



## Press Release

The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31 December 2017

**Consolidated recurring EBITDA<sup>1</sup>: €472 million, €455 million in 2016**  
**Recurring Group net result<sup>2</sup>: €142 million, €107 million in 2016**  
**Proposed dividend of Euro 1.15 per share, including an extraordinary component of Euro 0.40.**

## Fourth quarter of 2017

**Consolidated recurring EBITDA: €116 million, €104 million in 4Q 2016**  
**Recurring Group net result: €28 million, €24 million in 4Q 2016**

**Genoa, 8 March 2018** – The Board of Directors of ERG S.p.A., which met yesterday, approved the consolidated financial statements and the draft financial statements as at 31 December 2017, the report on corporate governance and ownership, the consolidated non-financial declaration, the 2018-2020 long-term incentive plan and the remuneration report.

## Consolidated recurring financial results

| 4th Quarter |      |        | Performance highlights (million Euro) | Year |      |        |
|-------------|------|--------|---------------------------------------|------|------|--------|
| 2017        | 2016 | Var. % |                                       | 2017 | 2016 | Var. % |
| 116         | 104  | 11%    | EBITDA                                | 472  | 455  | 4%     |
| 52          | 44   | 17%    | EBIT                                  | 220  | 202  | 9%     |
| 28          | 24   | 16%    | Group net result                      | 142  | 107  | 32%    |

|                                   | 31.12.17 | 31.12.16 | Variation |
|-----------------------------------|----------|----------|-----------|
| Net financial debt (million Euro) | 1,233    | 1,557    | -325      |
| Leverage <sup>3</sup>             | 40%      | 47%      |           |

Luca Bettonte, ERG's Chief Executive Officer, commented : "FY2017 was another very satisfactory year from a results standpoint, with Group net profit at 142 million Euro, well above the result of 107 million Euro a year earlier. A decisive year for the evolution of the Group, during the course of which the sale of TotalErg and acquisition of Forvei marked its definitive exit from the Oil industry and at the same time its entry into the photovoltaic sector.

EBITDA came to 472 million Euro, exceeding both the figure for 2016 and the guidance figures given to the market at the beginning of the year, even though 2017 was a decidedly dry year with poor wind conditions, also characterised by 200 megawatts in the wind power sector leaving the incentive mechanism. Thanks to the generally positive trend in energy prices associated with increased margins as regards the thermoelectric power business, the contribution from the wind farms acquired in Germany and the constant attention to costs and generation efficiency, we were able to obtain extremely positive results in excess of expectations, confirming the soundness of our business model.

The net debt of 1,233 million Euro is also an improvement on the beginning-of-year guidance figures, thanks to the significant operating cash flow, the dividends received from TotalErg and the advanced payment on the part of the api Group, which more than offset the investments and dividend distribution.

For 2018, also thanks to the contribution from the photovoltaic business, we forecast a slight growth in EBITDA to Euro 475 million and a net debt of Euro 1,260 million, after investments totalling around Euro 450 million, the distribution of dividends amounting to approximately Euro 170 million and taking into account the sale of TotalErg and Brockaghboy wind farm.

The Board of Directors will propose to the Ordinary Shareholders' Meeting an increase in ordinary dividend to 0.75 Euro per share and an extraordinary dividend of 0.40 per share, corresponding to around 20% of the cash-in deriving from the TotalErg sale transaction."

<sup>1</sup>Recurring results do not include inventory gains (losses) and non-recurring items.

<sup>2</sup>Recurring Group net result does not include inventory gains (losses), non-recurring items or applicable theoretical taxes.

<sup>3</sup> The ratio of total net financial debt (including project financing) to net invested capital.

The Board of Directors proposes to the Ordinary Shareholders' Meeting, to be convened on 23 April 2018 in first call and, if required, on 24 April 2018 in second call, the distribution of a dividend of 1.15 Euro per share, including an extraordinary component of Euro 0.40, which will be available for payment starting from 23 May 2018 (payment date), with an ex-dividend date as of 21 May 2018 (ex-date) and record date of 22 May 2018.

### **Preliminary remarks**

#### **Change in business perimeter**

The FY2017 results reflect the acquisition of six wind farms in Germany during the period (48 MW), fully consolidated from 1 January 2017.

Furthermore, it is worth mentioning that the 2017 results reflect the contribution from the wind farm owned by the company Brockaghboy Windfarm Ltd, which came on stream during the fourth quarter of 2017. At the end of 2017, the process commenced for the sale of the said company, which was concluded on 7 March 2018.

#### **Sale of shareholding in TotalErg**

On **3 November 2017** ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the api Group for the sale of a 100% equity interest in TotalErg S.p.A., a company operating in oil product distribution and refining. The transaction perimeter includes approximately 2,600 retail service stations, the Rome logistic hub and 25.16% of the Trecate refinery.

The transaction closing was completed on 10 January 2018, following approval by the Antitrust authority and completion of the spin-off of the TotalErg S.p.A. business unit operating in the lubricant sector in favour of Total Italia S.r.l.. Regarding the latter ERG S.p.A. and Total Marketing Services S.A., again on 3 November, signed a binding agreement for ERG S.p.A.'s sale to the Total group of its (51%) stake in the said company (this sale also took place on 10 January 2018). It should also be noted that, on 10 August 2017, TotalErg S.p.A. had already finalised the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of its subsidiary Restiani S.p.A., which operates in the heating services sector, and on 5 October 2017, the sale to UGI Italia S.r.l. of its subsidiary Totalgaz Italia S.r.l., a company operating in the LPG distribution business.

The payment due for the sale of the assets amounts to Euro 194 million, of which Euro 14 million was already received in 2017 by way of advance payment, Euro 144 million was received in 2018 at the time of the closing and a deferred component of approximately Euro 36 million was settled by way of a vendor loan agreement signed with api S.p.A., repayable in five and a half years.

The overall consideration for the transaction's equity value amounts to Euro 273 million which, in addition to the sum payable as above, also includes extraordinary dividends distributed by TotalErg S.p.A. to ERG S.p.A. totalling Euro 71 million (of which Euro 20 million paid on 11 May 2017 and the remaining Euro 51 million on 26 October 2017), the interest that will accrue under the vendor loan agreement and the related tax effects.

#### **Brockaghboy Windfarm Ltd**

At the beginning of 2016, ERG acquired from TCI Renewables ("TCI") a 100% equity interest in Brockaghboy Windfarm Ltd ("BWF"), an English company holding authorisations to build a wind farm in Northern Ireland, completed during 2017, with an installed capacity of 48 MW. The wind farm has already obtained crediting under the prevailing incentive mechanisms (NIRO) envisaged by the regulatory system. The agreements signed at the time provided that, upon completion of construction and subsequent to crediting of the incentives (NIRO), ERG would be entitled to submit a supplementary proposal to TCI with a view to maintaining permanent ownership. Failing acceptance of this proposal and only in the case of higher offers from third parties, the sale would go ahead, via a contractual mechanism for sharing the capital gain.

This having been said, it should be noted that at the end of 2017 a process was initiated to sell the subsidiary Brockaghboy Windfarm Ltd, which was concluded on 7 March 2018 with the sale to Greencoat UK Wind PLC, a London Stock Exchange listed fund specialising in investments in renewables, of a 100% equity interest in Brockaghboy Windfarm Ltd ("BWF").

### **Fourth Quarter 2017**

#### **Consolidated financial results**

In the fourth quarter of 2017 **revenues from ordinary operations** came to Euro 291 million, with an increase compared to Euro 268 million in the fourth quarter of 2016.

**Recurring EBITDA**, at Euro 116 million, showed an increase with respect to Euro 104 million posted in the fourth quarter of 2016. This variation reflects the following:

- **Non Programmable Sources:** EBITDA, at Euro 89 million, showed a growth compared to the corresponding period a year earlier (Euro 78 million), mainly as a result of the improved wind conditions and higher output in Italy, France and Germany, together with the start-up of the new wind farm in Northern Ireland and the generally more favourable price trend in Italy, in addition to further cost efficiency interventions.  
We report that approximately 81% (95% in 2016) of wind power output in Italy during the fourth quarter of 2017

benefited from the incentive tariff (former Green Certificates), for a unitary amount corresponding to about 107 Euro/MWh, higher than the same period in 2016 (approximately 100 Euro/MWh).

- **Programmable Sources:** EBITDA, at Euro 36 million, showed an increase compared to the previous year (Euro 32 million). The contribution provided by the hydroelectric power complex was down by Euro 20 million with respect to Euro 25 million for the corresponding period in 2016, due above all to the situation of significantly reduced water availability compared to the corresponding period a year earlier, partly mitigated by the plants' flexibility in taking advantage of the particularly favourable peak prices in the North-Central area. The result posted by the thermoelectric power division, at Euro 16 million, showed a strong increase compared to Euro 7 million for the corresponding period in 2016, reflecting both the improved trend in energy sales prices and the contribution of Energy Efficiency Certificate revenues payable to the CCGT plant owing to its qualification as high yield cogeneration facility.

**Recurring EBIT** came to Euro 52 million, with an increase compared to Euro 44 million for the fourth quarter in 2016, after amortisation and depreciation totalling Euro 64 million (Euro 60 million in the corresponding period of 2016).

**Recurring Group net result** was Euro 28 million, with a growth compared to Euro 24 million for the fourth quarter in 2016, reflecting the improved results described above and the lower net financial charges.

## FY2017

### Consolidated financial results

In 2017 **revenues from ordinary operations** came to Euro 1,056 million, with a small increase over 1,025 million in 2016, despite the slight downturn in RES output with respect to the corresponding period of 2016 owing to the particularly unfavourable water conditions in Italy. These effects were more than offset by the growth in wind power volumes thanks to the contribution from the new facilities in Germany and in the UK, in a positive scenario during which there was an increase in average energy prices, incentives and Energy Efficiency Certificates. This item also reflected the effects of price fluctuation hedging actions taken by Energy Management, the lower revenues connected with the wind farms leaving the incentive mechanism, which were partly offset thanks to the incentive recovery mechanism relating to the loss of production for shutdowns requested by Terna in prior years. We mention that the previous year, up to the month of May 2016, included the "reintegration payment" of around Euro 31 million recognised in respect of the restrictions imposed on the CCGT plant's modulation under the Essential Units regulations for the safety of the electricity system.

**Recurring EBITDA** came to Euro 472 million, with an increase compared to Euro 455 million posted in 2016. The variation reflects the following:

- **Non Programmable Sources:** EBITDA of Euro 316 million, with an increase compared to the previous year (Euro 308 million), mainly as a result of the generally more favourable trend in prices, further cost efficiency interventions and the contribution from the newly acquired wind farms in Germany, together with the coming on stream of the new wind farm in Northern Ireland. These effects were only partially offset by the decline in windiness and output in Italy and France, where poorer wind conditions were recorded. On the other hand, positive wind conditions were recorded in Germany and in the Eastern European countries. We report that approximately 87% of Italian wind output in 2017 (96% in 2016) benefited from the incentive tariff (former Green Certificate), for a unitary amount corresponding to around 107 Euro/MWh, higher than the corresponding period in 2016 (approximately 100 Euro/MWh).
- **Programmable Sources:** EBITDA of Euro 172 million, with an increase over the previous year (Euro 161 million). The contribution provided by the hydroelectric power complex amounted to Euro 94 million, with a sharp upturn compared to Euro 84 million in 2016, due above all to the plants' flexibility in taking advantage of the particularly favourable peak prices especially at the beginning of the year in the North-Central area, despite the situation of significantly reduced water availability compared to the corresponding period a year earlier. The results also benefited from the repeal of the revocation as regards the RES-E (*IAFR*) qualification for the Cotilia (48 MW) and Sigillo (5 MW) plants, following a GSE inspection procedure, and the said plants are therefore entitled to recognition of incentives, with effect from the current year, as well as recuperation of back payments. The result posted by the thermoelectric power division, at Euro 78 million, is in keeping with the figure of Euro 77 million for the previous year, which however benefited from the "reintegration payment", amounting to around Euro 31 million, recognised in favour of the CCGT facility under the Essential Units regulations for the safety of the electricity system, in force until 27 May 2016. The reduction in revenues was more than offset by the contribution from the Energy Efficiency Certificate revenues earned by the CCGT plant owing to its qualification as high yield cogeneration facility, and by the improved trend in energy sales prices.

**Recurring EBIT** came to Euro 220 million (Euro 202 million in 2016) after amortisation and depreciation totalling Euro 252 million (254 million in 2016).

**Recurring Group net result** was Euro 142 million, with a sharp growth compared to Euro 107 million in 2016, as a result of the previously mentioned improved operating results, lower net financial charges and increased revenues from the TotalErg investment (consolidated in this Report for the whole of 2017 using the equity method). The 2016 result also included the negative amount of approximately Euro 3 million by way of minority interests.

**Net Group result<sup>4</sup>** came to Euro 207 million (Euro 122 million in 2016) and, in addition to the previously commented growth in EBIT and reduction in net financial charges, also reflects the effects associated with the application of IFRS 5 to the TotalErg transaction.

In 2017 **Group investments** totalled Euro 54 million (Euro 60 million in 2016) of which 65% concerned the Non Programmables sector (73% in 2016), above all in connection with the construction of the Brockaghboy wind farm in Northern Ireland, which came on stream starting from the fourth quarter of 2017, 30% the Programmables sector (22% in 2016) and 5% the Corporate sector (5% in 2016). Added to these is the amount of approximately Euro 40 million invested in 2017 to acquire 48 MW in Germany from the DIF Group (in 2016, Euro 306 million for the acquisition of wind farms in France and Germany from the Impax Group, and Brockaghboy).

**Net financial debt**, at Euro 1,233 million, was down by Euro 325 million with respect to 31 December 2016 mainly due to the positive operating cash flow, the dividends distributed by TotalErg (Euro 71 million), the advance payment made by the api Group in connection with the sale of TotalErg (Euro 14 million), and the Essential Units (*UESSE*) reintegration payments received (Euro 22 million)<sup>5</sup> which offset the impacts arising from the acquisition of the German wind farms from the DIF Group (Euro 40 million), the distribution of dividends (Euro 74 million), the payment of taxes (Euro 23 million) and investments during the period (Euro 54 million).

## Investments

The breakdown of investments by sector is set out in the following table:

| 4th Quarter |      | Million Euro                    | Year |      |
|-------------|------|---------------------------------|------|------|
| 2017        | 2016 |                                 | 2017 | 2016 |
| 9           | 23   | <b>Non Programmable sources</b> | 35   | 44   |
| 9           | 23   | Wind power                      | 35   | 44   |
| 7           | 5    | <b>Programmable sources</b>     | 16   | 13   |
| 4           | 4    | Thermoelectric power            | 10   | 10   |
| 3           | 1    | Hydroelectric power             | 6    | 4    |
| 1           | 2    | <b>Corporate</b>                | 3    | 3    |
| 17          | 29   | <b>Total investments</b>        | 54   | 60   |

We first of all mention that the information concerning investments for the period does not include **the acquisition of six wind farms in German**, purchased from the DIF Group, with a total installed capacity of 48.4 MW. The acquisition's enterprise value amounted to around Euro 40 million.

It should be noted that the information concerning investments for the corresponding period a year earlier does not include **two major acquisitions** carried out during the period in connection with Non Programmable Sources:

- the acquisition at the beginning of 2016 from the Impax Group of **eleven wind farms in France and six in Germany**, with a total installed capacity of 206 MW (and an expected average annual output of around 410 GWh), as well as two companies which provide operational and commercial technical assistance to both "captive" and third-party wind power operators in France, Germany and Poland. The transaction's enterprise value amounted to approximately Euro 290 million, corresponding to a multiple of around Euro 1.4 million per MW.
- the acquisition from TCI Renewables of Brockaghboy Windfarm Ltd ("BWF"), an English company holding authorisations to build a wind farm in Northern Ireland<sup>6</sup>, with a scheduled capacity of over 47.5 MW and electricity output, when fully operational, estimated at more than 150 GWh per year. The transaction involved an

<sup>4</sup> This includes non recurring items totalling +Euro 38 million (+Euro 4 million in 2016) and inventory gains (losses) of +Euro 9 million (+Euro 16 million in 2016). Amounts are shown net of the related tax effects. Greater detail is provided in the section "Alternative performance indicators".

<sup>5</sup> During the fourth quarter of 2017 the amount of Euro 13 million was received as balance for 2015 and Euro 9 million as second down payment for 2016.

<sup>6</sup> Brockaghboy wind farm sold on March 7<sup>th</sup>, 2018.

initial investment of approximately Euro 13 million, added to which were the investments made after acquisition of the project, as commented below. The overall investment for implementation of the wind farm is at around Euro 79 million, which already includes the initial consideration paid to purchase the company.

In 2017 the ERG Group carried out investments in tangible and intangible fixed assets totalling Euro 54 million (Euro 60 million in 2016) of which Euro 50.7 million concerned property, plant and equipment (Euro 55.6 million in 2016) and Euro 3.6 million concerned intangible fixed assets (Euro 3.9 million in 2016). Investments carried out by the Group in the fourth quarter amounted to Euro 17 million (Euro 29 million in the corresponding period of 2016).

#### Non Programmable Sources

Investments in 2017 (Euro 35 million) mainly refer to the sums paid out by ERG Power Generation amounting to around Euro 29 million as a result of works for the implementation of the above mentioned wind farm in Northern Ireland, which came on stream during the fourth quarter of 2017. The Brockaghboy wind farm comprises nineteen Nordex N90 2.5 MW wind turbines, for a total capacity of 47.5 MW.

#### Programmable Sources

Investments in 2017 (Euro 16 million) concerned above all Erg Power's CCGT facility, which continued with its targeted investment initiatives aimed at maintaining the plants' operational efficiency, flexibility and reliability, including activities to unify the control centre and the information systems. Moreover, the scheduled interventions continued in the area of Health, Safety and the Environment.

Hydroelectric investments mostly refer to the already mentioned investment in new mini-hydro facilities, as well as maintenance and other contracts.

### Operational data

#### Energy

Electricity sales by the ERG Group, carried out in Italy through ERG Power Generation S.p.A.'s Energy Management, refer to the electricity generated by its wind farms and its thermoelectric and hydroelectric power plants, and to purchases on organised markets and via physical bilateral contracts.

During 2017, overall electricity sales came to 11.7 TWh (12.3 TWh in 2016), against a total of around 7.2 TWh produced by the Group's facilities (7.6 TWh in 2016), of which approximately 1.5 TWh abroad and 5.7 TWh in Italy. The latter figure corresponds to about 1.8% of overall domestic electricity demand (2.0% in 2016).

| 4 <sup>th</sup> Quarter |       | Electricity output (GWh)    | Year  |       |
|-------------------------|-------|-----------------------------|-------|-------|
| 2017                    | 2016  |                             | 2017  | 2016  |
| 1,081                   | 870   | Wind power output           | 3,613 | 3,501 |
| 594                     | 509   | - Italy                     | 2,117 | 2,220 |
| 487                     | 361   | - Overseas                  | 1,496 | 1,281 |
| 641                     | 661   | Thermoelectric power output | 2,453 | 2,693 |
| 260                     | 329   | Hydroelectric power output  | 1,144 | 1,358 |
| 1,982                   | 1,860 | ERG plants total output     | 7,211 | 7,552 |

#### Fourth quarter of 2017

- **Electricity output from Non Programmable Sources** amounted to 1,081 GWh compared to 870 GWh for the corresponding period in 2016, with an overall 24% growth in output, of which +17% in Italy (from 509 GWh to 594 GWh) and +35% abroad (from 361 GWh to 487 GWh). The upturn in Italian production (+85 GWh) reflects the improved wind conditions recorded during the period with respect to the fourth quarter of 2016. Outside of Italy, the increase of 126 GWh is ascribable to both the higher output recorded in France and Germany and the contribution from the German wind farms (DIF) acquired during 2017 and the new facilities in Northern Ireland.
- Net electricity output from **Programmable Sources** (Thermoelectric and hydroelectric power) totalled 901 GWh, with a downturn compared to the fourth quarter of 2016 (990 GWh), as a result of both the reduced net electricity output by ERG Power (down from 661 GWh to 641 GWh), and the lower contribution from ERG Hydro's hydroelectric assets (260 GWh in the fourth quarter of 2017 compared to 329 GWh for the corresponding period in 2016).

#### In FY2017:

- **Electricity output from Non Programmable Sources** amounted to 3,613 GWh, showing an increase compared to 2016 (3,501 GWh), with production down by around 5% in Italy (from 2,220 GWh to 2,117 GWh)



and up by 17% abroad (from 1,281 GWh to 1,496 GWh). The downturn in Italian production (-103 GWh) reflects the wind conditions, which were poorer with respect to the normal seasonal values and inferior to those recorded during 2016. Outside of Italy, the increase of 215 GWh is ascribable to the contribution from the German wind farms (DIF) acquired during the period, together with the good productions in Poland and Romania and the contribution from the new plant constructed in Northern Ireland.

- **Net electricity output from Programmable Sources** (thermoelectric and hydroelectric power) totalled 3,597 GWh, with a downturn compared to 2016 (4,051 GWh), following both the reduction in net electricity output by ERG Power (down from 2,693 GWh to 2,453 GWh), and the lower contribution from ERG Hydro's hydroelectric assets (1,144 GWh in 2017 compared to 1,358 GWh in 2016).

## **Main events in 2017**

### **Wind Power**

On **8 March**, through its subsidiary ERG Power Generation S.p.A., ERG acquired from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH a 100% equity interest in six German companies, owners of six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW, have an expected average annual output of around 84 GWh, corresponding to about 66,000 t of avoided CO<sub>2</sub> emissions; the farms came on stream during 2007 and have an average incentive expiry date of 2027.

The price paid in terms of equity value amounts to Euro 14.4 million, corresponding to an enterprise value of approximately Euro 40 million.

The transaction closing took place on **2 May 2017**.

This transaction, in keeping with its overseas growth and diversification strategy, allows ERG to consolidate its position in the German onshore wind power market, with an installed power of 216 MW.

On **22 June**, through its subsidiary ERG Power Generation S.p.A., ERG acquired from Abo Wind UK LTD the entire share capital of Evishagaran Wind Farm Ltd, a company incorporated in the United Kingdom, which holds authorisations to build a wind farm (35 MW) in Northern Ireland, scheduled to come on stream by 2020.

On **30 June**, ERG Eolica Fossa del Lupo S.r.l., ERG Eolica Amaroni S.r.l. and ERG Eolica Basilicata S.r.l. (all wholly owned by ERG Power Generation S.p.A.) signed a facilities agreement on a multi-borrower non-recourse portfolio basis. The three companies concerned with the transaction own three wind farms located in the Calabria and Basilicata regions, which came on stream between 2011 and 2013 and have an overall installed capacity of 154 MW.

Via this transaction, in view of the excellent operational and financial performance of the above mentioned wind farms, it was possible to refinance the existing project finance loan agreements executed between 2012 and 2014 at significantly improved economic terms and conditions, with an over 50% reduction in the cost of borrowing compared to the terms originally applicable.

The facilities agreement, for an amount of Euro 145 million and a tenor of 10.5 years, was signed by Crédit Agricole CIB Milan Branch as Coordinating & Structuring Bank and Mandated Lead Arranger, BNP Paribas (CIB Italy) and ING Bank N.V. - Milan Branch as Mandated Lead Arrangers and UBI Banca S.p.A. as Mandated Lead Arranger and facilities agent. Crédit Agricole Carispezia acted as Account Bank.

On **11 October** ERG, through its subsidiary ERG Eolienne France SAS, signed an agreement with Vent d'Est SAS, a company located in the Grand Est region of France with industrial expertise in the management and development of wind power installations and sound relations at local community level, for the acquisition of a 75% equity interest in two companies owners of two wind farms with an overall capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée SAS, 12 MW, which came on stream in 2007 and Parc Eolienne d'Epense SAS, 4.25 MW, which came on stream in 2005). The remaining 25% is held by Renvico France SAS.

The value of the acquisition, based on 100%, corresponds to an enterprise value of Euro 12.9 million. The closing, subject *inter alia* to waiver by the minority shareholder of pre-emption rights, is scheduled to take place during the first quarter of 2018. The transaction also provides for a co-development agreement to be entered into with Vent d'Est SAS regarding an early-stage pipeline of projects totalling around 300 MW again located in France, in areas characterised by very high winds.

### **Solar Power**

On **16 November** ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with VEI Green, an investment holding company controlled by PFH S.p.A. with the participation of leading Italian institutional investors, for the acquisition of a 100% stake in ForVei S.r.l., the ninth largest photovoltaic operator in Italy.

ForVei, a joint venture between VEI Green and Foresight created in 2011, owns and manages 30 photovoltaic plants located in 8 regions across Northern and Southern Italy. These plants, which came on stream between 2010 and 2011, have an installed capacity of 89 MW and annual output of around 136 GWh, corresponding to approximately 77 kt of avoided CO<sub>2</sub> emissions. The entire installed capacity is eligible for incentives, with an average expiry date of 2030.

The transaction's enterprise value amounted to Euro 336 million; annual EBITDA for 2017 is expected to be around Euro 35 million. The assets are currently funded through non-recourse project financing for an amount of approximately Euro 180 million and lease agreements for an amount of about Euro 60 million. The transaction closing took place on **12 January 2018** (see **Significant events after the year-end**) and the company will therefore be consolidated using the line-by-line method starting from 1 January 2018.

## Corporate

On **20 April**, after completion of the shareholders' meeting proceedings, Luigi Ferraris, Independent Director and member of the Strategic Committee, tendered his resignation, with immediate effect, as member of the ERG S.p.A. Board of Directors, in order to pursue new professional opportunities. At the time of his resignation Luigi Ferraris did not hold any shares of the Company.

Upon a proposal from the Nominations and Remuneration Committee and pursuant to Article 2386 of the Italian Civil code and Article 15 of the Company's Articles of Association, the ERG S.p.A. Board of Directors meeting held on 11 May 2017 therefore appointed as new Director of the Company Alessandro Careri (formerly a member of the ERG S.p.A. Board of Directors from June 2011 to April 2015 and member of the Strategic Committee, currently Chairman of the TotalErg S.p.A. Board of Directors) who will remain in office until the next ERG S.p.A. Shareholders' Meeting.

Furthermore, in accordance with the provision set forth by Article 148, paragraph 3 of the Consolidated Finance Act, the Board of Directors has expressed its positive evaluation regarding the independence of Director Alessandro Careri.

Lastly, the Board of Directors has decided not to reconstitute the existing composition of the Strategic Committee.

On **4 July** the ERG Group announced the appointment of Sergio Chiericoni as the new head of ERG Group business development in the role of Chief Business Development Officer.

An engineer with twenty years of experience in top management positions at international companies in the Energy sector, Sergio Chiericoni has led major development, design and construction projects in different countries all over the world, focusing over the last ten years on the Renewables sector.

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

On **19 July** the process for the issuance and placement with institutional investors of a non-convertible bond with a nominal amount of Euro 100 million and a denomination per bond of Euro 100 thousand, as approved by the ERG S.p.A. Board of Directors on **12 July**, was concluded.

The purpose of the unsecured loan is to raise additional funds for new investments in the renewable energy sector and to refinance investments made in connection with the hydroelectric plants in Italy.

The notes are unrated, are not subject to financial covenants and will be repaid in a lump sum in January 2023.

The bonds were issued at a price equal to 100% of their nominal value and will accrue interest at a fixed rate of 2.175%. Interest will be paid annually in arrears.

The issue offers the possibility to extend the financial debt duration, reduce its average cost and diversify the Group's funding sources.

Bonds are addressed exclusively to institutional investors in Italy and abroad and will not be offered or sold in the United States of America, Canada, Australia, Japan or in any other country in which the offer or the sale of the bonds are prohibited under applicable laws.

On **3 November** ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the api Group for the sale of a 100% equity interest in TotalErg S.p.A., a company operating in oil product distribution and refining. The transaction perimeter includes approximately 2,600 retail service stations, the Rome logistic hub and 25.16% of the Trecate refinery.

The transaction closing took place on 10 January 2018, following approval by the Antitrust authority and completion of the spin-off of the TotalErg S.p.A. business unit operating in the lubricant sector in favour of Total Italia S.r.l.. Regarding the latter ERG S.p.A. and Total Marketing Services S.A., again on 3 November, signed a binding agreement for ERG S.p.A.'s sale to the Total group of its (51%) stake in the said company (this sale also took place on 10 January 2018). Moreover, we mention that, on 10 August 2017, TotalErg S.p.A. had already finalised the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of its subsidiary Restiani S.p.A., which operates in the heating services sector, and on 5 October 2017, the sale to UGI Italia S.r.l. of its subsidiary Totalgaz Italia S.r.l., a company operating in the LPG distribution business.

The total sum payable to ERG S.p.A. for the transaction's equity value amounts to Euro 273 million. This figure includes extraordinary dividends distributed by TotalErg S.p.A. in the amount of Euro 71 million (of which Euro 20 million paid on 11 May 2017 and the remainder on 26 October 2017) and a deferred component of approximately Euro 36 million settled by way of a vendor loan agreement signed with api S.p.A., repayable in five and a half years.

## Significant events after the year-end

On **10 January 2018** ERG completed the closing with the api Group regarding the sale of its 51% shareholding in TotalErg S.p.A., a company operating in oil product distribution and refining, as well as the closing with Total Marketing Services S.A. for the sale of its stake (corresponding to 51%) in the company Total Italia S.r.l., owner of the business unit operating in the lubricant sector previously owned by TotalErg S.p.A.

Conclusion of the transaction followed approval by the competent Antitrust authority and completion of the spin-off of the above mentioned TotalErg S.p.A. business unit in favour of Total Italia S.r.l..

This transfer represents the positive conclusion of a complex transaction marking the ERG Group's definitive exit from the OIL industry, further strengthening its financial capacity with a view to continuing its growth path in renewables.

On **12 January 2018** ERG, through its subsidiary ERG Power Generation S.p.A., completed its acquisition from VEI Green S.r.l., an investment holding company controlled by PFH S.p.A. with the participation of leading Italian institutional investors, of a 100% stake in ForVei, the ninth largest photovoltaic operator in Italy with a total installed capacity of 89

MW.

Following obtainment of Antitrust clearance and agreement on the part of the lending institutions, this transaction marks ERG's entry into the solar energy sector and constitutes a further significant piece of its technological diversification strategy in power generation from renewable energy sources.

On **12 January 2018** ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, signed an agreement with the Vortex Energy group for the acquisition of a 100% equity stake in Windpark Linda GmbH & Co. KG, holder of authorisations for the construction of a wind farm in Germany with a capacity of 21.6 MW and annual output when fully operational estimated at around 50 GWh, corresponding to approximately 39 kt of avoided CO<sub>2</sub> emissions.

The project has already obtained construction authorisation and will take part in the auction process during 2018. The estimated investment to build the wind farm is approximately Euro 30 million, which already includes the amount paid to purchase the company's shares.

The future construction of the facility, at a location close to the other wind farms owned by ERG (the company already has 216 MW in operation in Germany), is in keeping with its growth strategy in the country and takes advantage of its industrial competencies in development, engineering and building activities.

On **7 March 2018** ERG approved the 2018-2022 strategic plan. After completing its industrial transformation process in 2017, having exited the Oil business and taken an important step in technological diversification with the acquisition of 89 MW in the solar energy sector, ERG has become a leading independent producer of electricity from renewable sources. ERG's objective during the period 2018-2022 is to increase its installed capacity by approximately 850 MW via 3 channels: Greenfield and Co-development, Repowering and Re-blading in Italy and M&A. Total investments during the period 2018-2020 amount to Euro 1.68 billion.

On **7 March 2018** ERG sold to Greencoat UK Wind PLC, a London Stock Exchange listed fund specialising in investments in renewables, a 100% equity interest in Brockaghboy Windfarm Ltd ("BWF"), the English company owner of the 47.5 MW wind farm constructed in Northern Ireland, in the county of Londonderry, by ERG and TCI Renewables Ltd

### **Business outlook**

Set out below is the foreseeable trend in the main scenario and performance indicators during 2018:

#### **Non Programmable Sources**

Insofar as concerns the Wind business in Italy, a downturn in EBITDA is expected as a result of approximately 214 MW leaving the incentive system in 2017 and an additional 72 MW gradually leaving during the course of 2018; this decline is also due to the lower price of the incentive for 2018, the value of which is determined based on the average price of electricity recorded in 2017, with a decrease of approximately 8€/MWh on incentivised generation.

EBITDA of the Wind business outside of Italy is expected to decrease compared to 2017 as a result of the incentive in Romania being reduced to only one green certificate, and following the sale of the subsidiary Brockaghboy Windfarm Ltd, completed on 7 March 2018.

Generally speaking, total EBITDA of the Wind business is therefore expected to show a downturn; this effect is largely offset by the entry into the Solar energy business through the acquisition of 100% of ForVei S.r.l., the ninth largest photovoltaic operator in Italy with a total installed capacity of 89 MW, the impact of which in terms of EBITDA is estimated at approximately Euro 35 million.

Overall, the result for Non Programmable Sources (Wind power and Solar energy) is expected to be lower than in 2017.

#### **Programmable Sources**

With regard to the hydroelectric power business, results are expected to show an upturn due to the forecast higher output with respect to 2017, which was significantly below the historical averages; this effect is partially offset by the lower price of the incentive provided for approximately 40% of output and by the absence of revenues obtained in 2017 (Euro 8 million relating to the recovery of previously accrued incentives).

For the Thermoelectric power plant, slightly lower results are forecast, mainly due to the expected downward trend in generation margins with respect to the particularly positive values in 2017.

Overall, the contribution from Programmable sources is expected to show an upturn compared to 2017.

For 2018, therefore, Group EBITDA is expected to grow slightly to approximately Euro 475 million. The effects of the reduction in the incentivised scope as regards the Wind power sector in Italy, and of the lower price of the incentive, are offset by the contribution from the new solar asset and by the forecast increase in hydroelectric output compared to a year earlier.

ERG's operating cash generation associated with the sums received following the sale of TotalErg and Brockaghboy Windfarm Ltd, totalling approximately Euro 290 million, will make it possible to absorb the acquisition of ForVei (approximately Euro 337 million), the new development investments planned (approximately Euro 100 million) and the dividend payout of approximately Euro 170 million (Euro 1.15 per share, including an extraordinary component of Euro 0.40). Overall debt is therefore expected to be substantially in line with that of 2017, amounting to approximately 1,260 million (Euro 1,233 million at 31 December 2017).



## **Additional information**

### **Appointment of the new Board of Directors**

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution regarding the appointment of members to the Board of Directors, having previously determined their number, appointed the Chairman of the Board of Directors, established the fees payable to the members of the Board of Directors and, where appropriate, to the members of the Control and Risk Committee and the Nominations and Remuneration Committee for FY2018 on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

### **Conferment of mandate to perform the legal audit of accounts**

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution regarding conferment of the mandate to perform the legal audit of ERG S.p.A. accounts for the period FY2018-FY2026 and fixing of the related fee payable pursuant to Legislative Decree 39/2010, taking account of the justified recommendations put forward by the Board of Statutory Auditors.

### **Purchase and sale of treasury shares**

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to resolve on the authorisation of the Board of Directors for the purchase of treasury shares up to a revolving limit of 30,064,000 ordinary shares, corresponding to 20% of ERG's share capital (intending thereby the maximum quantity of treasury shares from time to time held in portfolio), in order to optimise the equity structure with a view to maximising value creation for shareholders, also in relation to the significant liquidity available and in any case for any and all other purposes permitted by the current applicable legislative and regulatory provisions.

The authorisation will be valid for a period of twelve months with effect from the date of the resolution. The purchase must be conducted through the use of distributable profits and available reserves resulting from the last approved financial statements, in compliance with Article 132 of the Consolidated Finance Act and according to the procedures laid down in Article 144-bis, paragraph 1, letter b), of the Issuers' Regulations, at a unitary price, including additional purchase charges, to be no more than 30% lower in minimum and no more than 10% higher in maximum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual transaction. The Company currently holds 1,503,200 treasury shares, for an amount corresponding to 1% of share capital, with an average carrying value of Euro 6.9 per share. The Ordinary Shareholders' Meeting will be also called upon to resolve on the authorisation of the Board of Directors for the sale of treasury shares, in one or more stages, for a period of twelve months starting from the date when the related resolution is adopted, in accordance with article 2357-ter of the Italian Civil Code, at a unitary price no more than 10% lower in minimum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual sale. This is intended to optimise financial leverage and however in all other circumstances where the possibility to dispose of the shares appears, in the opinion of the administrative body, to be in keeping with the interests of the Company and the Shareholders.

### **Long-term incentive plan 2018 – 2020**

The Ordinary Shareholders' Meeting will be called upon to approve the 2018-2020 Long-term Incentive Plan (the "Plan") as approved by the Board of Directors on 7 March 2018, following a proposal by the Nominations and Remuneration Committee on 1 March 2018, having consulted the Board of Statutory Auditors. The Plan, which envisages the assignment, free of charge, of a certain number of ERG shares, upon achieving a predetermined minimum level of performance ("Performance Share") and an additional predetermined maximum number of ERG shares, in the event that a predetermined performance of ERG's share on the Electronic Stock Market (MTA) is achieved, will be used to provide incentives and promote the retention of directors and/or employees of ERG and its Subsidiaries who hold major strategic relevance for the execution of the 2018-2022 Business Plan (for the relevant Plan reference period, in keeping with the mandate to be assigned to the new Board of Directors by the Shareholders' Meeting to be convened to approve the Company's Financial Statements as at 31 December 2017), including certain Managers with Strategic Responsibilities. The Plan should therefore be considered "of particular relevance" within the meaning of Article 84-bis, paragraph 2, of the Issuers' Regulations. A description of the Plan purposes and characteristics is set out in greater detail in the Information Document, prepared by the Board of Directors in accordance with Article 114-bis of the Consolidated Finance Act and Article 84-bis of the Issuers' Regulations and made available to the public at the Company's offices, at Via De Marini 1, Genoa, on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/2018 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the eMarket authorised storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)), together with the Board of Directors' Explanatory Report regarding the matters on the agenda.

### **Remuneration Report**

The Ordinary Shareholders' Meeting will be required to pass resolution pursuant to Article 123-ter of the Consolidated Finance Act regarding the Remuneration Report, as approved by the Board of Directors in their meeting on 7 March last.

*In reference to the estimates and forecasts contained in this press release, we point out that actual results may differ even significantly from the announced results due to a multitude of factors, including: future trends in prices, the operating performance of plants, wind conditions, the impact of regulations for the oil and energy industry and for the environment, other changes in business conditions and in the action of the competition.*

*The layout of the accounting statements corresponds to the format used in the Report on Operations. Appropriate explanatory notes illustrate the results at replacement cost.*

*Pursuant to Article 154-bis(2) of the Consolidated Finance Act, the manager responsible for preparing the company's financial reports, Paolo Luigi Merli, declares that the accounting information contained in this press release corresponds to the accounting documents, books and records.*

*The results for the fourth quarter and FY2017 will be illustrated on 8 March 2018 at 2.00 p.m. (CET), during the course of a meeting with analysts and investors and in conference call and simultaneous webcast, which may be viewed by visiting the Company's website ([www.erg.eu](http://www.erg.eu)); the presentation will be available on the said website, in the "Investor Relations/Presentations" section, at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)) 15 minutes before the conference call.*

*This press release, issued at 8.15 a.m. on 8 March 2018 (CET), is available to the public at the offices of Borsa Italiana S.p.A., on the eMarket Storage authorised storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)) and on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Media/Press Releases".*

*The annual Financial Report, together with the reports of the Board of Statutory Auditors and of the Independent Auditors, and the Directors' Explanatory Report, as well as the additional documents prescribed, will be made available to the public within the deadlines and according to the procedures laid down in the current regulations at the Company's registered office at Via De Marini 1, Genoa, and on the Company website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/2018 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)).*

**Contacts:**

**Sabina Alzona** Media Relations Manager - tel. + 39 010 2401804 mob. + 39 3401091311 – [salzona@erg.eu](mailto:salzona@erg.eu)

**Emanuela Delucchi** IR Manager – tel. + 39 010 2401806 – e-mail: [edelucchi@erg.eu](mailto:edelucchi@erg.eu)

**Matteo Bagnara** IR - tel. + 39 010 2401423 - e-mail: [ir@erg.eu](mailto:ir@erg.eu)

[www.erg.eu](http://www.erg.eu) - [@ergnow](https://twitter.com/ergnow)

## Performance highlights

| 4th quarter                |       |  | Year   |        |
|----------------------------|-------|--|--------|--------|
| 2017                       | 2016  | (EUR million)  | 2017   | 2016   |
| Main Income Statement data |       |  |        |        |
| 291                        | 268   | Revenues from ordinary operations                                | 1,056  | 1,025  |
| 116                        | 104   | EBITDA recurring   | 472    | 455    |
| 52                         | 44    | EBIT recurring   | 220    | 202    |
| 92                         | 30    | Net income   | 207    | 125    |
| 92                         | 30    | of which Group net income  | 207    | 122    |
| 28                         | 24    | Group net profit (loss) recurring <sup>(1)</sup>                 | 142    | 107    |
| Main Financial data        |       |  |        |        |
| 3,110                      | 3,286 | Net invested capital   | 3,110  | 3,286  |
| 1,877                      | 1,729 | Shareholders' Equity   | 1,877  | 1,729  |
| 1,233                      | 1,557 | Total net financial indebtedness                                 | 1,233  | 1,557  |
| 1,115                      | 1,276 | of which non-recourse Project Financing <sup>(2)</sup>           | 1,115  | 1,276  |
| 40%                        | 47%   | Financial leverage   | 40%    | 47%    |
| 40%                        | 39%   | EBITDA Margin %  | 45%    | 44%    |
| Operating data             |       |  |        |        |
| 1,814                      | 1,720 | Installed capacity at period end - wind farms                    | 1,814  | 1,720  |
| 1,081                      | 870   | Electric power generation from wind farms                        | 3,613  | 3,501  |
| 480                        | 480   | Installed capacity - thermoelectric plants                       | 480    | 480    |
| 641                        | 661   | Electric power generation from thermoelectric plants             | 2,453  | 2,693  |
| 527                        | 527   | Installed capacity at period end - Hydroelectric plants          | 527    | 527    |
| 260                        | 329   | Electric power generation from hydroelectric plants              | 1,144  | 1,358  |
| 3,146                      | 3,163 | Total sales of electric power                                    | 11,747 | 12,303 |
| 17                         | 29    | Investments <sup>(3)</sup>                                       | 54     | 60     |
| 714                        | 715   | Employees at period end  | 714    | 715    |
| Market indicators          |       |  |        |        |
| 61.8                       | 55.9  | Reference price of electricity - Italy (baseload) <sup>(4)</sup> | 54.0   | 42.8   |
| 107.3                      | 100.1 | Feed In premium (former Green Certificates) - Italy              | 107.3  | 100.1  |
| 67.0                       | 52.3  | Sicily zone price (baseload)                                     | 60.8   | 47.6   |
| 77.2                       | 65.3  | North - Center zone price (peak)                                 | 63.5   | 47.6   |
| 139.4                      | 148.5 | Average selling price per unit of ERG Wind energy in Italy       | 147.1  | 139.0  |
| 91.9                       | 89.9  | Feed In Tariff (Germany) <sup>(5)</sup>                          | 91.7   | 92.6   |
| 86.8                       | 88.4  | Feed In Tariff (France) <sup>(5)</sup>                           | 88.3   | 88.7   |
| 44.2                       | 56.1  | Feed In Tariff (Bulgaria) <sup>(5)</sup>                         | 81.9   | 84.01  |
| 35.8                       | 34.7  | Price of electricity - Poland                                    | 36.5   | 33.4   |
| 10.3                       | 8.1   | Price of Green Certificates - Poland                             | 8.5    | 10.8   |
| 28.6                       | 26.9  | Price of electricity - Romania <sup>(6)</sup>                    | 28.7   | 27.3   |
| 28.6                       | 22.6  | Price of Green Certificates - Romania <sup>(7)</sup>             | 29.0   | 29.5   |

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

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

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

<sup>(3)</sup> in tangible and intangible fixed assets. Do not include the M&A investments amounting to EUR 39.5 million made in 2017 for the acquisition of the companies of the DIF Group in Germany and the M&A investments amounting to EUR 306.5 million made in 2016.

<sup>(4)</sup> Single National Price

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

<sup>(6)</sup> the Electricity price Romania refers to the price fixed by the company via bilateral agreements

<sup>(7)</sup> Price refers to the unit value of green certificates

## Performance highlights by segment

| 4th quarter |             |   | Year         |              |
|-------------|-------------|---|--------------|--------------|
| 2017        | 2016        |   | 2017         | 2016         |
|             |             | (EUR million)   |              |              |
|             |             | <b>Revenues from ordinary operations:</b>                   |              |              |
| <b>126</b>  | <b>107</b>  | <b>Non Programmable Sources</b>                             | <b>445</b>   | <b>423</b>   |
| 126         | 107         | Wind power  | 445          | 423          |
| <b>164</b>  | <b>161</b>  | <b>Programmable Sources</b>                                 | <b>610</b>   | <b>601</b>   |
| 132         | 126         | Thermoelectric power <sup>(1)</sup>                         | 473          | 479          |
| 32          | 35          | Hydroelectric power   | 137          | 122          |
| <b>8</b>    | <b>8</b>    | <b>Corporate</b>  | <b>38</b>    | <b>32</b>    |
| (7)         | (8)         | <i>Intra-segment revenues</i>                               | (37)         | (31)         |
| <b>291</b>  | <b>268</b>  | <b>Total revenues</b>                                       | <b>1,056</b> | <b>1,025</b> |
|             |             | <b>EBITDA:</b>  |              |              |
| <b>89</b>   | <b>78</b>   | <b>Non Programmable Sources</b>                             | <b>316</b>   | <b>308</b>   |
| 89          | 78          | Wind power  | 316          | 308          |
| <b>36</b>   | <b>32</b>   | <b>Programmable Sources</b>                                 | <b>172</b>   | <b>161</b>   |
| 16          | 7           | Thermoelectric power <sup>(1)</sup>                         | 78           | 77           |
| 20          | 25          | Hydroelectric power   | 94           | 84           |
| <b>(10)</b> | <b>(5)</b>  | <b>Corporate</b>  | <b>(16)</b>  | <b>(13)</b>  |
| <b>116</b>  | <b>104</b>  | <b>EBITDA recurring</b>                                     | <b>472</b>   | <b>455</b>   |
|             |             | <b>Amortisation, depreciation and write-downs</b>           |              |              |
| <b>(41)</b> | <b>(38)</b> | <b>Non Programmable Sources</b>                             | <b>(160)</b> | <b>(163)</b> |
| (41)        | (38)        | Wind power  | (160)        | (163)        |
| <b>(22)</b> | <b>(22)</b> | <b>Programmable Sources</b>                                 | <b>(89)</b>  | <b>(88)</b>  |
| (8)         | (8)         | Thermoelectric power  | (31)         | (30)         |
| (15)        | (14)        | Hydroelectric power   | (58)         | (58)         |
| <b>(1)</b>  | <b>(1)</b>  | <b>Corporate</b>  | <b>(3)</b>   | <b>(3)</b>   |
| <b>(64)</b> | <b>(60)</b> | <b>Amortisation and depreciation recurring</b>              | <b>(252)</b> | <b>(254)</b> |
|             |             | <b>EBIT:</b>  |              |              |
| <b>49</b>   | <b>39</b>   | <b>Non Programmable Sources</b>                             | <b>156</b>   | <b>145</b>   |
| 49          | 39          | Wind power  | 156          | 145          |
| <b>14</b>   | <b>10</b>   | <b>Programmable Sources</b>                                 | <b>83</b>    | <b>73</b>    |
| 8           | (1)         | Thermoelectric power <sup>(1)</sup>                         | 48           | 47           |
| 6           | 11          | Hydroelectric power   | 35           | 26           |
| <b>(11)</b> | <b>(6)</b>  | <b>Corporate</b>  | <b>(19)</b>  | <b>(16)</b>  |
| <b>52</b>   | <b>44</b>   | <b>EBIT recurring</b>                                       | <b>220</b>   | <b>202</b>   |
|             |             | <b>Investments on tangible and intangible fixed assets:</b> |              |              |
| <b>9</b>    | <b>23</b>   | <b>Non Programmable Sources</b>                             | <b>35</b>    | <b>44</b>    |
| 9           | 23          | Wind power  | 35           | 44           |
| <b>7</b>    | <b>5</b>    | <b>Programmable Sources</b>                                 | <b>16</b>    | <b>13</b>    |
| 4           | 4           | Thermoelectric power  | 10           | 10           |
| 3           | 1           | Hydroelectric power   | 6            | 4            |
| <b>1</b>    | <b>2</b>    | <b>Corporate</b>  | <b>3</b>     | <b>3</b>     |
| <b>17</b>   | <b>29</b>   | <b>Total investments</b>                                    | <b>54</b>    | <b>60</b>    |

<sup>(1)</sup> Energy Management contribution is included

## Reclassified Income Statement

The income statement and the statement of financial position figures shown below **include non-recurring items**.

In addition, the results of the TotalErg equity investment and of Brockaghboy Windfarm Ltd in the Notes to the Consolidated Financial Statements are measured and posted in accordance with the IFRS 5.

For clearer disclosure, their respective results were posted and commented herein under ordinary operations.

For the reconciliation of these values please refer to the section “**Alternative performance indicators**”. For additional details of the amounts tied to the measurement and recognition of the aforesaid results for IFRS 5 purposes, reference is made to **Note 27 of the Consolidated Financial Statements**.

| 4h quarter   |              | Reclassified Income Statement                              | Year           |                |
|--------------|--------------|--|----------------|----------------|
| 2017         | 2016         |  | 2017           | 2016           |
|              |              | (EUR million)  |                |                |
| 291.2        | 268.5        | Revenues from ordinary operations                          | 1,056.5        | 1,025.5        |
| 3.5          | 4.7          | Other revenues and income                                  | 10.6           | 16.3           |
| <b>294.7</b> | <b>273.1</b> | <b>TOTAL REVENUES</b>                                      | <b>1,067.0</b> | <b>1,041.8</b> |
| (107.1)      | (108.5)      | Costs for purchase and changes in inventory                | (355.8)        | (330.2)        |
| (61.4)       | (43.3)       | Costs for services and other operating costs               | (182.6)        | (196.0)        |
| (22.8)       | (16.8)       | Cost of labor  | (68.7)         | (62.3)         |
| <b>103.5</b> | <b>104.5</b> | <b>EBITDA</b>  | <b>459.9</b>   | <b>453.3</b>   |
| (64.1)       | (60.4)       | Amortisation, depreciation and write-downs of fixed assets | (252.2)        | (253.7)        |
| <b>39.4</b>  | <b>44.1</b>  | <b>EBIT</b>  | <b>207.7</b>   | <b>199.6</b>   |
| (16.3)       | (19.9)       | Net financial income (expenses)                            | (65.6)         | (83.9)         |
| 72.2         | 9.7          | Net income (loss) from equity investments                  | 98.4           | 37.7           |
| <b>95.2</b>  | <b>33.9</b>  | <b>Profit before taxes</b>                                 | <b>240.5</b>   | <b>153.5</b>   |
| (2.8)        | (3.4)        | Income taxes   | (33.7)         | (28.7)         |
| <b>92.4</b>  | <b>30.5</b>  | <b>Profit for the period</b>                               | <b>206.8</b>   | <b>124.9</b>   |
| 0.0          | 0.0          | Minority interests   | 0.0            | (2.4)          |
| <b>92.4</b>  | <b>30.5</b>  | <b>Group's net profit (loss)</b>                           | <b>206.8</b>   | <b>122.5</b>   |



## Reclassified Statement of Financial Position

For the sake of greater clarity, the reclassified data shown below also include the values attributable to the assets and liabilities involved in the TotalErg and Brockaghboy Windfarm Ltd transaction (discontinued operations) which are indicated separately in the Notes to the Consolidated Financial Statements in application of the requirements of the IFRS 5. The related reconciliations are reported in the chapter "[Alternative performance indicators](#)".

| Reclassified Statement of Financial Position   | 12/31/2017     | 12/31/2016     |
|--|----------------|----------------|
| (EUR million)                                  |                |                |
| Fixed assets                                   | 3,260.8        | 3,372.2        |
| Net working capital                            | 150.0          | 160.2          |
| Employees' severance indemnities               | (6.4)          | (6.7)          |
| Other assets                                   | 278.7          | 310.1          |
| Other liabilities                              | (573.0)        | (549.5)        |
| <b>Net invested capital</b>                    | <b>3,110.1</b> | <b>3,286.3</b> |
| Group Shareholders' Equity                     | 1,877.5        | 1,729.1        |
| Minority interests                             | 0.0            | 0.0            |
| Net financial indebtedness                     | 1,232.7        | 1,557.2        |
| <b>Shareholders' equity and financial debt</b> | <b>3,110.1</b> | <b>3,286.3</b> |

## Cash Flow

| 4th quarter    |                |   | Year           |                |
|----------------|----------------|---|----------------|----------------|
| 2017           | 2016           |   | 2017           | 2016           |
|                |                | <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>              |                |                |
|                |                | (EUR million)   |                |                |
| 95.9           | 79.3           | Adjusted cash flow from current operations <sup>(1)</sup> | 402.1          | 381.3          |
| (7.9)          | (5.5)          | Income tax paid   | (23.2)         | (14.2)         |
| (9.2)          | 71.9           | Change in working capital                                 | 13.2           | 69.5           |
| 13.7           | (2.2)          | Change in other operating assets and liabilities          | 8.1            | (34.3)         |
| <b>92.5</b>    | <b>143.4</b>   | <b>TOTAL</b>  | <b>400.3</b>   | <b>402.3</b>   |
|                |                | <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |                |                |
| (20.4)         | (27.9)         | Net investments on tangible and intangible fixed assets   | (55.6)         | (55.9)         |
| (2.3)          | (5.5)          | Net investments in financial fixed assets                 | (7.4)          | (0.1)          |
| 65.0           | 0.0            | TotalErg Sale <sup>(2)</sup>                              | 85.2           | 0.0            |
| <b>42.4</b>    | <b>(33.5)</b>  | <b>Total</b>  | <b>22.2</b>    | <b>(56.1)</b>  |
|                |                | <b>CASH FLOW FROM SHAREHOLDERS' EQUITY:</b>               |                |                |
| 0.0            | (0.0)          | Distributed dividends                                     | (74.4)         | (142.8)        |
| 2.6            | 10.1           | Other changes in equity <sup>(3)</sup>                    | 15.9           | (6.2)          |
| <b>2.6</b>     | <b>10.1</b>    | <b>Total</b>  | <b>(58.5)</b>  | <b>(149.0)</b> |
| <b>0.0</b>     | <b>(0.3)</b>   | <b>CHANGES IN SCOPE OF CONSOLIDATION<sup>(4)</sup></b>    | <b>(39.5)</b>  | <b>(306.5)</b> |
| <b>137.4</b>   | <b>119.8</b>   | <b>CHANGE IN NET FINANCIAL INDEBTEDNESS</b>               | <b>324.5</b>   | <b>(109.3)</b> |
| <b>1,370.1</b> | <b>1,677.0</b> | <b>INITIAL NET FINANCIAL INDEBTEDNESS</b>                 | <b>1,557.2</b> | <b>1,447.9</b> |
| <b>(137.4)</b> | <b>(119.8)</b> | <b>CHANGE IN THE PERIOD</b>                               | <b>(324.5)</b> | <b>109.3</b>   |
| <b>1,232.7</b> | <b>1,557.2</b> | <b>FINAL NET FINANCIAL INDEBTEDNESS</b>                   | <b>1,232.7</b> | <b>1,557.2</b> |

<sup>(1)</sup> the item does not include inventory gains (losses) and current income tax for the period.

<sup>(2)</sup> The item includes the dividends distributed by TotalErg S.p.A. in 2017 (71 million of which 20 million distributed in May 2017 and 51 million distributed in the month of October 2017) and the advance payment made by the api group as part of the sale of the investment in TotalErg

<sup>(3)</sup> The change in the scope of consolidation in 2017 refers to the line-by-line consolidation of the German companies acquired from the DIF RE Group. The figures relating to 2016 refer principally to the line-by-line consolidation of the companies acquired from Impax Asset Management.

<sup>(4)</sup> the other changes in shareholders' equity mainly refer to the changes in the cash flow hedge reserve linked to the financial derivatives

## Alternative performance indicators

To enhance understandability of business performance, the operating results are also shown excluding non-recurring items and **inventory gains (losses)**<sup>7</sup>.

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

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

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

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

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

**Inventory gains (losses)**<sup>1</sup> are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

## TotalErg Transaction - IFRS 5

With reference to the TotalErg transaction, already commented in the Introduction and in the Significant Events, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the investee are recognised in accordance with IFRS 5.

For the purposes of clearer disclosure, the TotalErg results of ordinary operations are shown and commented on in the line Income (loss) from equity investments in this Report, recognising their recurring contribution for the entire year 2017.

## Brockaghboy Windfarm Ltd – IFRS 5

With reference to the Brockaghboy Windfarm Ltd transaction, already commented in the Introduction, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the assets being sold are indicated separately in accordance with IFRS 5.

For clearer disclosure, the results of the assets being sold are shown and commented under ordinary operations in this Report on Operations.

---

<sup>7</sup> Inventory gains and losses refer solely to the “income from equity investment” and refer to the TotalErg joint venture

## Reconciliation with operating results at adjusted replacement cost

| 4th quarter |       |   | Year  |       |
|-------------|-------|---|-------|-------|
| 2017        | 2016  |   | 2017  | 2016  |
|             |       | <b>EBITDA</b>   |       |       |
|             |       | EBITDA from Continued Operations <sup>(1)</sup>               | 457.6 | 453.3 |
|             |       | Discontinuing Operations (Brockaghboy)                        | 2.3   | 0.0   |
| 103.5       | 104.5 | <b>EBITDA</b>   | 459.9 | 453.3 |
|             |       | <b>Corporate</b>  |       |       |
| 12.0        | 0.0   | - Ancillary charges - extraordinary operations <sup>(2)</sup> | 12.0  | 0.0   |
|             |       | <b>Programmable Sources</b>                                   |       |       |
| 0.0         | 0.0   | - Charges for company reorganisation                          | 0.0   | 0.3   |
| 0.3         | 0.0   | - Ancillary charges - extraordinary operations <sup>(2)</sup> | 0.3   |       |
|             |       | <b>Non Programmable Sources</b>                               |       |       |
| 0.0         | 0.0   | - Charges for company reorganisation                          | 0.0   | 0.9   |
| 0.1         | 0.0   | - Ancillary charges - extraordinary operations <sup>(2)</sup> | 0.1   | 0.9   |
| 115.9       | 104.5 | <b>EBITDA at replacement cost</b>                             | 472.3 | 455.4 |

| 4th quarter |        |   | Year    |         |
|-------------|--------|---|---------|---------|
| 2017        | 2016   |   | 2017    | 2016    |
|             |        | <b>Amortization, depreciation and write-downs</b>                 |         |         |
|             |        | Amortization, depreciation and write-downs (Continued operations) | (250.9) | (253.7) |
|             |        | Discontinuing Operations (Brockaghboy)                            | (1.3)   | 0.0     |
| (64.1)      | (60.4) | <b>Amortization, depreciation and write-downs</b>                 | (252.2) | (253.7) |

(1) it does not take into account the results of the assets and liabilities that are the object of the already commented TotalErg and Brockaghboy Windfarm Ltd transactions which are indicated separately in the Notes to the Consolidated Financial Statements according to the methods indicated by IFRS 5. There is no reconciliation of the fourth quarter data as such data are not presented in the Notes to the Consolidated Financial Statements

(2) reversal of ancillary expenses relating to special projects

| 4th quarter   |              | GROUP'S NET PROFIT (LOSS)   | Year          |               |
|---------------|--------------|---|---------------|---------------|
| 2017          | 2016         |   | 2017          | 2016          |
|               |              | <b>Group net result</b>   | <b>206.8</b>  | <b>122.5</b>  |
|               |              | <i>Exclusion IFRS 5 effects <sup>(1)</sup></i>                                  | <i>(99.0)</i> | <i>0.0</i>    |
|               |              | <i>Contribution TotalErg (51%) Reported <sup>(2)</sup></i>                      | <i>72.3</i>   | <i>0.0</i>    |
| <b>65.8</b>   | <b>30.5</b>  |   | <b>180.2</b>  | <b>122.5</b>  |
| <i>(7.9)</i>  | <i>(9.4)</i> | <i>Exclusion of inventory gains / losses</i>                                    | <i>(9.1)</i>  | <i>(15.7)</i> |
|               |              | <b>Exclusion of non-recurring items:</b>  |               |               |
| <i>9.3</i>    | <i>0.0</i>   | <i>Exclusion of ancillary charges - extraordinary operations <sup>(3)</sup></i> | <i>9.3</i>    | <i>0.8</i>    |
| <i>(38.8)</i> | <i>3.3</i>   | <i>Exclusion of TotalErg non-recurring items <sup>(4)</sup></i>                 | <i>(38.8)</i> | <i>4.1</i>    |
| <i>0.0</i>    | <i>0.0</i>   | <i>Exclusion of loan prepayment effects</i>                                     | <i>0.0</i>    | <i>5.9</i>    |
| <i>0.0</i>    | <i>0.0</i>   | <i>Exclusion of charges for company reorganisation</i>                          | <i>0.0</i>    | <i>0.8</i>    |
| <i>0.0</i>    | <i>0.0</i>   | <i>Exclusion of financial gains / charges on minorities option</i>              | <i>0.0</i>    | <i>(11.0)</i> |
| <b>28.4</b>   | <b>24.4</b>  | <b>Group net profit (loss) at replacement cost</b>                              | <b>141.6</b>  | <b>107.3</b>  |

- (1) reversal of the effects related to the application of the provisions of IFRS 5. The item includes the reversal of the dividends distributed by TotalERG to ERG S.p.A. after the date of June 30 (-50 millions), the reversal reversal of previous writedowns (-37 millions), the Reported result of the first half of TotalErg SpA (-12 millions)
- (2) for the purposes of this Report, for greater clarity, it was considered appropriate to represent the contribution of TotalErg in continuity for the whole of 2017, without considering the effects of IFRS 5 as commented above.
- (3) reversal of additional charges relating to extraordinary operations net of the related tax effects
- (4) gain on the sale of Totalgaz Italia S.r.l, a subsidiary of TotalErg S.p.A. operating in the commercialization of LPG, sold on 5 October 2017 to UGI.



## Reconciliation with the values indicated in the Notes of Consolidated Financial Statement

The reconciliation between the reclassified statements shown and commented on in this press release and in the Report on Operations is shown below with the values indicated in the Notes to the Consolidated Financial Statements.

### Reclassified Income Statement

| (EUR million)                                  | Values in the Consolidated Financial Statement | Reversal of TotalErg IFRS 5 reclassification | Reversal of Brockaghboy IFRS 5 reclassification | Values in Report of Operations | Reversal of ancillary expenses | Reversal of TotalErg IFRS 5 effects | Consolidated Financial Statement recurring |
|--|--|--|---|--------------------------------|--------------------------------|-------------------------------------|--|
| Revenues from ordinary operations              | 1,053.6  | -  | 2.9   | 1,056.5                        | -                              | -                                   | 1,056.5                                    |
| Other revenues and income                      | 10.6   | -  | -   | 10.6                           | -                              | -                                   | 10.6                                       |
| <b>Total revenues</b>                          | <b>1,064.1</b>                                 | <b>-</b>                                     | <b>2.9</b>                                      | <b>1,067.0</b>                 | <b>-</b>                       | <b>-</b>                            | <b>1,067.0</b>                             |
| Costs for purchases                            | (355.2)  | -  | -   | (355.2)                        | -                              | -                                   | (355.2)                                    |
| Changes in inventories                         | (0.6)  | -  | -   | (0.6)                          | -                              | -                                   | (0.6)                                      |
| Costs for services and other operative costs   | (182.0)  | -  | (0.6)   | (182.6)                        | 7.1                            | -                                   | (175.5)                                    |
| Personnel costs                                | (68.7)   | -  | -   | (68.7)                         | 5.3                            | -                                   | (63.4)                                     |
| <b>EBITDA</b>                                  | <b>457.6</b>                                   | <b>-</b>                                     | <b>2.3</b>                                      | <b>459.9</b>                   | <b>12.4</b>                    | <b>-</b>                            | <b>472.3</b>                               |
| Amortization, depreciation and write-downs     | (250.9)  | -  | (1.3)   | (252.2)                        | -                              | -                                   | (252.2)                                    |
| <b>EBIT</b>                                    | <b>206.7</b>                                   | <b>-</b>                                     | <b>1.1</b>                                      | <b>207.7</b>                   | <b>12.4</b>                    | <b>-</b>                            | <b>220.1</b>                               |
| Net financial income (expenses)                | (65.3)   | -  | (0.3)   | (65.6)                         | -                              | -                                   | (65.6)                                     |
| Net income (loss) from equity investments      | (1.2)  | 99.6   | -   | 98.4                           | -                              | (75.1)                              | 23.3                                       |
| <b>Profit (loss) before taxes</b>              | <b>140.2</b>                                   | <b>99.6</b>                                  | <b>0.8</b>                                      | <b>240.5</b>                   | <b>12.4</b>                    | <b>(75.1)</b>                       | <b>177.8</b>                               |
| Income taxes                                   | (33.0)   | (0.6)  | (0.1)   | (33.7)                         | (3.1)                          | 0.6                                 | (36.2)                                     |
| <b>Profit (loss) before minority interests</b> | <b>107.2</b>                                   | <b>99.0</b>                                  | <b>0.6</b>                                      | <b>206.8</b>                   | <b>9.3</b>                     | <b>(74.5)</b>                       | <b>141.6</b>                               |
| Net profit (loss) for assets held for sale     | 99.6   | (99.0)                                       | (0.6)   | 0.0                            | -                              | -                                   | 0.0  |
| <b>Net profit (loss) for the year</b>          | <b>206.8</b>                                   | <b>-</b>                                     | <b>-</b>  | <b>206.8</b>                   | <b>9.3</b>                     | <b>(74.5)</b>                       | <b>141.6</b>                               |
| Minority interests                             | -  | -  | -   | -                              | -                              | -                                   | -  |
| <b>Group share of net profit</b>               | <b>206.8</b>                                   | <b>-</b>                                     | <b>-</b>  | <b>206.8</b>                   | <b>9.3</b>                     | <b>(74.5)</b>                       | <b>141.6</b>                               |

According to IFRS the write off of the no recurring items related to "TotalErg Transaction" includes the following:

- write off of the dividends paid by TotalERG S.p.A. to ERG S.p.A. after 30th June 2017 (-51 millions)
- write off of the reversal of previous impairment losses (-37 millions)
- results *IAS reported* relating to second half of TotalErg S.p.A (+60 millions)
- write off of the no recurring items of Totalerg relating to full year 2017 (-48 millions)

### Reclassified Statement of Financial Position

| (EUR million)   | Values in the Consolidated Financial Statement | Reversal of TotalErg IFRS 5 reclassification | Reversal of Brockaghboy IFRS 5 reclassification | Values in Report of Operations |
|---|--|--|---|--------------------------------|
| Fixed Assets  | 3,004  | 180  | 77  | 3,261                          |
| Net working capital                                   | 149  | -  | 1   | 150                            |
| Employees' severa indemnities                         | (6)  | -  | -   | (6)                            |
| Other assets  | 278  | -  | 1   | 279                            |
| Other liabilities                                     | (572)  | -  | (1)   | (573)                          |
| <b>Net invested capital continued operations</b>      | <b>2,853</b>                                   | <b>180</b>                                   | <b>78</b>                                       | <b>3,110</b>                   |
| Net invested capital discontinued operations          | 258  | (180)  | (78)  | 0                              |
| <b>Net invested capital</b>                           | <b>3,110</b>                                   | <b>-</b>                                     | <b>(0)</b>                                      | <b>3,110</b>                   |
| Group Shareholders' equity                            | 1,877  | -  | -   | 1,877                          |
| Net Financial indebttness                             | 1,234  | -  | (1)   | 1,233                          |
| Net financial indebttness discontinued operations     | (1)  | -  | 1   | 0                              |
| <b>Shareholders' equity and financial indebttness</b> | <b>3,110</b>                                   | <b>-</b>                                     | <b>(0)</b>                                      | <b>3,110</b>                   |



## **Management Report as at 31 december 2017**

## Introduction

This document is an annex supporting the press release of 08 March 2018 to provide further details and to comment the 2017 results of the ERG Group.

The comments provided are an excerpt from the Report on Operations which, together with the Notes to the Financial Statements, will be published within the times prescribed by current regulations.

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

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

## Recurring results

To enhance understandability of business performance, the operating results are also shown excluding non-recurring items<sup>8</sup> and inventory gains (losses)<sup>9</sup>. As from the Interim Report on Operations at 31 March 2017, these results, previously defined as "at replacement costs", are indicated with the definition "recurring".

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

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

## Change in the business scope

The 2017 results reflect the acquisition of six wind farms in Germany (48 MW), acquired during the period and fully consolidated from 1 January 2017.

It is further specified that the 2017 results reflect the contribution of the wind farm owned by the company Brockaghboy Windfarm Ltd, which started operating in the fourth quarter of 2017. The process for the sale of that company started at the end of 2017 and it was completed on 7<sup>th</sup> March 2018.

## Sale of equity investment in TotalErg

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 closed on **10 January 2018**, following the approval of the Antitrust and the completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambientsgr 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 consideration for the sale of the assets is EUR 194 million, of which EUR 14 million were already collected as advance payment in 2017, EUR 144 million were collected in 2018 at the time of the closing and EUR 36 million as a deferred component regulated by a *vendor loan agreement* with maturity at 5 and one half years, entered into with api S.p.A.

The total equity value of the transaction amounts to EUR 273 million that includes, in addition to the aforesaid consideration, also the extraordinary dividends distributed 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 remaining EUR 51 million on 26 October 2017) the interest to be accrued within the scope of the vendor loan agreement and the related tax effects.

Already starting from the "Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017", the equity investment has been recognised and indicated in application of the requirements of IFRS 5.

<sup>8</sup> Non-recurring items include significant but unusual earnings.

<sup>9</sup> TotalErg's equity contribution is reported net of inventory gains (losses) and non-recurring items

For the purposes of clearer disclosure, the TotalErg results of ordinary operations are shown and commented on in the line "Income (loss) from equity investments" in this Report and in the Report on operations 2017, recognising their recurring contribution for the entire year 2017.

For the reconciliation of these values please refer to the section "Alternative performance indicators". For additional details of the amounts tied to the measurement and recognition of the equity investments for IFRS 5 purposes, further reference is made to [Note 27](#) of the Consolidated Financial Statements.

### **Brockaghboy Windfarm Ltd**

In early 2016, ERG acquired from TCI Renewables ("TCI") 100% of the capital of Brockaghboy Windfarm Ltd ("BWF"), a British company owning the authorisations required for the construction, then completed in 2017, of a wind farm in Northern Ireland with 48 MW of installed capacity. The wind farm has already been accredited for the purposes of the current incentive schemes (NIRO) provided by the regulatory system.

The agreements signed at the time provided that at the end of the construction and after the accreditation of the incentives (NIRO) ERG Renew had the right to present a supplementary offer to TCI so as to maintain ownership definitively. If this offer is not accepted and only in the case of higher offers from third parties, the sale would be carried out, through a contractual mechanism of allocation of the capital gain.

This stated, it is pointed out that at the end of 2017, a process for the sale of the subsidiary Brockaghboy Windfarm Ltd was started. The process was completed on 7<sup>th</sup> March 2018.

In consideration to the above, in the Notes to the Consolidated Financial Statements the accounting results of the assets being sold are indicated separately in accordance with IFRS 5.

For clearer disclosure, the results of the assets being sold are shown and commented under ordinary operations in this Report and in the Report on operations 2017.

For the reconciliation of these values please refer to the section "Alternative performance indicators".

## 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 prevalently renewable sources, both non-programmable (wind) and programmable (thermoelectric and hydroelectric), also expanding abroad with a rising presence, in particular on the French and German wind market.

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

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

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

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

### • Non-programmable sources

ERG is active in the generation of electricity from wind sources, with 1,814 MW of installed power at 31 December 2017. ERG is the leading wind power operator in Italy and one of the first ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and rising presence also abroad (722 MW operational), in particular in France (252 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW) and Northern Ireland (47.5 MW)<sup>10</sup>. In particular, it is pointed out that in May 2017, ERG further consolidated its position in the German onshore wind market, through the acquisition of six German wind farms, with an installed capacity of 48.4 MW; moreover, in the fourth quarter 2017 the 47.5 MW wind farm in Northern Ireland progressively started operations.

On 12 January 2018, ERG entered the photovoltaic sector by purchasing 100% of ForVei S.r.l., the ninth photovoltaic operator in Italy with a total installed capacity of 89 MW.

### • Programmable sources

ERG operates in the generation of electricity from thermoelectric sources through the “Centrale Nord” plant (480 MW) at the industrial site of Priolo Gargallo (SR) in Sicily, which operated until 27 May 2016 as an Essential Unit in accordance with the Mucchetti Amendment<sup>11</sup>. This is a high-efficiency co-generation plant (C.A.R.), based on latest generation combined cycle technology fuelled with natural gas, which came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities;

ERG operates in the sector of the generation of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, geographically located throughout Umbria, Marche and Lazio, with a capacity of 527 MW.

Starting from 1 January 2017, all services across the Group have been centralised within ERG S.p.A. As at 31 December 2017, the ERG Group held an equity investment of 51% in TotalErg, a joint venture in the integrated downstream sector. It should be noted that, after a sale process started at the end of 2016, on **10 January 2018** the equity investment was sold to the api group.

<sup>10</sup> It is the Brockaghboy wind farm sold on 7 march 2018

<sup>11</sup> Law converting Decree Law No. 91/14 (“Competition Decree”). For additional details, please see the Thermoelectric section

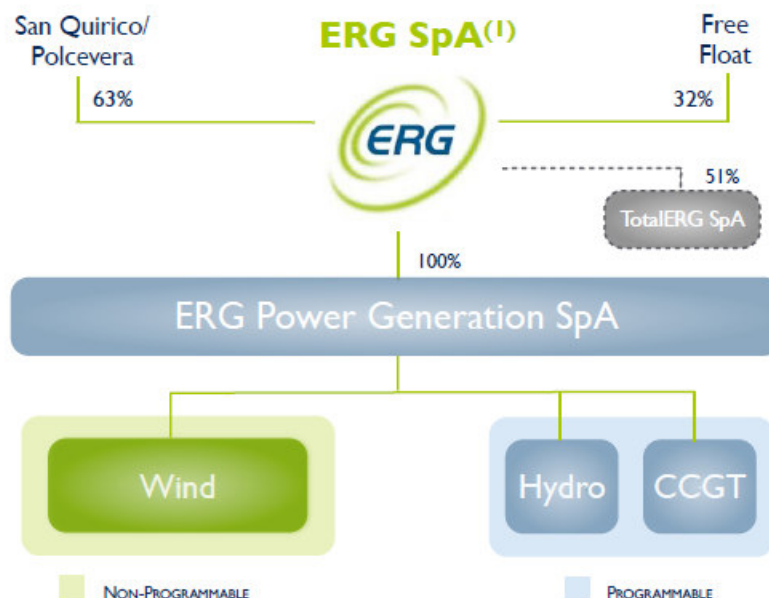


On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

- **ERG S.p.A. – Corporate** – which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. The company is organised into the following 5 areas:
  - Business Development
  - Administration, Finance, Planning and Control, Risk Management, M&A, Investor Relations and Purchasing;
  - Human Capital, ICT and General Services;
  - Institutional Relations and Communication;
  - Legal and Corporate Affairs.
- **ERG Power Generation S.p.A.**, which is assigned responsibility for the Group's industrial and commercial processes, organised into:
  - Wind, Thermo and Hydro generation technologies, which in turn are organised into production units on a geographical basis;
  - Energy Management, as the single entry point into organised markets;
  - a commercial structure dedicated to Key Accounts;
  - a centre of technological excellence in charge of the Engineering & Construction processes;
  - a hub of specialised skills in regulatory, planning and performance control matters, across all business processes;
  - a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

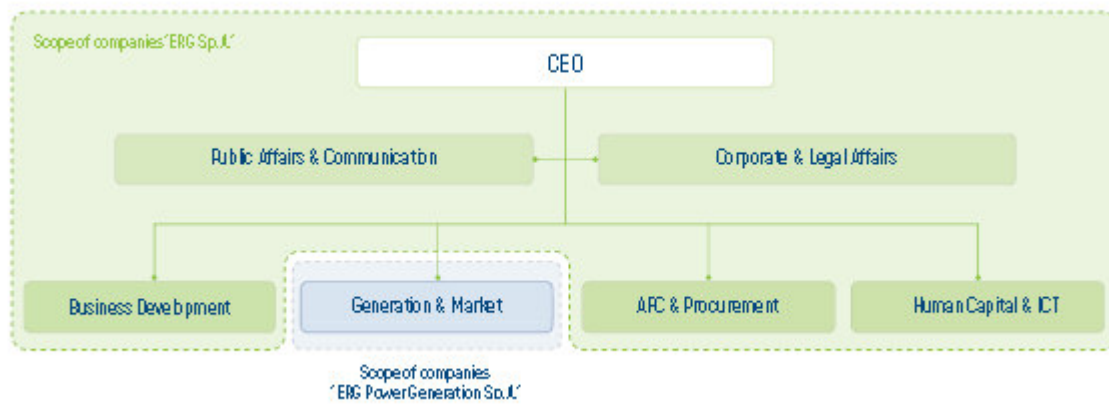
Implementation of the new Group Organisational Model, partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A., took full effect starting on 1 January 2017, specifically through:

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



<sup>(1)</sup> ERG owns 1% of treasury shares.

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



## STRATEGY

ERG has radically changed its business portfolio, anticipating long-term energy scenarios, reaching a leadership position in renewable energy sources, not only in the Italian market but also in the European market.

In 2017 ERG completed the industrial transformation path started 10 years ago, having completely left the Oil business, with the sale of its equity investment in TotalERG. In addition, the Company took a significant step towards technological diversification, with the acquisition of 89 MW in solar power in Italy. ERG thus became a primary independent producer of electricity from renewable sources in Europe. The Group reached an installed capacity of 2,800 MW (1,814 MW in the wind power sector, 89 MW in solar power, 527 MW in the hydroelectric sector and 480 MW in the C.A.R. thermoelectric sector) with an asset portfolio that is diversified both technologically and geographically, characterised by a significant presence in wind power abroad.

ERG's strategy will continue to be to anticipate the trends of the sector and for this reason the 2018-2022 Business Plan was approved a year early. In recent years there has been a radical and profound change in Europe in the industry of energy generation from renewable sources: while on one hand Governments are pushing ever harder for decarbonization in favour of renewable sources, on the other hand there has been a radical change in the competitive scenario, with the progressive introduction of competitive auctions for the awarding of new renewable capacity and the consequent abandonment of the incentive systems. Thus, renewables changed from being a business with strong infrastructural connotations to a business with purely industrial characteristics.

Within the changed competitive environment, ERG's strategy is to continue growing in renewable energies, now leveraging its own industrial know-how, its territorial presence, the quality of its own assets, its operating efficiency and on the flexibility of the integrated Energy Management portfolio.

The target in the 2018-2022 time interval is to increase the installed capacity by approximately 850 MW through three channels:

- 1) **Greenfield and co-Development:** ERG intends to continue with its growth strategy through internal growth or co-development agreements in France, Germany and United Kingdom.
- 2) **Repowering and Reblading in Italy:** In consideration of the technological evolution of the wind power sector, ERG's objective is to carry out repowering and reblading on wind farms equipped with obsolete technologies, with turbines below one MW, with incentives already expired or expiring, but at the same time in the windiest sites, hence with very high expected profitability even in the absence of incentives.
- 3) **M&A:** ERG intends to continue having an opportunistic approach, in order to exploit opportunities for growth in renewable sources in the countries of interest for ERG, leveraging the experience acquired along its transformation path and on the synergies deriving from consolidation with its own portfolio.

### ERG 2018-2022 STRATEGIC OPTIONS



## Performance highlights

| (EUR million)  |                 | Year   |        |
|--|-----------------|--------|--------|
|  |                 | 2017   | 2016   |
| Main Income Statement data                                       |                 |        |        |
| Revenues from ordinary operations                                |                 | 1,056  | 1,025  |
| Recurring EBITDA   |                 | 472    | 455    |
| Recurring EBIT   |                 | 220    | 202    |
| Net profit   |                 | 207    | 125    |
| of which Group net income  |                 | 207    | 122    |
| Recurring Group net profit <sup>(1)</sup>                        |                 | 142    | 107    |
| Main Financial data  |                 |        |        |
| Net invested capital   |                 | 3,110  | 3,286  |
| Shareholders' equity   |                 | 1,877  | 1,729  |
| Total net financial indebtedness                                 |                 | 1,233  | 1,557  |
| of which non-recourse Project Financing <sup>(2)</sup>           |                 | 1,115  | 1,276  |
| Financial leverage   |                 | 40%    | 47%    |
| % EBITDA Margin  |                 | 45%    | 44%    |
| Operating data   |                 |        |        |
| Installed capacity at period end – wind farms                    | MW              | 1,814  | 1,720  |
| Electric power generation from wind farms                        | millions of KWh | 3,613  | 3,501  |
| Installed capacity – thermoelectric plants                       | MW              | 480    | 480    |
| Electric power generation from thermoelectric plants             | millions of KWh | 2,453  | 2,693  |
| Installed capacity at period end – hydroelectric plants          | MW              | 527    | 527    |
| Electric power generation from hydroelectric plants              | millions of KWh | 1,144  | 1,358  |
| Total sales of electric power                                    | millions of KWh | 11,747 | 12,303 |
| Capital expenditure <sup>(3)</sup>                               | EUR million     | 54     | 60     |
| Employees at the period end                                      | Units           | 714    | 715    |
| Market indicators  |                 |        |        |
| Reference price of electricity - Italy (baseload) <sup>(4)</sup> | EUR/MWh         | 54.0   | 42.8   |
| Feed-In Premium (former Green Certificates) - Italy              | EUR/MWh         | 107.3  | 100.1  |
| Sicily zone price (baseload)                                     | EUR/MWh         | 60.8   | 47.6   |
| Centre North zone price (peak)                                   | EUR/MWh         | 63.5   | 47.6   |
| Average unit value of sale of ERG wind energy - in Italy         | EUR/MWh         | 147.1  | 139.0  |
| Feed In Tariff - Germany <sup>(5)</sup>                          | EUR/MWh         | 91.7   | 92.6   |
| Feed In Tariff - France <sup>(5)</sup>                           | EUR/MWh         | 88.3   | 88.7   |
| Feed In Tariff - Bulgaria <sup>(5)</sup>                         | EUR/MWh         | 81.9   | 84.0   |
| Electricity price - Poland                                       | EUR/MWh         | 36.5   | 33.4   |
| Certificate of origin price - Poland                             | EUR/MWh         | 8.5    | 10.8   |
| Electricity price - Romania <sup>(6)</sup>                       | EUR/MWh         | 28.7   | 27.3   |
| Green Certificate price - Romania <sup>(7)</sup>                 | EUR/MWh         | 29.0   | 29.5   |

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

<sup>(8)</sup> does not include inventory gains (losses) of TotalErg, non-recurring items and related applicable theoretical taxes

<sup>(9)</sup> including cash and cash equivalents and excluding the fair value of the derivatives to hedge interest rates

<sup>(10)</sup> in tangible and intangible fixed assets. Do not include the M&A investments amounting to EUR 39.5 million made in 2017 for the acquisition of the companies of the DIF Group in Germany and the M&A investments amounting to EUR 306 million made in 2016

<sup>(11)</sup> Single National Price

<sup>(12)</sup> the values of the Feed-In Tariff abroad refer to the prices obtained by the wind farms

<sup>(13)</sup> The Romania price of electricity refers to the price fixed by the company via bilateral agreements

<sup>(14)</sup> Price referred to the unit value of the green certificate.

## Performance highlights by segment

| (EUR million)   | Year         |              |
|---|--------------|--------------|
|   | 2017         | 2016         |
| <b>Recurring revenues from ordinary operations</b>                  |              |              |
| <b>Non-programmable sources</b>                                     | <b>445</b>   | <b>423</b>   |
| Wind Power  | 445          | 423          |
| <b>Programmable sources</b>   | <b>610</b>   | <b>601</b>   |
| Thermoelectric power <sup>(1)</sup>                                 | 473          | 479          |
| Hydroelectric power   | 137          | 122          |
| <b>Corporate</b>  | <b>38</b>    | <b>32</b>    |
| <i>Intra-segment revenues</i>                                       | <i>(37)</i>  | <i>(31)</i>  |
| <b>Total revenues from ordinary operations</b>                      | <b>1,056</b> | <b>1,025</b> |
| <b>Recurring EBITDA</b>   |              |              |
| <b>Non-programmable sources</b>                                     | <b>316</b>   | <b>308</b>   |
| Wind Power  | 316          | 308          |
| <b>Programmable sources</b>   | <b>172</b>   | <b>161</b>   |
| Thermoelectric power <sup>(1)</sup>                                 | 78           | 77           |
| Hydroelectric power   | 94           | 84           |
| <b>Corporate</b>  | <b>(16)</b>  | <b>(13)</b>  |
| <b>Recurring EBITDA</b>   | <b>472</b>   | <b>455</b>   |
| <b>Amortisation, depreciation and write-downs:</b>                  |              |              |
| <b>Non-programmable sources</b>                                     | <b>(160)</b> | <b>(163)</b> |
| Wind Power  | (160)        | (163)        |
| <b>Programmable sources</b>   | <b>(89)</b>  | <b>(88)</b>  |
| Thermoelectric power  | (31)         | (30)         |
| Hydroelectric power   | (58)         | (58)         |
| <b>Corporate</b>  | <b>(3)</b>   | <b>(3)</b>   |
| <b>Recurring amortisation and depreciation</b>                      | <b>(252)</b> | <b>(254)</b> |
| <b>EBIT:</b>  |              |              |
| <b>Non-programmable sources</b>                                     | <b>156</b>   | <b>145</b>   |
| Wind Power  | 156          | 145          |
| <b>Programmable sources</b>   | <b>83</b>    | <b>73</b>    |
| Thermoelectric power <sup>(1)</sup>                                 | 48           | 47           |
| Hydroelectric power   | 35           | 26           |
| <b>Corporate</b>  | <b>(19)</b>  | <b>(16)</b>  |
| <b>Recurring EBIT</b>   | <b>220</b>   | <b>202</b>   |
| <b>Capital expenditure on tangible and intangible fixed assets:</b> |              |              |
| <b>Non-programmable sources</b>                                     | <b>35</b>    | <b>44</b>    |
| Wind Power  | 35           | 44           |
| <b>Programmable sources</b>   | <b>16</b>    | <b>13</b>    |
| Thermoelectric power  | 10           | 10           |
| Hydroelectric power   | 6            | 4            |
| <b>Corporate</b>  | <b>3</b>     | <b>3</b>     |
| <b>Total capital expenditure</b>                                    | <b>54</b>    | <b>60</b>    |

<sup>(2)</sup> Includes Energy Management contribution



## Sales

### Power

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

During 2017, total sales of electricity came to 11.7 TWh (12.3 TWh in 2016), in the presence of an overall value of production for the Group plants of around 7.2 TWh (7.6 TWh in 2016), of which roughly 1.5 TWh abroad and 5.7 TWh in Italy. The latter balance corresponds to approximately 1.8% of electricity demand in Italy (2.0% in 2016).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table<sup>12</sup>:

| Sources of electric power<br>(GWh)     | Sales of electric power (GWh) |               |  |               |               |
|--|-------------------------------|---------------|--|---------------|---------------|
|  | Year                          |               |  | Year          |               |
|  | 2017                          | 2016          |  | 2017          | 2016          |
| Wind - wind power generation Italy     | 2,117                         | 2,220         | Electric power sold to captive customers | 539           | 542           |
| Wind - wind power generation Abroad    | 1,496                         | 1,281         |  |               |               |
|  |                               |               | Electric power sold to IREN              | 2,015         | 2,020         |
| CCGT - thermoelectric power generation | 2,453                         | 2,693         |  |               |               |
| Hydro - hydroelectric power generation | 1,144                         | 1,358         | Electric power sold wholesale (Italy)    | 7,697         | 8,460         |
|  |                               |               |  |               |               |
| ERG Power Generation - purchases       | 4,536                         | 4,751         | Electric power sold abroad               | 1,496         | 1,281         |
| <b>Total</b>                           | <b>11,747</b>                 | <b>12,303</b> | <b>Total</b>                             | <b>11,747</b> | <b>12,303</b> |

In 2017, steam sales<sup>13</sup> amounted to approximately 737 thousand tonnes (752 thousand tonnes in the same period of 2016).

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

<sup>12</sup> 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.

<sup>13</sup> Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses

## Comments on the period's performance

In 2017, **revenues from ordinary operations** amounted to EUR 1,056 million, slightly higher than the value of EUR 1,025 million of 2016, even in the presence of slightly lower RES compared to the same period of 2016 as a result of particularly adverse rain conditions in Italy. These effects were more than offset by the growth of wind power volumes thanks to the contribution of the new wind farms in Germany and in the UK in a positive scenario that recorded an average increase in energy prices, of the incentives and of the Energy Efficiency Certificates. This item also reflects the effects of the price fluctuation hedging activities performed by Energy Management, the lower revenues relating to the wind farms no longer covered by the incentive scheme, partly offset thanks to the mechanism for recovering the incentives relating to the missed generation for shutdowns required by Terna in the previous years. The previous year up to the month of May 2016 included the "reintegration consideration" paid in view of the constraints imposed on the modulation of the CCGT plant to enforce regulations on Essential Units for the security of the electrical system, amounting to approximately EUR 31 million.

**Recurring EBITDA** amounted to EUR 472 million, higher than the EUR 455 million recorded in 2016. The change is a result of the following factors:

**Non-programmable sources:** EBITDA of EUR 316 million, up compared to the same period of the previous year (EUR 308 million), mainly as a consequence of a more favourable general price trend as well as additional cost containment actions and of the contribution of the newly acquired wind farms in Germany, in addition to the commissioning of the new wind farm in Northern Ireland. These effects were only partially offset by weaker wind conditions and lower output in Italy and in France, where the wind conditions were less favourable. The wind conditions recorded in Germany and in Eastern countries, instead, were good.

In 2017 approximately 87% (96% in 2016) of wind power generation in Italy benefited from the feed-in premium (former Green Certificate), for a unit amount of approximately 107 EUR/MWh, up compared to the same period of 2016 (approximately 100 EUR/MWh).

**Programmable Sources:** EBITDA of EUR 172 million, up compared to the previous year (EUR 161 million). The contribution provided by the hydroelectric complex amounted to EUR 94 million, markedly higher than EUR 84 million in 2016 mainly as a result of the flexibility of the plants able to benefit from particularly favourable peak prices especially in the early part of the year in the Centre-North area, albeit with significantly lower water availability compared to the same period of the previous year.

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

The result of the thermoelectric business, amounting to EUR 78 million, was in line with the previous year (EUR 77 million) which however benefited from the "reintegration consideration" granted to the CCGT plant, enforcing the regulations on Essential Units for the security of the electrical system, in force until 27 May 2016, amounting to approximately EUR 31 million. This lower revenue was more than offset by the contribution from revenues for Energy Efficiency Certificates to which the CCGT plant is entitled in as much as it is qualified as a high-efficiency co-generating plant, as well as by the better performance of energy sale prices.

**Recurring EBIT** was EUR 220 million (EUR 202 million in 2016) after amortisation and depreciation of EUR 252 million (EUR 254 million in 2016).

The **Recurring Group net profit** amounted to EUR 142 million, up strongly compared to the profit of EUR 107 million of 2016, as a result of the aforesaid higher operating results, lower net financial expenses, and higher income from the equity investment in TotalErg (consolidated at equity for the entire year 2017 in the present Report and in the Report on operations 2017).

The result of 2016 also included the negative value of approximately EUR 3 million from minority interests.

**Net Group income**<sup>14</sup> was EUR 207 million (EUR 122 million in 2016), and reflects, in addition to the already commented net operating results and the lower net financial expenses, the effects tied to the application of

<sup>14</sup> Includes non-recurring items amounting to EUR +38 million (EUR +4 million in 2016) and inventory gains (losses) amounting to EUR +9 million (EUR +16 million in 2016). The values are net of tax effects. Additional details are provided in the chapter "Alternative performance indicators".

IFRS 5 to the TotalErg transaction.

In 2017, **Group capital expenditure** totalled EUR 54 million (EUR 60 million in 2016), of which 65% in the Non-programmable sector (73% in 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, in operation starting from the fourth quarter of 2017, and 30% in the Programmable sector (22% in 2016), and 5% in the Corporate sector (5% in 2016). To these are added approximately EUR 40 million invested in 2017 for the acquisition of 48 MW in Germany from the DIF Group (EUR 306 million in 2016 for the acquisition of wind farms in France and Germany from the Impax Group and Brockaghboy).

**Net financial indebtedness** amounted to EUR 1,233 million, down by EUR 325 million compared to 31 December 2016 mainly due to the positive operating cash flows, to the dividends received distributed by TotalErg (EUR 71 million), to collection of the advance payment from the api group within the scope of the sale of TotalErg (EUR 14 million), and to collection of the UESSE reintegration consideration (EUR 22 million)<sup>15</sup> which offset the impacts of the acquisition of the German wind farms from the DIF Group (EUR 40 million), the distribution of dividends (EUR 74 million), the payment of taxes (EUR 23 million) and the capital expenditure in the period (EUR 54 million).

## Significant events during the year

### Wind Power

On **8 March** ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and from DIF RE Erneuerbare Energien 3 GmbH 100% of the capital of six German companies that own six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW have an expected average output of approximately 84 GWh, equal to approximately 66,000 t of CO<sub>2</sub> emissions avoided. They came on stream in 2007 and have an average incentive expiry date of 2027.

The price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million.

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

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

On **22 June** ERG, through its subsidiary ERG Power Generation S.p.A., acquired from Abo Wind UK LTD 100% of the share capital of the UK company Evishagaran Wind Farm Ltd (renamed ERG UK Holding) owner or the necessary authorisations for the construction of a wind farm (35 MW) in Northern Ireland, expected to enter into operation by 2020.

On **30 June** ERG Eolica Fossa del Lupo S.r.l., ERG Eolica Amaroni S.r.l. and ERG Eolica Basilicata S.r.l., companies wholly owned by ERG Power Generation S.p.A, signed a financing agreement in the form of multi-borrower non-recourse portfolio project finance.

The three companies involved in the transaction own three wind farms, which came on stream between 2011 and 2013, located in Calabria and Basilicata for a total installed capacity of 154 MW.

Thanks to the excellent operating and financial performance of these wind farms, the transaction made it possible to refinance the existing project financing signed between 2012 and 2014 under significantly improved economic conditions, with a reduction in the cost of debt of over 50% with respect to the original conditions.

The financing agreement, for an amount equal to EUR 145 million and a duration of 10.5 years, was signed by Crédit Agricole CIB Milan Branch as Coordinating & Structuring Bank and Mandated Lead Arranger, by BNP Paribas (CIB Italia), by ING Bank N.V.- Milan Branch as Mandated Lead Arranger and by UBI Banca S.p.A, as Mandated Lead Arranger and Agent Bank. Crédit Agricole Carispezia acted as Account Bank.

On **11 October** ERG, through its subsidiary ERG Eolienne France SAS, executed with Vent d'Est SAS, a company of the French Grand Est region with industrial competencies in the management and development of wind farms and strong relationships with local communities, an agreement for the acquisition of 75% of the share capital of two companies owning two parks for a total capacity of 16.25 MW (Parc Eolienne del Voie Sacrée SAS of 12 MW, which started operating in 2007 and Parc Eolienne d'Epense SAS of 4.25 MW, which started operating in 2005). The remaining 25% is held by Renvico France SAS.

The enterprise value of the acquisition, base 100%, amounted to EUR 12.9 million. The closing, subordinated inter alia to the minority shareholders' waiving of the right of first bid, is expected by the first

---

<sup>15</sup> In the fourth quarter of 2017, EUR 13 million were collected as settlement of 2015 and EUR 9 million as the second advance payment of 2016.

quarter of 2018. The transaction also provides the stipulation of a co-development agreement with Vent d'Est SAS for an early-stage pipeline of approximately 300 MW of projects, also located in France, in areas where wind speeds are very high.

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

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

### Solar

On **16 November** ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with VEI Green, an investment holding company controlled by PFH S.p.A. that is an investee of primary Italian institutional investors, for the purchase of 100% of the company ForVei S.r.l., ninth photovoltaic operator in Italy.

ForVei, a joint venture between VEI Green and Foresight established in 2011, owns and operates 30 photovoltaic plants, which started operations between 2010 and 2011, located in 8 regions between Northern and Southern Italy, with an installed capacity of 89 MW and annual production of approximately 136 GWh, equivalent to approximately 77 kt of CO<sub>2</sub> emissions avoided. 100% of installed capacity benefits from incentives with average expiration in 2030.

The enterprise value of the transaction was EUR 336 million; the annual EBITDA expected for 2017 is approximately EUR 35 million. The assets are currently financed by non-recourse project financing for an amount of approximately EUR 180 million and lease agreements for an amount of approximately EUR 60 million. The transaction's closing date was **12 January 2018** (see **Significant events after the reporting period**) and therefore the company will be consolidated line by line starting from 1 January 2018.

### Corporate

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

The Board of Directors of ERG S.p.A. of 11 May 2017 therefore proceeded to appoint, at the proposal of the Nominations and Remuneration Committee, in accordance with Article 2386 of the Italian Civil Code and Article 15 of the Articles of Incorporation, as new Director of the Company, Alessandro Careri (already Director of ERG S.p.A. from June 2011 to April 2015 and member of the Strategic Committee, at the time of the appointment Chairman of the Board of Directors of TotalErg S.p.A.), who will remain in office until the next Shareholders' Meeting of ERG S.p.A.

The Board of Directors also positively assessed the independence of the Director Alessandro Careri with reference to the provisions of Article 148, third paragraph, of the Italian Consolidated Finance Act.

Lastly, the Board of Directors resolved not to add to the current composition of the Strategic Committee.

On **4 July** the ERG Group announced the appointment of Sergio Chiericoni as new head of business development of the ERG Group in the role of Chief Business Development Officer.

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

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

On **19 July** the process of issuing and placing with institutional investors a non-convertible bond loan amounting to EUR 100 million, with a nominal value for each obligation of EUR 100 thousand, approved by the Board of Directors of ERG S.p.A. on **12 July**, was concluded.

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

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

The bonds were issued at a price equal to 100% of their nominal value and shall bear interest at a fixed rate equal to 2.175%. Interest will be paid on a deferred annual basis.

The issue will lengthen the duration of indebtedness, reduce the average cost and diversify the sources of financing of the Group.

Bonds are addressed exclusively to institutional investors in Italy and abroad and will not be offered or sold in the United States of America, Canada, Australia, Japan or in any other country in which the offer or the sale of the bonds are prohibited under applicable laws.

On **3 November**, 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 closed on 10 January 2018, following the approval of the Antitrust and the completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The total amount that ERG S.p.A. will collect for the equity value of the transaction is EUR 273 million. This amount includes the extraordinary dividends distributed by TotalErg S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017) and a deferred component of approximately EUR 36 million, regulated by a vendor loan agreement with a duration of 5 and a half years, entered into with api S.p.A.

### **TotalErg Investigation**

With regard to the investigation on the alleged tax irregularities involving TotalErg (a joint venture 51%-owned by ERG and 49%-owned by Total, resulting from the merger of Total Italia and ERG Petroli on 1 October 2010), on 26 June 2015 ERG, in its capacity as the tax consolidating entity, and TotalErg, in its capacity as the consolidated entity (formerly ERG Petroli), were served with an assessment notice for IRES for tax year 2007. TotalErg was served an assessment notice for IRAP and VAT for the same year.

Compared to the specific comment regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the official tax audit report dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

On 6 July 2015, assessment notices for IRAP, IRES and VAT referring to 2007, 2008 and 2009 were served to TotalErg, in its capacity as the incorporating entity of Total Italia. ERG S.p.A. and TotalErg (in its capacity as the consolidated entity), on 29 November 2016 and on 24 November 2016 respectively, were served an assessment notice for IRES for tax year 2010. TotalErg S.p.A. was served an assessment notice for additional IRES, IRAP and VAT for the same year. Compared to the specific comments made in the official tax audit report of 6 August 2014 served to TotalErg which amounted to EUR 3,797 million of non-deductible costs, the assessment notices considerably reduce the amount in this case as well, to approximately EUR 7.5 million.

On 2 March 2017, the Milan Provincial Tax Commission accepted the appeal in relation to IRAP for tax years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the incorporating entity of Total Italia S.p.A.). The Italian Revenue Agency has appealed to the competent Regional Tax Commission within the terms established by law.

On 13 March 2017, the Milan Provincial Tax Commission rejected the appeal in relation to IRES, Robin Tax and VAT for tax years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the incorporating entity of Total Italia S.p.A.). TotalErg S.p.A. appealed to the competent Regional Tax Commission within the terms established by law.

On 25 May 2017, the Rome Provincial Tax Commission rejected the appeal in relation to IRES, IRAP and VAT for tax year 2007 (dispute relating to TotalErg S.p.A. as the incorporating entity of ERG Petroli S.p.A.).

On 27 December 2017, TotalErg S.p.A. appealed to the competent Regional Tax Commission.

In their belief that they had always operated in full respect of the laws and applicable regulations, ERG and TotalErg appealed the aforementioned assessment notices within the deadlines set by the law in order to secure cancellation thereof.

In relation to the matters described above, it should be recalled that the joint venture agreement with Total provided an adequate mutual set of guarantees which remained valid even as a result of the sale to api - anonima petroli italiana S.p.A. of the equity investment in TotalErg (the dispute in question were retained by the selling parties ERG and Total Marketing Services SA as Retained Matters).



## REGULATORY FRAMEWORK: MAIN CHANGES

The most significant regulatory changes that characterised the energy industry in 2017 are described below.

### GENERAL

#### Paris Agreement on Climate Change

The Paris Agreement, signed in December 2015, ratified on 4 October 2016 and signed by 94.4% of the adhering Countries as at the following 5 October, formally entered into force on 4 November 2016. Italy ratified the agreement on 27 October 2016. The law was published in the Official Journal of Italy on 10 November 2016.

On 1 June 2017, the United States of America revoked the acceptance of the agreement signed by the previous administration.

#### Clean Energy Package

On 30 November 2016, the European Commission published a package of regulatory measures on EU climate-energy policy for the period following 2020 (Clean Energy Package).

The main measures concern the revision and issue of directives and regulations on renewable energies, energy efficiency and the electric system, with the goals of providing a stable regulatory framework, necessary to facilitate transition towards the use of clean energy (and significant for the creation of an energy Union) and to enable the EU to achieve the climate-energy targets for 2030<sup>16</sup> adopted in October 2014 and presented to the COP 21 of December 2015.

The measures to be finalised also include the Commission's guidance for member states to draw up action plans.

The approval of the final measures, which should take place by 2018, involves a joint decision process by the European Parliament and the Council of the EU. All measures should enter into force in 2021.

#### Revision of the ETS directive

The ETS system is considered the main mechanism available to the European Union to promote attainment of climate-altering gas emission reduction targets for 2020 and 2030.

The prolonged depression of CO<sub>2</sub> prices, coupled with the need to adapt the system to the 2030 decarbonization targets, has highlighted the need for a structural revision of the system.

In 2015, the European Commission therefore presented a proposed reform, directed at regulating the fourth phase for the 2021-2030 ten-year time interval; the main purpose of the reform is to reach a structural resolution to the excess supply of CO<sub>2</sub> quotas, which led to the collapse and to the subsequent stagnation of the price of the quotas to levels altogether insufficient to promote decarbonization.

After over two years of discussions, the Council of the EU and the European Parliament reached an agreement on a common text with respect to the ETS reform proposed by the EC that is more incisive than the latter.

The agreement thus reached will have to be ratified both by the Parliament and by the Council, to be subsequently published on the Official Journal of the Union, presumably by the first quarter of 2018.

#### United Kingdom Referendum on membership in the European Union

On 23 June, the UK voted in favour of the United Kingdom leaving the European Union, the first case of a member state, and signing party to the Treaty of Maastricht, leaving the Union.

Once the negotiations with London—which began on 19 June 2017—for the effective implementation of the United Kingdom's exit from the European Union have been completed, the entire legal framework of the Union must be adapted to the new situation of 27 member states.

On 8 December 2017, an agreement was reached between the European Union and the United Kingdom on the first phase of the separation process.

The points of convergence pertain mostly to the measures to protect the rights of expatriate European citizens in the United Kingdom, the procedures for approaching the issue of the border with Northern Ireland and the methodology for calculating the amount, in Euro, which the United Kingdom will have to pay to the European Union, without prejudice to the financial commitments already made on the current multi-year budget to 2020.

The agreement allows negotiations to continue to the following phase, i.e. the definition of a new commercial agreement between the United Kingdom and the European Union.

#### National Energy Strategy (*Strategia Energetica Nazionale – SEN*)

Last 10 November 2017, the 2017 National Energy Strategy was presented through the Inter-ministerial Decree signed by the Ministers of Economic Development and of the Environment; the Decree was

---

<sup>16</sup> reducing greenhouse gas emissions by 40% compared to 1990 levels; improving energy efficiency by at least 27%; at least 27% of energy from renewable sources

published on the websites of the two Ministries last 22 November.

The objective of the Strategy, which defines the energy policies through 2030 revising the similar document published in 2013, is threefold: continuation and strengthening of the transition towards decarbonized energy, greater energy price competition for Italian consumers with the objective of boosting the Country's competitiveness in Europe, increase energy procurement security with the concurrent reduction of energy dependence on foreign countries.

The 2017 SEN will serve as the basis for the finalisation, by 2018, of the National Energy and Climate Plan prescribed by the Clean Energy Package of the European Commission.

Concerning the targets for 2030 set by the 2017 SEN, they call for the attainment of 28% of energy produced by renewable sources on total energy consumption and 55% on electrical consumption, through the substantial increase in the generation of electricity from solar and wind source.

Among the other major objectives contained in the Strategy is the intention of stopping the use of coal for electricity generation by 2025, replacing it with a mix of gas generation and with renewable sources, assisted by infrastructural upgrades to the electrical network and with accumulations of both electro-chemical and hydroelectric energy.

The SEN recognises the strategic value of repowering, particularly for existing wind power plants, in order to increase the efficiency and the production of renewable energies, providing support mechanisms through the simplification of the authorisation process, equity contributions on investment and the use of long-term bilateral energy supply agreements (Power Purchase Agreements - PPA).

### **National Strategy for Sustainable Development (SNSD)**

On 2 October 2017, the Council of Ministers approved the National Strategy for Sustainable Development.

The purpose of the document is to provide a shared reference framework to the Country for a vision of development oriented towards sustainability. Therefore, five areas of intervention are identified: People, Planet, Prosperity, Peace, Partnership.

The Strategy, of which the SEN is an integral, coordinated part, takes up the previous "Environmental action strategy for sustainable development in Italy 2002-2010" and the contents of the 2030 Agenda for sustainable development, adopted in 2015 by the United Nations at the Head of State and of Government level, in line with the Agreement reached in 2015 on the occasion of the "Conference of the Parties" of Paris on contrasting climate changes.

This approval is followed by a second phase, coordinated by the Office of the Chairman of the Council of Ministers, for the definition and quantification of specific objectives to be associated to the sustainable development objectives set by the Strategy, and of shared methods to monitor them and for the assessment of the contribution of the adopted policies for their achievement.

### **Environment – Efficiency – Safety Matters**

April 2017 saw the publication of two Italian legislative decrees implementing European directives in the field of noise pollution. The provisions will be implemented through subsequent ministerial decrees and introduce specific guidelines on activities that cause sound pollution which have, up to now, been excluded from legislation, in particular wind power plants, airfields, helipads, hydrosurfaces, sporting activities and disciplines and racetracks and raceways. For wind power plants in particular, the criteria for the measurement of airborne noise emitted by wind turbines and the containment of the corresponding noise pollution will be published.

The rules governing penalties have also been strengthened, giving the responsible body greater investigation and inspection powers.

June 2017 saw the approval of Legislative Decree no. 104/2017 transposing European Directive no. 52 of 2014 on the modification and simplification of Environmental Impact Assessment (EIA) procedures; the Legislative Decree was published at the beginning of July 2017. In particular, the regulation prescribes the introduction of uniform EIA rules across the entire country and the consequent streamlining of the sharing out of administrative responsibilities between the State and the Regions, with inclusion at state level of EIA procedures for projects relating to infrastructure and to wind power plants with a total capacity exceeding 30 MW.

For modifications or extensions to existing plants, including the reconstruction or modernisation of wind power plants, it provides for the option to request that the competent authority perform a preliminary assessment of the project (pre-screening) in order to identify the procedures to be initiated.

Lastly, the overall timelines for the conclusion of procedures were reduced, providing for the responsibility of senior management and the replacement of directors in the event of non-compliance.

To implement the aforementioned Legislative Decree, in August the Decree of the Director for Environmental Assessments and Authorisations of the Ministry of the Environment was published, establishing the first general control lists, functional to the pre-screening and consequent identification of the procedure to be initiated for changes, extensions, technical upgrades of existing plants, directed at improving their efficiency and environmental performance. Subsequent decrees identify the control lists relating to specific types of



projects; in particular, Director Decree no. 48 of 5 February 2018 was promulgated for wind farm modernisation and repowering.

In August 2017, Law no. 123 of 3 August 2017 was published; it converted into law, with amendments, Law Decree no. 91 of 20 June 2017, i.e. the “*Decreto Mezzogiorno*” (“South Decree”).

The provisions of the law include the alignment of the national regulations pertaining to waste classifications to European regulations, overcoming the restrictions introduced by the previous “Competitiveness” Law of 2014. The new classification criteria contained in Regulation (EU) 2017/997 enter into force starting from 5 July 2018, to allow operators to comply with the new rules.

Also in August, Italian Presidential Decree no. 120/2017 was published, providing simplified regulations for the management of excavation spoils, implementing the conversion law of Law Decree no. 133/2014 (known as “Unlock Italy”). The regulation defines the general requirements to be met so that excavation spoils and rocks can be qualified, under specific conditions, as sub-products, not waste.

Last November, Italian Law no. 163 of 25 October 2017, of 2017 European delegation, was published.

The law delegates authority to the Government to make national laws and regulations conform to Community regulations and directives. This includes authority to make Italian laws and regulations conform to European regulations on apparatuses that burn gaseous fuels and on personal protective equipment, as well as the authority for the transposition of Directive (EU) 2016/2284 on the reduction of national emissions of certain atmospheric pollutants.

### **European Law 2017**

In November 2017, Italian Law no. 167 of 20 November 2017, for the fulfilment of the obligations deriving from Italy’s membership in the European Union, was promulgated.

The law, which entered into force on 12 December, encompasses several issues and contains some articles that are directly tied to the energy sector.

In particular, it prescribes revising the national laws and regulations to make them conform to the European Guidelines on State aid for environmental protection and energy 2014-2020.

In execution of this Law, through a dedicated Ministerial Decree, published at the end of December 2017, enterprises with high energy consumption were recognised subsidies, including tariff revisions in the other segments to raise the necessary funds. Subsidies were also activated for enterprises with high natural gas consumption.

To avoid excessive charges in the utility bills, the Authority for electricity, gas and water deferred to 1 January 2019 the implementation of the reform of the tariff components to cover the general charges for household electricity customers.

With regard to incentives for energy from renewable sources, Legislative Decree no. 28 of 3 March 2011 was revised, bringing the threshold value within which incentives are possible without auctions to 1 MW, with the exception of wind farms that maintain the value to 5 MW. In addition, the Government was given the authority to call auctions with amounts open to different technologies.

### **“Annual Extensions” Law**

Law no. 19 of 27 February 2017, converting Decree Law no. 244 of 30 December 2016, concerning the extension and definition of terms prescribed by law (the so-called “Annual Extensions Act”), was published in February 2017.

As regards the issues of interest, it is important to note the extension up to 31 December 2017 of the reduced taxation of fuels used in co-generation plants such as the CCGT of Priolo. The rates identified by the Authority for Energy, reduced by 12%, shall therefore continue to be applied. The entry into force of the reform of general system charges for non-domestic consumers was postponed to 1 January 2018, while the variable portions of general system charges will be applied to electricity withdrawn from public grids with the obligation to connect third parties starting on 1 January 2017.

### **2017 Competition Law**

In August 2017, the annual Law for the market and competition no. 124 of 4 August 2017 was published; the law entered into force on 29 August 2017.

For the energy sector, the most important provision is the abolition of the protected regime for retail sales of electricity and gas, starting from 1 July 2019. For electricity a safeguard service is introduced, regulated by the AEEGSI, through competitive procedures for territorial areas and at conditions that incentivise the migration to the free market, to assure the continuity of deliveries to household customers and small businesses.

In this regard, in addition to a series of implementing decrees to complete the sector’s liberalisation, a register of electricity sellers is to be established with criteria and procedures set by the Minister of Economic Development at the proposal of the Authority for Electricity, Gas and Water.

On the front of the separation of the sale and distribution of energy, the exemption for closed distribution systems that are a part of a vertically integrated enterprise from the functional separation obligation was transposed, without changing the need for accounting separation.

### **Law converting the “Manovrina 2017” Decree Law**

In June 2017, the law converting the decree law on financial matters, initiatives in favour of local entities, further interventions for areas affected by earthquakes and measures for development, referred to informally as the “Manovrina 2017” Decree Law, was published.

Of particular note are the modification of the parameters for the determination of ACE [Aiuto Crescita Economica - Economic Growth Assistance] measures for the promotion of competition in electric road transport and for infrastructure for charging electric vehicles, as well as certain changes to the rules governing inspections and penalties for electricity production units that benefit from incentives.

### **2018 Budget Law**

At the end of December 2017, Law no. 205 of 27 December 2017, the “2018 Budget Law”, was published.

Among the points of highest interest contained in the law, of note is the revision of the penalties prescribed in relation to incentives for renewable sources: for some ascertained violations, the incentive will no longer be revoked altogether but it will be reduced by between 20% and 80%, depending on the extent of the violation. In case of “voluntary correction” by the operator who spontaneously reports the violation outside an audit, the aforesaid reductions are smaller by one third.

The violations that entail reductions in the incentive shall be established by the Minister of Economic Development on the basis of elements provided by the GSE itself.

The law also provides for assignment of the authority for waste to the Energy Authority, which is called ARERA and returns to be governed by a 5-member council.

Incentives for industrial investments within the Industria 4.0 package are also confirmed: the super-depreciation for capital assets with the exclusion of vehicles and hyper-depreciation, the refinancing of the “New Sabatini” law for SME investments in machinery, plant and equipment, the 40% tax credit for training personnel on digital technologies.

To address droughts and to manage water losses in pipelines, a plan for reservoirs and for pipeline renovation is established.

To promote stable employment, employers will be granted a 50% reduction for the first three years of contract with increasing protections from 1 January onwards, subject to compliance with specific conditions. The reduction, intended for young people, is raised to 100% if the person went through school-work programmes or served as an apprentice with the same employer.

Access to early pension at the State’s expenses is to be extended to 15 categories of heavy duty occupations. In addition, the reduction of the contribution requirements prescribed for women is expanded from 6 months to 1 year, always within the maximum limit of 2 years. The time interval in which the period of activities required in heavy duty occupations is extended (in addition to the 6 years out of 7 scheme, it is possible to accrue the period of activity according to the scheme of 7 years of 10).

In regard to registration tax, to establish taxation to be applied to the deed filed for registration, interpretational elements outside the deed or contained in other connected legal deeds are no longer considered.

Within the scope of waste tracking and management, an extension is introduced for penalties on operations, along with the amnesty for failure to pay the annual contribution and several administrative simplifications.

“Ecobonuses” are also confirmed for 2018, with changes on the incentives for boilers, as well as subsidies for earthquake protection works (which may be accumulated with the ecobonus).

The tax calendar is also redefined: the deadline for the pre-filled Return is 23 July and the deadline for the Income Tax Return is 31 October.

### **2018 Tax Decree and conversion into law**

In October 2017, the Tax Law Decree no. 148/2017, connected to the Economic and Financial Planning Document, was published. Conversion into Law and publication took place the following December.

Among the most significant provisions, the extension of the Split Payment to all Public Administration subsidiary companies, some rules pertaining to corporate transparency, the renewal of the “junking” of tax assessments, the prohibition to issue 28-day invoices for telecommunications, new rules for earthquake-affected areas and some subsidies for return to Italy after working abroad.

### **Energy efficiency certificates**

In April 2017, Ministerial Decree of 11 January 2017 was published; defining the energy savings targets for

electricity and gas distribution entities for the years from 2017 to 2020, it affects the balance between supply and demand of the energy efficiency certificates (TEE).

As a consequence of the Decree, the Authority for electricity, gas and water (AEEGSI) issued its decisions 435/2017 and 634/2017, changing for the future some criteria for determining the unit tariff contribution to be recognised to compliant distributors within the TEE mechanism and revising the regulations on bilateral TEE transactions set up by the Energy Markets Manager (GME). The changes will be implemented for the years after 2017.

### **Increase in electricity dispatching service costs: Resolution 342/2016 of the Italian Authority for Electricity, Gas and Water (AEEGSI) 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). These occurrences were studied and investigated by the government and consumer associations, with the suspicion that several electricity operators had engaged in illegal conduct on the energy and dispatching services markets.

On 27 June 2016, the AEEGSI published Resolution 342/2016/E/EEL, through which it launched a process for the timely adoption of prescriptive measures and/or asymmetric regulation measures and the assessment of potential abuse on the electricity market, pursuant to (EU) Regulation 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 the AEEGSI, in September 2016 communications were sent to the parties involved – including ERG Hydro S.r.l. and ERG Power Generation S.r.l. –, via certified electronic mail, 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 repeal of the measures indicated above, deeming that there were no grounds for the issue of such measures.

In April 2017, the AEEGSI notified the involved companies ERG Hydro S.r.l. and ERG Power Generation S.p.A. of the resolutions issued within the scope of the procedures started with resolution no. 342/2016. The main elements of the above-mentioned deeds are the modification of the methodology used to define the results of the assessment with respect to that used in the communications sent to said companies in September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). Also with reference to these measures, ERG Power Generation S.p.A. and ERG Hydro S.r.l. have appealed to the Administrative Court of Lombardy for their repeal.

With two successive resolutions approved in January and February 2018, the Authority closed the procedures related to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. By March, Terna is expected to quantify the value to be returned as a result of the two indicated resolutions. It is estimated that any economic impacts are not significant.

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

### **Gas emergency plan - EU procurement security**

At the end of October 2017, the Ministerial Decree revising the preventive action plan and the emergency plan to react to unfavourable events for the natural gas system was published.

Non-market measures to be adopted in emergencies are revised, introducing new instruments for balancing the system.

Also in October the European Union published the new regulations on natural gas procurement security, in force since 1 November 2017.

The general purpose of the regulation, based on the basic principles - enhancing risk assessments, solidarity mechanism and intensification of the exchange of information - is to increase the energy security of the European Union, reducing dependency on others for the procurement of energy and making it possible to react more rapidly and effectively to any crises in the procurement of gas more rapidly and effectively.

### **Electricity dispatching reform: Resolution 300/2017/R/EEL**

In May 2017 the Authority published Resolution 300/2017/R/EEL with which it initiated the first real reform of electricity dispatching, defining criteria to enable electricity demand, ineligible production units (including those powered by non-programmable renewable resources) and accumulation systems to participate in the Dispatching Services Market (MSD), albeit in the context of pilot projects.

The projects will relate to the participation in the MSD of electricity demand and of production units not

eligible to date, with accumulation systems also combined with production units in order to optimise the supply of dispatching resources in compliance with the requirements laid down by the Network Code. Access to the dispatching market will also be possible for aggregators of several production units and consumption units, referred to as UVAs (eligible virtual units). To implement the Resolution 300/2017, Terna launched pilot projects that provide for the creation of Virtual Eligible Consumption Units (UVAC) and Virtual Eligible Production Units (UVAP). UVAC and UVAP aggregate respectively non-significant multiple consumption units and multiple production units existing on a same network area; the role of the aggregator is established and it is distinct from the dispatching user owning the Production Units or the Consumption Units aggregated in the eligible virtual Units. In 2019, Terna will publish additional proposed pilot projects entailing the aggregation of UP and UC within the same UVA.

## WIND POWER

### ITALY

The wind power sector has already been the subject of focused measures, in addition to the inter-disciplinary measures already discussed in the previous paragraph.

With regard to prescriptive measures within the meaning of resolution 342/2016/R/EEL, reference is made to the comments in the section “**General**”.

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

For the purposes of determining the value of the 2017 tariff incentive (2017 FIP), the Authority disclosed, by means of resolution 31/2017/R/EFR of 27 January 2017, the average annual value recorded in 2016 for electricity sale prices, equal to 42.38 EUR/MWh. The value of the 2017 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year, therefore amounts to 107.34 EUR/MWh.

In accordance with the GSE's (national grid operator) procedures, these incentives are disbursed by the GSE every quarter by the second quarter following the reference quarter, in line with the current timelines for withdrawing green certificates.

The move from the system of green certificates to the feed-in tariff was regulated by the “GRIN” Convention, prepared by the GSE in April 2016.

Most operators, including ERG, submitted an appeal against the GSE for forcing operators to sign a deed that was not envisaged under any law.

A procedure for applying for an extension of the incentive period in the event of total or partial shutdown of wind farms required by the national transmission network operator (Terna), which enables the reimbursement of the Green Certificates lost as a result of the limitations, optionally using an algorithm identified by the GSE or using the final data for Lost Wind Power Output (MPE), was inserted as part of the GSE's “Procedure for the calculation and issue of the incentives that have replaced Green Certificates from 2016”, published in February 2017 and updated in April 2017.

#### **Resolutions 444/2016/R/EEL, 800/2016/R/EEL and 419/2017/R/EEL - actions on the measurement of actual imbalances**

As a result of the significant increase in dispatching costs in the second quarter of 2016 and Regulation 342/2016/R/eel described above, on 29 July 2016 the Authority published Resolution 444/2016, which amended the criteria for measurement of imbalances of electricity injected or withdrawn and those planned.

This regulation was amended further through resolutions 800/2016 and 419/2017, the latter published by the Authority on 8 June 2017.

The main provisions of the latter regulation relate to the move to a new method of calculating the aggregate zonal imbalance sign based on the energy balance of the balancing macro-zone, which also recognises transits between the macro-zones.

The new aggregate zonal sign and the variables that make it up will initially be published on the first working day following the date of delivery of the energy; since 28 December, Terna reduced the delay in publishing the preliminary data to 30 minutes prior to the time of physical delivery, in line with the indications of the Authority.

The new method of calculation of the sign entered into force on 1 September 2017; from that date all units (both production and consumption) not eligible to provide balancing services will go back to determining the imbalance price using the single pricing system.

In order to reduce arbitrage opportunities between zonal prices within the same macro-zone, the Authority also introduced a macro-zonal no-arbitrage consideration, which entered into force from 1 July 2017.

The same resolution 419/2017 also provided that Terna, from 2 September 2017 onwards, shall publish the value that the aggregate zonal imbalance sign would have been in the period 2015-2017 by applying the new methodology and the relative associated imbalance prices.

## Regional Regulations

At the regional regulations level, in October 2017 the Sicilian Regional Government published its Presidential Decree on the criteria for identifying areas unsuitable for the construction of plants for generating electricity from wind power. The measure follows regional law no. 29/2015 and the regulation implementing regional law no. 11/2010, pertaining respectively to the protection of landscapes and the environment and the penetration targets for renewable energy sources.

In November 2017, the Campania Regional Government published a Resolution pertaining to changes in energy authorisation matters; a previous measure that deemed “non substantial” plant modifications entailing size increases up to 30% was repealed.

The measure lists the authorisation cases, distinguishing between plants that fall within the scope of application of the EIA and works that affect the physical dimensions of individual apparatuses and on the volumes of the individual structures.

## FRANCE

To ensure achievement of the European target for renewable sources in 2020 and the domestic target in 2030 (40% of renewables in the energy mix, of which 20% from wind power), at the end of October 2016 the Government published the Long-Term Energy Plan, which defines the new interim targets for installed power for 2016-2018 and 2019-2023. In addition to providing an indicative schedule of the auctions structured by technology, the document proposes the goal of raising onshore installed wind power capacity to 15 GW by 2018 (from around 12 GW at the end of 2016) and between 22 and 26 GW in 2023.

On 13 December 2016, the decree governing the move from the feed-in tariff (FIT) to the feed-in premium (FIP) was published, based on a remuneration supplementing system plus a premium for wind farms that finalised the application for withdrawal of the electricity generated by the network operator (EDF) in 2016. The total value of the new incentive is in line with the FIT pursuant to the aforementioned Decree dated 17 June 2014.

Wind farms that receive the incentive pursuant to the Decree dated 17 June 2014 will continue to receive a FIT for 15 years, the value of which is 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.

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

In December 2017, the CRE also regulated the procedures on multi-technological auctions for access to the FIP for new wind farms and FV with power between 5 MW and 18 MW scheduled for September 2018. The amount made available is 200 MW and there will be a Cap and Floor for the bid, respectively amounting to 90 EUR/MWh and 40 EUR/MWh.

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

## GERMANY

The “Renewable Energy Sources Act” 2016 (EEG 2017), adopted on 8 July 2016, marks a move to an auction scheme for access to incentives, applied to all Renewable Energy Plants with more than 750 KW of power operating from 1 January 2017<sup>17</sup>. The annual auction quotas for new on-shore wind capacity are 2.8 GW per year up to 2020 and 2.9 GW for the following years. Inside Grid Expansion Areas there is a limit to the assigning of incentives through auction of new wind power capacity equal to 58% of the annual average additional capacity installed between 2013 and 2015, amounting to 902 MW/year for 2017, 2018 and 2019. The regions involved, as defined by the decree of 20 February 2017, cover the northern part of northern Saxony, Bremen, Schleswig-Holstein, Hamburg and Mecklenburg-Western Pomerania and can be redefined every two years from 1 January 2020.

For the three wind power auctions that took place in 2017, the starting bid price was set to 70 EUR/MWh, for the assignment of a quota of onshore wind power of 800 MW for the first session in May and 1,000 MW per

<sup>17</sup> Onshore wind farms authorised by 2016 and in operation by 2018 may continue to benefit from the (reduced) FIP in accordance with EEG 2014. The initial value recognised in the first 5 years of operation is 83.8 EUR/MWh, the baseline value for the following years is 46.6 EUR/MWh, and periodic reductions are planned from March 2017 onwards. From October 2017, the maximum reduction of the tariff is applied (-2.4%) because the wind power MW installed in the past year widely exceeded the set limit value. Alternatively to the FIP, it is possible to participate in the auction (deadline for participation: 1 March 2017).

session for the other two auctions of August and November 2017. Nearly all quotas were assigned to projects belonging to "Citizens' energy companies" (Cooperatives) that benefited from the advantage, not provided for the other operators, of being allowed to participate without previously obtaining the specific authorisation.

In the three sessions of 2017, the average award values declined progressively, and in November 2017, they reached 38.2 EUR/MWh (the average award value of the May and August sessions equalled respectively 57.1 EUR/MWh and 42.8 EUR/MWh). Cooperatives, unlike the other operators that are awarded the price offered on the basis of the "pay-as-bid" mechanism, obtain the national marginal price, i.e. the maximum bid awarded nationwide.

The tariff that the plant will actually receive, however, is calculated by the network operator following the award, by applying the so-called "corrective factor" to the bid accepted in order to take account of the specific wind conditions of the site, determined according to the "Site location quality", and the model of turbine used.

In July 2017, the German Parliament approved certain amendments to the EEG 2017, providing, *inter alia*, that, for the first two sessions of 2018, in order to be able to participate in auctions, all projects, including the Cooperatives', must have obtained the environmental authorisation (BlmschG, abbreviation of Bundes-Immissionsschutzgesetz, federal pollution control act).

In light of the low award values reached in the 2017 auctions, BNETZA (the German Regulator for network services) decided to raise the starting bid price for 2018, from 49 EUR/MWh prescribed by the EEG (i.e. the average of the three highest tariffs awarded in the three previous auctions increased by 8%) to 63 EUR/MWh, for all auctions to be carried out during the year (1 February, 1 May, 1 August and 1 November 2018).

Moreover, from 2018 onwards, multi-technological "pilot" auctions should be planned for wind and photovoltaic technologies.

At the end of June, the Bundestag amended the law on off-shore wind energy (WindSeeG) prohibiting negative offers to the auctions for off-shore wind.

After weeks of negotiations, the talks for the formation of a governing coalition between the Christian-democrats (CDU/CSU), the liberals (FDP) and the Greens collapsed at the end of November 2017.

Following a new round of negotiations, in February 2018 the two main parties SPD and CDU/CSU reached an agreement to form a new governing "Grand Coalition".

With regard to energy matters, the agreement provides an extension of the target for the reduction of CO<sub>2</sub> emissions by 40%, to be achieved "as soon as possible"; in addition, an increase of the FER penetration target to 65% in 2030 is proposed, to be attained through new electricity generation assigned with additional auctions to be carried out in 2019 and 2020, dedicated to onshore wind power and to solar power (4 GW for each technology). In parallel, the fossil fuel phase-out phase will be defined within one year.

The final confirmation of the agreement for the definition of the new government has to wait for the internal vote of the SPD party members, scheduled for 4 March 2018.

## POLAND

In May and June 2016 the Polish Parliament, on an initiative by the Ministry of Energy, approved a set of amendments to both the Wind Turbine Investments Act (WTI Act) and the Renewable Energy Sources Act approved in 2015 (RES Act).

The amendments, promoted by the current conservative, anti-European government, have a negative impact on the profitability of existing plants and risk compromising further development of on-shore wind power in the country.

In particular:

1. a prohibition from installing new turbines within set distances from buildings, forests or protected areas is introduced;
2. taxation on real estate and similar is increased from 2017;
3. the new rules on minimum distances are not applicable to plants that have already obtained a construction permit that are not subject to changes. Otherwise, plants that are not yet in operation must comply with the new regulations;
4. less strict requirements are set out for the definition of dedicated co-combustion, possibly reducing the effectiveness of the rule which halved the number of Certificates of Origin recognised to "non-dedicated" co-combustion;
5. the principal of technological neutrality of the auctions, which was featured in the first version of the Law, is eliminated in favour of an approach based on technology baskets;
6. higher priority is granted to renewable technologies with high load factors and waste-to-energy plants;
7. on-shore wind and photovoltaic power are located in the residual basket of "other technologies";



8. the obligation that distributors (DSO) purchase renewable energy produced at a price equivalent to the average of prices of the previous quarters is abolished.

The first pilot multi-technology auctions (for new installations with capacity of less than 1 MW) that involve the move from an incentive system to competitive procedures for assigning contracts for differences - CfD - were held on 30 December 2016.

At the end of September 2017, the Government announced the cancellation of all auctions planned for the year, including the one for wind power, to which a basket of 5,175 GWh for 15 years had been dedicated (~145 MW installed).

The next auctions will probably be organised in 2018 after the entry into force of the amendment to RES Act 2015. In this regard, last December 2017 the European Commission announced the approval, on the basis of European state aid rules, of the Polish programme for renewable energies, which provides, for installation with capacity above 500 kW, a premium relative to the wholesale price, awarded through competitive auctions.

As to the Certificates of Origin (CO) mechanism provided for renewable plants commissioned by June 2016, in August 2017 an amendment was introduced to the RES Act 2015 which changed the method for calculating the Substitution Fee (the penalty applied in case of non-compliance with the CO purchase obligation) tying its value to the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For the September-December 2017 period, this penalty was thus equal to 92.04 PLN/MWh (sharply lower than the value of 300.03 PLN/MWh set previously). For the year 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh.

## ROMANIA

At the end of December 2016 the Government approved the mandatory quota for purchase and cancellation of Green Certificates for operators selling electricity for large consumers. That quota, at 12.15% in 2016, was reduced to 8.3% for 2017.

Following the verification of compliance with EU rules on State aid by the European Commission, at the end of March 2017 the Romanian Government published Emergency Ordinance 24/2017 which introduced important amendments to law no. 220/2008. The main changes concern:

- the lengthening of the recovery period of the GCs withheld from 1 July 2013 to 31 March 2017 (which must take place at constant instalments through the years 2018-2025);
- 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 definition of the mandatory quota, 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;
- the creation of two "anonymous" centralised markets to trade GCs starting from September 2017: the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (PCSCV).

## THERMOELECTRIC POWER

### Essential Units pursuant to Law Decree 91/2014

On 25 May 2016 news was published on the Terna website declaring the entry into operation at 00:00 a.m. on 28 May 2016 of the Sorgente-Rizziconi connection and the ancillary works defined by resolution 521/2014. That communication sanctioned the end of the essentiality regime envisaged by Law Decree no. 91 of 24 June 2014 for the electricity production units located in Sicily, as governed by the aforementioned Resolution 521/14.

The AEEGSI then confirmed said situation by way of resolution 274/2016/R/EEL published on 27/05/2016.

On 13 December 2016, the Authority issued Resolution 741/2016/R/EEL which quantified the second advance for the consideration to restore costs in relation to essential plants subject to the 91/14 regime, for 2015, granting a mandate to Terna to settle the amounts.

For ERG Power Generation, whose Priolo CCGT plant was considered to come under essential facilities pursuant to Law Decree 91/2014 until 27 May 2016, the compensation advance agreed following the resolution is equal to around 68% of the balance requested.

On 15 December 2016, the AEEGSI then issued resolution 761/2016/R/EEL, which confirmed and quantified the advance payment for financial year 2016.

Resolution 745/2017 recognised the balance relating to the 2015 reintegration.

Resolution 841/2017 recognised an extraordinary account relating to the 2016 reintegration request.

Both amounts were paid by TERN within the respective deadlines.



### Essential Units pursuant to Resolution 111/2006

On 28 October 2016, Resolution 610/2016 was published, which includes a section of the CCGT plant in Priolo amounting to 120 MW on the list of essential units pursuant to Resolution 111/2006 for 2017 (based on a scheme that is substantially different from the scheme pursuant to Law Decree 91/2014 set out in the previous paragraph). The company opted for the alternative scheme pursuant to Article 65-bis of Resolution 111/06 which entails the remuneration of the tertiary reserve increasing through an option contract, releasing the plant from the essentiality regime on the energy markets (day before market - MGP/intraday market - MI).

### Closed Distribution Systems (SDC) / Internal Utility Networks (RIU)

In August 2017, the Authority published resolution 582/2017, extending the date of enforcement of the TISDC (closed distribution systems integrated text), in the case of the RIU from 1 October 2017 to 1 January 2018, to align it to the revision of the tariff structure of the general system expenses (which, *inter alia*, will entail the elimination of the degressive brackets) active from 1 January 2018, and to the exemptions on the functional unbundling prescribed by the Competition law.

### HYDROELECTRIC POWER

With regard to tariffs in lieu of “green certificates” and prescriptive measures within the meaning of resolution 342/20174/R/EEL, reference is made to the comments in the sections “**General**” and “**Wind Power - Italy**”.

On 30 December 2017 the decree of the *Agenzia del Demanio* (State Property Office) was published; it introduces the revision of the measure of the riverine extra-fee for hydroelectric offtakes.

This extra-fee, revised every two years on the basis of the Istat inflation data, is raised by 0.05 €/kW and 0.06 €/kW respectively for small and large water offtakes. In the 2018-2019 two-year time interval, the extra-fee for large offtakes rises from 7.61 €/kW to 7.67 €/kW.

In the following month of January 2018, the value of the extra-fee applicable to Mountain Water Catchment Areas (BIM) due by water offtake permit holders for the generation of power for the two-year period from 1 January 2018 - 31 December 2019”.

The amount of the BIM extra-fee for all offtakes with more than 220 kW of power changed to 30.67 €/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 regard to the TSAP decision, an appeal was filed before the Court of Cassation; the Court's setting of the hearing is currently pending.

### Impacts on the Group

With regard to possible impacts of these measures on the ERG Group for the year 2017, please refer to the following chapters dedicated to the individual activities managed.

## BUSINESS SEGMENTS

### NON-PROGRAMMABLE SOURCES

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

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

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

## Reference market<sup>(1)</sup>

| Italian Renewable Energy Sources Market (GWh) <sup>(2)</sup> | Year   |        |
|--|--------|--------|
|  | 2017   | 2016   |
| Generation from renewable sources <sup>(3)</sup>             | 85,618 | 88,932 |
| of which:  |        |        |
| <i>Hydroelectric</i>   | 37,530 | 43,785 |
| <i>Geothermal</i>  | 5,785  | 5,867  |
| <i>Wind</i>  | 17,492 | 17,523 |
| <i>Photovoltaic</i>  | 24,811 | 21,757 |

## Sale prices (EUR/MWh)

|  |       |       |
|--|-------|-------|
| Reference price of electricity - Italy (baseload) <sup>(4)</sup> | 54.0  | 42.8  |
| Feed-In Premium (former Green Certificates) - Italy              | 107.3 | 100.1 |
| Electricity price - Central-South zone                           | 51.6  | 41.6  |
| Electricity price - South zone                                   | 49.8  | 40.4  |
| Electricity price - Sicily                                       | 60.8  | 47.6  |
| Electricity price - Sardinia                                     | 51.5  | 41.6  |
| Average unit value of sale of ERG energy - in Italy(5)           | 147.1 | 139.0 |
| Feed-In Tariff - Germany <sup>(6)</sup>                          | 91.7  | 92.6  |
| Feed In Tariff - France <sup>(6)</sup>                           | 88.3  | 88.7  |
| Feed-In Tariff - Bulgaria <sup>(6)</sup>                         | 81.9  | 84.0  |
| Electricity price - Poland                                       | 36.5  | 33.4  |
| Certificate of origin price - Poland                             | 8.5   | 10.8  |
| Electricity price - Romania <sup>(7)</sup>                       | 28.7  | 27.3  |
| Green Certificate price - Romania <sup>(8)</sup>                 | 29.0  | 29.5  |

<sup>(1)</sup> Estimated output for December

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

<sup>(3)</sup> Sources considered: hydroelectric, geothermal, wind power and photovoltaic

<sup>(4)</sup> Single National Price – Source: GME S.p.A.

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

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

<sup>(7)</sup> The Romania price of electricity refers to the price fixed by the company via bilateral agreements

<sup>(8)</sup> Price referred to the unit value of the green certificate (the number of green certificates recognised and the timeline are discussed in the section describing the scenario in Romania)

## Market scenario in Italy

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

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

## Regulatory scenario

### Italy

In Italy, for plants powered by renewable sources in operation no later than 2012<sup>18</sup> and entitled to receive Green Certificates (GCs), the incentive system calls for the conversion of these certificates into a feed-in premium (FIP) starting from 2016 and for the residual period of entitlement to incentives. With regard to the value of the 2017 FIP, the Authority disclosed, by means of resolution 31/2017/R/EFR dated 27 January 2017, the average annual value recorded in 2016 for the electric power sales prices for incentive purposes, amounting to 42.38 EUR/MWh. Therefore, the value of the 2017 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year<sup>19</sup>, amounts to 107.34 EUR/MWh.

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

With regard to the rules on imbalances, with resolution 419/2017 of 8 June 2017 the Authority for Energy prescribed a revision of the procedures for calculating the current aggregate zonal imbalance sign based on the energy balance of the macro-zone; this new method of calculation came into force on 1 September 2017. From that date onwards, the 'single price' procedures for the setting of the imbalance price for all units not eligible (both production and consumption) entered back into force. The Authority also introduced a macro-zonal no-arbitrage consideration in order to put a stop to any arbitration between zonal prices within the same macro-zone.

In April 2017, the AEEGSI notified the involved companies ERG Hydro S.r.l. and ERG Power Generation S.p.A. of the resolutions issued within the scope of the procedures started with resolution no. 342/2016 for the timely adoption of prescriptive and/or asymmetrical regulation measures and the assessment of potential abuses in the electricity wholesale market in accordance with (EU) Regulation no. 1227/2011 (REMIT), potentially committed in the recent past by some electric market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.). The main elements of the above-mentioned deeds are the modification of the methodology used to define the results of the assessment with respect to that used in the communications sent to said companies in September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). With the two successive resolutions approved in January and February 2018, the Authority closed the procedures related to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. By the end of February, Terna is expected to quantify the value to be returned as a result of the two indicated resolutions. It is estimated that any economic impacts are not significant.

### Germany

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

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

For wind power plants authorised by the end of 2016 and in operation by 2018, a transition period is provided, in which it is possible to continue to benefit from the tariffs set out in the EEG 2014<sup>20</sup> with decreasing value in relation to the actual new power installed in the period.

The tariff in force at 1 January 2017 for plants covered by the transitional rules is 83.8 EUR/MWh for the first five years of operation, and 46.6 EUR/MWh for the following 15 years. Application of the maximum tariff prescribed for the first 5 years can be extended to the remaining period: the extension varies according to the ratio between the actual hours of operation of the plant and the reference hours (i.e. 3,300 hours)<sup>21</sup>.

<sup>18</sup> There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.

<sup>19</sup> Electricity sale price defined by the Italian Authority for Electricity and Gas implementing Article 13, Paragraph 3, of Italian Legislative Decree No. 387 of 29 December 2003.

<sup>20</sup> In this regard the BNetzA announced that: (i) 8,365 MW of new wind capacity should start operations between 2017 and 2018 (5,000 MW in 2017 and 3,365 MW in 2018) accessing the FIP in accordance with the 2014 EEG; (ii) 475 MW of capacity, which would have been entitled to access the FIP under the 2014 EEG, instead opted to participate in the auctions to be held in 2017-2018.

<sup>21</sup> The ratio between actual hours of operation of the plant and the reference hours (amounting to 3,300 hours) fluctuates between a minimum value of 80% (below which the maximum tariff shall be applied to the entire duration of the incentive period) and 150% (above which the maximum tariff shall be applied only in the first 5 years).

For plants that access the auction system, the 20-year incentive is equal to the FIP awarded, corrected by applying an adjustment factor specific to the plant, based on the actual wind strength of the site (Reference Revenue Model), which can be revised every 5 years based on the plant's actual yield in the previous 5 years of operation. The starting bid price for wind power auctions for 2017 is 70 EUR/MWh for a total amount of 2,800 MW.

In the three sessions of 2017, the average award values declined progressively, and in November 2017, they reached 38.2 EUR/MWh (the average award value of the May and August sessions equalled respectively 57.1 EUR/MWh and 42.8 EUR/MWh). Citizens Energy Companies (Cooperatives), unlike the other operators who are awarded the price offered on the basis of the "pay-as-bid" mechanism, obtain the national marginal price and, for the exemption from the obligation to obtain the authorisation before the auction is conducted, they had nearly all the amounts envisioned recognised.

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

In light of the low award values reached in the 2017 auctions, BNETZA (the German Regulator for network services) decided to raise the starting bid price for 2018, from 49 EUR/MWh prescribed by the EEG (i.e. the average of the three highest tariffs awarded in the three previous auctions increased by 8%) to 63 EUR/MWh, for all auctions to be carried out in 2018 (1 February, 1 May, 1 August and 1 November 2018).

Four auctions will be held in 2018 and 2019 (1 February, 1 May, 1 August and 1 October), for a total amount of 2,800 MW/year, and three in 2020 (1 February, 1 June, 1 October) for an amount of 2,900 MW/year also planned for the following years. Between 2018 and 2020, multi-technological auctions are planned for on-shore wind power and photovoltaic for a total amount of power of 400 MW. The assigned volumes shall be deducted from the respective annual amount reserved to the specific technology. The goals to reach a portion of renewable energy sources of 40-45% by 2025, of 55-60% by 2035, and of 80% by 2050.

## France

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

The feed-in tariff (FIT) pursuant to Decree dated 17 June 2014 is disbursed for 15 years and is defined based on the year the application to purchase electricity production was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products. After 10 years of operation, the tariff, determined based on the year the application was made, will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400 (otherwise, the initial tariff will also be confirmed for the subsequent 5 years of operation).

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

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

In December 2017, the CRE also regulated the procedures on multi-technological auctions for access to the FIP for new wind farms and FV with power between 5 MW and 18 MW scheduled for September 2018. The amount made available is 200 MW and there will be a Cap and Floor for the bid, respectively amounting to 90 EUR/MWh and 40 EUR/MWh.

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

As regards the climate objectives, the energy transition law of July 2015 set ambitious targets for the reduction of emissions (-40% by 2030 compared with 1990), reduction of fossil fuel consumption (-30% by

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

### Bulgaria

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

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

### Romania

At the end of December 2016 the Government approved the mandatory quota for purchase and cancellation of Green Certificates for operators selling electricity and for large consumers. That quota, at 12.15% in 2016, was reduced to 8.3% for 2017.

Following the verification of compliance with EU rules on State aid by the European Commission, at the end of March 2017 the Romanian Government published Emergency Ordinance 24/2017 which introduced important amendments to law no. 220/2008. The main changes concern:

- the lengthening of the recovery period of the GCs withheld from 1 July 2013 to 31 March 2017 (which must take place at constant instalments through the years 2018-2025);
- 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 definition of the mandatory quota, 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;
- the creation of two “anonymous” centralised markets to trade GCs starting from September 2017: the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (PCSCV).

### Poland

In May and June 2016 the Polish Parliament, on an initiative by the Ministry of Energy, approved a set of amendments to both the Wind Turbine Investments Act (WTI Act) and the Renewable Energy Sources Act approved in 2015 (RES Act).

The amendments, promoted by the current conservative, anti-European government, have a negative impact on the profitability of existing plants and risk compromising further development of on-shore wind power in the country.

In particular:

9. a prohibition from installing new turbines within set distances from buildings, forests or protected areas is introduced;
10. taxation on real estate and similar is increased from 2017;
11. the new rules on minimum distances are not applicable to plants that have already obtained a construction permit that are not subject to changes. Otherwise, plants that are not yet in operation must comply with the new regulations;
12. less strict requirements are set out for the definition of dedicated co-combustion, possibly reducing the effectiveness of the rule which halved the number of Certificates of Origin recognised to “non-dedicated” co-combustion;
13. the principle of technological neutrality of the auctions, which was featured in the first version of the Law, is eliminated in favour of an approach based on technology baskets;
14. higher priority is granted to renewable technologies with high load factors and waste-to-energy plants;
15. on-shore wind and photovoltaic power are located in the residual basket of “other technologies”;
16. the obligation that distributors (DSO) purchase renewable energy produced at a price equivalent to the average of prices of the previous quarters is abolished.



The first pilot multi-technology auctions (for new installations with capacity of less than 1 MW) that involve the move from an incentive system to competitive procedures for assigning contracts for differences - CfD - were held on 30 December 2016.

At the end of September 2017, the Government announced the cancellation of all auctions planned for the year, including the one for wind power, to which a basket of 5,175 GWh for 15 years had been dedicated (corresponding to approximately 145 MW installed).

The next auctions will probably be organised in 2018 after the entry into force of the amendment to RES Act 2015. In this regard, last December 2017 the European Commission announced the approval, on the basis of European state aid rules, of the Polish programme for renewable energies, which provides, for installation with capacity above 500 kW, a premium relative to the wholesale price, awarded through competitive auctions.

As to the Certificates of Origin (CO) mechanism provided for renewable plants commissioned by June 2016, in August 2017 an amendment was introduced to the RES Act 2015 which changed the method for calculating the Substitution Fee (the penalty applied in case of non-compliance with the CO purchase obligation) tying its value to the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For the September-December 2017 period, this penalty was thus equal to 92.04 PLN/MWh (sharply lower than the value of 300.03 PLN/MWh set previously). For the year 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh.

## United Kingdom

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

- **RO** (Renewable Obligation – the certificates granted are ROC), with annual mandatory quotas of electricity consumption, defined year by year based on (i) the expected output from Renewable Energy Sources (plus 10% headroom) and (ii) the expected electricity consumption, with the goal of keeping the market balanced/short. The quota calculated for the period April 2017 – March 2018 amounts to 40.9% for Great Britain and 16.7% for Northern Ireland. The incentive is recognised for 20 years. As a result of the approval of the new Energy Bill in 2016, access to this system is substantially prescribed for the plants planned no later than 31 March 2016 and completed no later than 31 March 2017. Grace periods are recognised if any construction delays are not directly caused by the producer.
- **CfD** - for new, renewable source plants, a CfD incentive is recognised, awarded through multi-technological Dutch auctions. The incentive is recognised for 15 years (inflated). In October 2017, the Government approved the document on Clean Growth Strategy, the strategy whereby the British Government promotes a new era of green economic growth, supported by the largest increase in public expenditures of the last three decades (2.5 billion Pounds to support innovation with low carbon emissions from 2015 to 2021). The Clean Growth Strategy regulates the extension of the tenders for the CfD which, however, do not provide onshore amounts except for projects "on remote Scottish islands".

## Highlights of recurring performance items

|   | Year       |            |
|---|------------|------------|
|   | 2017       | 2016       |
| <b>Operating results</b>                                    |            |            |
| <b>Revenues from ordinary operations</b>                    | <b>445</b> | <b>423</b> |
| <b>Recurring EBITDA<sup>(1)</sup></b>                       | <b>316</b> | <b>308</b> |
| Amortisation, depreciation and write-downs <sup>(1)</sup>   | (160)      | (163)      |
| <b>Recurring EBIT<sup>(1)</sup></b>                         | <b>156</b> | <b>145</b> |
| Capital expenditure on tangible and intangible fixed assets | 35         | 44         |
| <b>%EBITDA Margin <sup>(2)</sup></b>                        | <b>71%</b> | <b>73%</b> |

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

(2) recurring EBITDA over revenues from ordinary operations

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

|                         | Year        |             |
|-------------------------|-------------|-------------|
|                         | 2017        | 2016        |
| <b>Recurring EBITDA</b> | <b>2017</b> | <b>2016</b> |
| <b>Italy</b>            | <b>241</b>  | <b>235</b>  |
| <b>Abroad</b>           | <b>76</b>   | <b>72</b>   |
| of which                |             |             |
| <i>Germany</i>          | 25          | 18          |
| <i>France</i>           | 30          | 32          |
| <i>Bulgaria</i>         | 6           | 8           |
| <i>Romania</i>          | 8           | 8           |
| <i>Poland</i>           | 5           | 6           |
| <i>UK</i>               | 2           | (0)         |
| <b>Total</b>            | <b>316</b>  | <b>308</b>  |

The consolidated revenues recorded in 2017 from non-programmable sources were affected by the lower output in Italy (-5%) compared to the previous year, offset, however, by a better price scenario net of the effects of the hedges.

During the period, the incentivised period ended for some wind farms in Italy, so approximately 214 MW (equivalent to 260 GWh of output, with a theoretical economic value of EUR 28 million) which therefore no longer benefited from the replacement incentive; however, in the period said wind farms benefited from the extension regime through reimbursement of the missed wind power generation of previous years for an amount of EUR 10.2 million.

Concerning sale prices in 2017, for ERG in Italy the average unit revenue of wind output and related sales, considering the energy sale value and the value of the incentives (former green certificates), amount to 147.1 EUR/MWh, up compared to the value of 139.0 EUR/MWh of the first nine months of 2016.

This increase is tied to the marked rise of energy sale prices observed in the various geographic areas (for ERG, mainly in the islands and in the South), to energy management actions on organised energy markets and to the rise in the value of the incentives (former green certificates) from 100.1 EUR/MWh to 107.3 EUR/MWh. In fact, as from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) in the prices of the incentive acknowledged in the year, but have an impact on the value of the incentive for the subsequent year.



Sales by foreign farms were specifically concentrated in France and Germany, whose average unit revenues were 88.3 EUR/MWh and 91.7 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland, as well as in Northern Ireland, starting from the fourth quarter of 2017. The contribution to the output of wind farms abroad was approximately 1,496 GWh (+17%).

The recurring EBITDA of 2017 totalled EUR 316 million, up slightly compared to the values recorded in the previous year (EUR 308 million), for the reasons referenced above and because of the lower operating costs as a result of the higher efficiency made possible by closer control over them, thanks also to the new organisational structure.

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

| Installed power (MW)                                      | Year         |              |
|---|--------------|--------------|
|   | 2017         | 2016         |
| <b>- Italy</b>  | <b>1,093</b> | <b>1,094</b> |
| of which  |              |              |
| <i>Campania</i>   | 247          | 247          |
| <i>Calabria</i>   | 120          | 120          |
| <i>Puglia</i>   | 249          | 249          |
| <i>Molise</i>   | 79           | 79           |
| <i>Basilicata</i>   | 89           | 89           |
| <i>Sicily</i>   | 198          | 198          |
| <i>Sardinia</i>   | 111          | 111          |
| <i>Other</i>  | 0            | 2            |
| <b>- Abroad</b>   | <b>722</b>   | <b>626</b>   |
| of which  |              |              |
| <i>Germany</i>  | 216          | 168          |
| <i>France</i>   | 252          | 252          |
| <i>Poland</i>   | 82           | 82           |
| <i>Bulgaria</i>   | 54           | 54           |
| <i>Romania</i>  | 70           | 70           |
| <i>UK</i>   | 48           | 0            |
| <b>Total installed power at period end <sup>(1)</sup></b> | <b>1,814</b> | <b>1,720</b> |

<sup>(1)</sup> power of plants in operation at period end.

The installed power at 31 December 2017, amounting to 1,814 MW, increased by 94 MW compared with 31 December 2016, following the start of operations of the wind farm in Northern Ireland (47.5 MW), the acquisition of 6 wind farms in Germany (48.4 MW) and the disposal of two non-operating wind farms in Northern Italy (1.6 MW).

| Generation (GWh)              | Year         |              |
|-------------------------------|--------------|--------------|
|                               | 2017         | 2016         |
| <b>- Italy</b>                | <b>2,117</b> | <b>2,220</b> |
| of which                      |              |              |
| <i>Campania</i>               | 489          | 502          |
| <i>Calabria</i>               | 238          | 256          |
| <i>Puglia</i>                 | 531          | 529          |
| <i>Molise</i>                 | 167          | 167          |
| <i>Basilicata</i>             | 183          | 190          |
| <i>Sicily</i>                 | 299          | 342          |
| <i>Sardinia</i>               | 209          | 233          |
| <b>- Abroad</b>               | <b>1,496</b> | <b>1,281</b> |
| of which                      |              |              |
| <i>Germany</i>                | 369          | 240          |
| <i>France</i>                 | 491          | 499          |
| <i>Poland</i>                 | 248          | 213          |
| <i>Bulgaria</i>               | 157          | 148          |
| <i>Romania</i>                | 201          | 181          |
| <br><i>UK</i>                 | <br>29       | <br>n.a.     |
| <b>Total wind farm output</b> | <b>3,613</b> | <b>3,501</b> |

In 2017, the electricity output from wind power amounted to 3,613 GWh, higher than in 2016 (3,501 GWh), with the output declining by approximately 5% in Italy (from 2,220 GWh to 2,117 GWh) and increasing by 17% abroad (from 1,281 GWh to 1,496 GWh).

The decline of output in Italy (-103 GWh) is tied to wind conditions, which were weak compared to the usual seasonal values and lower than those recorded in 2016. Outside Italy, the increase of 215 GWh is attributable to the contribution of the German plants (DIF) acquired during the period in addition to good production levels in Poland and Romania and to the contribution of the new wind farm built in Northern Ireland.

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        | 2016        |
| <b>- Italy</b>                    | <b>22%</b>  | <b>23%</b>  |
| of which                          |             |             |
| <i>Campania</i>                   | 23%         | 23%         |
| <i>Calabria</i>                   | 23%         | 24%         |
| <i>Puglia</i>                     | 24%         | 24%         |
| <i>Molise</i>                     | 24%         | 24%         |
| <i>Basilicata</i>                 | 24%         | 24%         |
| <i>Sicily</i>                     | 17%         | 20%         |
| <i>Sardinia</i>                   | 21%         | 24%         |
| <b>- Abroad</b>                   | <b>25%</b>  | <b>23%</b>  |
| of which                          |             |             |
| <i>Germany</i>                    | 19%         | 16%         |
| <i>France</i>                     | 22%         | 23%         |
| <i>Poland</i>                     | 35%         | 30%         |
| <i>Bulgaria</i>                   | 33%         | 31%         |
| <i>Romania</i>                    | 33%         | 29%         |
| <i>UK</i>                         | <i>n.a.</i> | <i>n.a.</i> |
| <b>Load factor <sup>(1)</sup></b> | <b>23%</b>  | <b>23%</b>  |

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

In 2017 the overall load factor at 23% was in line with 2016, with a slight decrease from 23% to 22% in Italy, offset by an increase from 23% to 25% abroad.

The above data do not include the wind farms in Northern Ireland, because their data were not representative as a result of the gradual, progressive start of operations of the 47.5 MW wind farm in the fourth quarter.

## PROGRAMMABLE SOURCES

### Reference market

| Italian electricity market (GWh) <sup>(1)</sup> | Year    |         |
|---|---------|---------|
|   | 2017    | 2016    |
| Demand  | 320,437 | 314,261 |
| Pumping consumption                             | 2,441   | 2,468   |
| Import/Export                                   | 37,760  | 37,026  |
| Internal generation <sup>(2)</sup>              | 285,118 | 279,703 |
| of which  |         |         |
| <i>Thermoelectric</i>                           | 199,500 | 190,771 |
| <i>Hydroelectric</i>                            | 37,530  | 43,785  |
| <i>Other renewable energy sources</i>           | 48,088  | 45,147  |
| <b>Sale prices (EUR/MWh)</b>                    |         |         |
| PUN <sup>(3)</sup>                              | 54.0    | 42.8    |
| Sicily zone price<br>(baseload)                 | 60.8    | 47.6    |
| Centre North zone price<br>(peak)               | 63.5    | 47.6    |

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

<sup>(2)</sup> output net of consumption for auxiliary services

<sup>(3)</sup> Single National Price. Source: GME S.p.A.

### Market scenario in Italy

The electricity demand of the Italian electric system in 2017 came to 320.4 TWh, up (+2.0%) compared with the values recorded in 2016. With regard to Sicily, a region in which ERG is present with its CCGT plant, in 2017 a requirement of approximately 19.1 TWh was recorded, up (+1.1%) with respect to 2016, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, electricity demand amounted to 44.8 TWh (+2.6%).

In the same period, net internal electricity generation amounted to 285.1 TWh, up by 1.9% compared with 2016, whilst the net balance of trading with foreign countries recorded net imports of 37.8 TWh (+2.8% compared with 2016). 70% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 30% from renewable sources. Compared to the previous year, thermoelectric output grew (+5%) whilst hydroelectric output declined (-14%).

The average value of the PUN (Single National Price) in 2017 was 54.0 EUR/MWh, up by 26% compared with the value of 2016 (i.e. 42.8 EUR/MWh).

## Regulatory framework:

- **Thermoelectric: the Mucchetti amendment**

The period for application of the regulation on Essential Units pursuant to Law Decree 91/2014 and the resolution 521/2014 as amended, ended on 27 May 2016 following the commissioning of the aforementioned doubling of the Rizziconi-Sorgente power line.

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

On 30 December 2016, approximately EUR 28 million had been collected as an additional advance on 2015 and approximately EUR 18 million as an advance on 2016, while approximately EUR 26 million still remained to be collected.

In October 2017 the Authority initiated the preliminary investigation on fixed cost pertaining to the request for reintegration for the year 2015. The preliminary investigation ended with resolution 745/2017: at the end of November 2017, the final balance accrued in 2015 (approximately 12.6 M€) was collected.

In October 2017 Terna carried out the preliminary investigation on the contribution margin of the request for reintegration (balance) accrued in 2016: with Resolution 841/2017, ARERA set an extraordinary advance for the UESSE per Legislative Decree no. 91/2014 pertaining to 2016 accruals. The company collected this advance payment in December 2017 (9 M€ out of the residual 12.9 M€).

The residual 2016 reintegration shall be collected in 2018.

- **Internal user networks**

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

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

- **Hydroelectric: concession fees**

The Regional Council of the Umbria Regional Authority by means of resolution no. 1067 dated 22 September 2015 took steps to re-calculate the concession fees for the large water offtakes for hydroelectric purposes. The new unit tariff of 31.02 EUR/kW per module, which applies as from 1 January 2016, comes to double that in force until 31 December 2015. In December 2015, ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways in Rome, to request the cancellation of the afore-mentioned resolution. The results for the period prudently reflect the afore-mentioned increase.

- **Italian stability law no. 208/2015**

By means of the approval of Italian Stability Law no. 208/2015, new regulations were launched, as from 1 January 2016, for the determination of the cadastral income of the real estate property units used for generation purposes. Specifically, in Article 1, Paragraphs 21-24, the 2016 Stability Law prescribes that for electricity generation plants, system components are no longer subject to taxation with a consequent positive impact in terms of lower tax costs.

## Remarks on the period performance highlights

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

- in the **hydroelectric sector**: through the equity investment in ERG Hydro S.r.l., owner of the Terni hydroelectric complex (527 MW), including a system of programmable and flexible plants throughout central Italy; these plants are operated within the respective hydroelectric concessions that will expire at the end of 2029.
- in the **thermoelectric** sector: through the equity investment in ERG Power S.r.l., owner of the CCGT high output, high efficiency, low emission, highly modulable and flexible co-generation plant (480 MW).

## Summary of the period performance highlights

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

| Operating results   | Year       |            |
|---|------------|------------|
|   | 2017       | 2016       |
| <i>(EUR million)</i>  |            |            |
| <b>Revenues from ordinary operations</b>                    | <b>610</b> | <b>601</b> |
| <b>Recurring EBITDA<sup>(1)</sup></b>                       | <b>172</b> | <b>161</b> |
| Amortisation, depreciation and write-downs <sup>(1)</sup>   | (89)       | (88)       |
| <b>Recurring EBIT<sup>(1)</sup></b>                         | <b>83</b>  | <b>73</b>  |
| Capital expenditure on tangible and intangible fixed assets | 16         | 13         |
| <b>% EBITDA Margin</b>                                      | <b>28%</b> | <b>27%</b> |

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

## Thermoelectric power

| Operating results   | Year         |              |
|---|--------------|--------------|
|   | 2017         | 2016         |
| <i>(EUR million)</i>  |              |              |
| <b>Revenues from ordinary operations</b>                    | <b>473</b>   | <b>479</b>   |
| <b>Recurring EBITDA<sup>(1)</sup></b>                       | <b>78</b>    | <b>77</b>    |
| Amortisation, depreciation and write-downs <sup>(1)</sup>   | (31)         | (30)         |
| <b>Recurring EBIT<sup>(1)</sup></b>                         | <b>48</b>    | <b>47</b>    |
| Capital expenditure on tangible and intangible fixed assets | 10           | 10           |
| <b>% EBITDA Margin</b>                                      | <b>17%</b>   | <b>16%</b>   |
| <b>Total output by thermoelectric plants (GWh)</b>          | <b>2,453</b> | <b>2,693</b> |

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

In 2017, ERG Power's net electricity generation was 2,453 GWh, down compared to the same period of 2016 (2,693 GWh), partly as a result of the changes made to the pertinent regulatory system. It should be pointed out that the period no longer benefited from the "reintegration consideration" due until the entry into force of the Essential Units regulations, which ended on 27 May 2016, whilst in the same period of last year it did benefit from it, by approximately EUR 31 million.

These impacts, at the revenue level, were mitigated by the significant general rise of electricity sale prices. The net supply of steam to captive customers of the petrochemical site of Priolo Gargallo of 737 thousand tonnes, slightly lower (-2%) than the 752 thousand tonnes of 2016. Approximately a quarter of ERG Power's

energy output was allocated to cover the requirements of the Priolo industrial site, where energy also includes the net supply of steam.

The recurring EBITDA of 2017 amounted to EUR 78 million (EUR 77 million in 2016), higher than expected and than the values of 2016, which had benefited from the reintegration consideration per UESSE, i.e. approximately EUR 31 million. This remarkable result was due to the rise in the value of the Energy Efficiency Certificates held by the CCGT as a high efficiency co-generating plant, of which approximately EUR 11 million relate to the higher value of the Energy Efficiency Certificates (TEE) accrued in the previous year and collected in 2017, as well as to the increase in the margin (Spark spread) as a result of the higher rise of the sale prices compared to the cost of gas, and to the improved performance of ERG Power's CCGT plant and the industrial efficiency-boosting actions carried out during the period.

## Hydroelectric power

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

| Operating results   | Year         |              |
|---|--------------|--------------|
|   | 2017         | 2016         |
| (EUR million)   |              |              |
| <b>Revenues from ordinary operations</b>                    | <b>137</b>   | <b>122</b>   |
| <b>Recurring EBITDA<sup>(1)</sup></b>                       | <b>94</b>    | <b>84</b>    |
| Amortisation, depreciation and write-downs <sup>(1)</sup>   | (58)         | (58)         |
| <b>Recurring EBIT<sup>(1)</sup></b>                         | <b>35</b>    | <b>26</b>    |
| Capital expenditure on tangible and intangible fixed assets | 6            | 4            |
| <b>% EBITDA Margin</b>                                      | <b>69%</b>   | <b>68%</b>   |
| <b>Total output by hydroelectric plants (GWh)</b>           | <b>1,144</b> | <b>1,358</b> |

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

In 2017, revenues, amounting to EUR 137 million, refer mainly to sales of electricity (EUR 68 million), to revenues from the feed-in premium (former green certificates) amounting to EUR 64 million (of which approximately EUR 8 million relating to the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification mainly of the Sigillo plant (5 MW) in addition to revenues of MSD amounting to EUR 6 million).

The costs, amounting in total to EUR 43 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for 2017 was EUR 94 million (EUR 84 million in 2016).

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 also due to the modulation of the plants, and the value of the feed-in premium (former green certificate), recognised on a portion of approximately 40% of output for a value exceeding that of 2016 and amounting to approximately 107 EUR/MWh.

ERG Hydro's total output (1,144 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity, the revenues from MSD and the replacement incentives, totalling approximately 110 EUR/MWh (90 EUR/MWh in 2016), excluding the recoveries of prior incentives, already commented.

The EBITDA margin of 2017 totalled 69% (68% in 2016).

The load factor recorded in the period, amounting to 25%, was affected by the poor rain conditions observed (output of 1,144 GWh in 2017, down both relative to the corresponding period of 2016 and to the ten-year historical average).

The total capacity of the plants at the Terni complex came to 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW related 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



Ministerial Decree of 23 June 2016.

The level of the reservoirs of lakes Turano, Salto and Corbara amounted respectively at approximately 524, 526 and 131 metres above sea level, higher than the levels of 31 December 2016 (respectively 524, 524 and 127 metres above sea level).

## Capital expenditure

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

The figure of capital expenditure for the corresponding period of the previous year does not include **two important acquisitions** carried out in the period in the area of Non-Programmable Sources:

- the acquisition at the start of 2016 from the Impax Group **of eleven wind farms in France and six wind farms in Germany**, with total installed capacity of 206 MW (and expected annual average generation of 410 GWh), plus the two companies which provide technical, operational and commercial assistance to wind operators in France, Germany and Poland, both “captive” and third parties. The purchase value came to around EUR 290 million in terms of enterprise value, equal to a multiple of around EUR 1.4 million per MW.
- the acquisition from TCI Renewables of Brockaghboy Windfarm Ltd (“BWF”), a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland<sup>22</sup>, with planned capacity of over 47.5 MW and energy output estimated at over 150 GWh/year when fully operational. The operation involved an initial outlay of around EUR 13 million, in addition to the investments made downstream of the acquisition of the project, illustrated in the section below. The total investment for construction of the farm is approximately EUR 79 million, already including the initial consideration paid for the purchase of the company.

Capital expenditure in tangible and intangible fixed assets by the ERG Group in 2017 came to EUR 54 million (EUR 60 million in 2016), including EUR 50.7 million for tangible fixed assets (EUR 55.6 million in 2016) and EUR 3.6 million for intangible fixed assets (EUR 3.9 million in 2016).

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

| (EUR million)                   | Year      |           |
|---------------------------------|-----------|-----------|
|                                 | 2017      | 2016      |
| <b>Non-programmable sources</b> | <b>35</b> | <b>44</b> |
| Wind Power                      | 35        | 44        |
| <b>Programmable sources</b>     | <b>16</b> | <b>13</b> |
| Thermoelectric power            | 10        | 10        |
| Hydroelectric power             | 6         | 4         |
| <b>Corporate</b>                | <b>3</b>  | <b>3</b>  |
| <b>Total</b>                    | <b>54</b> | <b>60</b> |

### Non-programmable sources

The capital expenditure in 2017 (EUR 35 million) refers mainly to the outlays made by ERG Power Generation of approximately EUR 29 million following the works for the construction of the aforementioned wind farm in Northern Ireland, which started operations during the fourth quarter of 2017. The Brockaghboy wind farm consists of nineteen 2.5 MW Nordex N90 wind turbines, totalling 47.5 MW.

### Programmable sources

The investments in 2017 (EUR 16 million) refer mainly to the CCGT plant of ERG Power, which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants, including the unification of the control centre and IT systems. Progress was also made on the planned Health, Safety and Environment projects.

Hydroelectric investments refer mainly to the aforementioned investment in the new mini hydro plants, in addition to maintenance work orders and others.

## TOTALERG

As at 31 December 2017, the ERG Group held an equity investment of 51% in TotalErg, a joint venture in the integrated downstream sector, established in 2010 through the merger by absorption of Total Italia S.p.A. in

<sup>22</sup> Brockaghboy wind farm sold on 7 March 2018

ERG Petroli S.p.A. It should be noted that, after a sale process started at the end of 2016, on **10 January 2018** the equity investment was sold to the api group.

The equity investment is recognised in the Notes to the Consolidated Financial Statements in accordance with IFRS5.

Given the importance of the investments and in continuity with the disclosure indicated in the previous financial reports, this section contains a summary of the economic and financial indicators and the operating performance for the period.

## Highlights of TotalErg performance

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

| Operating results   | Year       |            |
|---|------------|------------|
|   | 2017       | 2016       |
| (EUR million)   |            |            |
| <b>Recurring EBITDA<sup>(1)</sup></b>                       | <b>153</b> | <b>135</b> |
| Amortisation, depreciation and write-downs                  | (70)       | (75)       |
| <b>Recurring EBIT<sup>(1)</sup></b>                         | <b>83</b>  | <b>60</b>  |
| <b>Recurring net profit<sup>(2)</sup></b>                   | <b>48</b>  | <b>28</b>  |
| Capital expenditure on tangible and intangible fixed assets | 54         | 60         |
| <b>Main Financial data</b>                                  |            |            |
| Net invested capital  | 425        | 532        |
| Shareholders' equity  | 288        | 287        |
| Total net financial indebtedness                            | 137        | 244        |

<sup>(1)</sup> The data reported do not include inventory gains (losses) of +25 million in 2017 (+45 million in 2016) and

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

TotalErg operates in the marketing sector via its Italy Network, comprising 2,519 stations (of which 1,638 are owned by the Group and 881 are leased), compared with 2,585 stations at 31 December 2016. You are hereby reminded that at the end of 2012, the network comprised 3,248 stations and that the decrease in sales outlets is due to the process for restructuring of the fuel network continued over the last few years, which led to the closure of outlets which have a low fuel turnover, the modernisation/automation of those owned which have a higher fuel turnover and the termination of contracts for third party stations which are not very profitable.

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

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

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

The recurring EBITDA of 2017 amounted to approximately EUR 153 million, markedly higher compared to the value recorded in 2016 (EUR 135 million).

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

In the Wholesale and Specialties businesses, the operating results for the period contracted.

With regard to refining, the results were higher than those recorded in the same period of the previous year as a result of increased refining margins (EMC indicator up from 2.3 \$/barrel to 3.0 \$/barrel); for logistics, the results of 2017 were lower than those recorded in the previous year.

In 2017, 1,615 thousand tonnes were processed, in line with 1,627 thousand tonnes in 2016.

The recurring net profit of 2017 (EUR 48 million) was significantly higher than that of the same period of 2016 (EUR 28 million), mainly for the reasons discussed above when commenting on the operating results; it also benefited from lower amortisation and depreciation and financial expenses.

The net financial position of TotalErg at 31 December 2017 amounted to EUR 137 million, down compared

to EUR 244 million at 31 December 2016, mainly as a result of the sale of the Restiani subsidiary.

### **TotalErg capital expenditure**

During 2017, TotalErg made capital expenditures of approximately EUR 54 million, slightly lower than in the same period in 2016 (EUR 60 million).

Most of the capital expenditure (approximately 77%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.) in addition to the activities tied to the optimisation and enhancement of the Rome logistical facility. A significant portion was also destined to Health, Safety and Environment maintenance and improvements.

## Scope of consolidation and business segments

Compared with 31 December 2016, the following is noted:

- ERG S.p.A.

ERG Power Generation S.p.A.

ERG Wind Investments Ltd.

ERG Wind holdings (Italy) 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.

ERG Wind Energy S.r.l.

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

ERG Eolica San Vincenzo S.r.l.

ERG Eolica San Ciro S.r.l.

ERG Eolica Faeto S.r.l.

ERG Eolica Tirreno S.r.l.

ERG Eolica Ginestra S.r.l.

ERG Eolica Basilicata S.r.l.

ERG Eolica Calabria S.r.l.

ERG Eolica Fossa del Lupo S.r.l.

Green Vicari S.r.l.

ERG Eolica Adriatica S.r.l.

ERG Eolica Campania S.p.A.

ERG Eolica Amaroni S.r.l.

EW Orneta 2 SP.Z O.O.

Blachy Pruszyński-Energia SP.Z O.O.

Hydro inwestycje SP.Z O.O.

Brockagbby Windfarm

ERG Wind France 1 S.A.S.

ERG Wind France 2 E.U.R.L.

CEPE PAYS DE MONTBELIARD S.N.C.

CEPE PAYS DE MURAT S.N.C.

CEPE PAYS DE SAINT FLORENTIN S.N.C.

Ferme Eolienne de Teterchen S.A.S.

Parc Eolien de Bois de l'Arche S.A.S.

Parc Eolien de Bois Bigot S.A.S.

ERG Eolienne France S.a.s.

Parc Eolien du Carreau S.a.s.

Parc Eolien de la Bruyère S.a.s.

Parc Eolien les Merdeaux S.a.s.

Parc Eolien de Lihus S.a.s.

Parc Eolien de Hetomesnil S.a.s.

Eoliennes du Vent Solaire S.a.s.

CSO ENERGY GMBH

CSO ENERGY S.A.R.L.

ERG WIND NEUNTE GMBH

ERG WIND PARK BETEILIGUNGS GMBH

Vollwerk Energy Park 8 GmbH & Co. KG

Vollwerk Windpark Wörzburg GmbH & Co. KG

Vollwerk Windpark Beesenstedt GmbH & Co. KG

Windpark Cottbuser Halde GmbH & Co. KG

Windpark Achmer Vinte GmbH & Co. KG

ERG WIND 117 (Frehe) GmbH & Co. KG

ERG WIND FRENCH HOLDING S.A.S.

Parc Eolien Chaude Vallée SARL

Parc Eolien de Morvillers SARL

SEPE Le Nouvion SAS

Parc Eolien de Garcelles Secqueville SAS

Parc Eolien Du Palis SAS

Parc Eolien Hauts Moulins SARL

Parc Eolien Moulins des Champs SARL

Parc Eolien St Riquier 1 SAS

IAS Société de exploitation du P.E. de la Souterrain

Parc Eolien de Oyre Saint Sauveur SAS

ERG WIND RE Beteiligungs GmbH

ERG WIND 105 GmbH & Co. KG

Parc Eolien de St Riquier 3 SAS

Parc Eolien de St Riquier 4 SAS

Cornù Eolian SA

ERG Wind Bulgaria S.p.A.

K&S Energy FOOD

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

VG-1 EOOD

VG-2 EOOD

VG-3 EOOD

VG-4 EOOD

VG-5 EOOD

VG-6 EOOD

Mark 1 EOOD

Mark 2 EOOD

ERG Power S.r.l.

ERG Hydro S.r.l.

TotalErg S.p.A. (1)

NON-PROGRAMMABLE BUSINESS

PROGRAMMABLE BUSINESS

INTEGRATED DOWNSTREAM

(1) consolidated at equity

## Financial Statements

### Income Statement

The income statement and the statement of financial position figures shown below **include non-recurring items**.

In addition, the results of the TotalErg equity investment and of Brockaghboy Windfarm Ltd in the Notes to the Consolidated Financial Statements are measured and posted in accordance with the IFRS 5.

For clearer disclosure, their respective results were posted and commented herein under ordinary operations.

For the reconciliation of these values please refer to the section "Alternative performance indicators". For additional details of the amounts tied to the measurement and recognition of the aforesaid results for IFRS 5 purposes, reference is made to Note 27 of the Consolidated Financial Statements.

| Reclassified Income Statement                              | Year           |                |
|--|----------------|----------------|
|  | 2017           | 2016           |
| <i>(EUR million)</i>                                       |                |                |
| Revenues from ordinary operations                          | 1,056.5        | 1,025.5        |
| Other revenues and income                                  | 10.6           | 16.3           |
| <b>TOTAL REVENUES</b>                                      | <b>1,067.0</b> | <b>1,041.8</b> |
| Costs for purchases and changes in inventory               | (355.8)        | (330.2)        |
| Costs for services and other operating costs               | (182.6)        | (196.0)        |
| Personnel costs  | (68.7)         | (62.3)         |
| <b>EBITDA</b>  | <b>459.9</b>   | <b>453.3</b>   |
| Amortisation, depreciation and write-downs of fixed assets | (252.2)        | (253.7)        |
| <b>EBIT</b>  | <b>207.7</b>   | <b>199.6</b>   |
| Net financial income (expenses)                            | (65.6)         | (83.9)         |
| Net income (loss) from equity investments                  | 98.4           | 37.7           |
| <b>Profit (loss) before taxes</b>                          | <b>240.5</b>   | <b>153.5</b>   |
| Income taxes   | (33.7)         | (28.7)         |
| <b>Profit (loss) for the period</b>                        | <b>206.8</b>   | <b>124.9</b>   |
| Minority interests   | 0.0            | (2.4)          |
| <b>Group's net profit (loss)</b>                           | <b>206.8</b>   | <b>122.5</b>   |

### Revenues from ordinary operations

Revenues in 2017 amount to EUR 1,056 million, slightly up compared to EUR 1,025 million in 2016. The change is a result of the following factors:

the increase of the **Wind power sector** tied mainly to a more favourable trend in prices and the change in the scope of consolidation as a result of the acquisition of the DIF Group companies, partially offset by lower output in Italy;

the increase in the revenues of the **Hydroelectric sector** as a consequence, mostly, of the higher average sale prices;

the **Thermoelectric sector** substantially in line with 2016, as a result of the loss of the entitlement to the "reintegration consideration", offset by the rise in the values of the Energy Efficiency Certificates and by the increase in electricity sale prices.

### Other revenues and income

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



### **Costs for purchases and changes in inventory**

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

In 2017, they amounted to EUR 356 million, up by EUR 26 million compared to 2016 mainly as a result of the higher costs for gas and electricity purchases.

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

### **Costs for services and other operating costs**

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, costs for hydroelectric concessions, for consulting services, insurance costs, and costs for services rendered by third parties.

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

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

### **Amortisation, depreciation and write-downs**

Amortisation and depreciation refer to the wind farms, to the hydroelectric plants and to the CCGT plant and they are slightly lower than those of the same period of 2016, mainly as a result of the end of the useful life of some components of the French wind farms, the revision of the useful life of the farms in France and Germany acquired in the first half of 2016, within the scope of the Purchase Price Allocation defined in the 2016 Financial Statements, the effects of which were offset in part by higher amortisation and depreciation due to the acquisition of the German wind farms which occurred in the second quarter of 2017 (for approximately EUR 4 million) and the start of operations of the Brockaghboy wind farm in Northern Ireland.

### **Net financial income (expenses)**

The year 2016 included non-recurring expenses for approximately EUR 8 million pertaining to the prepayment of the bank loan of the Romanian company Corni Eolian S.A. and the refinancing of Tranche A of the ERG Hydro acquisition loan.

Net of the non-recurring costs referred to above, net financial expenses at replacement cost 2016 were equal to EUR 76 million.

Net financial expenses totalled EUR 66 million in 2017, down significantly compared with EUR 76 million in 2016 net of non-recurring expenses. The decrease is due to higher cash management income and to the lower medium-long term interest payments due to the repayments that took place during the period and to the restructuring actions completed in 2016.

The effects related to financial restructuring enabled a reduction of the average cost of medium/long-term debt, which in 2017 amounted, on average, to 3.2%, compared to 3.4% in 2016 (excluding non-recurring expenses).

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

### **Net income (loss) from equity investments**

In 2017, the item includes mainly the results of the TotalErg joint venture recognised in accordance with IFRS 5 and in particular it takes into account the results of the first half of 2017, of the dividends distributed to ERG S.p.A. in the second half of 2017 and of the reversal of previous write-downs in consideration of the fair market value net of the expected selling costs.

Net of these items, in 2017 the entry includes write-downs (approximately EUR 1 million) of minor equity investments measured at cost.

In 2016, the item included income of EUR 11 million deriving from the fair value measurement of the liability relating to the option to sell the minorities of ERG Renew S.p.A.

### **Income taxes**

Income taxes in 2017 were EUR 34 million (EUR 29 million in 2016).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 14% (19% in 2016).

The recurring tax rate of 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 20% (22% in 2016).

The decrease in the tax rate is mainly tied to the benefit deriving from the reduction of the Italian IRES (Corporate tax) rate (24.0% from 1 January 2017, versus the rate of 27.5% applied in 2016) and to the

positive impact (approximately EUR 4 million) deriving from the reduction of the Corporate Income Tax in France (28% in 2017, versus 33% in 2016). This decrease was partly offset by the negative effect as a result of the change to the ACE (Aid to Economic Growth) rate (1.6% in 2017, versus 4.75% in 2016).

### Statement of Financial Position

In addition, the TotalErg equity investment and the net assets (assets and liabilities) of Brockaghboy Windfarm Ltd in the Notes to the Consolidated Financial Statements are measured and posted in accordance with IFRS 5. For clearer disclosure, their respective values were posted and commented herein in the ordinary items of the statement of financial position.

For additional details of the amounts tied to the measurement and recognition of the assets and liabilities for IFRS 5 purposes, further reference is made to Note 27 of the Consolidated Financial Statements.

| <b>Reclassified Statement of Financial Position</b> | <b>31/12/2017</b> | <b>31/12/2016</b> |
|---|-------------------|-------------------|
| <i>(EUR million)</i>                                |                   |                   |
| Fixed assets  | 3,260.8           | 3,372.2           |
| Net working capital                                 | 150.0             | 160.2             |
| Employees' severance indemnities                    | (6.4)             | (6.7)             |
| Other assets  | 278.7             | 310.1             |
| Other liabilities                                   | (573.0)           | (549.5)           |
| <b>Net invested capital</b>                         | <b>3,110.1</b>    | <b>3,286.3</b>    |
| Group Shareholders' Equity                          | 1,877.5           | 1,729.1           |
| Minority interests                                  | 0.0               | 0.0               |
| Net financial indebtedness                          | 1,232.7           | 1,557.2           |
| <b>Shareholders' equity and financial debt</b>      | <b>3,110.1</b>    | <b>3,286.3</b>    |

At 31 December 2017, net invested capital amounted to EUR 3,110 million, down with respect to 31 December 2016.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 40% (47% at 31 December 2016).

#### Fixed assets

This item includes tangible, intangible and financial fixed assets. The decrease compared to 31 December 2016 is mainly attributable to the amortisation/depreciation for the period, partly offset by the acquisition of the German wind farms carried out in the period and the capital expenditure relating to the construction of a wind farm in Northern Ireland, which started operations in the fourth quarter of 2017.

#### Net working capital

This balance includes the spare part inventories, the receivables mainly for green certificates on foreign companies, for the sale of electricity with the application of the feed-in premium, and the trade payables mainly regarding the purchase of electricity and gas, the maintenance of the wind farms and other trade payables.

#### Other assets

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

#### Other liabilities

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

## Net financial indebtedness

| Summary of the Group's indebtedness                           | 31/12/2017     | 31/12/2016     |
|---|----------------|----------------|
| (EUR million)   |                |                |
| Medium/long-term financial indebtedness                       | 1,788.7        | 1,934.1        |
| Short-term financial indebtedness (cash and cash equivalents) | (556.0)        | (376.9)        |
| <b>TOTAL</b>  | <b>1,232.7</b> | <b>1,557.2</b> |

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

| Medium/long-term financial indebtedness   | 31/12/2017         | 31/12/2016         |
|---|--------------------|--------------------|
| (EUR million)                             |                    |                    |
| Medium/long-term bank borrowings          | 670.6              | 668.4              |
| Current portion of mortgages and loans    | (58.6)             | 0.0                |
| Medium/long-term financial payables       | 205.9              | 141.9              |
| <b>Total</b>                              | <b>817.8</b>       | <b>810.4</b>       |
| <br>Total Project Financing               | <br>1,114.7        | <br>1,275.6        |
| Current portion of Project Financing      | (143.8)            | (151.9)            |
| <b>Medium/long-term Project Financing</b> | <b>970.9</b>       | <b>1,123.7</b>     |
| <br><b>TOTAL</b>                          | <br><b>1,788.7</b> | <br><b>1,934.1</b> |

The "Medium/long-term bank borrowings" at 31 December 2017 total EUR 671 million (EUR 668 million at 31 December 2016), and they refer to:

- a corporate acquisition loan of EUR 350 million, subscribed by seven mandated Italian and foreign lead arrangers and bookrunners concerning the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca Spa (EUR 150 million), UBI Banca Spa (EUR 100 million) and Unicredit Spa (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 59 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 142 million at 31 December 2016).
- liability deriving from the issue of the non convertible bond (EUR 99 million<sup>23</sup> at 31 December 2017) made in the third quarter 2017, directed at raising additional funds for new capital expenditure in the sector of renewable energies and to refinance the capital expenditure made on hydroelectric plants in Italy.

The payables for "Medium/long-term Project Financing" (EUR 1,115 million at 31 December 2017) are for:

- loans of EUR 1,052 million issued to companies in the Non-programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 427 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 64 million;
- EUR 62 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

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

With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing is measured at fair value. Said fair value was lower than the nominal value, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition.

<sup>23</sup> Net of ancillary costs, recognised with the amortised cost method

The difference between the positive fair value of the liability and its nominal value is consequently managed through the amortised cost method throughout the duration of the loan.

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

| <b>Short-term financial indebtedness (cash and cash equivalents)</b> | <b>31/12/2017</b> | <b>31/12/2016</b> |
|--|-------------------|-------------------|
| (EUR million)  |                   |                   |
| Short-term bank borrowings   | 83.0              | 2.3               |
| Current portion of mortgages and loans                               | 58.6              | 0.0               |
| Other short-term financial debts                                     | 1.7               | 3.8               |
| <b>Short-term financial liabilities</b>                              | <b>143.3</b>      | <b>6.0</b>        |
| Cash and cash equivalents  | (679.2)           | (263.3)           |
| Securities and other short-term financial receivables                | (28.8)            | (107.6)           |
| <b>Short-term financial assets</b>                                   | <b>(708.0)</b>    | <b>(370.9)</b>    |
| Short-term Project Financing   | 143.8             | 151.9             |
| Cash and cash equivalents  | (135.1)           | (163.9)           |
| <b>Project Financing</b>   | <b>8.7</b>        | <b>(12.0)</b>     |
| <b>TOTAL</b>   | <b>(556.0)</b>    | <b>(376.9)</b>    |

The amount of cash and cash equivalents increased in 2017 mainly as a result of the collections relating to receivables for feed-in premium relating to the first half of 2017 and to the Energy Efficiency Certificates relating to 2016, of the dividends distributed by TotalErg (EUR 71 million) and of the collection of the advance payment from the api group within the TotalErg sale, as well as the cash flow of the period.

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

Short-term bank borrowings include short-term credit lines amounting to approximately EUR 80 million in ERG S.p.A.

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

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

|   | Year           |                |
|---|----------------|----------------|
|   | 2017           | 2016           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                    |                |                |
| (EUR million)   |                |                |
| Adjusted cash flow from current operations <sup>(1)</sup>       | 402.1          | 381.3          |
| Income taxes paid   | (23.2)         | (14.2)         |
| Change in working capital                                       | 13.2           | 69.5           |
| Change in other operating assets and liabilities                | 8.1            | (34.3)         |
| <b>TOTAL</b>  | <b>400.3</b>   | <b>402.3</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                    |                |                |
| Net capital expenditure on tangible and intangible fixed assets | (55.6)         | (55.9)         |
| Net capital expenditure in financial fixed assets               | (7.4)          | (0.1)          |
| TotalErg Transaction <sup>(2)</sup>                             | 85.2           | 0.0            |
| <b>Total</b>  | <b>22.2</b>    | <b>(56.1)</b>  |
| <b>CASH FLOW FROM SHAREHOLDERS' EQUITY:</b>                     |                |                |
| Distributed dividends   | (74.4)         | (142.8)        |
| Other changes in equity <sup>(3)</sup>                          | 15.9           | (6.2)          |
| <b>Total</b>  | <b>(58.5)</b>  | <b>(149.0)</b> |
| <b>CHANGE IN SCOPE OF CONSOLIDATION <sup>(4)</sup></b>          | <b>(39.5)</b>  | <b>(306.5)</b> |
| <b>CHANGE IN NET FINANCIAL INDEBTEDNESS</b>                     | <b>324.5</b>   | <b>(109.3)</b> |
| <b>INITIAL NET FINANCIAL INDEBTEDNESS</b>                       | <b>1,557.2</b> | <b>1,447.9</b> |
| <b>CHANGE IN THE YEAR</b>                                       | <b>(324.5)</b> | <b>109.3</b>   |
| <b>FINAL NET FINANCIAL INDEBTEDNESS</b>                         | <b>1,232.7</b> | <b>1,557.2</b> |

<sup>(5)</sup> the item does not include inventory gains (losses) and current income tax for the year.

<sup>(6)</sup> includes the dividends distributed by TotalErg S.p.A. in 2017 (EUR 71 million of which EUR 20 million distributed in May 2017 and EUR 51 million distributed in October 2017) and the advance payment made by the api group within the scope of the sale of the equity investment in TotalErg

<sup>(7)</sup> the other changes in shareholders' equity mainly refer to the changes in the cash flow hedge reserve linked to the financial derivatives

<sup>(8)</sup> the change in the scope of consolidation in 2017 refers to the line-by-line consolidation of the German companies acquired from the DIF RE Group. The figures relating to 2016 refer mainly to the line-by-line consolidation of the companies acquired from Impax Asset Management.

**Net financial indebtedness** amounted to EUR 1,233 million, down by EUR 325 million compared to 31 December 2016 mainly due to the positive operating cash flows, to the dividends received distributed by TotalErg (EUR 71 million), to collection of the advance payment from the api group within the scope of the sale of TotalErg (EUR 14 million), and to collection of the UESSE reintegration consideration (EUR 22 million)<sup>24</sup> which offset the impacts of the acquisition of the German wind farms from the DIF Group (EUR 40 million), the distribution of dividends (EUR 74 million), the payment of taxes (EUR 23 million), and the capital expenditure in the period (EUR 54 million).

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

### **Alternative performance indicators**

To enhance understandability of business performance, the operating results are also shown excluding non-recurring items and **inventory gains (losses)**<sup>25</sup>.

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

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

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

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

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

**Inventory gains (losses)**<sup>21</sup> are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the year.

### **TotalErg Transaction - IFRS 5**

With reference to the TotalErg transaction, already commented in the Introduction and in the Significant Events, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the investee are recognised in accordance with IFRS 5.

For the purposes of clearer disclosure, the TotalErg results of ordinary operations are shown and commented on in the line Income (loss) from equity investments in this Report and in the Report on operations 2017, recognising their recurring contribution for the entire year 2017.

### **Brockaghboy Windfarm Ltd – IFRS 5**

With reference to the Brockaghboy Windfarm Ltd transaction, already commented in the Introduction, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the assets being sold are indicated separately in accordance with IFRS 5.

For clearer disclosure, the results of the assets being sold are shown and commented under ordinary operations in this Report and in the Report on operations 2017.

---

<sup>24</sup> In the fourth quarter of 2017, EUR 13 million were collected as settlement of 2015 and EUR 9 million as the second advance payment of 2016.

<sup>25</sup> Inventory gains and losses refer solely to the “income from equity investment” and refer to the TotalErg joint venture



## Reconciliation with recurring operating results

|  | Year         |              |
|--|--------------|--------------|
|  | 2017         | 2016         |
| <b>EBITDA</b>  |              |              |
| <b>EBITDA from Continuing Operations</b>                                   | <b>457.6</b> | <b>453.3</b> |
| <i>Contribution of Discontinuing operation (Brockaghboy)</i>               | <i>2.3</i>   | <i>0.0</i>   |
| <b>EBITDA IAS Reported</b>   | <b>459.9</b> | <b>453.3</b> |
| <i>Exclusion of non-recurring items:</i>                                   |              |              |
| <b>Corporate</b>   |              |              |
| - Reversal of ancillary charges on extraordinary operations <sup>(1)</sup> | 12.0         | 0.0          |
| <b>Programmable sources</b>  |              |              |
| - Charges for company reorganisation                                       | 0.0          | 0.3          |
| - Reversal of ancillary charges on extraordinary operations <sup>(1)</sup> | 0.3          | 0.0          |
| <b>Non-programmable sources</b>  |              |              |
| - Charges for company reorganisation                                       | 0.0          | 0.9          |
| - Reversal of ancillary charges on extraordinary operations <sup>(1)</sup> | 0.1          | 0.9          |
| <b>Recurring EBITDA</b>  | <b>472.3</b> | <b>455.4</b> |

|   | Year           |                |
|---|----------------|----------------|
|   | 2017           | 2016           |
| <b>AMORTISATION, DEPRECIATION AND WRITE-DOWNS</b>             |                |                |
| <b>Amortisation and depreciation on continuing operations</b> | <b>(250.9)</b> | <b>(253.7)</b> |
| <i>Contribution of Discontinuing operation (Brockaghboy)</i>  | <i>(1.3)</i>   | <i>0.0</i>     |
| <b>Amortisation, depreciation and write-downs</b>             | <b>(252.2)</b> | <b>(253.7)</b> |
| <i>Exclusion of non-recurring items:</i>                      |                |                |
| - Non-recurring items   | 0.0            | 0.0            |
| <b>Recurring amortisation and depreciation</b>                | <b>(252.2)</b> | <b>(253.7)</b> |

(1) reversal of ancillary expenses relating to special projects

| <b>GROUP'S NET PROFIT (LOSS)</b>  | <b>Year</b>   |               |
|---|---------------|---------------|
|   | <b>2017</b>   | <b>2016</b>   |
| <b>Group's net profit (loss) in the Consolidated Financial Statements</b> | <b>206.8</b>  | <b>122.5</b>  |
| <i>Exclusion of IFRS 5 effects (TotalErg) <sup>(1)</sup></i>              | <i>(99.0)</i> | <i>0.0</i>    |
| <i>51% contribution of TotalErg IAS Reported <sup>(2)</sup></i>           | <i>72.3</i>   | <i>0.0</i>    |
| <b>Group's net profit (loss)</b>  | <b>180.2</b>  | <b>122.5</b>  |
| <i>Exclusion of inventory Gains/Losses</i>                                | <i>(9.1)</i>  | <i>(15.7)</i> |
| <b>Exclusion of non-recurring items:</b>                                  |               |               |
| <i>Exclusion of ancillary charges on extraordinary operations</i>         | <i>9.3</i>    | <i>0.8</i>    |
| <i>Exclusion of TotalErg non-recurring items <sup>(3)</sup></i>           | <i>(38.8)</i> | <i>4.1</i>    |
| <i>Exclusion of effects of loan prepayment</i>                            | <i>0.0</i>    | <i>5.9</i>    |
| <i>Exclusion of charges for company reorganisation</i>                    | <i>0.0</i>    | <i>0.8</i>    |
| <i>Exclusion of financial expenses/income on minorities option</i>        | <i>0.0</i>    | <i>(11.0)</i> |
| <b>Recurring Group net profit (loss)</b>                                  | <b>141.6</b>  | <b>107.3</b>  |

<sup>(5)</sup> reversal of the effects tied to the application of IFRS 5. For additional details, please see the following section "TotalErg Transaction - IFRS 5".

<sup>(6)</sup> for the purposes of the present Report and of the Report on operations 2017, for clearer exposure, it was deemed appropriate to represent the contribution of TotalErg in continuity for the entire year 2017, without considering the effects of the application of IFRS 5 as commented above.

<sup>(7)</sup> reversal of ancillary expenses relating to special projects net of the related tax effects

<sup>(8)</sup> capital gain relating to the Totalgaz Italia S.r.l. sale, a subsidiary of TotalErg S.p.A. that markets LPG, which was sold to 5 October 2017 to UGI Italia S.r.l.

### TotalErg Transaction - IFRS 5

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 closed on **10 January 2018**, following the approval of the Antitrust and the completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with

reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The consideration for the sale of the assets is EUR 194 million, of which EUR 14 million were already collected as advance payment in 2017, EUR 144 million were collected in 2018 at the time of the closing and EUR 36 million as a deferred component regulated by a *vendor loan agreement* with maturity at 5 and one half years, entered into with api S.p.A.

The total equity value of the transaction amounts to EUR 273 million that includes, in addition to the aforesaid consideration, also the extraordinary dividends distributed 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 to be accrued within the scope of the vendor loan agreement and the related tax effects.

Already starting from the “Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017”, the equity investment has been recognised and indicated in application of the requirements of IFRS 5.

Application of this Standard in the Consolidated Financial Statements entailed:

- at the date of first classification of the equity investment as held for sale (30 June 2017), the Group ceased to apply the equity method to recognise the equity investment to be sold. The book value as at 30 June 2017 amounted to EUR 142.9 million including the result of the first half of 2017, recognised in the income statement, was EUR 12 million.
- comparison of the book value as determined with the previously commented sale price (EUR 194 million) net of the related expenses (EUR 15 million). This comparison shows a partial reversal of previous write-downs, amounting to EUR 37 million, with positive offsetting entry in the income statement.
- the recognition in the income statement of the dividends distributed by TotalErg S.p.A. to ERG S.p.A. after 30 June 2017, amounting to EUR 51 million.

Overall, the application of the above entailed, in the 2017 Consolidated Financial Statements, the recognition of the equity investment under “Assets held for sale” at the value of EUR 179.5 million (sale price net of the related expenses) and the recognition of income amounting to EUR 99 million under “Net profit from discontinuing operations”.

The reconciliation of the statements posted and commented in this Report and in the Report on operations 2017 with the values indicated in the Notes to the Consolidated Financial Statements and the reconciliation to the recurring values is provided below.

## Reclassified Income Statement

| (EUR million)  | Values in the Consolidated Financial Statements | Reversal of TotalErg IFRS 5 reclassifications | Reversal of Brockaghboy (UK) IFRS 5 reclassifications | Values indicated in the Report on Operations (IAS Reported) | Reversal of ancillary charges on special projects | Reversal of TotalErg IFRS 5 effect | Consolidated ERG IAS recurring |
|--|---|---|---|---|---|------------------------------------|--------------------------------|
| Revenues from ordinary operations                          | 1,053.6   | -   | 2.9   | 1,056.5   | -   | -                                  | 1,056.5                        |
| Other revenues and income                                  | 10.6  | -   | -   | 10.6  | -   | -                                  | 10.6                           |
| <b>Total revenues</b>                                      | <b>1,064.1</b>                                  | <b>-</b>                                      | <b>2.9</b>  | <b>1,067.0</b>  | <b>-</b>  | <b>-</b>                           | <b>1,067.0</b>                 |
| Costs for purchases  | (355.2)   | -   | -   | (355.2)   | -   | -                                  | (355.2)                        |
| Changes in inventories                                     | (0.6)   | -   | -   | (0.6)   | -   | -                                  | (0.6)                          |
| Costs for services and other operating costs               | (182.0)   | -   | (0.6)   | (182.6)   | 7.1   | -                                  | (175.5)                        |
| Personnel costs  | (68.7)  | -   | -   | (68.7)  | 5.3   | -                                  | (63.4)                         |
| <b>EBITDA</b>  | <b>457.6</b>                                    | <b>-</b>                                      | <b>2.3</b>  | <b>459.9</b>  | <b>12.4</b>                                       | <b>-</b>                           | <b>472.3</b>                   |
| Amortisation, depreciation and write-downs of fixed assets | (250.9)   | -   | (1.3)   | (252.2)   | -   | -                                  | (252.2)                        |
| <b>EBIT</b>  | <b>206.7</b>                                    | <b>-</b>                                      | <b>1.1</b>  | <b>207.7</b>  | <b>12.4</b>                                       | <b>-</b>                           | <b>220.1</b>                   |
| Net financial income (expenses)                            | (65.3)  | -   | (0.3)   | (65.6)  | -   | -                                  | (65.6)                         |
| Net income (loss) from equity investments                  | (1.2)   | 99.6  | -   | 98.4  | -   | (75.1)                             | 23.3                           |
| <b>Profit (loss) before taxes</b>                          | <b>140.2</b>                                    | <b>99.6</b>                                   | <b>0.8</b>  | <b>240.5</b>  | <b>12.4</b>                                       | <b>(75.1)</b>                      | <b>177.8</b>                   |
| Income taxes   | (33.0)  | (0.6)   | (0.1)   | (33.7)  | (3.1)   | 0.6                                | (36.2)                         |
| <b>Profit (loss) before minority interests</b>             | <b>107.2</b>                                    | <b>99.0</b>                                   | <b>0.6</b>  | <b>206.8</b>  | <b>9.3</b>  | <b>(74.5)</b>                      | <b>141.6</b>                   |
| Net profit (loss) from assets held for sale                | 99.6  | (99.0)  | (0.6)   | (0.0)   | -   | -                                  | (0.0)                          |
| <b>Net profit (loss) for the year</b>                      | <b>206.8</b>                                    | <b>-</b>                                      | <b>-</b>  | <b>206.8</b>  | <b>9.3</b>  | <b>(74.5)</b>                      | <b>141.6</b>                   |
| Minority interests   | -   | -   | -   | -   | -   | -                                  | -                              |
| <b>Group share of net profit</b>                           | <b>206.8</b>                                    | <b>-</b>                                      | <b>-</b>  | <b>206.8</b>  | <b>9.3</b>  | <b>(74.5)</b>                      | <b>141.6</b>                   |

According to IFRS the write off of the no recurring items related to “TotalErg Transaction” includes the following:

- write off of the dividends paid by TotalERG S.p.A. to ERG S.p.A. after 30th June 2017 (-51 millions)
- write off of the reversal of previous impairment losses (-37 millions)
- results *IAS reported* relating to second half of TotalErg S.p.A (+60 millions)
- write off of the no recurring items of Totalerg relating to full year 2017 (-48 millions)

## Reclassified Statement of Financial Position

| (EUR million)  | Values in the Consolidated Financial Statement | Reversal of TotalErg IFRS 5 reclassification | Reversal of Brockaghboy IFRS 5 reclassification | Values in Report of Operations |
|--|--|--|---|--------------------------------|
| Fixed Assets   | 3,004  | 180  | 77  | 3,261                          |
| Net working capital                                  | 149  | -  | 1   | 150                            |
| Employees' several indemnities                       | (6)  | -  | -   | (6)                            |
| Other assets   | 278  | -  | 1   | 279                            |
| Other liabilities                                    | (572)  | -  | (1)   | (573)                          |
| <b>Net invested capital continued operations</b>     | <b>2,853</b>                                   | <b>180</b>                                   | <b>78</b>                                       | <b>3,110</b>                   |
| Net invested capital discontinued operations         | 258  | (180)  | (78)  | 0                              |
| <b>Net invested capital</b>                          | <b>3,110</b>                                   | <b>-</b>                                     | <b>(0)</b>                                      | <b>3,110</b>                   |
| Group Shareholders' equity                           | 1,877  | -  | -   | 1,877                          |
| Net Financial indebtness                             | 1,234  | -  | (1)   | 1,233                          |
| Net financial indebtness discontinued operations     | (1)  | -  | 1   | 0                              |
| <b>Shareholders' equity and financial indebtness</b> | <b>3,110</b>                                   | <b>-</b>                                     | <b>(0)</b>                                      | <b>3,110</b>                   |

## Significant events after the reporting period

**10 January 2018** marked the closing, with the api group, of the sale of 51% of the shares of TotalErg S.p.A., a company active in the distribution of oil products and in refinement, as well as the closing, with Total Marketing Services S.A., of the sale of the group's own share (51%) in the company Total Italia S.r.l., owner of the business unit relating to the lubricants sector, previously held by TotalErg S.p.A.

The transaction was completed following approval by the competent Antitrust Authority and completion of the split of the aforesaid business unit of TotalErg S.p.A. in favour of Total Italia S.r.l.

This step represents the successful completion of a complex transaction that marks the definitive exit of the ERG Group from the OIL world, further strengthening its financial capacity to continue on the path to growth in Renewable energy sources.

On **12 January 2018** ERG, through its subsidiary ERG Power Generation S.p.A., completed the acquisition from VEI Green S.r.l., an investment holding company controlled by PFH S.p.A. that is an investee of primary Italian institutional investors, of 100% of ForVei S.r.l., the ninth photovoltaic operator in Italy with a total installed capacity of 89 MW.

The transaction, which obtained the authorisation of the Antitrust authority and the approval of the financing banks, marks ERG's entry into the solar sector and represents an additional important component in the strategy of technological diversification in electricity generation from renewable sources.

On **12 January 2018** ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, executed an agreement with the Vortex Energy group for 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 estimated generation, at steady state, of approximately 50 GWh per year, equivalent to approximately 39 kT of CO2 emissions avoided.

The project has already obtained authorisation for construction and will participate in the auction procedures in 2018. The estimated investment for construction of the farm is approximately EUR 30 million, already including the consideration paid for the purchase of the shares of the company.

The future construction of the farm, which will be located in proximity to other wind farms of ERG, which already owns 216 MW in operations in Germany, is a part of the growth strategy that leverages the capitalisation of its own industrial competencies in the development, engineering and construction activities.

On **7 March 2018** ERG approved the 2018-2022 strategic plan. After completing the industrial transformation path in 2017, having left the Oil business and having taken an important step in technological diversification with the acquisition of 89 MW in the solar segment, ERG became a primary independent producer of electricity from renewable sources. ERG's objective in the 2018-2022 time interval is to increase the installed capacity by approximately 850 MW through 3 channels: Greenfield and co-Development, Repowering and Reblading in Italy and M&A. Total capital expenditure in the 2018-2020 time interval amounts to EUR 1.68 billion.

On **7 March 2018** ERG has completed the sale to Greencoat UK Wind PLC, a London Stock Exchange listed company specialising in investments in renewables, of a 100% equity interest in Brockaghboy Windfarm Ltd ("BWF"), an Northern Irish company owner of the 47.5 MW Brockaghboy wind farm constructed in Northern Ireland, in the county of Londonderry, by ERG and TCI Renewables Ltd.



## **Business outlook**

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

### **Non-programmable sources**

With regard to the Wind business in Italy, the EBITDA is expected to decline as a result of the departure of approximately 214 MW from the incentive system in 2017 and of the progressive departure of an additional 72 MW in 2018; this decrease is also due to the lower price of the incentive for 2018, whose value is determined on the basis of the average price of electricity recorded in 2017 with a decrease of approximately 8 EUR/MWh on incentivised generation.

The EBITDA of the Wind business abroad is expected to decrease compared to 2017 as a result of the reduction of the incentive in Romania to only one green certificate, and following the sale of the subsidiary Brockaghboy Windfarm Ltd, completed on 7 March 2018.

In general, the total EBITDA of the Wind business is thus expected to decline; this effect is mostly offset by the entry into the Solar business through the acquisition of 100% of ForVei S.r.l., the ninth photovoltaic operator in Italy with a total installed capacity of 89 MW whose impact in terms of EBITDA is estimated at approximately EUR 35 million.

Overall, the result of Non-Programmable Sources (Wind and Solar) is expected to be lower than in 2017.

### **Programmable sources**

With regard to the Hydroelectric business, results are expected to grow thanks to a forecast of higher output than in 2017, which was significantly below the historical averages; this effect is partially offset by the lower price of the incentive provided for approximately 40% of output and by the non-repetition of the revenues obtained in 2017, i.e. EUR 8 million relating to the recovery of previously accrued incentives.

For the Thermoelectric power plant, slightly lower results are forecast, mainly as a result of the effect of an expected decline in generation margins with respect to the particularly positive values of 2017.

Overall, the contribution of Programmable sources is expected to rise compared to 2017.

For 2018, therefore, the Group's EBITDA is expected to grow slightly to approximately EUR 475 million. The effects of the reduction of the incentivised scope in the Wind business in Italy, and of the lower price of the incentive, are offset by the contribution of the new solar asset and by a forecast of higher hydroelectric output than in the previous year.

ERG's generation of operating cash associated with the amounts collected as a result of the sale of TotalErg and of Brockaghboy Windfarm Ltd, totally about EUR 290 million, will make it possible to absorb the acquisition of ForVei of approximately EUR 337 million, the new development investments expected to amount to approximately EUR 100 million and the distribution of the dividend of approximately 170 million (EUR 1.15 per share). Overall, therefore, debt is expected to be substantially in line with that of 2017, i.e. approximately EUR 1,260 million (EUR 1,233 million at 31 December 2017).

### **Risks and uncertainties facing the business outlook**

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