfarm Ltd.** ("BWF"), a UK company which owns the 47.5 MW wind farm built in Northern Ireland, in County Londonderry, by ERG and TCI Renewables Ltd. The wind farm, for which construction work began during the second quarter of 2016, entered into full operation at the end of 2017.
  The enterprise value of the transaction amounts to approximately GBP 163 million. The proceeds were split between ERG and TCI as stipulated in the Development Service Agreement signed at the time of acquisition of the ready-to-build project: the total cash-in for ERG was approximately GBP 95 million (EUR 106 million), of which approximately GBP 70 million (EUR 76 million) fully covered the investments made by ERG to acquire the project and build the wind farm.

The disposal of the assets on 7 March 2018 resulted in:

- the reduction of net financial debt by EUR 106 million in relation to the net sale price;
- the recognition of the realised capital gain of EUR 26 million, net of the related tax effects and of other ancillary components. The gain and the other Income Statement components associated with the sale of the equity investment are considered special items and therefore are not reflected in "Adjusted Group EBIT".

It is noted that in the Notes to the 2017 Consolidated Financial Statements, in view of the selling process under way, the accounting results relating to the assets being sold were disclosed separately in application of the requirements of IFRS 5.
In this Report, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown in ordinary operations, in line with the approach already adopted in the Report on Operations of the 2017 Financial Statements.

For the reconciliation of these values, please refer to the section "Alternative Performance Measures".

Solar

On 12 January 2018, ERG completed **the acquisition of 30 photovoltaic plants**, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh.

100% of the installed capacity benefits from incentives with average maturity of 2030.

The enterprise value of the transaction was approximately EUR 335 million. The assets are currently financed through non-recourse project financing for an amount of approximately EUR 180 million and finance lease agreements for an amount of approximately EUR 60 million.

This Report reflects the impacts of the consolidation of the companies acquired as from 1 January 2018: for more information on the Purchase Price Allocation for solar, reference is made to the section "Financial Statements and Alternative Performance Measures".

In view of the aforementioned entry into the solar business, ISAB Energy Solare S.r.l. (1 MW), a company already forming part of the Group and previously measured using the cost method due to it not being of a significant size, is fully consolidated from this Report onwards.

Sale of the TotalErg Equity Investment

It is recalled that on **3 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 transaction was concluded on **10 January 2018**, following Antitrust approval and upon completion of the demerger 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., again 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 amount relating to the sale of the assets is equal to EUR 194 million, of which EUR 14 million was already collected as an advance payment in 2017, EUR 144 million was collected in 2018 at the time of closing and EUR 36 million was a deferred component regulated by a vendor loan agreement with a maturity of 5 and a half years, signed with api S.p.A.

In total, the value linked to the equity value of the transaction was equal to EUR 273 million which includes, in addition to the consideration indicated above, the extraordinary dividends distributed in 2017 by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017), the interest that will accrue in the context of the vendor loan agreement and the related tax effects.

For a better understanding of the data commented herein, the following impacts are pointed out in particular:

- the reduction of net financial debt by EUR 144 million in relation to the sale price collected in 2018;
- the recognition of the above-mentioned loan to api S.p.A. for EUR 36 million. This loan is included in net financial debt as a deferred component of the sale price.

There were no significant impacts to the income statement in the quarter since the equity investment was measured in the 2017 Consolidated Financial Statements in application of the requirements of IFRS 5, identifying therefore, already in 2017, the economic effects of the transaction.

ERG'S STOCK MARKET PERFORMANCE

At 29 March 2018[7], the closing price of ERG's shares was EUR 19.38, up (+25.8%) from the end of 2017, in the presence of a slight rise, in the same period, of the FTSE All Share index (+1.9%), and a drop in the FTSE Mid Cap index (-1.6%) and the Euro Stoxx Utilities Index (-2.8%).
During the period under review, the listed price of the ERG stock varied from a minimum of EUR 15.08 (2 January) and a maximum of EUR 19.73 (15 March).
Some figures relating to the trading prices and volumes of ERG's shares at 29 March are set out below:

Stock price	EUR
Reference price as at 29/03/2018	19.38
Highest price (15/03/2018) (1)	19.73
Lowest price (02/01/2018) (1)	15.08
Average price	17.05

(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 (08/03/2018)	1,417,441
Minimum volume (19/02/2018)	67,856
Average volume	282,634

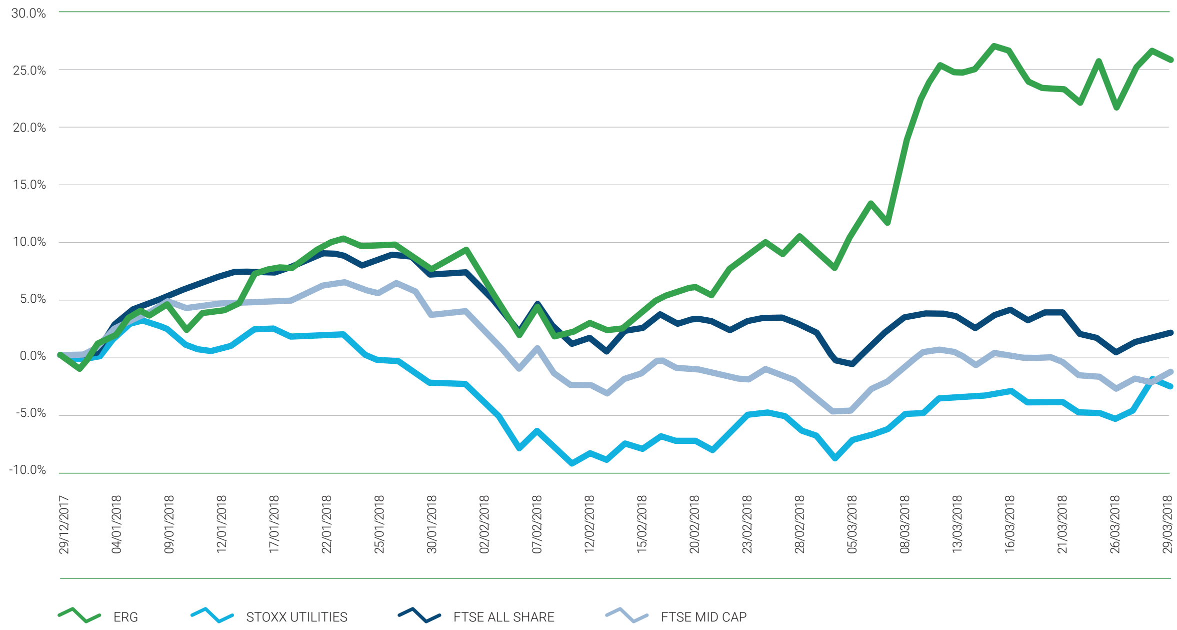
Market capitalisation was approximately EUR 2,913 million (EUR 2,315 million at the end of 2017).

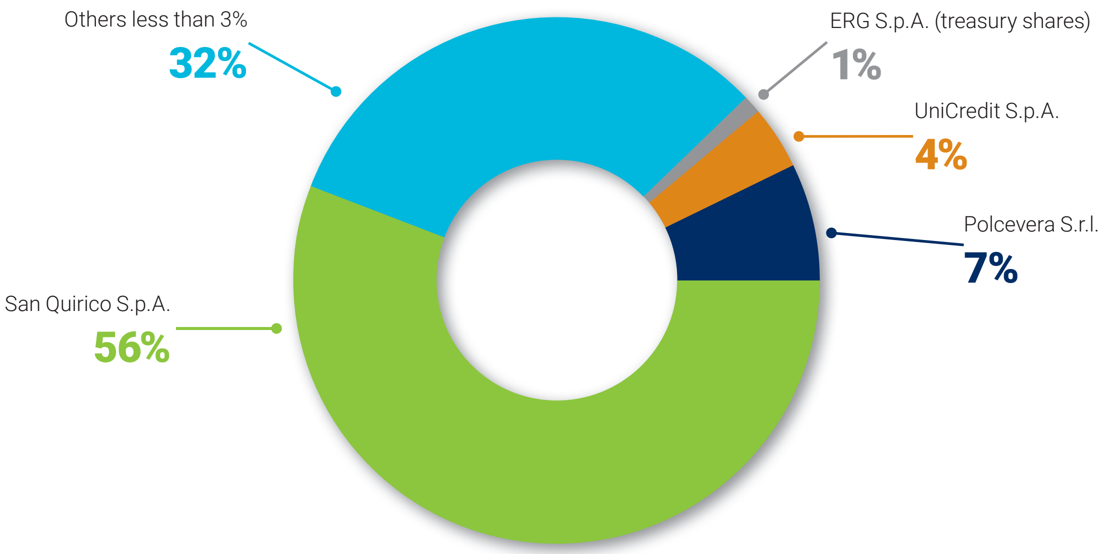
The average number of shares outstanding in the first quarter of 2018 was 148,816,800.

7 Last available day for the first quarter of 2018.

Performance of ERG Shares and Shareholding Structure

ERG vs Euro Stoxx Utilities, FTSE All Share and FTSE Mid Cap - % Change from 29.12.2017 to 29.03.2018





SIGNIFICANT EVENTS DURING THE QUARTER

Date	Sector	Significant events	Press release
10 January 2018	Corporate	**Sale** of 51% of the shares of **TotalErg S.p.A.** and of 51% of the shares of Total Italia S.r.l. The transaction was concluded following the approval by the relevant Antitrust Authority and the completion of the demerger of the said branch of TotalErg S.p.A. in favour of Total Italia S.r.l.	TotalErg press release 10.01.18
12 January 2018	Solar	**Acquisition** by VEI Green S.r.l., an investment holding controlled by PFH S.p.A. and owned by leading Italian institutional investors, of 100% of **ForVei S.r.l.**, the ninth **photovoltaic** operator in Italy with a total installed capacity of 89 MW.	Solar press release 12.01.18
12 January 2018	Wind Germany	**Acquisition** of 100% of the capital of Windpark Linda GmbH & Co. KG, a company that holds the **permits for the construction of a wind farm in Germany** with 21.6 MW of power and an estimated production speed of approximately 50 GWh per annum.	Press release 15.01.18
7 March 2018	Corporate	Approval of **2018-2022 Strategic Plan.**	Plan press release 08.03.18
21 March 2018	Wind France	**Acquisition** by **Vent d'Est S.a.s.** of 75% of the capital of the two companies that own two wind farms in France with an overall capacity of 16.25 MW.	Vent d'Est press release 22.03.18

PERFORMANCE HIGHLIGHTS

Year 2017 restated	(EUR million)		1st quarter 2018	1st quarter 2017 restated
	MAIN INCOME STATEMENT DATA			
1,056	Revenues from ordinary operations		284	300
472	**Adjusted EBITDA**		**162**	**151**
220	**Adjusted EBIT**		**94**	**90**
207	Net profit		85	54
207	*of which Group net income*		*85*	*54*
117	**Adjusted Group net profit** (1)		**56**	**54**
	MAIN FINANCIAL DATA			
3,110	**Net invested capital**		**3,197**	**3,269**
1,877	Shareholders' equity		1,968	1,805
1,233	Total net financial indebtedness (2)		1,229	1,464
1,115	*of which non-recourse Project Financing* (3)		*1,365*	*1,279*
40%	Financial leverage		38%	45%
45%	**EBITDA Margin %**		**57%**	**50%**
	OPERATING DATA			
1,814	**Installed capacity at period end - wind farms**	MW	**1,783**	**1,720**
3,613	Electric power generation from wind farms	millions of kWh	1,219	1,062
480	**Installed capacity at period end - thermoelectric plants**	MW	**480**	**480**
2,453	Electric power generation from thermoelectric plants	millions of kWh	527	600
527	**Installed capacity at period end - hydroelectric plants**	MW	**527**	**527**
1,144	Electric power generation from hydroelectric plants	millions of kWh	469	386
n.a.	**Installed capacity at period end - solar plants**	MW	**90**	**n,a,**
n.a.	Electric power generation from solar plants	millions of kWh	21	n,a
11,747	**Total sales of electric power**	millions of kWh	**3,654**	**3,538**
54	Capital expenditure (4)	(EUR million)	365	11
714	**Employees at the period end**	Units	**714**	**715**
	NET UNIT REVENUES			
144.0	Wind Italy	EUR/MWh	125.9	145.2
96,4	Wind Germany	EUR/MWh	93.4	96.5
88,3	Wind France	EUR/MWh	87.5	89.0
45.5	Wind Poland	EUR/MWh	50.0	43.5
62.5	Wind Bulgaria	EUR/MWh	71.1	67.1
57.8	Wind Romania	EUR/MWh	49.7	64.2
97.9	Wind UK	EUR/MWh	100.4	n.a.
n.a.	Solar	EUR/MWh	288.5	n.a.
109.1	Hydroelectric power	EUR/MWh	94.0	95.0
45.5	Thermoelectric power	EUR/MWh	50.8	43.7

To enhance understandability of business performance, adjusted revenues and operating results are shown, therefore excluding special items. The comparative restated 2017 data not take account of the results of TotalErg, sold in January 2018.

(1) does not include special items and related applicable theoretical taxes
(2) includes the financial loan to api S.p.A. (EUR 36 million) as deferred component of the TotalErg sale price
(3) including cash and cash equivalents and excluding the fair value of the derivatives to hedge interest rates
(4) in tangible and intangible fixed assets. Including M&A investments equal to EUR 357 million performed in the 1st quarter of 2018 for the acquisition of the companies of the ForVei Group (solar) and for the acquisitions of companies owning wind farms in France and Germany. In 2017, M&A investments amounted to EUR 39.5 million

RESULTS BY SECTOR

Year 2017 restated	(EUR million)	1st quarter 2018	1st quarter 2017 restated
	REVENUES FROM ADJUSTED ORDINARY OPERATIONS		
445	Wind Power	133	137
n.a.	Solar	6	n.a.
137	Hydroelectric power	44	46
473	Thermoelectric power (1)	101	117
38	Corporate	9	10
(37)	*Intra-segment revenues*	*(9)*	*(10)*
1.056	Total revenues from ordinary operations	284	300
	ADJUSTED EBITDA		
316	Wind Power	107	104
n.a.	Solar	5	n.a.
94	Hydroelectric power	35	35
78	Thermoelectric power (1)	18	14
(16)	Corporate	(2)	(2)
472	Adjusted EBITDA	162	151
	AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
(160)	Wind Power	(41)	(38)
n.a.	Solar	(5)	n.a
(58)	Hydroelectric power	(15)	(15)
(31)	Thermoelectric power	(8)	(8)
(3)	Corporate	(1)	(1)
(252)	Adjusted amortisation and depreciation	(69)	(62)
	EBIT		
156	Wind Power	66	65
n.a.	Solar	0	n.a
35	Hydroelectric power	20	21
48	Thermoelectric power (1)	11	7
(19)	Corporate	(3)	(3)
220	Adjusted EBIT	94	90
	CAPITAL EXPENDITURE (2)		
75	Wind Power	17	8
n.a.	Solar	346	n.a
6	Hydroelectric power	0	1
10	Thermoelectric power	2	2
3	Corporate	1	0
94	Total capital expenditures	365	11

(1) includes Energy Management contribution
(2) including investments in tangible and intangible fixed assets and M&A investments

COMMENTS ON THE QUARTER'S PERFORMANCE

In the first quarter of 2018, **revenues from ordinary operations** amounted to EUR 284 million, down compared to EUR 300 million in 2017.

Adjusted EBITDA amounted to EUR 162 million, up on the EUR 151 million recorded in 2017. The change is a result of the following factors:

- **Wind power**: gross operating margin equal to EUR 107 million, up compared to the same period of the previous year (EUR 104 million), mainly as a result of the improved results abroad (EUR +7 million) thanks to increased outputs due both to good wind conditions and the contribution of Brockaghboy wind farm in the UK and the increased installed capacity in France and Germany. The improved results abroad were only partly offset by the poorer results of wind farms in Italy (EUR -4 million), due mainly to lower incentivised production (72% of the total compared to 86% in 2017) and to the lower unit value (99 EUR/MWh compared to 107 EUR/MWh), partially offset by the improved outputs and by Energy Management hedging activities.

- **Solar**: gross operating margin equal to EUR 5 million, relating to plants acquired at the beginning of 2018 from Forvei, of which EUR 5 million for revenues from the feed-in premium and EUR 1 million from market revenues, net of approximately EUR 1 million in fixed costs related mainly to maintenance costs.

- **Hydroelectric**: gross operating margin of EUR 35 million, in line with the previous year, which benefited however in the amount of EUR 8 million from the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification of some plants. Net of this effect, the results are up sharply as a result of the increased water availability recorded during the period and in particular in the month of March.

- **Thermoelectric**: the results of thermoelectric generation, amounting to EUR 18 million, up by EUR 4 million compared to EUR 14 million in the first quarter of 2017 due to the greater performance seen in the energy markets thanks to the effect of hedges and the modulation of production, as well as the continuing high profitability of Energy Efficiency Certificates pertaining to the CCGT plant insofar as it is qualified as a high efficiency cogenerating plant. These elements more than compensated for a less profitable performance of the spark spread insofar as energy prices do not yet fully incorporate the increase in cost of gas and CO_2.

Adjusted EBIT was EUR 94 million (EUR 90 million in the first quarter of 2017) after amortisation and depreciation of EUR 69 million (EUR 62 million in 2017).

Adjusted Group net profit was EUR 56 million, a slight increase compared to the result of EUR 54 million in the first quarter of 2017 restated, as a result of the afore-mentioned improved operating results.

Group net profit was EUR 85 million (EUR 54 million in the first quarter of 2017 restated) and reflects, in addition to the above-mentioned improved net operating results, the capital gain generated by the sale of Brockaghboy.

In the first quarter 2018, **investments** totalled EUR 365 million (EUR 11 million in the first quarter of 2017) and relate mainly to the acquisition of solar installations in Italy (EUR 346 million) and two wind farms in French (EUR 12 million). **EUR 8 million in Investments in tangible and intangible fixed assets** were also made during the period, of which 65% in the wind sector (74% in 2017), mainly related to project Linda in Germany, 19% in the thermoelectric sector (17% in 2017) and 10% in the corporate sector (4% in 2017).

Net financial debt amounted to EUR 1,229 million, down slightly (EUR -1 million) compared to 31 December 2017 and mainly reflects the positive operating cash flow for the period (EUR 98 million), the collection of the proceeds from the sale of TotalErg (EUR 180 million) and Brockaghboy (EUR 106 million) offset in part by the impacts arising from the acquisition of solar plants in Italy (EUR 346 million) and two wind farms in France (EUR 12 million).

QUARTERLY RESULTS - BUSINESS

REFERENCE MARKET

Price scenario

Year 2017		1st quarter 2018	1st quarter 2017
	Price scenario (Euro/MWh)		
	Italy		
54.0	National single price - Reference price of electricity - Italy (baseload) (1)	54.2	57.5
54.4	Electricity price - North zone	54.3	57.8
54.1	Electricity price - Central-North zone	54.0	58.2
51.6	Electricity price - Central-South zone	53.2	53.2
49.8	Electricity price - South zone	51.6	51.2
51.5	Electricity price - Sardinia	53.0	53.2
60.8	Electricity price - Sicily	59.5	56.5
63.5	Centre North zone price (peak)	62.7	67.8
107.3	Feed-In Premium (former Green Certificates) - Italy	99.0	107.3
	Abroad		
45.0	France (baseload electricity)	44.0	54.9
34.2	Germany (baseload electricity)	35.6	41.3
45.0	Poland	59.5	41.8
36.5	*of which (baseload electricity)*	*44.9*	*36.0*
8.5	*of which Certificates of Origin*	*14.6*	*5.8*
39.3	Bulgaria (baseload electricity)	33.8	41.6
106.2	Romania (baseload electricity + 1 Green Certificate in 2018 and 2 Green Certificates in 2017)	64.5	113.9
48.2	*of which baseload electricity*	*35.1*	*55.1*
29.0	*of which Green Certificate*	*29.4*	*29.4*
93.6	Northern Ireland (baseload electricity + 90% ROC)	101.9	91.5
44.7	*of which baseload electricity*	*54.1*	*43.9*
54.4	*of which ROC*	*53.2*	*52.9*

(1) Single National Price

Italian Market - Demand and output

Year 2017		1st quarter 2018	2017	Change %
	Italian market [1] **(GWh)**			
320,438	Demand	81,526	80,121	2%
2,441	Pumping consumption	701	666	5%
37,761	Import/Export	13,533	9,206	47%
285,118	Internal generation [2]	68,694	71,581	-4%
	of which			
199,500	*Thermoelectric*	*48,817*	*52,557*	*-7%*
37,530	*Hydroelectric*	*8,584*	*7,701*	*11%*
5,785	*Geothermal*	*1,433*	*1,459*	*-2%*
17,492	*Wind*	*6,089*	*5,268*	*16%*
24,811	*Photovoltaic*	*3,771*	*4,596*	*-18%*

(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

The electricity demand of the Italian electric system in the first quarter of 2018 came to 81.5 TWh, up (+2%) compared with the values recorded in the same period of 2017. With regard to Sicily, a region in which ERG is present with its CCGT plant, during the period a requirement of around 4.7 TWh was registered, down slightly (-0.4%) with respect to the first quarter of 2017, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the request for electricity came to 11.2 TWh (+0.7%).

In the same period, net internal electricity generation stood at 68.7 TWh, down by 4% compared to the same period of 2017, whilst the net balance of trades with other countries recorded net imports of 13.5 TWh (+47% relative to the first quarter of 2017).

71% of (net) domestic output was covered by thermoelectric power plants and the remaining 29% by renewable sources. In particular, 12% of the output derives from hydroelectric power, 9% from wind farms, 5% from photovoltaic plants and 2% from geothermal sources. Compared to the first quarter of 2017, wind power generation and hydroelectric power generation grew (+16% and +11% respectively), while photovoltaic power generation declined (-18%), as did thermoelectric generation (-7%) and geothermal generation (-2%).

GROUP SALES

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, its hydroelectric plants and its solar plants, as well as purchases on organised markets and through physical bilateral agreements.

During the first quarter of 2018, total sales of electricity amounted to 3.7 TWh (3.5 TWh in the same period of 2017), in the presence of an overall output for the Group plants of approximately 2.2 TWh (2.0 TWh in the same period of 2017), of which roughly 0.5 TWh abroad and 1.7 TWh in Italy. The latter balance corresponds to approximately 2.1% of electricity demand in Italy (2.1% in the first quarter of 2017).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table[8]:

SOURCES OF ELECTRIC POWER (GWh)

Year		1st quarter	
2017		**2018**	**2017**
2,117	Wind - wind power generation Italy	732	658
1,496	Wind - wind power generation Abroad	487	405
n,a,	Solar - photovoltaic power generation	21	n,a,
2,453	CCGT - thermoelectric power generation	527	600
1,144	Hydro - hydroelectric power generation	469	386
4,536	ERG Power Generation - purchases	1,417	1,490
11,747	**Total**	**3,654**	**3,538**

SALES OF ELECTRIC POWER (GWh)

Year		1st quarter	
2017		**2018**	**2017**
539	Electric power sold to captive customers	127	130
2,015	Electric power sold to IREN	0	497
7,697	Electric power sold wholesale (Italy)	3,040	2,506
1,496	Electric power sold abroad	487	405
11,747	**Total**	**3,654**	**3,538**

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.

In the first quarter of 2018, steam sales[9] amounted to approximately 170 thousand tonnes (200 thousand tonnes in the same period of 2017).

8 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.

9 Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

WIND POWER

The ERG Group operates in the wind sector through its companies that own wind farms in Italy and abroad. 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.

INSTALLED POWER (MW)

Year 2017		1st quarter 2018	2017	Δ	Δ%
1,093	**Italy**	**1,093**	**1,094**	**-2**	**0%**
	of which				
247	*Campania*	*247*	*247*	*0*	*0%*
120	*Calabria*	*120*	*120*	*0*	*0%*
249	*Puglia*	*249*	*249*	*0*	*0%*
79	*Molise*	*79*	*79*	*0*	*0%*
89	*Basilicata*	*89*	*89*	*0*	*0%*
198	*Sicily*	*198*	*198*	*0*	*0%*
111	*Sardinia*	*111*	*111*	*0*	*0%*
0	*Other*	*0*	*2*	*-2*	*-100%*
722	**Abroad**	**690**	**626**	**65**	**10%**
	of which				
216	*Germany*	*216*	*168*	*48*	*29%*
252	*France*	*268*	*252*	*16*	*6%*
82	*Poland*	*82*	*82*	*0*	*0%*
54	*Bulgaria*	*54*	*54*	*0*	*0%*
70	*Romania*	*70*	*70*	*0*	*0%*
48	*UK*	*0*	*0*	*0*	*n.a.*
1,814	**Total installed power at period end** (1)	**1,783**	**1,720**	**63**	**4%**

(1) power of plants in operation at period end

The installed power as of 31 March 2018 comes to 1,783 MW, up 63 MW with respect to the figures as of 31 March 2017, further to the acquisition in 2018 of 2 wind farms in France (16.3 MW), and the acquisition in the second quarter of 2017 of 6 wind farms in Germany (48.4 MW), net of the disposal of two non-operational wind farms in North Italy (1.6 MW).

It is also recalled that the first quarter of 2018 benefited from the contribution of the Brockaghboy wind farm in Northern Ireland (47.5 MW), until the sale date of 7 March.

Highlights of adjusted performance items

OPERATING RESULTS

Year		1st quarter	
2017		**2018**	**2017**
445	**Revenues from ordinary operations**	**133**	**137**
316	**Adjusted EBITDA (1)**	**107**	**104**
(160)	Amortisation, depreciation and write-downs (1)	(41)	(38)
156	**Adjusted EBIT (1)**	**66**	**65**
35	Capital expenditures on tangible and intangible fixed assets	17	8
71%	**EBITDA Margin % (2)**	**80%**	**76%**
3,613	**Total output by wind plants (GWh)**	**1,219**	**1,062**

(1) not including special items indicated in the section "Alternative performance measures", to which reference should be made for further details
(2) adjusted EBITDA over revenues from ordinary operations

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

RECURRING EBITDA

Year		1st quarter			
2017		**2018**	**2017**	**Δ**	**Δ%**
241	**Italy**	**77**	**81**	**(4)**	**-5%**
76	**Abroad**	**30**	**23**	**7**	**29%**
	of which				
25	*Germany*	*8*	*6*	*2*	*31%*
30	*France*	*13*	*11*	*3*	*27%*
5	*Poland*	*2*	*1*	*0*	*39%*
6	*Bulgaria*	*3*	*3*	*(0)*	*-1%*
8	*Romania*	*1*	*3*	*(2)*	*-63%*
2	*UK*	*3*	*0*	*3*	*n.a.*
316	**Total**	**107**	**104**	**3**	**3%**

The reduction of **consolidated revenues** in the amount of approximately EUR 4 million is due both to a lower market price of electricity in Italy, and to the lower unit value of incentive (from 107.3 to 99.0 EUR/MWh), to which is added a lower production incentive compared to the same period of 2017.

It is noted in particular that, compared to the first quarter of 2017, an additional 85 GWh of production are no longer incentivised, for a theoretical countervalue of EUR 8.5 million.

These negative effects, as well as the effect of imbalances, are in part compensated by increased output, including incentivised, and by the hedging activities performed by Energy Management.

Net unit revenues in Italy in the first quarter of 2018, taking into consideration the sale prices of electricity, of incentives (former green certificates) and of other minor components, were equal to 125.9 EUR/MWh for ERG in Italy, down compared to the value of 145.2 EUR/MWh in the first quarter of 2017, as a result of the expected and already discussed lower incidence of revenues from incentives.

Finally, 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. 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.

NET UNIT REVENUES

Year 2017		1st quarter 2018	2017	Δ	Δ%
144.0	Wind Italy	125.9	145.2	(19)	-13%
96,4	Wind Germany	93.4	96.5	(3)	-3%
88,3	Wind France	87.5	89.0	(2)	-2%
45.5	Wind Poland	50.0	43.5	7	15%
62.5	Wind Bulgaria	71.1	67.1	4	6%
57.8	Wind Romania	49.7	64.2	(15)	-23%
97.9	Wind UK	100.4	n.a.	n.a.	n.a.

Sales by foreign farms were specifically concentrated in France and Germany, whose net unit revenues were 87.5 EUR/MWh and 93.4 EUR/MWh respectively (including in Germany refunds for limitations), and to a lesser extent in Bulgaria, Romania and Poland, as well as in Northern Ireland until the start of March. The main changes in net unit revenues abroad were seen in Romania (-23%) following the reduction of the incentivised component which from 2018 is recognised for half of green pertaining to 2017, and in Poland (+15%) thanks to the significant increase in the sale price of certificates of origin.

The contribution to the output of wind farms abroad was approximately 487 GWh (+20%).

GENERATION (GWh)

Year 2017		1st quarter 2018	2017	Δ	Δ%
2,117	**Italy**	**732**	**658**	**75**	**11%**
	of which				
489	*Campania*	*165*	*152*	*32*	*21%*
238	*Calabria*	*65*	*61*	*4*	*7%*
531	*Puglia*	*162*	*164*	*-22*	*-13%*
167	*Molise*	*54*	*55*	*-1*	*-3%*
183	*Basilicata*	*63*	*55*	*9*	*16%*
299	*Sicily*	*141*	*102*	*40*	*39%*
209	*Sardinia*	*81*	*68*	*13*	*19%*
1,496	**Abroad**	**487**	**405**	**82**	**20%**
	of which				
369	*Germany*	*107*	*77*	*30*	*38%*
491	*France*	*200*	*156*	*44*	*28%*
248	*Poland*	*61*	*63*	*-2*	*-2%*
157	*Bulgaria*	*43*	*49*	*-6*	*-12%*
201	*Romania*	*47*	*60*	*-12*	*-21%*
29	*UK*	*29*	*0*	*29*	*n.a.*
3,613	**Total wind farm output**	**1,219**	**1,062**	**157**	**15%**

In the first quarter of 2018, the **electricity output** from wind power amounted to 1,219 GWh, up compared to the first quarter of 2017 (1,062 GWh), with the output increasing by approximately 11% in Italy (from 658 GWh to 732 GWh) and increasing by 20% abroad (from 405 GWh to 487 GWh).

The increased output in Italy (+75 GWh) is linked to better wind conditions than those recorded in the first quarter of 2017 across most regions.

As regards abroad, the increase of +82 GWh is attributable to the contribution of the plant in Northern Ireland (29 GWh), in addition to increased output in France and Germany which also benefited from the output of the German plants (DIF) and the French plants (Vent d'est) respectively for 23 GWh and 11 GWh, not present in the same period of 2017; these higher outputs abroad were partly mitigated by the lower output in Eastern Europe (-20 GWh) compared to the particularly high output seen in Bulgaria and Romania in the first quarter of 2017.

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

LOAD FACTOR %

Year 2017		1st quarter 2018	2017	Δ
22%	**Italy**	**31%**	**28%**	**3%**
	of which			
23%	*Campania*	*35%*	*29%*	*6%*
23%	*Calabria*	*25%*	*23%*	*2%*
24%	*Puglia*	*27%*	*31%*	*-4%*
24%	*Molise*	*32%*	*32%*	*-1%*
24%	*Basilicata*	*33%*	*29%*	*5%*
17%	*Sicily*	*33%*	*24%*	*-16%*
21%	*Sardinia*	*34%*	*28%*	*5%*
25%	**Abroad**	**31%**	**30%**	**1%**
	of which			
19%	*Germany*	*23%*	*21%*	*2%*
22%	*France*	*35%*	*29%*	*6%*
35%	*Poland*	*34%*	*35%*	*-1%*
33%	*Bulgaria*	*37%*	*42%*	*-5%*
33%	*Romania*	*31%*	*40%*	*-8%*
n.s.	*UK*	*37%*	*n.a.*	*n.a.*
23%	**Load Factor** (1)	**31%**	**29%**	**2%**

(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 2018, the overall load factor, equal to 31%, was up with respect to that recorded in 2017, increasing from 28% to 31% in Italy and from 30% to 31% abroad.

The above-mentioned data includes the data relating to the plants in Northern Ireland during the period 1 January - 7 March 2018, following the aforementioned sale of the 47.5 MW plant.

Adjusted EBITDA for the first quarter of 2018 amounted in total to EUR 107 million, up slightly with respect to the figures for the same period of last year (EUR 104 million), thanks therefore to an improved performance of EUR 7 million abroad, of which EUR 5 million attributable to the increased installed capacity, which more than compensated for the lower performance of EUR 4 million in Italy.

The **EBITDA margin** amounted in total to 80%, standing at a particularly high absolute value, mainly due to the increase in volumes due to the effect of the increased wind strength recorded in Italy in the first quarter of 2018 compared to the values of the same period of the previous year, despite the above-mentioned phase out of the incentives for some plants, and also due to the contribution of the new wind farms abroad.

Capital expenditure

Investments in the first quarter of 2018 (EUR 17 million) relate mainly to the acquisition by Vent d'Est S.a.s. of 75% of the capital of the two companies that own two wind farms for a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s. with 12.0 MW, which came into operation in 2007 and Parc Eolienne d'Epense S.a.s. with 4.25 MW, which came into operation in 2005) and the acquisition of project Linda for the construction of a wind farm in Germany with 21.6 MW of power.

Relevant legislative and regulatory updates during the period

- **Feed-In Premium (FIP) (former Green Certificates)**

  For the purposes of determining the value of the 2018 tariff incentive (2018 FIP), the Authority disclosed, by means of resolution 32/2018/R/EFR of 25 January 2018, the average annual value recorded in 2017 for electricity sale prices, equal to 53.14 EUR/MWh. Therefore, the value of the 2018 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year, amounts to 98.95 EUR/MWh.

- **Increase in electricity dispatching service costs: resolution 342/2016 of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) and subsequent measures**

  In the second quarter of 2016 there were significant increases in dispatching service costs for end customers (specifically with regard to the uplift fee).

  On 27 June 2016, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) published Resolution 342/2016/E/EEL, through which it launched a process for the timely adoption of prescriptive measures and the assessment of potential abuse on the electricity market, pursuant to Regulation (EU) no. 1227/2011

(REMIT), potentially committed in the recent past by several electricity market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.).

Following the investigation by ARERA in September 2016, communications were sent to the parties involved – including ERG Hydro S.r.l. and ERG Power Generation S.p.A. – containing the results of the assessments and the potential illegal activity detected by the Authority.

ERG Power Generation S.p.A. and ERG Hydro S.r.l. presented an appeal to the Administrative Court of Lombardy for the partial repealment of the deeds indicated above, deeming that there were absolutely no grounds for the issue thereof.

In April 2017, ARERA notified the companies concerned (ERG Hydro S.r.l and ERG Power Generation S.p.A.) of the resolutions issued within the scope of the proceedings initiated with Resolution 342/2016. 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 September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). With two successive resolutions approved in January and February 2018, the Authority closed the proceedings in relation to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. On the basis of the resolutions adopted by ARERA, Terna proceeded to quantify the amount to be returned, the economic impact of which is not considered significant. The companies involved proceeded to challenge, in the appropriate jurisdictions, both the resolutions of ARERA and the quantification performed by Terna.

SOLAR

Starting from January 2018, ERG operates in the generation of electricity from solar sources, with an installed capacity of 89 MW and an annual output of approximately 136 GWh, through 30 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy. 100% of the installed capacity benefits from incentives with average maturity of 2030.

The results set out below include the contribution of ISAB Energy Solar S.r.l., a company already in the Group, previously measured using the cost method due to it not being of a significant size (installed capacity of less than 1 MW and an annual production of approximately 1 GWh, through solar panels installed in Sicily at the Priolo site).

Highlights of adjusted performance items

OPERATING RESULTS

Year 2017	(EUR million)	1st quarter 2018	1st quarter 2017
n.a	**Revenues from ordinary operations**	**6**	**n.a**
n.a	**Adjusted EBITDA** (1)	**5**	**n.a**
n.a	Amortisation, depreciation and write-downs (1)	(5)	n.a
n.a	**Adjusted EBIT** (1)	**0**	**n.a**
n.a	Capital expenditures on tangible and intangible fixed assets	335	n.a
n.a	**% EBITDA Margin** (2)	**80%**	**n.a**
n.a	**Total output by solar plants (GWh)**	**21**	**n.a**

(1) not including special items indicated in the section "Alternative performance measures", to which reference should be made for further details
(2) adjusted EBITDA over revenues from ordinary operations

The output in the period amounted to approximately 21 GWh and the relative load factor was 11%.

Revenues for the first quarter of 2018 amounted to a total of EUR 6 million, of which EUR 5 million relating to revenues from the feed-in premium and EUR 1 million to revenues from the sale of energy.

In the first quarter of 2018, the relative **net unit revenues** amounted in total to 289 EUR/MWh, of which 237 EUR/MWh relating to feed-in premiums and approximately 51 EUR/MWh to revenues from the sale of energy.

Adjusted EBITDA in the first quarter of 2018 amounted in total to EUR 5 million, of which EUR 6 million relating to the above-mentioned revenues and EUR 1 million to fixed costs, mainly relating to maintenance costs.

The EBITDA margin amounted in total to 80%.

Capital expenditure

Investments during the period refer to the acquisition of 30 photovoltaic plants, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh. 100% of the installed capacity benefits from incentives with average maturity of 2030. The enterprise value of the transaction was approximately EUR 335 million.

Relevant legislative and regulatory updates during the period

There were no significant updates that affect the results of the period under examination.

HYDROELECTRIC POWER

ERG operates in the sector of the generation of electricity from hydroelectric sources 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.

Highlights of adjusted performance items

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

OPERATING RESULTS

Year 2017	(EUR million)	1st quarter 2018	1st quarter 2017
137	**Revenues from ordinary operations**	**44**	**46**
94	**Adjusted EBITDA** (1)	**35**	**35**
(58)	Amortisation, depreciation and write-downs (1)	(15)	(15)
35	**Adjusted EBIT** (1)	**20**	**21**
6	Capital expenditures on tangible and intangible fixed assets	0	1
69%	**% EBITDA Margin**	**80%**	**82%**
1,144	**Total output from hydroelectric plants (GWh)**	**469**	**386**

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

In the first quarter of 2018, revenues, amounting to EUR 44 million, related mainly to electricity sales of EUR 27 million, to revenues from feed-in premium (former Green Certificates) of EUR 15 million, in addition to revenues from MSD of EUR 2 million.

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

The EBITDA of the first quarter of 2018 amounted to EUR 35 million (also EUR 35 million in the first quarter of 2017).

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 and 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 for a value lower than that of 2017 equal to approximately 99 EUR/MWh.

ERG Hydro's total output (469 GWh) therefore benefited from a net unit revenue, considering the sale price of electricity, the revenues from MSD and the replacement incentives and other minor components, totalling approximately 94 EUR/MWh (95 EUR/MWh in the first quarter of 2017, excluding the recoveries of prior incentives, discussed above), The EBITDA margin for the first quarter of 2018 totalled 80% (82% in the first quarter of 2017).

The load factor recorded in the period, amounting to 41%, compared to the 34% recorded in the first quarter of 2017, benefited from the good rain conditions observed (output of 469 GWh in the first quarter of 2018, up both relative to the corresponding period of 2017 and to the ten-year historical average).

The total capacity of the plants at the Terni complex came to 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW relating to small offtakes and minimum vital outflows, which increased by 0.4 MW as a result of the completion of the construction of three new mini hydro plants that access to the FER tariff per Italian Ministerial Decree of 23 June 2016.

The level of the reservoirs of lakes Turano, Salto and Corbara at end of period were respectively approximately 530, 528 and 129 metres above sea level, with a progressive increase with respect to the levels of 31 December 2017 (respectively 526, 524 and 131 metres above sea level) due to the effect of the persistent rainfall and snowfall and in the first few weeks of March.

Capital expenditure

Hydroelectric investments, totalling EUR 0.3 million, relate mainly to maintenance orders and planned projects in the field of health, safety and the environment.

Relevant legislative and regulatory updates during the period

- **Increase of BIM hydroelectric surcharge**

  Following the adjustment of the amount of the surcharge for hydroelectric offtakes last December 2017, on 23 January 2018 a Directorial Decree was published in the Official Gazette that determines the adjustment of the surcharge for mountain river basins (BIM) owed by hydroelectric concessions for the two-year period 2018 - 2019. In implementation of the provisions contained in the environmental measure attached to the 2016 Stability Law, this surcharge was unified to 30.67 EUR/kW for all offtakes with over 220 kW of power, while until the previous two-year period (2015-2017) differentiation was made between 220 and 3,000 kW and above 3,000 kW.

- **Regional regulations**

  At the level of regional regulations, in October 2015 the Umbria Region published Resolution no. 1067/2015 which determined the increase in the value of state property rentals from 15.6 to approximately 31 EUR/kW, starting on 1 January 2016. ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways (TSAP) against that measure. At the hearing held on 7 December 2016, the parties stated their opinions; the judge then referred the parties to the board, scheduling the discussion hearing on 1 March 2017. During this hearing, first the issue of jurisdiction was addressed, filed with the office by the Chairman of the Board, and then the substantive issues relevant to the illegality of the rental increase. With its ruling submitted on 19 April 2017, the TSAP declared its lack of jurisdiction in favour of the Regional Court of Public Waters (TRAP) of Rome before which it arranged for the continuance of the appeal. With respect to the TSAP ruling, an appeal was brought before the Court of Cassation, and the fixing of the hearing date by the Court is pending.

- **Feed-In Premium (FIP) (former Green Certificates)**

  Reference should be made to that noted in the Wind section.

- **Electricity dispatching services: ARERA resolution 342/2016 and subsequent measures**

  Reference should be made to that noted in the Wind section.

THERMOELECTRIC POWER

ERG operates in the generation of electricity from thermoelectric sources through the investment in ERG Power S.r.l., owner of the CCGT high output, high efficiency, low emission, highly modulable and flexible co-generation plant (480 MW).

Highlights of adjusted performance items

OPERATING RESULTS

Year 2017	(EUR million)	1st quarter 2018	2017
473	**Revenues from ordinary operations**	**101**	**117**
78	**Adjusted EBITDA** (1)	**18**	**14**
(31)	Amortisation, depreciation and write-downs (1)	(8)	(8)
48	**Adjusted EBIT** (1)	**11**	**7**
10	Capital expenditures on tangible and intangible fixed assets	2	2
17%	**% EBITDA Margin**	**18%**	**12%**
2,453	**Total output by thermoelectric plants (GWh)**	**527**	**600**

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

In the first quarter of 2018, ERG Power's net electricity generation was 527 GWh, down compared to the same period of 2017 (600 GWh), in relation to the different plant layout.

The net supply of steam to captive customers of the petrochemical site of Priolo Gargallo totalled 170 thousand tonnes, decreased by 15% with respect to the 200 thousand tonnes in the first quarter of 2017.

Following the entry into force from 1 January 2018 of the legislation on internal user networks referred to in the section about legislative and regulatory updates, all of the electricity output of ERG Power is allocated to the market, while electricity intended to cover the needs of the industrial site of Priolo, which falls within the scope of the legislation on internal user networks from 2018 (RIU), is purchased on the wholesale market. In the first quarter of 2017, ahead of the legislation on internal user networks (RIU), about a quarter of output was destined to site customers, including the net supply of steam in this energy.

Adjusted EBITDA in the first quarter of 2018 amounted to EUR 18 million (EUR 14 million in the first quarter of 2017). The increase in the result is attributable to the greater performance recorded in energy markets and to the continuing high profitability of Energy Efficiency Certificates pertaining to the CCGT plant insofar as it is qualified as a high efficiency cogenerating plant, only partially offset by the lower margin (spark spread) as a result of the greater increase in the cost of gas and CO_2 with respect to that of the selling prices.

Capital expenditure

The investments in the first quarter of 2018 (EUR 2 million) mainly refer to the ERG Power CCGT plant which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects.

Relevant legislative and regulatory updates during the period

- **Energy efficiency certificates**

  April 2017 saw the publication of the Ministerial Decree of 11 January 2017 which, in defining the energy savings objectives for companies for the distribution of electricity and gas for the years from 2017 to 2020, impacts on the balance between supply and demand of energy efficiency certificates.

  Subsequently to the Decree, ARERA adopted resolutions 435/2017 and 634/2017 modifying certain criteria for determining the unit tariff contribution to be paid to compliant distributors within the framework of the energy efficiency certificate mechanism.

  On 15 February 2018, the Energy Markets Operator (Gestore dei Mercati Energetici, GME), by order of the Ministry of Economic Development, adopted an urgent amendment to the Rules of Operation of the energy efficiency certificate market, providing that market sessions go from weekly to monthly, with the aim of limiting price volatility. ARERA, with resolution 139/2018/R/EFR of 9 March 2018, approved the amendment prepared by the GME.

- **Internal user networks (RIU)**

  For operators that own “closed distribution systems”, which include the “internal user network” (RIU) in Priolo, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) 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 provided for the extension of the new regulations to 1 October 2017. With its resolution 582/2017, ARERA 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.

  ARERA, with resolution 15/2018/R/com of 18 January 2018, adapted the sector regulations to the aforesaid legislative provisions.

INCENTIVE FRAMEWORK

WIND POWER SECTOR INCENTIVES

Italy

- **Plants that entered into operation before 2013**: Feed-in premium (FIP) equal to (180 EUR/MWh -P^{-1}) x 0.78 where P^{-1} is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years.
- **Plants that entered into operation from 2013**: allocation of incentives through participation in Dutch auctions. Duration of the incentive: 20 years.

Germany

- **Plants that entered into operation by July 2014**: feed-in tariff (FIT) type and, on an optional basis, FIP type plus a management premium (EEG 2012).
- **Plants that entered into operation from August 2014 to December 2016**: FIP tariff (EEG 2014).
- **Plants authorised by the end of 2016 and in operation by the end of 2018**: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed power in the period.
- **Plants that entered into operation from 2017 onwards**: FIP incentives allocated through Dutch auctions (EEG 2017).

France

- **Plants that stipulated the application to purchase electricity generation by December 2015**: a feed-in tariff (FIT) for 15 years, defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. After 10 years of operation, it 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.
- **Plants that stipulated the application to purchase electricity generation in 2016**: feed-in premium (FIP). The FIP is divided into several components: the incentive component (complément de rémunération), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy.
- **New plants that do not fall into the above categories**: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.

Bulgaria

- 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.

Poland

- **Plants in operation by July 2016**: Certificates of Origin (CO). The Substitution Fee (the penalty applied in case of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For 2018, following the closure of negotiations in 2017, the penalty was fixed at 48.53 PLN/MWh.

Romania

- Green Certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. In particular:
  a) the recovery period of the Green Certificates (GCs) withheld from 1 July 2013 to 31 March 2017 (which must take place at constant instalments through the years 2018-2025);
  b) the period of validity of the GCs, which is extended to 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months);
- the cap and the floor between which the price of the GCs may fluctuate, set respectively at 35 EUR/MWh (from 57 EUR/MWh) and 29.4 EUR/MWh (from 27 EUR/MWh);
- the mandatory quota for the consumers of electricity, which from 2018 onwards shall be determined according to a pre-set fixed volume of GCs on the market and a maximum average expense on the end consumer that may not exceed 11.1 EUR/MWh;
- Starting from September 2017, two "anonymous" centralised markets for the trade of GCs were created: the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (GCs).

SOLAR SECTOR INCENTIVES

Italy

- Incentives for photovoltaic plants are paid through a FIP tariff on energy entered into the network for the duration of 20 years;
- The provisions contained in the Ministerial Decree of 17/10/2014 provided for, by November 2014, the obligation for producers to choose between various methods for remodulation of the incentives:
  a) extension of the incentive period of a further 4 years with simultaneous reduction of the unitary incentive by a value between 17 and 25%, depending on the residual life of the right to incentives;
  b) an initial period of incentive reduction followed by a period of subsequent increase thereof for an equivalent amount;
  c) flat reduction applied for the remaining incentive period, variable between 6 and 8% depending on the size of the plant.

HYDROELECTRIC SECTOR INCENTIVES

Italy

- Plants entered into operation before 2013: feed-in premium (FIP) equal to (180 EUR/MWh -P^{-1}) x 0.78 where P^{-1} is the average annual value of the sale price of electricity in the previous year. Duration of incentive: 15 years.
- Plants entered into operation since 2013: allocation of comprehensive tariff through direct access for hydroelectric plants with capacity less than 250 KW, if they fall under certain cases. Duration of incentive: 20 years.

THERMOELECTRIC (Cogeneration)

Italy

- High-yield cogeneration - CAR (cogeneration of electricity and useful heat) is incentivised through the recognition of energy efficiency certificates (White Certificates), issued for ten years on the basis of the primary energy savings that cogeneration makes it possible to achieve when compared to the separate production of the same amount of electricity and heat. Energy efficiency certificates are exchanged in a regulated market managed by the Energy Markets Operator (Gestore dei Mercati Energetici, GME).

FINANCIAL STATEMENTS

ADJUSTED INCOME STATEMENT

To enhance understandability of Group performance, in this section the operating results are shown excluding special items. As already indicated in the Introduction, the restated comparative data are shown in order to take account of the change in scope linked to the TotalErg transaction and the application of IFRS 15.

For the definition of measures, the composition of the financial statements and the reconciliation of the amounts involved, as well as for the restatement of the restated comparative figures, reference is made to what has been indicated in the section Alternative Performance Measures below.

		1st quarter	
(EUR million)		**2018**	**2017 restated**
Revenues from ordinary operations	1	284.4	300.5
Other revenues and income	2	2.8	2.8
TOTAL REVENUES		**287.1**	**303.3**
Costs for purchases and changes in inventory	3	(69.3)	(99.4)
Costs for services and other operating costs	4	(40.7)	(37.4)
Personnel costs		(14.6)	(15.2)
EBITDA		**162.5**	**151.3**
Amortisation, depreciation and write-downs of fixed assets	5	(68.6)	(61.5)
EBIT		**93.9**	**89.8**
Net financial income (expenses)	6	(18.1)	(16.5)
Net income (loss) from equity investments	7	0.0	0.0
Profit (loss) before taxes		**75.9**	**73.3**
Income taxes	8	(19.5)	(18.9)
Profit (loss) for the period		**56.4**	**54.4**
Minority interests	9	(0.1)	0.0
Group's net profit (loss)		**56.3**	**54.4**

1 - Revenues from ordinary operations

The revenues from sales consist mainly of:

- the sales of electricity produced by wind farms, thermoelectric installations and hydroelectric plants, and, since January 2018, by solar installations. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral contracts. In particular, electricity sold wholesale includes the sales on the IPEX electricity exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), and the "dispatching services market" (MSD), as well as the sales to the main operators of the sector on the "over the counter" (OTC) platform. We note finally the sales of water and steam which are supplied to the industrial operators at the Priolo site;
- incentives related to the output of wind farms in operation, hydroelectric plants and solar installations.

2018 first quarter revenues were EUR 284 million, down slightly compared with EUR 300 million in the first quarter of 2017. The change is a result of the following factors:

- the decrease (EUR -4 million) of the **Wind power sector** linked mainly to lower incentives in Italy and Romania partially offset by higher winds (EUR 133 million, compared to EUR 137 million);
- the new contribution of the **Solar sector**, consolidated from January 2018 (EUR 6 million);
- the **Hydroelectric sector**, substantially in line with the corresponding quarter of the previous year;
- the decrease (EUR -16 million) in the thermoelectric sector linked to lower sales to end customers (EUR 101 million, compared to EUR 117 million).

2 - Other revenues and income

These mainly include insurance reimbursements, indemnifications and expense repayments, chargebacks of a lesser entity to third parties and grants related to income.

3 - Costs for purchases and changes in inventory

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

In the first quarter of 2018, they amounted to EUR 69 million, down by EUR 30 million compared to the same period of 2017 mainly as a result of the lower costs for gas and electricity purchases, corresponding to lower sales to end customers.

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

4 - 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 agreements with local authorities, for consultancy 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.

5 - Amortisation, depreciation and write-downs

Amortisation and depreciation refer to wind farms, the plants of the hydroelectric sector and the CCGT plant, and in the first quarter of 2018 to solar installations.

The increase is mainly linked to the higher amortisation and depreciation due to the acquisition of solar installations and to the change in scope of wind power plants.

6 - Net financial income (expenses)

Net financial expenses in the first quarter of 2018 totalled EUR 18 million, up slightly compared with EUR 16 million in 2017, mainly due to the acquisition of solar installations.

The average cost of medium-long term debt in the quarter amounted on average to 3.1% compared to 3.2% for 2017. The item also includes the effects of the derivatives hedging against the risk of fluctuations in interest rates and the prices of commodities.

It should be noted that the adjusted net financial charges commented on here do not include positive special items equal to EUR 3 million relating to the financial income recorded, on the basis of IFRS 9, in reference to a refinancing operation completed during the period, net of the reversal effect related to refinancing operations performed in previous years.

7 - Net income (loss) from equity investments

In the course of the first quarter, the Group sold its equity investment in Brockaghboy Windfarm Ltd., generating a capital gain of EUR 27 million, net of the related tax effects and other ancillary components. The gain and the other Income Statement components associated with the sale of the equity investment are considered special items and therefore are not reflected in the aforementioned line "Net income (loss) from equity investments" of the adjusted income statement;

Finally it is recalled that on 10 January 2018 the Group sold its stake in TotalErg: for the purposes of greater clarity, the 2017 comparative figures were amended so as to exclude the adjusted results[10] of the investee previously consolidated under the equity method. In the first quarter of 2017 this contribution was positive in the amount of EUR 6 million (EUR +24 million for the whole of 2017).

8 - Income taxes

Income taxes in the first quarter of 2018 were EUR 19 million, in line with those in the corresponding quarter of 2017. The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 26% (26% in 2016).

10 Net of special items and inventory gains (losses).

STATEMENT OF FINANCIAL POSITION

The reclassified balance sheet contains the assets and liabilities of the mandatory financial statements, indicated in the Notes to the Financial Statements published on the occasion of the annual financial report and the half-yearly financial report, highlighting the **uses** of resources in fixed assets and in working capital and the related **funding sources**. Said financial statements are consistent with the mandatory financial statements.

For the definition of the indicators for the main items used in the Reclassified Balance Sheet, reference is made to that indicated in the "Alternative Performance Measures" section below.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

31/03/2017	(EUR million)		31/03/2018	31/12/2017
3,337.6	Fixed assets	1	3,322.6	3,260.8
203.8	Net working capital	2	196.9	150.0
(6.9)	Employees' severance indemnities		(6.4)	(6.4)
355.9	Other assets	3	316.3	278.7
(621.3)	Other liabilities	4	(632.3)	(573.0)
3,269.0	**Net invested capital**		**3,197.0**	**3,110.1**
1,804.7	Group Shareholders' Equity		1,966.7	1,877.5
0.0	Minority interests		1.2	0.0
1,464.3	Net financial indebtedness	5	1,229.1	1,232.7
3,269.0	**Shareholders' equity and financial debt**		**3,197.0**	**3,110.1**
45%	**Financial leverage**		38%	40%

1 - Fixed assets

(EUR million)	Intangible assets	Tangible assets	Financial assets	Total
Fixed assets at 31/12/2017	**767.5**	**2,252.2**	**241.1**	**3,260.8**
Capital expenditure	4.2	3.9	1.7	9.8
Changes in the scope of consolidation	144.2	162.6	(185.7)	121.1
Divestments and other changes	(0.1)	(2.7)	2.2	(0.5)
Amortisation and depreciation	(13.5)	(55.1)	–	(68.6)
Fixed assets at 31/03/2018	**902.4**	**2,360.9**	**59.3**	**3,322.6**

The "Change in the scope of consolidation" refers mainly to the acquisition of solar installations in Italy and wind farms abroad, and to the sale of the shareholding in TotalErg and the Brockaghboy wind power plants.

The line "Divestments and other changes" comprises disposals of fixed assets, the use of main component spare parts and reclassifications.

2 - Net working capital

This includes inventory spare parts, credits for incentives, credits for the sale of electricity, and trade payables mainly concerning the purchase of electricity and gas, the maintenance of wind power plants and other trade payables. The change for the period is mainly related to the seasonal dynamics of collections relating to incentives as well as to the effects of the change in the scope of consolidation.

3 - Other assets

These mostly comprise deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services. The increase for the period is linked to receivables from the tax authorities for VAT.

4 - 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. The increase for the period is mainly linked to the higher deferred taxes in relation to the provisional exercise of Purchase Price Allocation for solar assets.

5 - Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

31/03/2017	(EUR million)	31/03/2018	31/12/2017
1,929.0	Medium/long-term financial indebtedness	1,939.9	1,788.7
(464.7)	Short term financial indebtedness (cash and cash equivalents)	(710.8)	(556.0)
1,464.3	**Total**	**1,229.1**	**1,232.7**

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

31/03/2017	(EUR million)	31/03/2018	31/12/2017
668.9	Medium/long-term bank borrowings	671.0	670.6
0.0	Current portion of mortgages and loans	(119.4)	(58.6)
137.9	Medium/long-term financial payables	205.8	205.9
806.8	**Total**	**757.4**	**817.8**
1,279.2	Total Project Financing	1,364.5	1,114.7
(157.0)	Current portion of Project Financing	(146.0)	(143.8)
1,122.1	**Medium/long-term Project Financing**	**1,218.5**	**970.9**
0.0	**Long-term financial receivables**	**(36.0)**	**0.0**
1,929.0	**TOTAL**	**1,939.9**	**1,788.7**

The "Medium/long-term bank borrowing" at 31 March 2018 total EUR 671 million (EUR 671 million at 31 December 2017), and 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 (EUR 119 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

"Medium/long term financial payables", amounting to EUR 206 million, refer to:

- liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 106 million (EUR 106 million at 31 December 2017).
- liability deriving from the issue of the non convertible bond (EUR 99 million[11]) 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.

The payables for "Total Project Financing" (EUR 1,365million at 31 March 2018) are for:

- EUR 62 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant;
- EUR 248 million in loans related to the newly acquired ForVei Group companies (solar) and to the subsidiary ISAB Energy Solare;
- EUR 1,055 million in loans issued for the construction of wind farms, of which EUR 417 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 60 million. 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.

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

Starting from 1 January 2018, the Group applies IFRS 9. As regards the main effects on the Group, it is noted that the application of the standard does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the debt by modifying the effective interest rate of the debt at that date: this involves accounting for a profit or an immediate loss at the date of modification of the liability, as an offset to the reduction of the corresponding debt. The application of the standard has resulted in the reduction of debts for loans at the transition date (1 January 2018) in the amount of EUR 7 million, as an offset to higher opening net assets, net of the related tax effects.

"Long-term financial receivables" totalling EUR 36 million refer to the deferred component of the proceeds from the sale of TotalErg to api S.p.A. This deferred component is regulated by a vendor loan agreement with a maturity of 5 and a half years, signed with api S.p.A.

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

SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

31/03/2017	(EUR million)	31/03/2018	31/12/2017
4.7	Short-term bank borrowings	42.2	83.0
0.0	Current portion of mortgages and loans	119.4	58.6
2.7	Other short-term financial liabilities	2.4	1.7
7.4	**Short-term financial liabilities**	**164.1**	**143.3**
(294.2)	Cash and cash equivalents	(650.4)	(679.2)
(109.2)	Securities and other short-term financial receivables	(145.7)	(28.8)
(403.5)	**Short-term financial assets**	**(796.1)**	**(708.0)**
157.0	Short-term Project Financing	146.0	143.8
(225.7)	Cash and cash equivalents	(224.8)	(135.1)
(68.6)	**Project Financing**	**(78.8)**	**8.7**
(464.7)	**TOTAL**	**(710.8)**	**(556.0)**

The reduction of "Short-term bank borrowings" refers to a partial repayment of the short-term credit lines in ERG S.p.A.

The increase in the item "Securities and other short-term financial receivables" is linked to the subscription of investment funds.

Cash flows

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

	1st quarter	
	2018	2017
Adjusted EBITDA	162.5	151.3
Change in working capital	(64.6)	(37.5)
Cash flow from operations	**97.9**	**113.8**
Capital expenditures on tangible and intangible fixed assets	(8.1)	(10.7)
Acquisitions of companies (business combination)	(357.3)	–
Capital expenditures in financial fixed assets	(1.7)	(0.2)
Sale of the TotalErg equity investment	179.5	–
Sale net assets Brockaghboy	105.8	–
Divestments and other changes	(1.3)	–
Cash flow from investments/divestments	**(83.1)**	**(11.0)**
Financial income (expenses)	(18.1)	(16.5)
Net income (loss) from equity investments	0.0	(0.0)
Cash flow from financial management	**(18.0)**	**(16.5)**
Cash flow from tax management	**–**	**–**
Distribution of dividends	–	–
Other changes in shareholders' equity	8.9	6.6
Cash flow from shareholders' equity	**8.9**	**6.6**
Change in the scope of consolidation	**(2.2)**	**–**
Initial net financial indebtedness	**1,232.7**	**1,557.2**
Net change	*(3.6)*	*(92.9)*
Final net financial indebtedness	**1,229.1**	**1,464.3**

Cash flow from operations in the first quarter of 2018 were positive in the amount of EUR 98 million, a decrease of EUR 16 million compared to the same period of 2017, primarily due to seasonal dynamics of working capital influenced by TotalErg's exit from Group VAT.

The **cash flow from investments** is mainly linked to M&A activities and in particular the acquisition of ForVei (EUR 346 million) and Vent d'Est S.a.s. (EUR 12 million), A detailed analysis of investments in tangible and intangible fixed assets during the period made may be found in the specific section. The cash flow from divestments is mainly linked to the sale of the shareholding in TotalErg and of the UK Brockaghboy wind farm.

Cash flow from financial management refers to the higher payables linked to interest accrued during the period.

Cash flow from shareholders' equity relates mainly to the effects of the transition to IFRS 9 at the date of first application (1 January 2018), net of the related tax effects. The item also includes the effects of application said standard in the first quarter.

The **change in the scope of consolidation** relates to the effects of the line-by-line consolidation of equity investments previously recognised with the cost method since they were not yet operational (WP France 6) or were not of a significant size (ISAB Energy Solare).

Consolidation Solar

On 12 January 2018, ERG completed the acquisition of 30 photovoltaic plants, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh. 100% of the installed capacity benefits from incentives with average maturity of 2030. The enterprise value of the transaction was approximately EUR 346 million. ERG acknowledged the seller a consideration for the equity of EUR 70.2 million.

At the time of this Report, steps were taken to carry out a purchase price allocation exercise on the basis of the available information: consistently with the indications of IFRS 3 and in consideration of the reduced period of time between the acquisition and the preparation of the document, the exercise shall be deemed provisional and subject to changes and refinements. Additional details, inclusive of any price updates and attribution of the gains, and the related accounting effects, shall be indicated in the half-year financial Report as at 30 June 2018.

In this regard, based on the provisions of IFRS 3, the measurement of the assets and liabilities may be subject to changes in the twelve months following the acquisition date.

The method used for the first consolidation of the acquired companies, as required by reference accounting standards, is described below.

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

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

In the determination of the fair value of the acquired assets and liabilities, the main differences identified refer to the evaluation:

- of fixed assets, and in particular authorisations for the generation of electricity at feed-in tariffs for solar installations in operation. These assets were provisionally evaluated with the support of models set up when assessing the validity of the investment;
- of financial liabilities related to the derivative to hedge interest rates and to loans, some of which were originally entered into under less advantageous conditions than those currently proposed by the market.

The impact of the transaction on the Group's net financial indebtedness is estimated to be EUR 346 million and it refers to the acquisition price (EUR 70 million) and to the net financial position of the acquired companies, inclusive of the fair value of the derivatives and of the negative effect deriving from the fair value measurement of certain loans, as commented above.

ALTERNATIVE PERFORMANCE MEASURES

Definitions

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and the presentation of Alternative Performance Measures in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Measures (CESR/05 - 178b), aim to promote the usefulness and the transparency of alternative performance measures in order to improve their comparability, reliability and capacity for understanding.

Some of the Alternative Performance Measures (APM) used in this document are different from the financial indicators expressly provided by the IAS/IFRS adopted by the Group.

These alternative measures are used by the Group in order to facilitate the communication of information on business performance as well as on net financial indebtedness.

Finally, it is noted that in order to facilitate the understanding of businesses' operating performance, results of operations are shown excluding special income items: as from this Report, these results, previously referred to as "recurring", are indicated with the term "Adjusted results".

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.

Below are the definitions of the APMs used by the Group and a reconciliation with the items of the financial statement models adopted:

- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciations and write-downs" to the net operating profit. EBITDA is explicitly indicated as a subtotal in the financial statements;
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income components;
- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA and the Revenues from ordinary operations of each individual business;
- the **adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax;
- **Adjusted Group net profit** is the net result of the Group with the exclusion of significant special income components, net of the related tax effects;
- **Investments** are obtained from the sum of investments in tangible and intangible assets. Starting from this Report, they also include the value of the acquisitions of net assets within the scope of M&A transactions;

- **Net working capital** is defined by the sum of inventories, trade receivables and trade payables;
- **Net invested capital** is determined by the algebraic sum of fixed assets, net working capital, liabilities related to employee severance indemnities, other assets and other liabilities;
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the non-current financial loan to api S.p.A. (EUR 36 million) as a deferred component of the TotalErg sale price, as well as non-current portion of assets relating to derivative instruments;
- **Financial leverage** is calculated by comparing total net financial liabilities (including Project Financing) and the net invested capital.

Reconciliation with adjusted operating results

EBITDA

Year 2017 restated		Note	1st quarter 2018	1st quarter 2017 restated
457.6	**EBITDA from continuing operations**		**159.2**	**151.3**
2.3	*Contribution of discontinuing operation (Brockaghboy)*	**1**	*3.3*	–
459.9	**EBITDA**		**162.5**	**151.3**
	Exclusion of special items			
12.4	*- Reversal of ancillary charges on extraordinary operations*		–	–
472.3	**Adjusted EBITDA**		**162.5**	**151.3**

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

Year 2017 pro forma		Note	1st quarter 2018	1st quarter 2017 pro forma
(250.9)	**Depreciation and amortisation - continuing operations**		**(67.9)**	**(61.5)**
(1.3)	*Contribution of discontinuing operation (Brockaghboy)*	**1**	*(0.7)*	–
(252.2)	**Adjusted amortisation. depreciation and write-downs**		**(68.6)**	**(61.5)**

GROUP'S NET PROFIT (LOSS)

Year 2017 pro forma		Note	1st quarter 2018	1st quarter 2017 pro forma
107.9	**Group's net profit (loss)**		**84.9**	**54.4**
9.3	*Exclusion of ancillary charges on extraordinary operations*		–	–
–	*Exclusion of capital gain from Brockaghboy sale*	**2**	*(26.3)*	–
–	*Exclusion of net proceeds (IFRS 9) on refinancing*	**3**	*(2.3)*	–
117.2	**Adjusted Group net profit (loss)**		**56.3**	**54.4**

1. The accounting results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5.
   In this Report, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown and commented on in ordinary operations, in line with the approach already adopted in the Report on Operations of the 2017 Financial Statements.

2. The aforementioned sale of Brockaghboy resulted in the recognition of a capital gain or EUR 26 million, net of the related tax effects and other ancillary components, which for the purposes of this Report is considered a special item.

3. During the period the Group renegotiated a loan. IFRS 9 does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the debt: this resulted in the accounting in the quarter of a gain of approximately EUR 3 million. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial charges related to the debt service payment, with the recognition of deferred benefits of the renegotiation along the duration of the debt and not all in one immediate posting at the time of the amendment. The aforementioned adjustment relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Below is the reconciliation between the Financial Statements and the adjusted statements shown and commented upon in this Report.

FIRST QUARTER 2018	Financial statements	Reversal of IFRS 5 reclassifications - Brockaghboy	Exclusion Special items	adjusted income statement
Revenues from ordinary operations	281.4	2.9	–	284.4
Other revenues and income	1.9	0.9	–	2.8
Total revenues	**283.3**	**3.8**	**–**	**287.1**
Costs for purchases	(69.8)	(0.0)	–	(69.8)
Changes in inventories	0.4	–	–	0.4
Costs for services and other operating costs	(40.1)	(0.6)	–	(40.7)
Personnel costs	(14.6)	–	–	(14.6)
EBITDA	**159.2**	**3.3**	**–**	**162.5**
Amortisation, depreciation and write-downs of fixed assets	(67.9)	(0.7)	–	(68.6)
EBIT	**91.3**	**2.6**	**–**	**93.9**
Net financial income (expenses)	(14.6)	(0.6)	(2.8)	(18.1)
Net income (loss) from equity investments	0.0	26.8	(26.8)	0.0
Profit (loss) before taxes	**76.7**	**28.8**	**(29.6)**	**75.9**
Income taxes	(20.3)	(0.2)	1.0	(19.5)
Net profit (loss) from continuing operations	**56.5**	**28.5**	**(28.6)**	**56.4**
Net profit (loss) from sold assets	28.5	(28.5)	–	–
Net profit (loss) for the period	**85.0**	**–**	**(28.6)**	**56.4**
Minority interests	(0.1)	–	–	(0.1)
Group share of net profit	**84.9**	**–**	**(28.6)**	**56.3**

Comparative restated data 1st quarter 2017

It was considered appropriate to amend the 2017 comparative data in order to take account of the following:

- the aforementioned sale of **TotalErg** on 10 January 2018 marked the ERG Group's definitive departure from the OIL industry. Since this date, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same periods of 2017 is therefore affected by this change in scope. As such, in order to facilitate the understanding of the performance in the two periods and in view of the Group's new strategic and industrial positioning, the 2017 comparative figures were amended so as to exclude the adjusted results[12] of the joint venture TotalErg which had previously been consolidated under the equity method and reported in the line "Net income (loss) from equity investments". In the first quarter of 2017 this contribution was positive in the amount of EUR 6 million (EUR +24 million for the whole of 2017);
- **IFRS 15 - Revenue from Contracts with Customers** has been applied as from 1 January 2018, with no significant impact on the Group's Consolidated Financial Statements. In particular, some ERG contracts were identified as "agent", requiring a net representation (netting) of certain operating costs as a reduction in revenues.

12 Net of special items and inventory gains (losses).

	First quarter 2017	IFRS 15 Reclassi-fications	Reversal TotalErg inventory gains/losses	Reversal TotalErg impact	1st quarter 2017 recurring restated
Revenues from ordinary operations	302.6	(2.1)	–	–	300.5
Other revenues and income	2.8	–	–	–	2.8
Total revenues	**305.4**	**(2.1)**	**–**	**–**	**303.3**
Costs for purchases	(98.7)	0.2	–	–	(98.5)
Changes in inventories	(0.9)	–	–	–	(0.9)
Costs for services and other operating costs	(39.3)	1.9	–	–	(37.4)
Personnel costs	(15.2)	–	–	–	(15.2)
EBITDA	**151.3**	**0.0**	**–**	**–**	**151.3**
Amortisation, depreciation and write-downs of fixed assets	(61.5)	–	–	–	(61.5)
EBIT	**89.8**	**0.0**	**–**	**–**	**89.8**
Net financial income (expenses)	(16.5)	–	–	–	(16.5)
Net income (loss) from equity investments	10.7	–	(4.4)	(6.2)	0.0
Profit (loss) before taxes	**83.9**	**0.0**	**(4.4)**	**(6.2)**	**73.3**
Income taxes	(18.9)	–	–	-	(18.9)
Net profit (loss) from continuing operations	**65.0**	**0.0**	**(4.4)**	**(6.2)**	**54.4**
Net profit (loss) from sold assets	–	–	–	–	–
Profit (loss) before minority interests	**65.0**	**0.0**	**(4.4)**	**(6.2)**	**54.4**
Minority interests	–	–	–	–	–
Group share of net profit	**65.0**	**0.0**	**(4.4)**	**(6.2)**	**54.4**

SIGNIFICANT EVENTS AFTER THE QUARTER

Date	Sector	Significant events	Press release
6 April 2018	Wind France	**Signing of agreement** with Impax New Energy Holding Cooperatief W.A., for the acquisition in France of two wind farms (26 MW) and a pipeline of approximately 750 MW. The transaction is expected to be closed in the second quarter of 2018.	Press release of 6 April 2018
23 April 2018	Corporate	The **Shareholders' Meeting of ERG S.p.A.** appoints the new Board of Directors, confirms Edoardo Garrone as Chairman and resolves on the payment of a dividend of EUR 1.15 per share of which EUR 0.40 extraordinary. The Board of Directors of ERG confirms Alessandro Garrone as Executive Deputy Chairman, Giovanni Mondini as Deputy Chairman and Luca Bettonte as Chief Executive Officer.	Press release of 23 April 2018
27 April 2018	Wind France	**Signing of agreement** with Global Wind Power France for the acquisition of 100% of the capital of WP France S.a.s., the company which owns the rights, licences and permits for a 6.9 MW wind farm project in France.	Press release of 27 April 2018

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2018 is as follows:

Wind

ERG continues its strategy of international development in Wind Power, thanks to the purchase of two wind farms in France for 26 MW and a growth company with a pipeline of 750MW, which will allow the country to achieve an installed capacity of around 300 MW by the end of 2018.

As regards Italy, EBITDA is expected to decrease as a result of the gradual exit from the incentive system of approximately 72 MW in the course of the year and of the lower price of the incentive, the value of which is determined on the basis of the average price of electricity recorded in 2017. These effects will only be marginally offset by the slightly better than expected wind conditions than those recorded in 2017.

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

Solar

In 2018 , ERG entered into the Solar sector with the acquisition of FORVEI (89 MW), further strengthening its strategy of technological diversification. In addition, the considerable size of the operation will extend and optimise the Energy Management portfolio and capitalise on industrial expertise in the management of assets.

In general, the total EBITDA for Solar will contribute to increasing the result of the Group with respect to 2017, a year in which the Group had not yet been involved with this technology.

Hydroelectric

In the course of 2018, ERG will continue consolidating the hydroelectric complex in Terni. Results are expected to improve thanks to the greater volumes expected compared to the previous year, which will more than compensate for the lower incentive price benefiting approximately 40% of output and the revenues linked to the recovery of previous incentives in the amount of approximately EUR 8 million from which hydroelectric power benefited in 2017.

Thermoelectric

During 2018, ERG will continue improving the operating efficiency of the ERG Power CCGT plant. Results are expected to decrease as a result of a less favourable price scenario, partly mitigated by participation in the dispatching services market, the maximisation of high-yield co-generation, improvements in operating efficiency and Energy Management activities.

On the whole, the EBITDA for 2018 is expected to be approximately EUR 475 million, a slight increase compared to 2017 despite the decrease in incentives in wind power in Italy and the lower GRIN price incentive (99 vs 107 EUR/MWh on incentivised Wind and Hydro volumes); these effects are compensated by the provision of higher volumes on Hydro and the contribution of new assets in Solar.

ERG's cash generation, both operational and arising from the sales of TotalErg and Brockaghboy, will keep borrowing largely stable at around EUR 1.3 billion (EUR 1.2 billion in 2017), compensating for new investments in the amount of approximately EUR 500 million, the ordinary and extraordinary distribution of dividends at EUR 1.15 per share and the payment of financial expenses.

Genoa, Italy, 14 May 2018

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 CONSOLIDATION FINANCE LAW)

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, 14 May 2018

The Manager responsible for preparing
the Company's financial reports

ERG S.P.A.

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