INTERIM MANAGEMENT REPORT

AT 30 SEPTEMBER 2018

ERG

EVOLVING ENERGIES

1938
201∞

QUARTERLY DISCLOSURE

On 23 February 2017, the Board of Directors of ERG S.p.A. resolved, pursuant to Article 82-ter of the Issuers Regulations, to continue to voluntarily draft interim management reports at 31 March and 30 September), in line with the contents of the previous interim management reports, in compliance with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRS), which will be approved and subsequently published on an ongoing basis with the disclosures provided to the market up until now, i.e. within 45 days of the close of the first and third quarters of the year.

Unless otherwise indicated, the amounts included in the Interim Management Report are expressed in euros.

Disclosure pursuant to Articles 70 and 71 of the Issuers Regulations

The Parent 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 increases by contributions in kind, acquisitions and sales.

Alternative Performance Indicators (APIs) and adjusted results

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

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

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

Finally, in order to enhance an understanding of the business segments' performance, the operating results are shown excluding special income items: these results are indicated with the term "**Adjusted results**".

A definition of the indicators and the reconciliation of the amounts involved, are provides in the "Alternative Performance Indicators" section.

Restated comparative data

- The sale of **TotalErg** on 10 January 2018 marked the ERG Group's definitive exit from the OIL industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same period of 2017 is therefore affected by this change in scope. As such, in order to enhance an understanding of the Group's performance and comparability of results in the two periods and in view of its new strategic and industrial positioning, comparative figures for the corresponding period of 2017 were restated so as to exclude the adjusted results[1] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In the first nine months of 2017, this contribution was a positive EUR 25 million (EUR +24 million for the whole of 2017).
- **IFRS 15 – Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant impact on the Group's consolidated financial statements. In particular, for some contracts, ERG is identified as an "agent", requiring revenue to be presented at its net value to show only the brokerage margin.

MAIN INCOME STATEMENT DATA

	First nine months 2017	TotalErg deconsolidation	IFRS 15 reclassifications	First nine months 2017 restated
Revenue from sales and services	765	0	(7)	759
Adjusted EBITDA	**356**	**0**	**0**	**356**
Adjusted EBIT	**168**	**(0)**	**0**	**168**
Profit	114	(26)	0	88
of which attributable to the owners of the parent	*114*	*(26)*	*0*	*88*
Adjusted profit attributable to the owners of the parent	**113**	**(25)**	**0**	**88**

Segment reporting

Operating results are presented and commented on with reference to the various production technologies, in line with the Group's internal performance measurement methods.

The results by business also reflect the energy sales on markets by Group Energy Management, in addition to the adoption of effective hedges of the generation margin. The above mentioned hedges include, inter alia, the use of instruments by the Energy Management department to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, the wind and hydroelectric power results include the hedges carried out in relation to renewable sources ("RES") and the thermoelectric results include the hedges on the "spark spread".

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

Risks and uncertainties in relation to the business outlook

With reference to the estimates and forecasts contained in this document, and in particular in the section "Business outlook", it should be noted that the actual results may differ from those announced due to a number of factors, including: future price trends, the operating performances of plants, wind conditions, water availability, irradiation, the impact of energy industry and environmental regulations, and other changes in business conditions and competitors' actions.

CONTENTS

CORPORATE BODIES

BOARD OF DIRECTORS [2]

Chairman
EDOARDO GARRONE *(executive)*

Deputy Chairman
ALESSANDRO GARRONE *(executive)* [3]
GIOVANNI MONDINI *(non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(independent)* [4]
MARA ANNA RITA CAVERNI *(independent)* [5]
BARBARA COMINELLI *(independent)* [5]
MARCO COSTAGUTA *(non-executive)*
PAOLO FRANCESCO LANZONI *(independent)* [4]
SILVIA MERLO *(independent)* [5]
ELISABETTA OLIVERI *(independent)* [5]
MARIO PATERLINI *(independent)* [5]

BOARD OF STATUTORY AUDITORS [6]

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

MANAGER IN CHARGE OF FINANCIAL REPORTING (ITALIAN LAW NO. 262/05)

PAOLO LUIGI MERLI

INDEPENDENT AUDITORS

KPMG S.p.A. [7]

2 Board of Directors appointed on 23 April 2018.
3 Director in charge of the Internal Control and Risk Management System.
4 With reference to the provisions of Article 148, paragraph 3 (Or: article 148.3), of the Italian Consolidated Finance Act.
5 With reference to the provisions of Article 148, paragraph 3 (Or: article 148.3), of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.
6 Board of Statutory Auditors appointed on 3 May 2016.
7 Appointed on 23 April 2018 for the period 2018-2026 replacing Deloitte&Touche S.p.A.

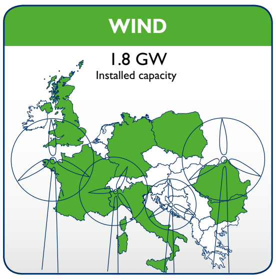
BUSINESS DESCRIPTION

In 2017, the ERG Group completed a radical transformation process, evolving from a leading Italian private oil operator to a major independent operator in the production of energy from renewable sources (wind, solar, hydroelectric and high-efficiency cogeneration thermoelectric). It also expanded abroad, increasing its presence on the French and German wind markets.

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

- centralised Energy Management activities for all the generation technologies in which the ERG Group operates;
- the Operation & Maintenance activities of its Italian wind farms and part of the plants in France and Germany, as well as the power plants of the Terni Hydroelectric Complex and the CCGT plant. It provides technical and administrative services in France and Germany for both group companies and third parties through its foreign subsidiaries.

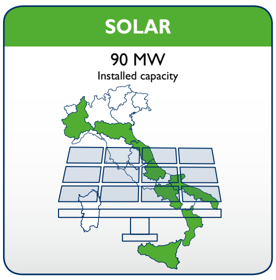
ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



Wind

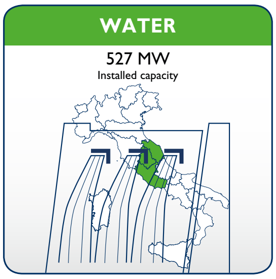
ERG is active in the generation of electricity from wind sources, with 1,791 MW of installed power at 30 September 2018. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (698 MW operational), mainly in France (276 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).



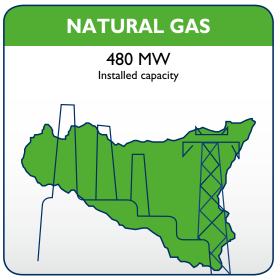
Solar

As from January 2018, ERG is active in the generation of electricity from solar sources, with an installed capacity of 90 MW, through 31 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy.



Hydroelectric

ERG is active in 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, located in Umbria, Marche and Lazio, with a capacity of 527 MW.



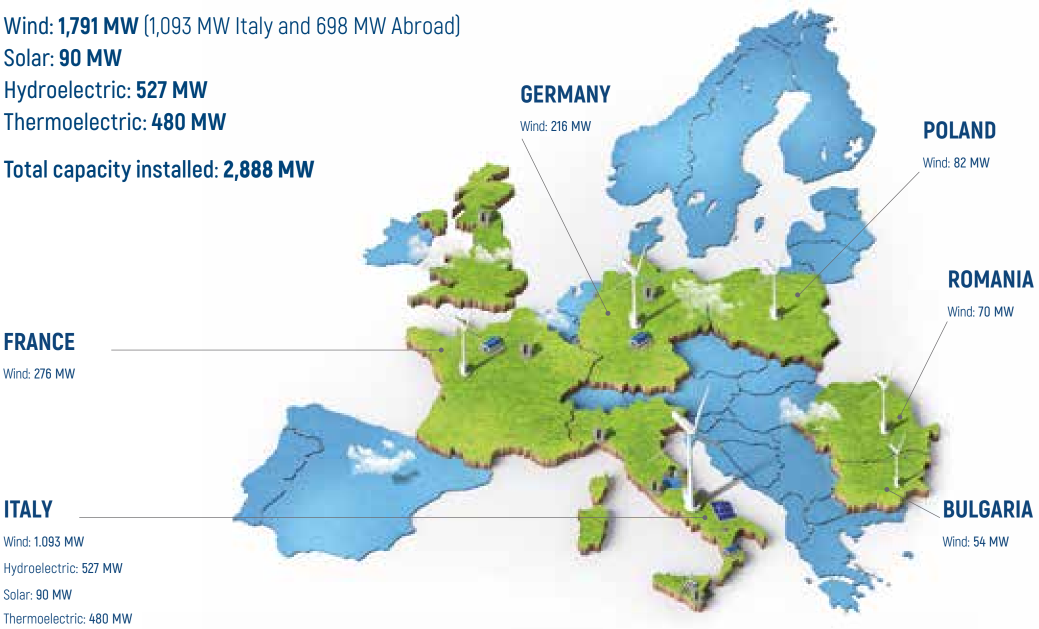
Thermoelectric

ERG is active in the generation of electricity from thermoelectric sources through the CCGT "Centrale Nord" plant (480 MW) at the industrial site in Priolo Gargallo, Syracuse, Sicily. This is a high-efficiency cogeneration plant (HEC), which uses combined cycle technology fuelled with natural gas. It came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities.

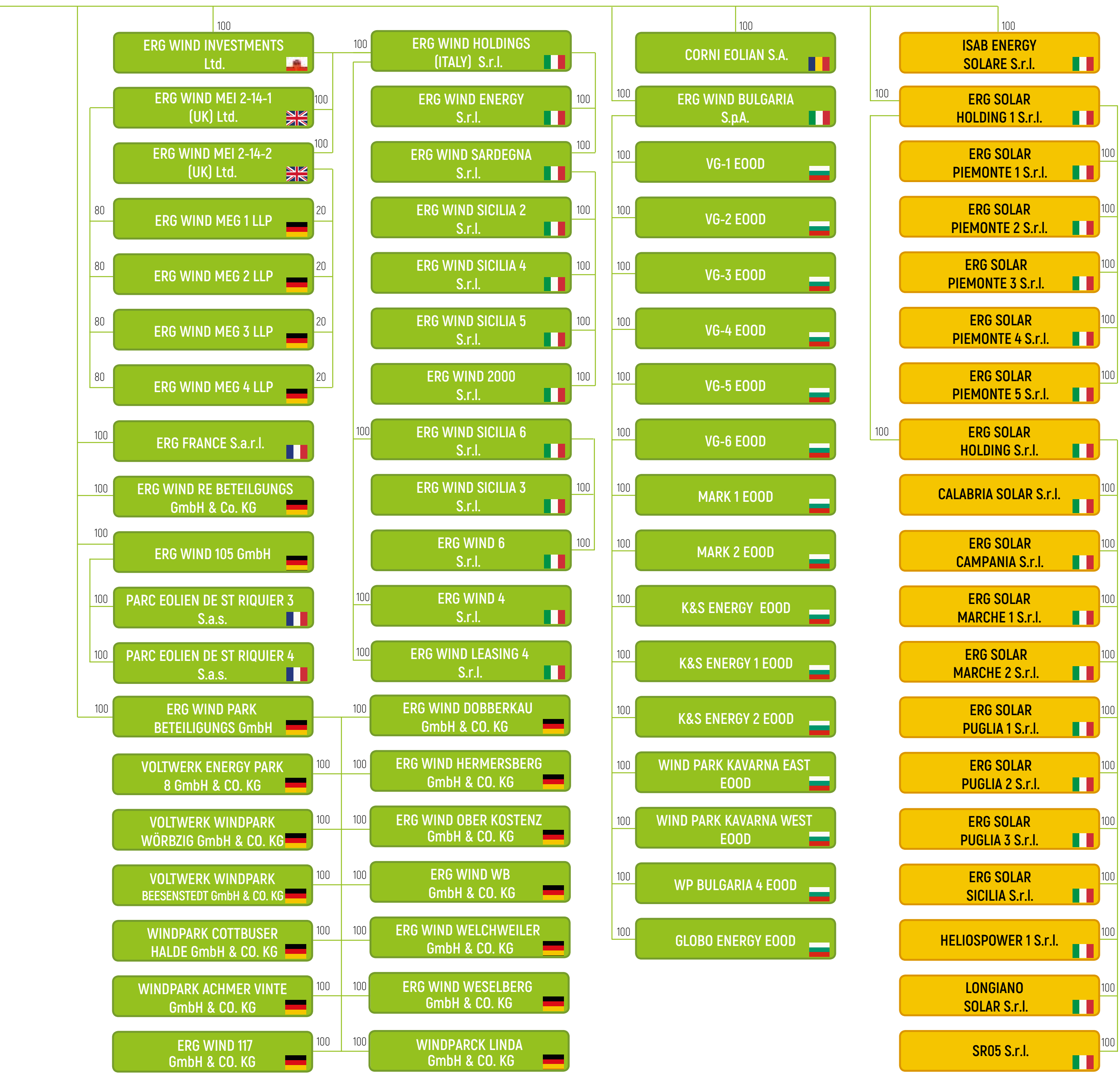
GEOGRAPHICAL SEGMENTS AT 30 SEPTEMBER 2018

Wind: **1,791 MW** (1,093 MW Italy and 698 MW Abroad)
Solar: **90 MW**
Hydroelectric: **527 MW**
Thermoelectric: **480 MW**

Total capacity installed: **2,888 MW**



CONSOLIDATION SCOPE AT 30 SEPTEMBER 2018



ERG WIND INVESTMENTS Ltd.
ERG WIND MEI 2-14-1 (UK) Ltd.
ERG WIND MEI 2-14-2 (UK) Ltd.
ERG WIND MEG 1 LLP
ERG WIND MEG 2 LLP
ERG WIND MEG 3 LLP
ERG WIND MEG 4 LLP
ERG FRANCE S.a.r.l.
ERG WIND RE BETEILGUNGS GmbH & Co. KG
ERG WIND 105 GmbH
PARC EOLIEN DE ST RIQUIER 3 S.a.s.
PARC EOLIEN DE ST RIQUIER 4 S.a.s.
ERG WIND PARK BETEILIGUNGS GmbH
VOLTWERK ENERGY PARK 8 GmbH & CO. KG
VOLTWERK WINDPARK WÖRBZIG GmbH & CO. KG
VOLTWERK WINDPARK BEESENSTEDT GmbH & CO. KG
WINDPARK COTTBUSER HALDE GmbH & CO. KG
WINDPARK ACHMER VINTE GmbH & CO. KG
ERG WIND 117 GmbH & CO. KG
ERG WIND HOLDINGS (ITALY) S.r.l.
ERG WIND ENERGY S.r.l.
ERG WIND SARDEGNA S.r.l.
ERG WIND SICILIA 2 S.r.l.
ERG WIND SICILIA 4 S.r.l.
ERG WIND SICILIA 5 S.r.l.
ERG WIND 2000 S.r.l.
ERG WIND SICILIA 6 S.r.l.
ERG WIND SICILIA 3 S.r.l.
ERG WIND 6 S.r.l.
ERG WIND 4 S.r.l.
ERG WIND LEASING 4 S.r.l.
ERG WIND DOBBERKAU GmbH & CO. KG
ERG WIND HERMERSBERG GmbH & CO. KG
ERG WIND OBER KOSTENZ GmbH & CO. KG
ERG WIND WB GmbH & CO. KG
ERG WIND WELCHWEILER GmbH & CO. KG
ERG WIND WESELBERG GmbH & CO. KG
WINDPARCK LINDA GmbH & CO. KG
CORNI EOLIAN S.A.
ERG WIND BULGARIA S.pA.
VG-1 EOOD
VG-2 EOOD
VG-3 EOOD
VG-4 EOOD
VG-5 EOOD
VG-6 EOOD
MARK 1 EOOD
MARK 2 EOOD
K&S ENERGY EOOD
K&S ENERGY 1 EOOD
K&S ENERGY 2 EOOD
WIND PARK KAVARNA EAST EOOD
WIND PARK KAVARNA WEST EOOD
WP BULGARIA 4 EOOD
GLOBO ENERGY EOOD
ISAB ENERGY SOLARE S.r.l.
ERG SOLAR HOLDING 1 S.r.l.
ERG SOLAR PIEMONTE 1 S.r.l.
ERG SOLAR PIEMONTE 2 S.r.l.
ERG SOLAR PIEMONTE 3 S.r.l.
ERG SOLAR PIEMONTE 4 S.r.l.
ERG SOLAR PIEMONTE 5 S.r.l.
ERG SOLAR HOLDING S.r.l.
CALABRIA SOLAR S.r.l.
ERG SOLAR CAMPANIA S.r.l.
ERG SOLAR MARCHE 1 S.r.l.
ERG SOLAR MARCHE 2 S.r.l.
ERG SOLAR PUGLIA 1 S.r.l.
ERG SOLAR PUGLIA 2 S.r.l.
ERG SOLAR PUGLIA 3 S.r.l.
ERG SOLAR SICILIA S.r.l.
HELIOSPOWER 1 S.r.l.
LONGIANO SOLAR S.r.l.
SR05 S.r.l.

ORGANISATIONAL MODEL

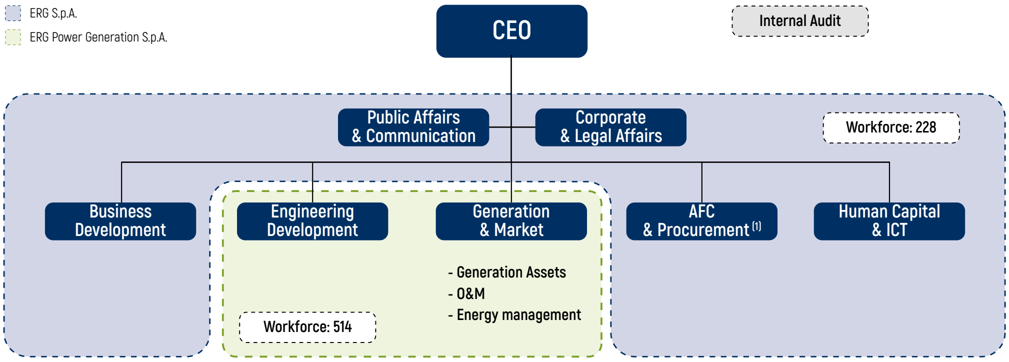
On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

- ERG S.p.A. - Corporate - which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. The company is organised into the following 5 areas:
  - Business Development ;
  - Administration, Finance, Planning and Control, Risk Management, M&A, Investor Relations and Purchasing;
  - Human Capital, ICT and General Services;
  - Institutional Relations and Communication;
  - Legal and Corporate Affairs.

- ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes, is organised into:
  - Wind, Thermo, Hydro and Solar generation technologies, which in turn are organised into production units on a geographical basis;
  - Energy Management, as the single entry point into organised markets;
  - a commercial structure dedicated to Key Accounts;
  - a centre of technological excellence of process engineering relating to the different generation technologies;
  - 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.

Lastly, it should be noted that, in July 2018, the Engineering Development Organisational Unit was established, reporting directly to the Group CEO, with the mission of creating value by ensuring the Group's new industrial investments (development engineering and construction), according to the objectives set out in the 2018-2022 Business Plan.

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



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

CHANGE IN BUSINESS SCOPE IN THE THIRD QUARTER OF 2018

Wind

- On **1 August 2018**, through its subsidiary ERG Power Generation S.p.A., ERG finalised the acquisition of 100% of Creag Riabhach Wind Farm Ltd., a Scottish company holding authorisations for the construction of a wind farm in Scotland, north of Inverness in the county of Sutherland. The wind farm will consist of 22 turbines for an approved capacity of 79.2 MW and estimated energy production – once fully operational – of around 250 GWh per year, equal to more than 3,000 equivalent hours and roughly 147,000 t of CO_2 emissions avoided.

  Works for the construction of the wind farm are expected to start in 2020, and the entry into operation, following the finalisation of the connection to the national grid, is expected by March 2022. The wind farm will participate in the energy and capacity availability markets in the United Kingdom. The total estimated investment required to build the wind farm is approximately GBP 89 million (around EUR 98 million at the current exchange rate), already including the amount paid to purchase the equity investment.

  By means of this operation, ERG strengthened its organic growth process abroad and, in particular, in the UK, where the secured construction capacity rose from 84 MW to 163 MW and, also thanks to the recent acquisitions in France, raised its secured capacity relating to all Plan objectives, which rose from 40% to around 70%.

  The project, in line with ERG's industrial strategy, is characterised by a high level of quality, and allows the company to capitalise on the skills developed in-house in the fields of Engineering, Construction, Procurement and Asset Management, maximising their value.

- Through its subsidiary ERG Eolienne France Sas, on **3 August 2018** ERG purchased 25% of the share capital of Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense Sas from Renvico France Sas. The investees own two wind farms with a total capacity of 16.25 MW and which became operational in 2007 and 2005, respectively. A total of 75% of the share capital of the companies had already been acquired from Vent d'Est in the first quarter of 2018.

In consideration of the new acquisition of assets in the UK market, as from this Report, ERG UK Holding Ltd. (renamed Evishagaran Wind Farm Ltd. in October) and Sandy Knowe Wind Farm Ltd. are also fully consolidated. These companies own two already authorised development projects of 35 MW and 49 MW, respectively, in the United Kingdom and were previously measured using the cost method in view of the insignificant dimensions and given still not operational.

ERG'S STOCK MARKET PERFORMANCE

On 28 September 2018[8], the closing price of ERG's shares was EUR 17.54, up (+13.9%) from the end of 2017, in the presence of a drop, in the same period, in the FTSE All Share index (-5.3%), the FTSE Mid Cap index (-4.8%) and the Euro Stoxx Utilities Index (-2.5%).
During the period under review, the listed price of the ERG share ranged between a minimum of EUR 15.08 (2 January) and a maximum of EUR 20.34 (14 May).

Figures relating to the prices and exchange volumes of ERG's shares from 1 January 2018 until 28 September 2018 are set out below:

Stock price	**EUR**
Closing price at 28.09.18	17.54
Highest price (14.05.18) (1)	20.34
Lowest price (02.01.18) (1)	15.08
Average price	18.15

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

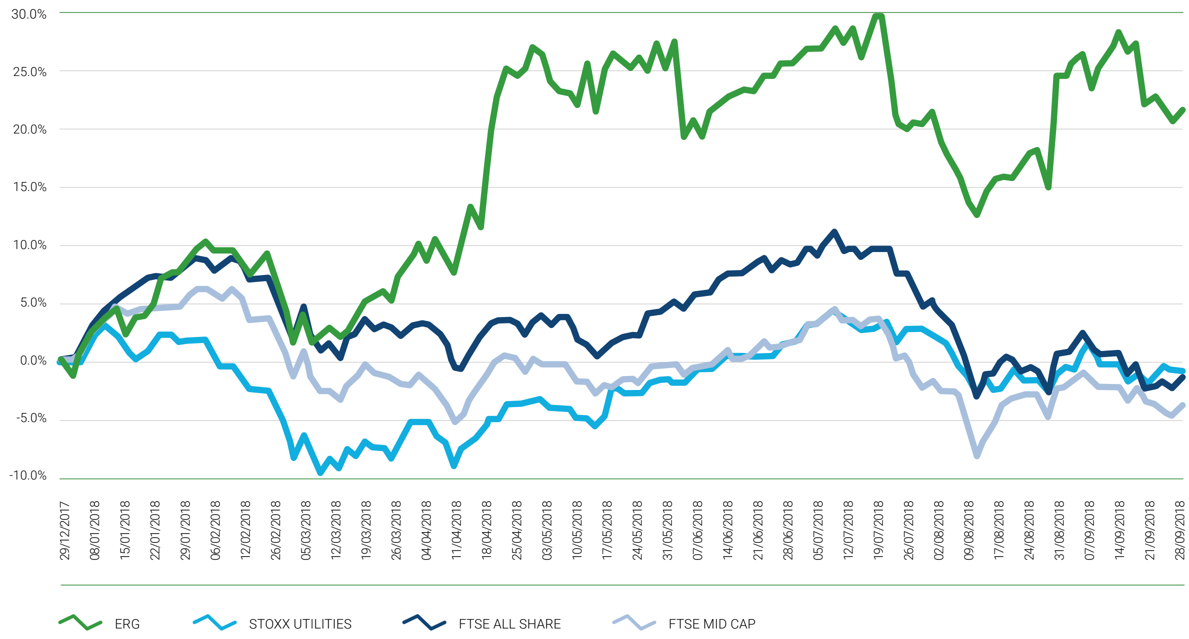
Traded volumes	**No. shares**
Maximum volume (11.04.18)	4,438,532
Minimum volume (14.09.18)	61,218
Average volume	329,767

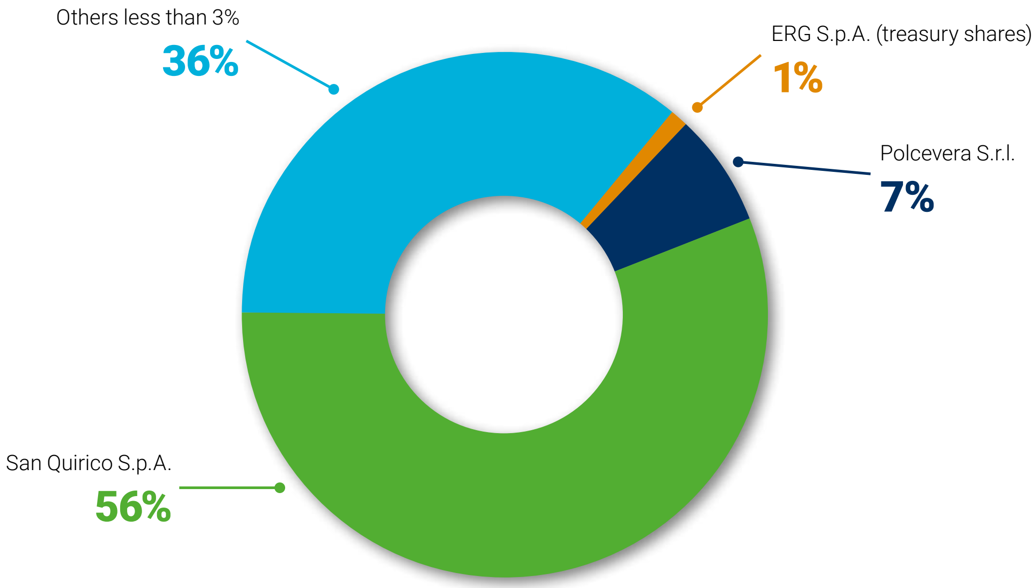
Stock market capitalisation was approximately EUR 2,637 million at 28 September 2018 (EUR 2,315 million at the end of 2017).
The average number of shares outstanding in the first nine months of 2018 was 148,816,800.

8 Last available day for listing for the first nine months of 2018.

Performance of ERG Shares and Shareholding Structure

ERG vs Euro Stoxx Utilities, FTSE All Share e FTSE Mid Cap - % change from 29.12.2017 to 28.09.2018





SIGNIFICANT EVENTS DURING THE QUARTER

Date	Sector	Significant events	Press release
1 August 2018	Wind UK	**Acquisition** of 100% of **Creag Riabhach Wind Farm Ltd.**, a company incorporated under Scottish law, holder of authorisations for the construction of a wind farm in Scotland.	Press release of 03.08.2018
3 August 2018	Wind France	**Acquisition** of the remaining 25% of the two companies that own two wind farms in France with an overall capacity of 16.25 MW, which ERG had already acquired 75% of from Vent d'Est S.a.s. in March 2018.	Press release of 03.08.2018
3 August 2018	Solar	**Agreement** between ERG and Quercus for the setup of a public limited company **ERG Q Solar1**, in which ERG has a 60% interest and the Quercus Italian Solar Fund segment 40%, with the aim of consolidating the Italian photovoltaic market. The activities for the setup of ERG Q Solar1 are under way.	Press release of 03.08.2018

PERFORMANCE HIGHLIGHTS

3rd quarter 2018	3rd quarter 2017 restated	(EUR million)		First 9 months 2018	First 9 months 2017 restated
		MAIN INCOME STATEMENT DATA			
250	225	Adjusted revenue from sales and services		766	759
105	**98**	**Adjusted EBITDA**		**381**	**356**
38	**36**	**Adjusted EBIT**		**178**	**168**
19	16	Profit		124	88
19	16	*of which attributable to the owners of the parent*		*124*	*88*
17	**16**	**Adjusted profit attributable to the owners of the parent** [1]		**92**	**88**
		MAIN FINANCIAL DATA			
3,209	**3,153**	**Net invested capital**		**3,209**	**3,153**
1,819	1,783	Equity		1,819	1,783
1,389	1,370	Total net financial indebtedness [2]		1,389	1,370
1,228	*1,209*	*of which non-recourse Project Financing* [3]		*1,228*	*1,209*
43%	43%	Financial leverage		43%	43%
42%	**44%**	**EBITDA MARGIN**		**50%**	**47%**
		OPERATING DATA			
1,791	**1,768**	**Installed capacity at period end – wind farms**	MW	**1,791**	**1,768**
578	723	Electric power generation from wind farms	millions of kWh	2,509	2,532
480	**480**	**Installed capacity – thermoelectric plants**	MW	**480**	**480**
591	638	Electric power generation from thermoelectric plants	millions of kWh	1,645	1,812
527	**527**	**Installed capacity at period end – hydroelectric plants**	MW	**527**	**527**
401	232	Electric power generation from hydroelectric plants	millions of kWh	1,402	884
90	**n.a.**	**Installed capacity at period end – solar plants**	MW	**90**	**n.a.**
45	n.a.	Electric power generation from solar plants	millions of kWh	109	n.a.
3,132	**2,537**	**Total sales of electric power**	millions of kWh	**10,218**	**8,601**
37	11	Investments [4]	EUR million	484	77
742	**717**	**Employees at period end**	Units	**742**	**717**
		NET UNIT REVENUE			
130.8	140.1	Wind Italy	EUR/MWh	125.0	147.0
95.2	94.4	Wind Germany	EUR/MWh	93.8	95.2
86.5	89.5	Wind France	EUR/MWh	86.9	88.9
57.7	49.3	Wind Poland	EUR/MWh	57.7	44.1
72.7	62.2	Wind Bulgaria	EUR/MWh	71.6	63.2
59.7	41.6	Wind Romania	EUR/MWh	52.9	57.7
n.a.	n.a.	Wind UK	EUR/MWh	100.4	n.a.
302.4	n.a.	Solar	EUR/MWh	295.3	n.a.
119.2	122.1	Hydroelectric	EUR/MWh	104.8	106.8
42.8	44.0	Thermoelectric	EUR/MWh	39.2	46.2

To enhance an understanding of the Group's business performance, adjusted revenue and operating results are shown, therefore excluding special items. The restated comparative 2017 figures do not take account of the adjusted results of TotalErg, sold in January 2018.

(1) does not include special items and related applicable theoretical taxes
(2) includes the non-current financial loan to api S.p.A. (EUR 37 million) as deferred component of the TotalErg sale price
(3) including cash and cash equivalents and excluding the fair value of the derivatives hedging interest rates
(4) in property, plant and equipment and intangible assets. Including investments through Mergers & Acquisitions equal to EUR 449 million performed in the first nine months of 2018 for the acquisition of the companies of the ForVei Group (solar) and for the acquisitions of companies owning wind farms in France, Germany and the United Kingdom. In the first nine months of 2017, investments through Mergers & Acquisitions amounted to EUR 39.5 million for the acquisition of the DIF Group (wind) companies in Germany.

PERFORMANCE BY SECTOR

3rd quarter 2018	3rd quarter 2017 restated	(EUR million)	First 9 months 2018	First 9 months 2017 restated
		ADJUSTED REVENUE FROM SALES AND SERVICES		
70	87	Wind	280	319
14	n.a	Solar	32	n.a
51	29	Hydroelectric	151	104
115	108	Thermoelectric (1)	302	335
8	10	Corporate	25	30
(8)	*(10)*	*Intra-segment revenue*	*(25)*	*(29)*
250	**225**	Total adjusted revenue from sales and services	**766**	**759**
		ADJUSTED EBITDA		
40	57	Wind	199	227
12	n.a	Solar	28	n.a
38	19	Hydroelectric	118	73
18	23	Thermoelectric (1)	48	63
(3)	(0)	Corporate	(11)	(6)
105	**98**	Adjusted EBITDA	**381**	**356**
		AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES		
(39)	(40)	Wind	(120)	(119)
(5)	n.a	Solar	(15)	n.a
(14)	(15)	Hydroelectric	(43)	(44)
(8)	(7)	Thermoelectric	(23)	(23)
(1)	(1)	Corporate	(2)	(2)
(67)	**(62)**	Adjusted amortisation and depreciation	**(203)**	**(188)**
		ADJUSTED EBIT		
1	17	Wind	79	108
7	n.a	Solar	13	n.a
23	4	Hydroelectric	74	29
11	16	Thermoelectric (1)	25	39
(4)	(1)	Corporate	(13)	(8)
38	**36**	Adjusted EBIT	**178**	**168**
		CAPITAL EXPENDITURE (2)		
32	7	Wind	130	66
0	n.a	Solar	345	n.a
2	2	Hydroelectric	3	4
2	2	Thermoelectric	4	5
1	0	Corporate	2	1
37	**11**	Total capital expenditure	**484**	**77**

(1) Includes residual contribution of minor portfolios managed by Energy Management not attributable to individual businesses
(2) Includes investments in property, plant and equipment and intangible assets and M&A investments

COMMENTS ON THE PERFORMANCE IN THE PERIOD

THIRD QUARTER

In the **third quarter of 2018**, **revenue from sales and services** amounted to EUR 250 million, up compared to EUR 225 million in 2017, as a result of the contribution of the new assets, in particular solar plants, in a general context of sharply rising electricity prices in the reference markets, effects only partly offset by the expected phase-out of the incentives of a part of production.

Adjusted EBITDA amounted to EUR 105 million, up on the EUR 98 million recorded in the corresponding period of 2017. The increase of EUR 6 million is a result of the following factors:

- **Wind (-17)**: gross operating margin equal to EUR 40 million, down compared to the same period of the previous year (EUR 57 million), as a result of the poorer results of wind farms in Italy (EUR -16 million), due mainly to notably less favourable wind conditions plus, to a lesser extent, lower incentivised production (74% of the total compared to 82% in 2017) and to the lower unit value of the incentive (99 EUR/MWh compared to 107 EUR/MWh), as well as to imbalance costs; the results of wind farms abroad only fell slightly (down EUR 1 million) despite extremely unfavourable wind conditions in all the reference areas and the expected reduction in green certificates from two to just one in Romania; these effects were almost fully offset by the better price scenario registered in Poland and Romania and the higher number of installed MW in France.
- **Solar (+12)**: gross operating margin equal to EUR 12 million, in line with the forecasts, relating to plants acquired at the beginning of 2018 from Forvei, of which EUR 11 million for revenue from the feed-in premium and EUR 3 million from market revenue, net of approximately EUR 2 million in fixed costs related mainly to operation & maintenance costs.
- **Hydroelectric (+19)**: gross operating margin of EUR 38 million (EUR 19 million in 2017), up sharply compared with the previous year, thanks to the high level of water availability recorded during the period and the use of reservoirs in the quarter.
- **Thermoelectric (-5)**: the result of thermoelectric generation, amounting to EUR 18 million, down by EUR 5 million compared to EUR 23 million in the third quarter of 2017 due mainly to the lower production for maintenance in July of steam turbines and, to a lesser extent, the decreased contribution from sales, which felt the effects of the less profitable performance of the spark spread.

Adjusted EBIT was EUR 38 million (EUR 36 million in the third quarter of 2017) after amortisation and depreciation of EUR 67 million, up EUR 5 million mainly due to new Solar investments and the acquisitions of new wind farms in France.

Adjusted Group EBIT was EUR 17 million, an increase compared to the result of EUR 16 million in the third quarter of 2017 restated, as a result of the aforementioned improved operating results.

The **profit for the period attributable to the owners of the parent** was EUR 19 million (EUR 16 million in the third quarter of 2017 restated) and reflects the above-mentioned improved net operating results (plus the surplus connected with refinancing in the period in application of IFRS 9).

In the **third quarter of 2018**, **investments** totalled **EUR 37 million** (EUR 11 million in the third quarter of 2017) and refer to the acquisition of the company Creag Riabhach Wind Farm Ltd. (EUR 23 million), holder of authorisations to construct a wind farm in Scotland and the acquisition of the remaining 25% of the companies Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense S.a.s. from Renvico France S.a.s. (EUR 2 million). **EUR 13 million in investments in property, plant and equipment and intangible assets** were also made during the period, of which 64% in the Wind sector (61% in 2017), mainly related to the development of the new wind farms in France and Germany, 13% in the Thermoelectric sector (15% in 2017), 15% in the Hydroelectric sector (21% in 2017) and 6% in the Corporate sector (3% in 2017), for ICT.

Net financial indebtedness amounted to **EUR 1,389 million**, a decrease of EUR 77 million compared to 30 June 2018 and reflects the positive net operating cash flow, also as a result of the positive trend in net working capital which benefitted from collections of incentives relating to production in the first part of 2018 (EUR 91 million) and the Energy Efficiency Certificates produced in 2017 (EUR 27 million), partially offset by the investments in the period (EUR 37 million) and payment of taxes (EUR 8 million).

FIRST NINE MONTHS

In the **first nine months of 2018**, **revenue from sales and services** amounted to EUR 766 million, essentially in line with the first nine months of 2017 (EUR 759 million).

Adjusted EBITDA amounted to EUR 381 million, up on the EUR 356 million recorded in 2017. The increase of EUR 25 million is a result of the following factors:

- **Wind (-28)**: gross operating margin equal to EUR 199 million, down compared to the same period of the previous year (EUR 227 million), as a result of the poorer results of wind farms in Italy (EUR -32 million), due mainly to less favourable wind conditions, lower incentivised production (72% of the total compared to 85% in 2017) and to the lower unit value of the incentive (99 EUR/MWh compared to 107 EUR/MWh), as well as to imbalance costs, only partially offset by the positive scenario of the prices on the energy markets. The poorer results in Italy were only partly offset by the improved results of wind farms abroad (EUR +4 million), thanks to the greater installed capacities in France, as well as the contribution of the Brockaghboy wind farm in the UK in the first quarter, despite the less favourable wind conditions.
- **Solar (+28)**: gross operating margin equal to EUR 28 million, in line with the forecasts, relating to plants acquired at the beginning of 2018 from Forvei, of which EUR 26 million for revenue from the feed-in premium and EUR 6 million from market revenue, net of approximately EUR 4 million in fixed costs related mainly to operation & maintenance costs.

- **Hydroelectric (+45)**: gross operating margin of EUR 118 million (EUR 73 million in 2017), up sharply compared with the previous year, which benefited however in the amount of EUR 8 million from the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification of some plants. The performance benefitted from the high level of water availability recorded during the period and in particular in the month of March, plus the use of reservoirs in the third quarter.
- **Thermoelectric (-15)**: the results of thermoelectric generation, amounting to EUR 48 million, down by EUR 15 million compared to EUR 63 million in the first nine months of 2017 due mainly to the decreased contribution of Energy Efficiency Certificates which, in the first nine months of 2017, also benefited for approximately EUR 11 million from the revaluation of securities matured in 2016 and sold in 2017. These results were also affected by the less profitable performance of the spark spread.

Adjusted EBIT was EUR 178 million (EUR 168 million in the first nine months of 2017) after amortisation and depreciation of EUR 203 million, up EUR 15 million mainly due to new Solar investments and acquisitions of wind farms in France during the year (EUR 188 million in 2017).

Adjusted Group EBIT was EUR 92 million, an increase compared to the result of EUR 88 million in the first nine months of 2017 restated, as a result of the aforementioned improved operating results and higher financial charges relating to the financing of the new production capacity acquired.

The **profit for the period attributable to the owners of the parent** was EUR 124 million (EUR 88 million in the first nine months of 2017 restated) and reflects not only the above-mentioned improved net operating results but the capital gain generated by the sale of Brockaghboy (EUR 26 million).

In the **first nine months of 2018**, **investments** totalled EUR **484 million** (EUR 77 million in the first nine months of 2017) and relate mainly to the acquisition of solar installations in Italy (EUR 345 million), the acquisition of the French wind companies acquired by Impax New Energy (EUR 67 million), the acquisition of two wind farms in France (EUR 14 million) and the company Creag Riabhach Wind Farm Ltd. (EUR 23 million), holder of authorisations for the construction of a wind farm in Scotland. In addition **EUR 34 million in investments in property, plant and equipment and intangible assets** were made during the period, of which 74% in the Wind sector (72% in 2017), mainly related to the development of the new wind farms in France and Germany, 11% in the Thermoelectric sector (15% in 2017), 9% in the Hydroelectric sector (10% in 2017) and 5% in the Corporate sector (4% in 2017), mainly for ICT.

Net financial indebtedness amounted to **EUR 1,389 million**, up (EUR 157 million) compared to 31 December 2017 (EUR 1,233 million) and reflects the investments in the period (EUR 484 million), the distribution of dividends (EUR 171 million) and the settlement of a debt in relation to oil purchases in previous years (EUR 42 million) and the payment of taxes (EUR 8 million), partly offset by the positive cash flow in the period (EUR 262 million) and the proceeds of the sale of TotalErg (EUR 180 million) and Brockaghboy (EUR 106 million).

PROFIT FOR THE PERIOD - BUSINESS

REFERENCE MARKET

Price scenario

3rd quarter 2018	3rd quarter 2017		First 9 months 2018	First 9 months 2017
		Price scenario (EUR/MWh)		
		Italy		
68.8	51.6	PUN - Reference price of electricity Italy (baseload) (1)	58.9	51.3
67.6	51.4	Electricity price - North zone	58.0	51.6
68.2	51.6	Electricity price - Centre-North zone	58.5	51.4
68.1	49.9	Electricity price - Centre-South zone	58.8	49.2
66.2	47.6	Electricity price - South zone	57.6	47.5
68.1	49.7	Electricity price - Sardinia	58.5	49.0
84.0	62.3	Electricity price - Sicily	68.3	58.7
73.9	59.9	Centre-North zone price (peak)	65.3	59.1
99.0	107.3	Feed-In Premium (former Green Certificates) - Italy	99.0	107.3
		Abroad		
56.5	34.5	France (baseload electricity)	45.8	41.1
53.1	32.7	Germany (baseload electricity)	41.6	34.6
85.6	46.4	Poland	70.8	44.1
58.9	*38.6*	*of which (baseload electricity)*	*51.3*	*36.6*
26.7	*7.8*	*of which Certificates of Origin*	*19.5*	*7.5*
40.2	39.5	Bulgaria (baseload electricity)	35.9	38.8
79.6	107.8	Romania (baseload electricity + 1 Green Certificate in 2018 and 2 Green Certificates in 2017)	70.6	106.9
50.2	*50.2*	*of which baseload electricity*	*41.2*	*48.8*
29.4	*28.8*	*of which Green Certificates*	*29.4*	*29.1*
116.2	91.7	Northern Ireland (baseload electricity + 90% ROC)	109.1	91.5
63.5	*42.7*	*of which baseload electricity*	*57.3*	*42.7*
58.5	*54.5*	*of which ROC*	*57.5*	*54.2*

(1) Single National Price

Italian Market - Demand and output

3rd quarter 2018	3rd quarter 2017	Var. %		First 9 months 2018	First 9 months 2017	Var. %
			Italian Market (1) (GWh)			
83,947	82,901	1.3%	Demand	242,177	240,678	0.6%
345	486	-29.0%	Pumping consumption	1,685	1,770	-4.8%
10,087	9,833	2.6%	Import/Export	33,930	28,147	20.5%
74,205	73,554	0.9%	Internal generation (2)	209,932	214,301	-2.0%
			of which			
49,222	*48,919*	0.6%	*Thermoelectric*	*135,280*	*146,067*	*-7.4%*
12,634	*11,605*	8.9%	*Hydroelectric*	*38,364*	*30,980*	*23.8%*
1,406	*1,439*	-2.3%	*Geothermal*	*4,265*	*4,359*	*-2.2%*
2,920	*3,694*	-21.0%	*Wind*	*12,572*	*12,534*	*0.3%*
8,023	*7,897*	1.6%	*Photovoltaic*	*19,451*	*20,361*	*-4.5%*

(1) Source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction
(2) Output net of consumption for auxiliary services

The electricity demand of the Italian electric system in the **third quarter of 2018** came to 83.9 TWh, up slightly (+1.3%) compared with the values recorded in the same period of 2017. With regard to Sicily, a region in which ERG is present with its CCGT plant, demand of approximately 5.4 TWh was recorded during the period, down (-4.4%) with respect to the third quarter of 2017, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, the demand for electricity came to 11.8 TWh (+3.5%).

The electricity demand of the Italian electric system in the **first nine months of 2018** came to 242.2 TWh, up slightly (+0.6%) compared with the values recorded in the same period of 2017. With regard to Sicily, a region in which ERG is present with its CCGT plant, demand of approximately 14.6 TWh was recorded during the period, down (-1.8%) with respect to the first nine months of 2017, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, the demand for electricity came to 33.6 TWh (+0.9%).

In the same period, net domestic electricity generation was 209.9 TWh, down by 2% compared with the same period of 2017, whilst the net balance of trades with other countries recorded net imports of 33.9 TWh (+21% with respect to the first nine months of 2017).
64% of (net) domestic output was covered by thermoelectric power plants and the remaining 36% by renewable sources; specifically, 18% of output was from hydroelectric power, 9% from photovoltaic plants, 6% from wind farms and 2% from geothermal sources. Compared to the first nine months of 2017, hydroelectric power generation grew (+24%), wind power generation was stable (+0%), while thermoelectric, photovoltaic and geothermal power generation declined (-7%, -4% and -2% respectively).

GROUP SALES

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

During the **third quarter of 2018**, total sales of electricity amounted to 3.1 TWh (2.5 TWh in the same period of 2017), in the presence of an overall output for the Group plants of approximately 1.6 TWh (1.6 TWh also in the same period of 2017), of which roughly 0.2 TWh abroad and 1.4 TWh in Italy. The latter figure corresponds to around 1.6% of electricity demand in Italy (1.6% also in the third quarter of 2017).

During the **first nine months of 2018**, total sales of electricity amounted to 10.2 TWh (8.6 TWh in the same period of 2017), in the presence of an overall output for the Group plants of approximately 5.7 TWh (5.2 TWh in the same period of 2017), of which roughly 1.0 TWh abroad and 4.6 TWh in Italy. The latter figure corresponds to around 1.9% of electricity demand in Italy (1.8% in the first nine months of 2017).

The breakdown of sales volumes and electricity output, by type of source, is shown in the following table[9]:

SOURCES OF ELECTRIC POWER (GWh)

3rd quarter			First 9 months	
2018	**2017**		**2018**	**2017**
338	444	Wind - wind power generation Italy	1,490	1,523
240	279	Wind - wind power generation Abroad	1,019	1,009
45	n.a.	Solar - photovoltaic power generation	109	n.a.
591	638	CCGT - thermoelectric power generation	1,645	1,812
401	232	Hydro - hydroelectric power generation	1,402	884
1,518	944	ERG Power Generation - purchases	4,553	3,373
3,132	**2,537**	**Total**	**10,218**	**8,601**

SALES OF ELECTRIC POWER (GWh)

3rd quarter			First 9 months	
2018	**2017**		**2018**	**2017**
161	146	Electric power sold to captive customers	433	408
–	508	Electric power sold to IREN	0	1.507
2.732	1.604	Electric power sold wholesale (Italy)	8.765	5.678
240	279	Electric power sold abroad	1.019	1.009
3.132	**2.537**	**Total**	**10.218**	**8.601**

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

Electric power sold wholesale includes 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), in addition to 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 and also hedging generation, in line with Group risk policies.

In the **third quarter of 2018**, steam sales[10] amounted to 154 thousand tonnes (178 thousand tonnes in the same period of 2017) 498 thousand tonnes in the first nine months of 2018 (575 thousand tonnes in the same period of 2017).

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

WIND

The ERG Group operates in the wind sector through its companies that own wind farms in Italy and abroad. Wind farms consist of wind-power generators that 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 sales price of electricity, which can 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, and the regulation of organised energy markets.

INSTALLED POWER (MW)

		First 9 months			
2017		**2018**	**2017 restated**	**Δ**	**Δ%**
1,093	**Italy**	**1,093**	**1,094**	**-2**	**0%**
	of which				
247	*Campania*	*247*	*247*	*0*	*0%*
120	*Calabria*	*120*	*120*	*0*	*0%*
249	*Puglia*	*249*	*249*	*0*	*0%*
79	*Molise*	*79*	*79*	*0*	*0%*
89	*Basilicata*	*89*	*89*	*0*	*0%*
198	*Sicily*	*198*	*198*	*0*	*0%*
111	*Sardinia*	*111*	*111*	*0*	*0%*
0	*Other*	*0*	*2*	*-2*	*-100%*
722	**Abroad**	**698**	**674**	**24**	**4%**
	of which				
216	*Germany*	*216*	*216*	*0*	*0%*
252	*France*	*276*	*252*	*24*	*10%*
82	*Poland*	*82*	*82*	*0*	*0%*
54	*Bulgaria*	*54*	*54*	*0*	*0%*
70	*Romania*	*70*	*70*	*0*	*0%*
48	*UK*	*0*	*0*	*0*	*n.a.*
1,814	**Total installed power at period end** (1)	**1,791**	**1,768**	**23**	**1%**

(1) power of plants in operation at period end

Installed power at 30 September 2018, equal to 1,791 MW, was up 23 MW with respect to 30 September 2017 following the acquisition in 2018 of 3 wind farms in France (24.3 MW, 8 MW of which as from the end of the half), net of the disposal of two small non-operational wind farms in North Italy (1.6 MW).

In addition, the first nine months of 2018 also benefited from the contribution of the Brockaghboy wind farm in Northern Ireland (47.5 MW), until the sale date of 7 March.

Highlights of adjusted performance items

OPERATING RESULTS

3rd quarter 2018	3rd quarter 2017 restated	(EUR million)	First 9 months 2018	First 9 months 2017 restated
70	**87**	**Adjusted revenue from sales and services**	**280**	**319**
40	**57**	**Adjusted EBITDA** (1)	**199**	**227**
(39)	(40)	Amortisation, depreciation and impairment losses (1)	(120)	(119)
1	**17**	**Adjusted EBIT** (1)	**79**	**108**
32	7	Investments in property, plant and equipment and intangible assets	130	66
57%	**65%**	**EBITDA Margin %** (2)	**71%**	**71%**
578	**723**	**Total output by wind plants (GWh)**	**2,509**	**2,532**

(1) not including special items as indicated in the section "Alternative performance indicators", to which reference should be made for further details
(2) ratio of adjusted EBITDA to revenue from sales and services

The reduction in consolidated revenue registered in the **third quarter of 2018**, of approximately EUR 17 million, is due mainly to the lower incentive unit value (from 107.3 to 99.0 EUR/MWh), in addition to decreased incentivised output compared to the same period of 2017 less wind in the period and higher imbalances, effects that were only partially offset by the better sales prices.

It is noted in particular that, compared to the third quarter of 2017, an additional 34 GWh of output is no longer incentivised, for a theoretical equivalent value of EUR 3.4 million.

As regards net unit revenue in Italy in the third quarter of 2018, the average unit revenue of wind generation and the associated sales, taking into consideration the sales price of electricity and of incentives (former Green Certificates), was equal to 130.8 EUR/MWh, down compared to 140.1 EUR/MWh in the third quarter of 2017.

The reduction in consolidated **revenue** of approximately EUR 39 million recorded in the **first nine months of 2018**, is due mainly to the lower incentive unit value (from 107.3 to 99.0 EUR/MWh), in addition to decreased incentivised output compared to the same period of 2017.

It is noted in particular that, compared to the first nine months of 2017, an additional 170 GWh of output is no longer incentivised, for a theoretical equivalent value of EUR 16.8 million.

These negative effects, as well as the effect of imbalances and lower output, including incentivised, were only partially offset by the higher sales price of electricity in Italy.

Net unit revenue in Italy in the first nine months of 2018, taking into consideration the sales price of electricity, incentives (former Green Certificates) and other minor components, was equal to 125.0 EUR/MWh for ERG in Italy, down compared to 147.0 EUR/MWh in the first nine months of 2017, as a result of the expected and already discussed lower incidence of revenue from incentives.

Finally, as from 2016, the reference value for the incentives (former Green Certificates) is calculated on the basis of energy prices for the previous year. Consequently, unlike what took place in the past, changes in energy prices are no longer partially offset (78%) in the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year.

NET UNIT REVENUE

3rd quarter					First 9 months			
2018	2017	Δ	Δ%		2018	2017	Δ	Δ%
130.8	140.1	(9)	-7%	Wind Italy	125.0	147.0	(22)	-15%
95.2	94.4	1	1%	Wind Germany	93.8	95.2	(1)	-1%
86.5	89.5	(3)	-3%	Wind France	86.9	88.9	(2)	-2%
57.7	49.3	8	17%	Wind Poland	57.7	44.1	14	31%
72.7	62.2	10	15%	Wind Bulgaria	71.6	63.2	8	13%
59.7	41.6	18	43%	Wind Romania	52.9	57.7	(5)	-8%
n.a.	n.a.	n.a.	n.a.	Wind UK	100.4	n.a.	n.a.	n.a.

Sales by foreign farms were mainly concentrated in France and Germany, whose net unit revenue was 86.5 EUR/MWh and 95.2 EUR/MWh respectively in the **third quarter of 2018** (including refunds for limitations in Germany). The main changes in net unit revenue abroad were seen in Romania (+43% as a result of the significant increase in the margins on energy markets, only partially offset by the reduction in the incentivised component which, from 2018 is recognised for half of the green certificates pertaining to 2017), as well as in Poland (+17% thanks to the significant increase in the sale price of certificates of origin) and in Bulgaria (+17%).

In the **first nine months of 2018**, net unit revenue was 86.9 EUR/MWh in France and 93.8 EUR/MWh in Germany respectively (including refunds for limitations in Germany). The main changes in net unit revenue abroad were seen in Poland (+31% thanks to the significant increase in the sale price of certificates of origin), Bulgaria (+13%) and Romania (-8% as a result of the reduction of the incentivised component which from 2018 is recognised for half of the green certificates pertaining to 2017). For the sake of completeness, the unit revenue relating to wind farms in Northern Ireland belonging to the Group until the start of March are also reported.

The contribution to the output of wind farms abroad was approximately 240 GWh in the **third quarter of 2018** (-14% compared to the third quarter of 2017), while in the **first nine months of 2018**, it was essentially stable at 1,019 GWh (+1% compared to the same period of 2017).

OUTPUT (GWh)

3rd quarter 2018	3rd quarter 2017 restated	Δ	Δ%		First 9 months 2018	First 9 months 2017 restated	Δ	Δ%
338	**444**	**-106**	**-24%**	**Italy**	**1.490**	**1.523**	**-33**	**-2%**
				of which				
72	100	-28	-28%	*Campania*	*326*	*346*	*-20*	*-6%*
53	63	-11	-17%	*Calabria*	*175*	*181*	*-6*	*-3%*
89	117	-28	-24%	*Puglia*	*354*	*390*	*-36*	*-9%*
28	36	-7	-20%	*Molise*	*115*	*124*	*-9*	*-7%*
31	38	-6	-17%	*Basilicata*	*132*	*131*	*1*	*1%*
37	51	-14	-27%	*Sicily*	*242*	*206*	*36*	*18%*
27	40	-12	-31%	*Sardinia*	*146*	*145*	*1*	*1%*
240	**279**	**-39**	**-14%**	**Abroad**	**1.019**	**1.009**	**10**	**1%**
				of which				
56	61	-5	-8%	*Germany*	*234*	*237*	*-3*	*-1%*
79	93	-14	-15%	*France*	*375*	*337*	*38*	*11%*
39	45	-7	-14%	*Poland*	*151*	*166*	*-15*	*-9%*
26	38	-12	-31%	*Bulgaria*	*101*	*116*	*-15*	*-13%*
39	42	-2	-5%	*Romania*	*130*	*153*	*-23*	*-15%*
0	0	0	n.a.	*UK*	*29*	*0*	*29*	*n.a.*
578	**723**	**-145**	**-20%**	**Total wind farm output**	**2.509**	**2.532**	**-23**	**-1%**

In the third quarter of 2018, the **electricity output** from wind power amounted to 578 GWh, down compared to the third quarter of 2017 (723 GWh), with output decreasing by approximately 24% in Italy (from 444 GWh to 338 GWh) and by 14% abroad (from 279 GWh to 240 GWh).

The decreased output in Italy (-106 GWh) is linked to worse wind conditions than those recorded in the third quarter of 2017 across most regions, in particular Campania, Sicily and Sardinia.

As regards abroad, the decrease of 39 GWh is due primarily to lower output in France (-14 GWh) and in Eastern Europe (-21 GWh), mainly due to the extremely high output recorded in Bulgaria and Romania in the third quarter of 2017.

In the first nine months of 2018, the **electricity output** from wind power amounted to 2,509 GWh, down slightly compared to the corresponding period of 2017 (2,532 GWh), as a result of decreased output by approximately 2% in Italy (from 1,523 GWh to 1,490 GWh) and increased output by 1% abroad (from 1,009 GWh to 1,019 GWh).

The decreased output in Italy (-33 GWh) is linked to poorer wind conditions than those recorded in the first nine months of 2017 across most regions, with the exception of Sicily, Sardinia and Basilicata.

As regards abroad, the increase of +10 GWh is attributable to the contribution of the plant in Northern Ireland (29 GWh), up until 7 March 2018, in addition to increased output in France which benefited in the amount of 24 GWh from the output of the recently acquired French plants (Vent d'Est and former Epuron) not present in the same period of 2017; these higher outputs abroad were partly mitigated by the lower output in Eastern Europe (-53 GWh) compared to the particularly high output registered in the first nine months of 2017.

The following table shows wind farm **load factor** by main geographical area; the figure, estimated taking into account the actual start of operations of the wind farms in the individual periods, provides a measure of the level of generation of the various farms in relative terms, and 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 %

3rd quarter 2018	3rd quarter 2017 restated	Δ		First 9 months 2018	First 9 months 2017 restated	Δ
14%	**18%**	**-4%**	**Italy**	**21%**	**21%**	**0%**
			of which			
13%	18%	-5%	*Campania*	*20%*	*21%*	*-1%*
20%	24%	-4%	*Calabria*	*22%*	*23%*	*-1%*
16%	21%	-5%	*Puglia*	*22%*	*24%*	*-2%*
16%	20%	-4%	*Molise*	*22%*	*24%*	*-2%*
16%	19%	-3%	*Basilicata*	*23%*	*23%*	*0%*
9%	12%	-3%	*Sicily*	*19%*	*16%*	*3%*
11%	*16%*	*-5%*	*Sardinia*	*20%*	*20%*	*0%*
16%	**19%**	**-3%**	**Abroad**	**22%**	**23%**	**-1%**
			of which			
12%	13%	-1%	*Germany*	*17%*	*17%*	*0%*
13%	17%	-4%	*France*	*21%*	*20%*	*0%*
21%	25%	-4%	*Poland*	*28%*	*31%*	*-3%*
22%	32%	-10%	*Bulgaria*	*28%*	*33%*	*-4%*
25%	27%	-1%	*Romania*	*28%*	*33%*	*-5%*
15%	**19%**	**-4%**	**Load factor** (1)	**21%**	**22%**	**-1%**

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

In the third quarter of 2018, the overall load factor, equal to 15%, was down with respect to that recorded in the corresponding period of 2017, decreasing from 18% to 14% in Italy and from 19% to 16% abroad.

In the first nine months of 2018, the overall load factor, equal to 21%, was down slightly with respect to that recorded in 2017 (22%), decreasing from 23% to 22% abroad and with stable values at 21% in Italy.

The above-mentioned data does not include the data relating to the plants in Northern Ireland following the aforementioned sale of the 47.5-MW plant on 7 March 2018.

The decrease in the load factor is attributable to less wind recorded in the period, particularly in the third quarter, despite the presence of high levels of plant availability.

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

ADJUSTED EBITDA

3rd quarter					First 9 months			
2018	**2017 restated**	**Δ**	**Δ%**		**2018**	**2017 restated**	**Δ**	**Δ%**
30	**46**	**(16)**	**-35%**	**Italy**	**146**	**178**	**(32)**	**-18%**
10	**11**	**(1)**	**-9%**	**Abroad**	**53**	**49**	**4**	**9%**
				of which				
3	3	(1)	-25%	*Germany*	*14*	*15*	*(1)*	*-6%*
2	5	(2)	-50%	*France*	*20*	*20*	*0*	*1%*
2	1	1	126%	*Poland*	*6*	*2*	*3*	*141%*
1	1	0	32%	*Bulgaria*	*5*	*5*	*0*	*8%*
2	1	1	99%	*Romania*	*4*	*6*	*(2)*	*-31%*
0	(0)	0	-100%	*UK*	*3*	*(0)*	*3*	*n.a.*
40	**57**	**(17)**	**-30%**	**Total**	**199**	**227**	**(28)**	**-12%**

Adjusted EBITDA for the third quarter of 2018 amounted to EUR 40 million, down with respect to the figures for the same period of the previous year (EUR 57 million), due to the poorer results recorded in Italy, mainly as a result of the less favourable wind conditions, the already mentioned expected drop in incentives and imbalance charges; these negative effects more than offset the better energy price scenario in Italy, Poland and Romania as well as the increased capacity abroad.

The **adjusted EBITDA** in the first nine months of 2018 came to EUR 199 million, down compared to the same period of the previous year (EUR 227 million), of which EUR -32 million in Italy due mainly to lower incentivised production, the lower unit value of the incentive, as well as to imbalance costs, only partially offset by the positive scenario of the prices on the energy market. The poorer results in Italy were only partly offset by the improved results of wind farms abroad (EUR +4 million), which reflect the greater installed capacities in France, as well as the contribution of the Brockaghboy wind farm in the UK in the first quarter.

The **EBITDA margin** in the third quarter of 2018 was 57%, down as a result of the net decrease in output and, consequently, in the margins as a result of less favourable wind conditions in both Italy and abroad.

The **EBITDA margin** was very positive in the first nine months of 2018 at 71%, despite the above-mentioned phase-out of the incentives for some plants, thanks to the contribution of the new wind farms abroad.

Capital expenditure

In the **third quarter of 2018**, investments totalled EUR 32 million and refer mainly to the acquisition of the company Creag Riabhach Wind Farm Ltd., holder of authorisations to construct a wind farm in Scotland (EUR 23 million), the acquisition of the remaining 25% of the companies Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense S.a.s. from Renvico France S.a.s. (EUR 2 million), to the costs of developing the Linda project for the construction of a 21.6 MW wind farm in Germany and the development of the French wind farms acquired during the period.

In the **first nine months of 2018**, investments totalled EUR 130 million, and relate mainly to the acquisition of two wind farms in France (EUR 14 million), the acquisition of the French wind companies acquired by Impax New Energy (EUR 67 million) and the acquisition of the company Creag Riabhach Wind Farm Ltd., holder of authorisations for the construction of a wind farm in Scotland (EUR 23 million). In addition, EUR 25 million in investments in **property, plant and equipment and intangible assets** were made during the period, mainly related to the development of the new wind farms in France and Germany.

Relevant legislative and regulatory updates in the quarter

Italy

- **Sicily moratorium on wind and solar power development**

  On 11 May, the 2018 Financial Stability Law was published in the Sicilian Official Gazette. Article 17 of the Law lays down a 120-day suspension, as from 11 May, of authorisations related to wind power and photovoltaic plants pending the introduction of an appropriate planning tool to allow the visual and environmental impacts of the implementation of such electricity generation plants to be assessed. The moratorium, challenged by the Italian Council of Ministers, was then repealed by Regional Law no. 16 of 9 August 2018, published in the Official Journal of the Sicily Region no. 36 of 17 August 2018.

Republic of Ireland and Northern Ireland

- **Launch of the Integrated Electricity Market (I-SEM)**

  As of 1 October 2018, the island of Ireland has a new wholesale electricity market (I-SEM: Integrated-Single Energy Market) integrated with the electricity markets of other European countries. In particular, the I-SEM introduces a new structure for the MGP (day-ahead) and MI (intraday) markets, and a revision of the settlement and balancing processes of the network in real time.

Poland

- **Auction mechanism for onshore wind**

  Following the approval of an amendment to the RES Act of 29 June 2018, an auction has been planned for the current year in which new wind onshore plants will be able to participate for a quota of power of approximately 1 GW.

ERG has a ready to build project in Poland of around 36 MW which meets the regulatory requirements to be able to take part in said auction.

This amendment, which also impacts the identification of the components of wind turbines that are relevant for the purposes of calculating the Real Estate Tax, restored, effective retroactively to 1 January 2018, the more favourable method of real estate taxation of wind farms already in force until 1 January 2017.

In September, the Regulatory Authority (URE) established 5 November as the date for the auction for newly constructed wind farms and photovoltaic plants with a power exceeding 1 MW. The reference maximum price for wind farms was set at 350 PLN/MWh, and 400 PLN/MWh for photovoltaic plants.

SOLAR

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

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

Highlights of adjusted performance items

OPERATING RESULTS

3rd quarter			First 9 months	
2018	**2017**	**(EUR million)**	**2018**	**2017**
14	**n.a.**	**Adjusted revenue from sales and services**	**32**	**n.a.**
12	**n.a.**	**Adjusted EBITDA** (1)	**28**	**n.a.**
(5)	n.a.	Amortisation, depreciation and impairment losses (1)	(15)	n.a.
7	**n.a.**	**Adjusted EBIT** (1)	**13**	**n.a.**
0	n.a.	Investments in property, plant and equipment and intangible assets	345	n.a.
89%	**n.a.**	**EBITDA Margin %** (2)	**87%**	**n.a.**
45	**n.a.**	**Total output by solar plants (GWh)**	**109**	**n.a.**

(1) not including special items as indicated in the section "Alternative performance indicators", to which reference should be made for further details
(2) ratio of adjusted EBITDA to revenue from sales and services

Output in **the third quarter of 2018** amounted to approximately 45 GWh and the relative load factor was 23%.

Revenue for the third quarter of 2018 amounted to EUR 14 million, of which EUR 11 million relating to revenue from the feed-in premium and EUR 3 million to revenue from the sale of energy.

In the third quarter of 2018, the relative **net unit revenue** amounted to 303 EUR/MWh, of which 236 EUR/MWh relating to feed-in premiums and approximately 67 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in the third quarter of 2018 amounted to EUR 12 million, of which EUR 14 million relating to the above-mentioned revenue and EUR 2 million in fixed costs related mainly to maintenance costs, in line with expectations.

The **EBITDA margin** was 89% in the third quarter of 2018.

Output in the **first nine months of 2018** amounted to approximately 109 GWh and the relative load factor was 19%.

Revenue for the first nine months of 2018 amounted to EUR 32 million, of which EUR 25 million relating to revenue from the feed-in premium and EUR 7 million to revenue from the sale of energy.

In the first nine months of 2018, the relative **net unit revenue** amounted to 295 EUR/MWh, of which 236 EUR/MWh relating to feed-in premiums and approximately 59 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in the first nine months of 2018 amounted to EUR 28 million, of which EUR 32 million relating to the above-mentioned revenue and EUR 4 million in fixed costs related mainly to maintenance costs, in line with expectations.

The **EBITDA margin** in the first nine months of 2018 was 87%.

Capital expenditure

Investments during the first nine months of 2018 refer to the acquisition of 30 photovoltaic plants, which came on stream between 2010 and 2011 and are located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030. The enterprise value of the transaction amounted to approximately EUR 345 million.

Relevant legislative and regulatory updates in the quarter

With regard to the temporary suspension of authorisations for the installation of wind power and photovoltaic plants in Sicily, reference is made to the paragraph in the Wind section.

HYDROELECTRIC

ERG is active in the sector of the generation of electricity from hydroelectric sources through the equity investment in ERG Hydro S.r.l., owner of the Terni Hydroelectric Complex (527 MW), including a system of programmable and flexible plants located in central Italy; these plants are used under the related hydroelectric concessions that will expire at the end of 2029.

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 can use the FER tariff as per the Italian Ministerial Decree of 23 June 2016.

Highlights of adjusted performance items

The contribution of the hydroelectric assets to the Group's results is shown below, taking into account 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

3rd quarter			First 9 months	
2018	**2017**	**(EUR million)**	**2018**	**2017**
51	**29**	**Adjusted revenue from sales and services**	**151**	**104**
38	**19**	**Adjusted EBITDA** (1)	**118**	**73**
(14)	(15)	Amortisation, depreciation and impairment losses (1)	(43)	(44)
23	**4**	**Adjusted EBIT** (1)	**74**	**29**
2	2	Investments in property, plant and equipment and intangible assets	3	4
74%	**65%**	**EBITDA Margin %**	**78%**	**70%**
401	**232**	**Total output by hydroelectric plants (GWh)**	**1,402**	**884**

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

In the **third quarter of 2018**, revenue, amounting to EUR 51 million, related mainly to electricity sales (mostly on the spot market) for EUR 27 million, revenue from the feed-in premium (former Green Certificates) for EUR 22 million, and revenue from MSD (dispatching services market) for EUR 1 million.

The costs, amounting to EUR 13 million, are essentially attributable to the concession fees, personnel expense, operation & maintenance, insurance payments and costs for services.

In the **first nine months of 2018**, revenue, amounting to EUR 151 million, related mainly to electricity sales (mostly on the spot market) for EUR 83 million, revenue from the feed-in premium (former Green Certificates) for EUR 62 million, and revenue from MSD (dispatching services market) for EUR 4 million.

The costs, amounting to EUR 33 million, are essentially attributable to the concession fees, personnel expense, operation & maintenance, insurance payments and costs for services.

EBITDA for the third quarter of 2018 amounted to EUR 38 million (EUR 19 million in the third quarter of 2017), actually doubling thanks to the high level of water availability, up by EUR 19 million compared to the same period in the previous year.
EBITDA for the first nine months of 2018 amounted to EUR 118 million (EUR 73 million in the first nine months of 2017), an increase of EUR 45 million, as a result of the high level of water availability for EUR 54 million and despite 2017 having benefited from roughly EUR 8 million in revenue from previous incentives.

The average sales prices reflect both the electricity sales 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 feed-in premium (former Green Certificate), recognised on a portion of approximately 40% of output and lower than that of 2017, amounting to approximately 99 EUR/MWh.
ERG Hydro's total output in the third quarter and in the first nine months of 2018 of 401 GWh and 1,402 GWh respectively, therefore benefited from a net unit revenue, taking into consideration the sales price of electricity, revenue from MSD and from replacement incentives and other minor components, totalling approximately 119 EUR/MWh in the quarter, 105 in the nine-month period (in 2017, 122 in the quarter and 107 EUR/MWh in the nine-month period of 2017 respectively, excluding the recoveries of prior incentives, mentioned above).

The EBITDA margin for the third quarter of 2018 was 74%, up significantly compared to 65% in the third quarter of 2017.
The EBITDA margin for the first nine months of 2018 was 78%, up significantly compared to 70% in the first nine months of 2017.

The load factor recorded in the period, equal to 34% in the third quarter (20% in the previous year) and 41% in the first nine months of 2018 (compared to 26% in the first nine months of 2017), benefited from the high level of water availability and management of reservoir levels (output of 1,402 GWh in the first nine months of 2018, up compared to both the corresponding period of 2017 and to the ten-year historical average).

The levels of the reservoirs of the Turano, Salto and Corbara lakes at the end of the period were approximately 526, 520 and 124 metres above sea level respectively, a net reduction with respect to 30 June 2018 owing to seasonal phenomena and essentially in line with the levels of 31 December 2017 (526, 524 and 131 metres above sea level respectively) due, in particular, to the use of the reservoirs in the third quarter, both in anticipation of the expected contributions in the autumn season and the favourable price scenario.

Capital expenditure

Hydroelectric investments, totalling EUR 3 million, relate mainly to maintenance orders and planned projects in the fields of seismic improvement of infrastructures and health, safety and the environment.

THERMOELECTRIC

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

Highlights of adjusted performance items

OPERATING RESULTS

3rd quarter			First 9 months	
2018	**2017**	**(EUR million)**	**2018**	**2017**
115	**108**	**Adjusted revenue from sales and services**	**302**	**335**
18	**23**	**Adjusted EBITDA** [1]	**48**	**63**
(8)	(7)	Amortisation, depreciation and impairment losses [1]	(23)	(23)
11	**16**	**Adjusted EBIT** [1]	**25**	**39**
2	2	Investments in property, plant and equipment and intangible assets	4	5
16%	**21%**	**EBITDA Margin %**	**16%**	**19%**
591	**638**	**Total output by thermoelectric plants (GWh)**	**1,645**	**1.812**

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

Following the entry into force from 1 January 2018 of the legislation on internal user networks, all of the electricity output of ERG Power is allocated to the market by capturing the Sicily zone price, while electricity intended to cover the needs of the Priolo industrial site, which falls within the scope of the legislation on internal user networks from 2018, is purchased on the wholesale market at the Single National Price. In 2017, ahead of the legislation on internal user networks, about a quarter of output was intended directly for site customers, including the net supply of steam in this energy.

In the **third quarter of 2018**, ERG Power's net electricity generation was 591 GWh, down compared to the same period of 2017 (638 GWh), in relation to the less favourable market context, with decreased net generation margins due to the gradual increase in the prices of CO_2 and natural gas in the period still not fully reflected in the sales prices. This trend was in line with the more general one registered in Italy for the entire thermoelectric sector.

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 154 thousand tonnes, down by 13% with respect to the 178 thousand tonnes in the third quarter of 2017.

Adjusted EBITDA in the third quarter of 2018 amounted to EUR 18 million (EUR 23 million in the same period of 2017). The decrease in the result is attributable to lower output due to maintenance in July on the steam turbines and, to a lesser extent, the lower contribution of sales, which were impacted by the less profitable performance of the spark spread.

In the **first nine months of 2018**, ERG Power's net electricity generation was 1,645 GWh, down compared to the same period of 2017 (1,812 GWh), in relation to the less favourable market context, with decreased net generation margins due to the gradual increase in the prices of CO_2 and natural gas in the period still not fully reflected in the sales prices. This trend was in line with the more general one registered in Italy for the entire thermoelectric sector

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 498 thousand tonnes, down by 13% with respect to the 575 thousand tonnes in the first nine months of 2017.
Adjusted EBITDA in the first nine months of 2018 amounted to EUR 48 million (EUR 63 million in the first nine months of 2017). The decrease in the result is attributable to the lower contribution of Energy Efficiency Certificates pertaining to the CCGT plant insofar as it is qualified as a high efficiency cogenerating plant, which in 2017 benefited in the amount of EUR 11 million from the revaluation of securities matured in the previous year.
These results were also affected by the less profitable performance of the spark spread insofar as energy prices do not yet fully incorporate the increase in cost of gas and CO_2.

Capital expenditure

Investments in 2018 (EUR 2 million in the quarter and EUR 4 million in the first nine months of 2018) mainly refer to the ERG Power CCGT plant, which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects.

Relevant legislative and regulatory updates during the period

- **Energy efficiency certificates**

  April 2017 saw the publication of the Italian Ministerial Decree of 11 January 2017 which, in defining the energy savings targets for electricity and gas distribution entities for the years from 2017 to 2020, had an effect on the balance between the supply and demand of Energy Efficiency Certificates (TEE).
  On 15 February 2018, the Energy Markets Operator (Gestore dei Mercati Energetici, GME), by order of the Ministry of Economic Development, adopted an urgent amendment to the Rules of Operation of the Energy Efficiency Certificate market, providing that market sessions go from weekly to monthly, with the aim of limiting price volatility. ARERA, with resolution 139/2018/R/EFR of 9 March 2018, approved the amendment put in place by the GME.
  The Italian Ministerial Decree of 10 May 2018, containing further modifications to the TEE system, was published in July. The main provisions focused on measures to simplify access to the incentive system, and to introduce, from 1 June 2018, a cap of 250 EUR/TEE on the Tariff Contribution granted to parties obliged to purchase TEEs, and, lastly, the possibility for the GSE to issue virtual TEEs (not associated with any specific project) to make up for any temporary supply shortfalls in the market.
  In order to boost market liquidity, on 12 September, the Energy Markets Operator published an urgent modification to the Regulation for the operation of the Energy Efficiency Certificate market, reintroducing the session weekly expiry. ARERA, by means of resolution 501/2018/R/efr, approved the regulatory changes introduced by the GME.

INCENTIVE FRAMEWORK

WIND POWER SECTOR INCENTIVES

Italy	• **Plants that entered into operation before 2013**: feed-in premium (FIP) equal to (180 EUR/MWh -P^{-1}) x 0.78 where P^{-1} is the average annual value of the sales price of the electricity of the previous year. Duration of the incentive: 15 years • **Plants that entered into operation from 2013**: allocation of incentives through participation in Dutch auctions. Duration of the incentive: 20 years
Germany	• **Plants that entered into operation by July 2014**: feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012) • **Plants that entered into operation from August 2014 to December 2016**: FIP (EEG 2014) • **Plants authorised by the end of 2016 and in operation by the end of 2018**: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed power in the period. • **Plants that entered into operation from 2017 onwards**: FIP incentives allocated through Dutch auctions (EEG 2017).
France	• **Plants that stipulated the application to purchase electricity generation by December 2015**: a feed-in tariff (FIT) for 15 years, defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. After 10 years of operation, it will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400. • **Plants that stipulated the application to purchase electricity generation in 2016**: feed-in premium (FIP). The FIP is divided into several components: the incentive component (complément de rémunération), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy. • **New plants that do not fall into the above categories**: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.
Bulgaria	• A feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years (Hrabrovo plant) or 15 years (Tcherga plant). In particular, below the first bracket (on average equal to approximately 2200 equivalent hours of operation annually), the FIT recognised amounts to approximately 97 EUR/MWh, while the changes to legislation significantly reduced revenue for higher production levels. These legislative amendments are currently the subject of an appeal by renewable source producers.
Poland	• **Plants in operation by July 2016**: Certificates of Origin (CO). The Substitution Fee (the penalty applied in the event of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded in the previous year, plus 25%. For 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh. • **From 2018, a multi-technological wind power-photovoltaic auction system was re-introduced**. The auction quotas are defined annually by the Government.

Romania

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

SOLAR SECTOR INCENTIVES

Italy

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

HYDROELECTRIC

Italy

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

THERMOELECTRIC (Cogeneration)

Italy

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

FINANCIAL STATEMENTS

ADJUSTED INCOME STATEMENT

To enhance an understanding of the Group's performance, the operating results are shown in this section excluding special items.

As already indicated in the Introduction, the restated comparative data are shown in order to take account of the change in scope linked to TotalErg and Brockaghboy and the application of IFRS 15.

For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, as well as for the restatement of the restated comparative figures, reference is made to that indicated in the section Alternative Performance Indicators below.

3rd quarter				First 9 months	
2018	**2017 restated**	**(EUR million)**		**2018**	**2017 restated**
250.3	224.5	Revenue from sales and services	1	766.0	758.7
2.8	2.3	Other revenue and income	2	16.8	7.1
253.1	**226.9**	**TOTAL REVENUE**		**782.9**	**765.8**
(93.8)	(77.4)	Purchases and change in inventories	3	(233.4)	(248.8)
(39.9)	(37.1)	Services and other operating costs	4	(122.7)	(114.6)
(14.8)	(14.1)	Personnel expense		(45.4)	(45.9)
104.7	**98.2**	**EBITDA**		**381.4**	**356.4**
(67.1)	(62.4)	Amortisation. depreciation and impairment of non-current assets	5	(203.3)	(188.1)
37.5	**35.8**	**EBIT**		**178.0**	**168.4**
(15.3)	(15.3)	Net financial expense	6	(53.1)	(49.3)
0.1	0.2	Net gains (losses) on equity investments	7	0.1	0.1
22.3	**20.7**	**Profit before taxes**		**125.0**	**119.2**
(5.7)	(4.9)	Income taxes	8	(32.8)	(30.9)
16.6	**15.8**	**Profit for the period**		**92.2**	**88.3**
(0.0)	0.0	Non-controlling interests		(0.1)	0.0
16.6	**15.8**	**Profit attributable to the owners of the parent**		**92.1**	**88.3**

1 - Revenue from sales and services

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms, thermoelectric installations and hydroelectric plants, and, from January 2018, by solar installations. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. In particular, electric power sold wholesale includes 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), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform. And lastly, sales of other utilities and steam supplied to industrial operators at the Priolo site.
- incentives related to the output of wind farms in operation, hydroelectric plants and solar installations.

In the **third quarter of 2018**, revenue amounted to EUR 250 million, up compared to EUR 225 million in the third quarter 2017, as a result of the following factors:

- the decrease (EUR -17 million) of the **Wind power sector** linked mainly to lower incentives in Italy and Romania and lower output in the period, partly offset by an increased sales price of electricity in Italy (totalling EUR 70 million compared with EUR 87 million);
- the new contribution of the **Solar sector**, consolidated from January 2018 (EUR 14 million);
- the **Hydroelectric sector**, up considerably on the corresponding period of the previous year (EUR +22 million) due to the increased water availability in the period (EUR 51 million versus EUR 29 million);
- the slight increase (EUR +7 million) in the **Thermoelectric sector** linked primarily to the trend in the price of electricity (EUR 115 million, compared to EUR 108 million).

In the **first nine months of 2018**, revenue amounted to EUR 766 million, up compared to EUR 759 million in the first nine months of 2017. The change is a result of the following factors:

- the decrease (EUR -39 million) of the **Wind power sector** linked mainly to lower incentives in Italy and Romania, lower output in Italy, partially offset by increased output in France and a higher sales price of electricity in Italy, France, Germany and Poland (totalling EUR 280 million compared with EUR 319 million);
- the new contribution of the **Solar sector**, consolidated from January 2018 (EUR 32 million);
- the **Hydroelectric sector**, up considerably on the corresponding period of the previous year (EUR +47 million) due to the increased water availability in the period (EUR 151 million versus EUR 104 million);
- the decrease (EUR -32 million) in the **Thermoelectric sector** linked to the lower sales to end customers (EUR 302 million, compared to EUR 335 million).

2 - Other revenue and income

These mainly include insurance reimbursements, compensation and expense repayments, in non-material chargebacks to third parties and grants related to income. The increase in other revenue and income compared to the first nine months of 2017 is due mainly to the releases of excess allocations deriving from the closure of previous items no longer due.

3 - Purchases and change in inventories

Costs for purchases include costs for the purchase of gas and CO_2, utilities and steam intended to fuel the ERG Power S.r.l. CCGT plant and costs for electric power intended for resale on the market within the sphere of the Energy Management activities.

In the **third quarter of 2018**, these totalled EUR 94 million, an increase when compared to the same period in 2017 (EUR 77 million), mainly due to the increase in the cost for the purchase of gas and CO_2 related to the output of the Thermoelectric sector.

In the **first nine months of 2018**, these amounted to EUR 233 million, down by roughly EUR 14 million compared to the same period of 2017, mainly as a result of the lower costs for electricity purchases, corresponding to lower sales to customers, partially offset by higher costs for purchases of gas and CO_2.
The change in inventories, linked to spare part inventories, was not significant.

4 - Services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, costs for hydroelectric concessions, for agreements with local authorities, for 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 increase in costs for services in the quarter (EUR 40 million vs EUR 37 million) and in the first nine months (EUR 123 million vs EUR 115 million) is attributable to the change in the scope of consolidation as a result of the acquisitions made in the period.

5 - Amortisation, depreciation and impairment losses

Amortisation and depreciation refer to wind farms, hydroelectric sector plants and the CCGT plant, and in 2018, also to solar installations.
The increase is mainly linked to higher amortisation and depreciation due to the acquisition of solar installations (EUR 5 million in the quarter and EUR 15 million in the first nine months) and to the change in scope of the wind power plants acquired in France in the first nine months of 2018.

6 - Net financial expense

Net financial expense in the **third quarter of 2018** totalled EUR 15 million, in line with the third quarter of 2017, as a result of the increase in medium/long-term debt, linked to the change in the scope of consolidation, offset by the effects of Liability Management operations, which contributed to the improvement, from the third quarter, in the financial terms of the Group's debt.
The average cost of medium/long-term debt in the quarter amounted to 2.8% compared to 3.1% for 2017.

Net financial expense in the **first nine months of 2018** totalled EUR 53 million, up slightly compared with EUR 49 million in 2017, mainly due to the increase in medium/long-term debt as a result of the change in the consolidation scope.
The average cost of medium/long-term debt in the first nine months of the year amounted to 3.0% compared to 3.2% for 2017. The remuneration of invested liquidity, also including the receivable due from api, was in line with that of the first nine months of 2017.
The item also includes the effects of the derivatives hedging against the risk of fluctuations in interest rates.

Finally, it should be noted that the adjusted net financial expense commented on here does not include positive special items of EUR 8 million in the first nine months and EUR 3 million in the third quarter relating to the financial income recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the period, net of the reversal effect related to refinancing operations performed in previous years.

7 - Net gains (losses) on equity investments

During the first nine months of 2018, the Group sold its equity investment in Brockaghboy Windfarm Ltd., generating a capital gain of EUR 27 million, net of the related tax effects and other ancillary components. The gain and the other profit or loss components associated with the sale of the equity investment are considered special items and therefore are not reflected in the aforementioned line "Net gains (losses) on equity investments" of the adjusted income statement.

On 10 January 2018, the Group sold its stake in TotalErg: for the purposes of greater clarity, the 2017 comparative figures were amended so as to exclude the adjusted results[11] of the investee previously measured using the equity method. In the first nine months of 2018, this contribution was positive for EUR 25 million (EUR +10 million in the third quarter of 2017).

8 - Income taxes

Income taxes totalled EUR 5.6 million in the **third quarter of 2018** (EUR 5 million in the same period of 2017). The tax rate, obtained from the ratio between income taxes and pre-tax profit, stood at 26% (24% in third quarter of 2017).

Income taxes in the **first nine months of 2018** amounted to EUR 33 million (EUR 31 million in the first nine months of 2017). The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, stood at 26% (26% in 2017).

11 Net of special items and inventory gains (losses)

STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position contains the assets and liabilities of the financial statements, used to draft the interim financial report at 30 June, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**.

For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the “Alternative Performance Indicators” section below.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30/09/2017	(EUR million)	30/09/2018	30/06/2018	31/12/2017
3.280.8	Non-current assets	3,312.7	3,343.8	3,260.8
140.8	Net working capital	182.7	224.1	150.0
(6.6)	Post-employment benefits	(6.0)	(5.8)	(6.4)
319.7	Other assets	316.4	322.2	278.7
(582.2)	Other liabilities	(597.0)	(608.9)	(573.0)
3.152.6	**Net invested capital**	**3,208.7**	**3,275.4**	**3,110.1**
1.782.5	Equity attributable to the owners of the parent	1,819.3	1,807.8	1,877.5
0.0	Non-controlling interests	0.0	1.2	0.0
1.370.1	Net financial indebtedness	1,389.4	1,466.4	1,232.7
3.152.6	**Equity and financial debt**	**3,208.7**	**3,275.4**	**3,110.1**
43%	**Financial leverage**	43%	45%	40%

1 - Non-current assets

(EUR million)	Intangible assets	Property, plant and equipment	Financial assets	Total
Non-current assets at 31/12/2017	**767.5**	**2.252.2**	**241.1**	**3.260.8**
Capital expenditure	5.3	29.1	0.0	34.4
Changes in the consolidation scope	205.3	204.8	(183.7)	226.4
Disinvestments and other changes	0.3	(5.3)	(0.4)	(5.5)
Amortisation and depreciation	(41.4)	(162.0)	0.0	(203.3)
Non-current assets at 30/09/2018	**937.0**	**2,318.8**	**57.0**	**3,312.7**

The change in consolidation scope relates primarily to the acquisition of solar installations in Italy and wind farms abroad, and to the sale of the investment in TotalErg and the Brockaghboy wind farm.

In line “Divestments and other changes” are comprised disposals of non-current assets, the use of main component spare parts and reclassifications.

2 - Net working capital

This includes spare parts, amounts due for incentives, amounts due for the sale of electricity, and trade payables mainly concerning the purchase of electricity and gas, the maintenance of wind power plants and other trade payables.

The change for the period is mainly related to the seasonal dynamics of collections relating to incentives as well as to the effects of the change in the consolidation scope. A debt of around EUR 42 million in relation to oil purchases in previous years was also settled in the second quarter of the year.

The decrease compared to 30 June is due primarily to the collections of incentives relating to production in the first quarter of 2018, pursuant to the applicable legislation, and the collection of the Energy Certificates relating to 2017.

3 - Other assets

These mainly comprise deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services. The decrease in the third quarter is attributable to the settlement of some tax items as part of the tax consolidation agreements with companies that are not fully consolidated.

4 - Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between carrying amounts and the related tax basis (mainly concessions and non-current assets), the estimate of income taxes due for the period, and the provisions for risks and charges. The decrease in other liabilities in the third quarter is mainly due to the reduction in tax payables due to the payment of income taxes.

5 - Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

30/09/2017	(EUR million)	30/09/2018	30/06/2018	31/12/2017
1,861.9	Medium/long-term financial indebtedness	1,777.2	1,844.8	1,788.7
(491.8)	Short-term cash and cash equivalents	(387.8)	(378.4)	(556.0)
1,370.1	**Total**	**1,389.4**	**1,466.4**	**1,232.7**

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

30/09/2017	(EUR million)	30/09/2018	30/06/2018	31/12/2017
670.0	Non-current bank borrowings	678.4	740.7	670.6
(58.6)	Current portion of loans and borrowings	(150.6)	(129.9)	(58.6)
222.0	Non-current loans and borrowings	209.8	201.5	205.9
833.4	**Total**			**817.8**
1,208.7	Total Project Financing	1,228.2	1,222.5	1,114.7
(180.2)	Current portion of Project Financing	(152.0)	(153.6)	(143.8)
1,028.5	**Non-current Project Financing**	**1,076.3**	**1,068.9**	**970.9**
0.0	**Long-term loan assets**	**(36.7)**	**(36.4)**	**0.0**
1,861.9	**TOTAL**	**1,777.2**	**1,844.8**	**1,788.7**

The "Non-current bank borrowings" at 30 September 2018 total EUR 678 million (EUR 671 million at 31 December 2017), and refer to:

- a corporate acquisition loan of EUR 291 million, subscribed by seven mandated Italian and foreign lead arrangers and bookrunners concerning the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca S.p.A. (EUR 150 million), UBI Banca S.p.A. (EUR 100 million) and UniCredit S.p.A. (EUR 75 million) entered into in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l. and the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR 70 million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year.

The payables represented above are recorded net of ancillary costs, recognised with the amortised cost method (EUR 4 million) and the effect of the renegotiation of loans (EUR 4 million) as a result of the application of IFRS 9.
The current portion of loans and borrowings (EUR 151 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

"Non-current loans and borrowings", amounting to EUR 210 million, refer mainly to:

- net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 94 million (EUR 106 million at 31 December 2017).
- liability deriving from the issue of the non-convertible bonds (EUR 99 million[12]) in the third quarter of 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and to refinance the capital expenditure made for hydroelectric plants in Italy.
- liabilities related to a deferred component (EUR 12 million) of the consideration for the acquisition of Creag Riabhach Wind Farm Ltd., holder of authorisations for the construction of a wind farm in Scotland.

The payables for "Total Project Financing" (EUR 1,228 million at 30 September 2018) are for:

- EUR 54 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.
- EUR 170 million in loans related to the newly acquired ForVei Group companies (solar) and to the subsidiary ISAB Energy Solare;
- EUR 1,004 million in loans issued for the construction of wind farms, of which EUR 438 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 52 million. With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing

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

was measured, at the time of the purchase price allocation, at fair value. Said fair value was lower than the nominal amount, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition. The difference between the positive fair value of the liability and its nominal amount is consequently managed through the amortised cost method throughout the duration of the loan.

IFRS 9 is applied by the Group for annual reporting periods beginning on or after 1 January 2018. As regards the main effects on the Group, application of the standard does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability by modifying the effective interest rate of the liability at that date: this involves accounting for a profit or an immediate loss at the date of modification of the liability, as an offset to the reduction of the corresponding debt. The application of the standard has resulted in the reduction of liabilities for loans at the transition date (1 January 2018) of EUR 7 million, as an offset to higher opening net assets, net of the related tax effects.
As a result of the refinancing transactions concluded in the period, net of the reversal effect relating to the refinancing transactions performed in previous years, the reduction in total debt as at 30 September 2018 came to EUR 11 million.

“Long-term loan assets” totalling EUR 37 million refer to the deferred component of the proceeds from the sale of TotalErg to api S.p.A. This deferred component is regulated by a vendor loan agreement with a maturity of 5 and a half years, signed with api S.p.A.

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

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30/09/2017	(EUR million)	30/09/2018	30/06/2018	31/12/2017
1.5	Current bank borrowings	81.4	43.9	83.0
58.6	Current portion of loans and borrowings	150.6	129.9	58.6
1.5	Other current loans and borrowings	2.6	4.7	1.7
61.6	**Current financial liabilities**	**234.6**	**178.5**	**143.3**
(444.0)	Cash and cash equivalents	(502.5)	(432.1)	(679.2)
(107.2)	Securities and other current loan assets	(63.0)	(124.4)	(28.8)
(551.2)	**Current financial assets**	**(565.4)**	**(556.5)**	**(708.0)**
180.2	Current portion of Project Financing	152.0	153.6	143.8
(182.5)	Cash and cash equivalents	(209.0)	(153.9)	(135.1)
(2.3)	**Project Financing**	**(57.0)**	**(0.3)**	**8.7**
(491.8)	**TOTAL**	**(387.8)**	**(378.4)**	**(556.0)**

The increase in the current portion of loans and borrowings is related to the expires set out in the corporate loan repayment plans.

The amount of cash and cash equivalents fell in the first nine months of 2018, mainly due to the acquisitions of solar companies and wind farms abroad.
In the third quarter, the amount of cash and cash equivalents increased due to the collections relating to the receivables for the Feed-In Premium relating to the first quarter of 2018 and Energy Efficiency Certificates relating to 2017.

The decrease in the item "Securities and other current loan assets" is linked to the closure of the investment funds, which had been subscribed in January 2018 to temporary allocate cash. Also in light of the strong volatility on equity and bond markets, the funds were wound up in the quarter with a slight loss.

Liability Management

In the first nine months of 2018, a number of Liability Management transactions were completed, which help to improve the financial terms and duration of the Group's debt structure.
Specifically, in June, five group companies operating in the solar industry, acquired at the beginning of the year, arranged early settlement of the lease agreements relating to their assets, replacing them with a corporate loan for approximately EUR 70 million, significantly improving the overall financial terms. Also in June, ERG Eolica Adriatica S.r.l. refinanced the project financing agreement with a syndicate of Italian and international banks and for approximately EUR 98 million and, in July, ERG S.p.A. refinanced a corporate loan, achieving, in both cases, better financial terms and duration conditions compared to the previous loan.
The above transactions form part of the broader Liability Management programme implemented during the period, which saw the overall renegotiation of around EUR 500 million of debt, with a decrease in the annual weighted average of the related cost of approximately 1%, whose benefits were recognised from the second quarter of 2018, and an extension of the current term of the Group's financing by around 1 year.

Cash flows

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

3rd quarter 2018	3rd quarter 2017		First 9 months 2018	First 9 months 2017
104.7	98.2	Adjusted EBITDA	381.4	356.4
36.6	69.7	Change in working capital	(106.8)	16.0
141.2	**167.9**	**Cash flow from operations**	**274.5**	**372.4**
(13.0)	(10.9)	Investments in property. plant and equipment and intangible assets	(34.4)	(35.1)
(24.1)	–	Acquisitions of companies (business combination)	(449.4)	(39.5)
0.9	(0.4)	Investments in financial non-current assets	–	15.0
–	–	Sale of equity investment in TotalErg	179.5	–
–	–	Sale of net assets of Brockaghboy	105.7	–
0.0	–	Disinvestments and other changes	0.2	–
(36.1)	**(11.3)**	**Cash flow used in investments/disinvestments**	**(198.2)**	**(59.6)**
(15.3)	(15.3)	Net financial expense	(53.1)	(49.3)
0.1	(0.0)	Net gains (losses) on equity investments	0.1	(0.1)
(15.2)	**(15.3)**	**Cash flow used in financial management**	**(53.0)**	**(49.4)**
(8.1)	**–**	**Cash flow used in tax management**	**(8.1)**	**(15.2)**
–	–	Distribution of dividends	(171.1)	(74.4)
(4.9)	2.7	Other changes in equity	1.3	13.3
(4.9)	**2.7**	**Cash flows used in equity**	**(169.8)**	**(61.1)**
0.1	**–**	**Change in the consolidation scope**	**(2.1)**	**–**
1,466.4	**1,514.1**	**Initial net financial indebtedness**	**1,232.7**	**1,557.2**
(77.0)	*(144.0)*	*Net change*	*156.7*	*(187.1)*
1,389.4	**1,370.1**	**Final net financial indebtedness**	**1,389.4**	**1,370.1**

The **cash flow from operations** in the **first nine months of 2018** was a positive EUR 275 million, a decrease of EUR 98 million compared to the same period of 2017, primarily due to the settlement of a EUR 42 million debt in relation to oil purchases in previous years and precise trends in working capital also influenced by TotalErg's exit from the group VAT consolidation scheme.

The **cash flow from operations** in the **third quarter** was a positive EUR 141 million, a decrease of EUR 26 million compared to the same period of 2017, as a result of the collections of incentives relating to production in the first quarter of 2018 (EUR 91 million) and the Energy Efficiency Certificates produced in 2017 (EUR 27 million).

The **cash flow used in investments** in the **first nine months of 2018** relates mainly to M&A activities and, in particular, to the acquisition of ForVei (EUR 345 million), of Vent d'Est S.a.s. (EUR 14 million), of the French companies acquired by Impax New Energy (EUR 67 million) and of the company Creag Riabhach Wind Farm Ltd., holder of authorisations

for the construction of a wind farm in Scotland (EUR 23 million), as well as investments in property, plant and equipment and intangible assets (EUR 34 million). A detailed analysis of investments in property, plant and equipment and intangible assets during the period may be found in the specific section.
The cash flow from divestments is mainly linked to the sale of the investment in TotalErg and of the UK Brockaghboy wind farm.

The **cash flow used in investments** in the **third quarter** reflects the acquisition of the company Creag Riabhach Wind Farm Ltd. (EUR 23 million), holder of authorisations for the construction of a wind farm in Scotland, as well as investments in property, plant and equipment and intangible assets (EUR 13 million) relating primarily to the costs of development of wind farms in France and Germany

The **cash flow used in financial management** refers to the higher liabilities linked to interest accrued during the period.

The **cash flow used in equity** relates mainly to the impact of the distribution of dividends to shareholders, the effects of the transition to IFRS 9 at the date of first application (1 January 2018), net of the related tax effects, and to changes in the hedging reserve.

The **change in the consolidation scope** relates to:
- the effects of the consolidation of equity investments previously measured using the cost method since they were not yet operational (WP France 6, Evishagaran and Sandy Knowe) or were not of a significant size (ISAB Energy Solare).

ALTERNATIVE PERFORMANCE INDICATORS

Definitions

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

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

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

Finally, in order to enhance an understanding of the business segments' performance, the operating results are shown excluding special income items: these results are indicated with the term "Adjusted results".

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

Definitions of the APIs used by the Group and a reconciliation with the items of the financial statements templates adopted are as follows:

- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment" to the net operating profit. EBITDA is explicitly indicated as a subtotal in the financial statements.
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income components (special items).
- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment.
- The **adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax.
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special profit or loss components (special items), net of the related tax effects.
- **Investments** are obtained from the sum of investments in property, plant and equipment and intangible assets. Starting from the Interim Report at 31 March 2018, they also include the carrying amount of the acquisitions of net assets within the scope of M&A transactions.

- **Net working capital** is the sum of inventories, trade receivables and trade payables.
- **Net invested capital** is the algebraic sum of non-current assets, net working capital, liabilities related to post-employment benefits, other assets and other liabilities.
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the non-current loan to api S.p.A. (EUR 37 million) as a deferred component of the TotalErg sale price, as well as the non-current portion of assets relating to derivative instruments.
- **Financial leverage** is calculated by comparing total net financial liabilities (including Project Financing) to the net invested capital.
- The **special items** include significant atypical income items. These include:
  - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do frequently re-occur over the normal course of business;
  - income and expenses related to events that are not typical of normal business activities, such as restructuring and environmental costs;
  - capital gains and losses linked to the disposal of assets;
  - significant write-downs recorded on assets following impairment tests;
  - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

Reconciliation with adjusted operating results

EBITDA

3rd quarter				First 9 months	
2018	**2017 restated**		**Note**	**2018**	**2017 restated**
104.7	**98.2**	**EBITDA from continuing operations**		**378.1**	**356.4**
0.0	*0.0*	*Contribution of discontinued operations (Brockaghboy)*	**1**	*3.3*	*0.0*
104.7	**98.2**	**EBITDA**		**381.4**	**356.4**
		Exclusion of special items:			
0.0	*0.0*	*- Exclusion of special items*		*0.0*	*0.0*
104.7	**98.2**	**Adjusted EBITDA**		**381.4**	**356.4**

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

3rd quarter 2018	3rd quarter 2017 restated		Note	First 9 months 2018	First 9 months 2017 restated
(67.1)	**(62.4)**	**Amortisation and depreciation - continuing operations**		**(202.6)**	**(188.1)**
0.0	*0.0*	*Contribution of discontinued operations (Brockaghboy)*	**1**	*(0.7)*	*0.0*
(67.1)	**(62.4)**	**Amortisation. depreciation and impairment losses**		**(203.3)**	**(188.1)**
		Exclusion of special items			
0.0	*0.0*	*- Special items*		*0.0*	*0.0*
(67.1)	**(62.4)**	**Adjusted amortisation and depreciation**		**(203.3)**	**(188.1)**

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT

3rd quarter 2018	3rd quarter 2017 restated		Note	First 9 months 2018	First 9 months 2017 restated
19.2	**15.8**	**Profit attributable to the owners of the parent**		**124.3**	**88.3**
		Exclusion of special items			
0.0	*0.0*	*Exclusion of ancillary charges on non-recurring operations*		*0.0*	*0.0*
0.0	*0.0*	*Exclusion of capital gain from sale of UK equity investment*	**2**	*(26.2)*	*0.0*
(2.6)	*0.0*	*Exclusion of the net gain on refinancing (IFRS 9)*	**3**	*(6.0)*	*0.0*
16.6	**15.8**	**Adjusted profit attributable to the owners of the parent**		**92.1**	**88.3**

1. The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5.
   In this Interim Report, to facilitate understanding of the figures, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown and commented on in ordinary operations, in line with the approach already adopted in the Directors' report in the 2017 Financial Statements and with the Interim Financial Report at 30 June 2018.

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

3. The Group renegotiated a number of loans during the period. IFRS 9 does not allow for the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability: this resulted in the recognition of a gain of approximately EUR 6 million in the first nine months of 2018 (EUR 3 million in the third quarter of 2018). For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, with the deferral of recognition of the benefits of the renegotiation over the residual term of the liability and not recognising all of

them in one immediate entry at the time of the amendment. The aforementioned adjustment relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

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

FIRST NINE MONTHS OF 2018	Financial statements	Reversal of IFRS 5 reclassifications - Brockaghboy	Reversal of special items	Adjusted income statement
Revenue from sales and services	763.1	2.9	–	766.0
Other revenue and income	16.0	0.9	–	16.8
Total revenue	**779.0**	**3.8**	**–**	**782.9**
Purchases	(234.6)	(0.0)	–	(234.6)
Change in inventories	1.2	–	–	1.2
Services and other operating costs	(122.2)	(0.6)	–	(122.7)
Personnel expense	(45.4)	–	–	(45.4)
EBITDA	**378.1**	**3.3**	**–**	**381.4**
Amortisation, depreciation and impairment of non-current assets	(202.6)	(0.7)	–	(203.3)
EBIT	**175.4**	**2.6**	**–**	**178.0**
Net financial expense	(44.9)	(0.6)	(7.6)	(53.1)
Net gains (losses) on equity investments	0.1	26.7	(26.7)	0.1
Profit before taxes	**130.7**	**28.7**	**(34.3)**	**125.0**
Income taxes	(34.7)	(0.2)	2.2	(32.8)
Profit from continuing operations	**96.0**	**28.4**	**(32.2)**	**92.2**
Profit from discontinued operations	28.4	(28.4)	–	0.0
Profit for the period	**124.4**	**–**	**(32.2)**	**92.2**
Non-controlling interests	(0.1)	–	–	(0.1)
Profit attributable to the owners of the parent	**124.3**	**–**	**(32.2)**	**92.1**

Restated comparative data for the first nine months of 2017

For the purposes of this Report, it was deemed necessary to amend the 2017 comparative data in order to take account of the following:

- the aforementioned sale of **TotalErg** on 10 January 2018, which marked the ERG Group's definitive exit from the OIL industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same periods of 2017 is therefore affected by this change in scope. As such, in order to enhance an understanding of the Group's performance in the two periods and in view of its new strategic and industrial positioning, comparative figures for the corresponding period of 2017 were restated so as to exclude the adjusted results[13] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In the

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

first nine months of 2017, this contribution was a positive EUR 25 million (EUR +24 million for the whole of 2017).

- **IFRS 15 - Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant impact on the Group's consolidated financial statements. In particular, for some contracts ERG has been identified as an "agent", requiring the netting of certain operating costs thereby reducing revenue.

The table below presents a summary of the above effects:

	Financial statements	IFRS 15 reclassifications	Reversal of TotalErg inventory gains/losses	Reversal of TotalErg impact	Adjusted income statement
Revenue from sales and services	765.3	(6.6)	–	–	758.7
Other revenue and income	7.1	–	–	–	7.1
Total revenue	**772.4**	**(6.6)**	**–**	**–**	**765.8**
Purchases	(250.0)	–	–	–	(250.0)
Change in inventories	1.3	–	–	–	1.3
Services and other operating costs	(121.2)	6.6	–	–	(114.6)
Personnel expense	(45.9)	–	–	–	(45.9)
EBITDA	**356.4**	**–**	**–**	**–**	**356.4**
Amortisation, depreciation and impairment of non-current assets	(188.1)	–	–	–	(188.1)
EBIT	**168.4**	**–**	**–**	**–**	**168.4**
Net financial expense	(49.3)	–	–	–	(49.3)
Net gains (losses) on equity investments	26.2	–	(1.2)	(25.0)	0.1
Profit before taxes	**145.3**	**–**	**(1.2)**	**(25.0)**	**119.2**
Income taxes	(30.9)	–	–	–	(30.9)
Profit from continuing operations	**114.4**	**–**	**(1.2)**	**(25.0)**	**88.3**
Profit from discontinued operations	–	–	–	–	–
Profit before non-controlling interests	**114.4**	**–**	**(1.2)**	**(25.0)**	**88.3**
Non-controlling interests	–	–	–	–	–
Profit attributable to the owners of the parent	**114.4**	**–**	**(1.2)**	**(25.0)**	**88.3**

THIRD QUARTER 2018	Financial statements	Reversal of IFRS 5 reclassifications - Brockaghboy	Reversal of special items	Adjusted income statement
Revenue from sales and services	250.3	–	–	250.3
Other revenue and income	2.8	–	–	2.8
Total revenue	**253.1**	**–**	**–**	**253.1**
Purchases	(94.3)	–	–	(94.3)
Change in inventories	0.6	–	–	0.6
Services and other operating costs	(39.9)	–	–	(39.9)
Personnel expense	(14.8)	–	–	(14.8)
EBITDA	**104.7**	**–**	**–**	**104.7**
Amortisation, depreciation and impairment of non-current assets	(67.1)	–	–	(67.1)
EBIT	**37.5**	**–**	**–**	**37.5**
Net financial expense	(11.9)	–	(3.4)	(15.3)
Net gains (losses) on equity investments	0.1	–	–	0.1
Profit before taxes	**25.7**	**–**	**(3.4)**	**22.3**
Income taxes	(6.5)	–	0.8	(5.7)
Profit from continuing operations	**19.2**	**–**	**(2.6)**	**16.6**
Profit from discontinued operations	–	–	–	–
Profit for the period	**19.2**	**–**	**(2.6)**	**16.6**
Non-controlling interests	(0.0)	–	–	(0.0)
Profit attributable to the owners of the parent	**19.2**	**–**	**(2.6)**	**16.6**

THIRD QUARTER 2017	Financial statements	IFRS 15 reclassifications	Reversal of TotalErg inventory gains/losses	Reversal of TotalErg impact	Adjusted income statement
Revenue from sales and services	227.0	(2.5)	–	–	224.5
Other revenue and income	2.3	–	–	–	2.3
Total revenue	**229.4**	**(2.5)**	**–**	**–**	**226.9**
Purchases	(78.2)	(0.5)	–	–	(78.7)
Change in inventories	1.3	–	–	–	1.3
Services and other operating costs	(40.1)	3.0	–	–	(37.1)
Personnel expense	(14.1)	–	–	–	(14.1)
EBITDA	**98.2**	**–**	**–**	**–**	**98.2**
Amortisation, depreciation and impairment of non-current assets	(62.4)	–	–	–	(62.4)
EBIT	**35.8**	**–**	**–**	**–**	**35.8**
Net financial expense	(15.3)	–	–	–	(15.3)
Net gains (losses) on equity investments	14.3	–	(4.0)	(10.1)	0.2
Profit before taxes	**34.8**	**–**	**(4.0)**	**(10.1)**	**20.7**
Income taxes	(4.9)	–	–	–	(4.9)
Profit from continuing operations	**30.0**	**–**	**(4.0)**	**(10.1)**	**15.8**
Profit from discontinued operations	–	–	–	–	–
Profit before non-controlling interests	**30.0**	**–**	**(4.0)**	**(10.1)**	**15.8**
Non-controlling interests	–	–	–	–	–
Profit attributable to the owners of the parent	**30.0**	**–**	**(4.0)**	**(10.1)**	**15.8**

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Date	Sector	Significant events	Press release
20 October 2018	**Corporate**	To coincide with the celebration of ERG's 80th anniversary, the parent company San Quirico S.p.A. and ERG S.p.A. signed an agreement that provides for the free allocation of 80 ERG treasury shares to each employee of the Italian companies of the ERG Group, whose expenses (including therein the value of ERG treasury shares) will be fully repaid by said San Quirico S.p.A., a holding of the Garrone and Mondini families. The allocation, which will be finalised in January 2019, will concern a total maximum number of 675 employees and 54,000 shares, currently held in the portfolio by the company, and will have a total estimated value of around EUR 1.1 million. In addition, ERG decided to attribute to the employees of all Group companies, an extraordinary amount of EUR 1,500 which, with reference to the employees of foreign companies, will be increased by an amount corresponding to the value of the shares assigned to each employee of the Italian companies. The total estimated value of this payment is approximately EUR 1.2 million.	Press release of 20.10.2018
		As part of the celebration of the ERG's 80th anniversary, the Group has also stated its readiness to donate EUR 1 million to the Municipality of Genoa to help with the renovation and sustainable development projects in Valpolcevera following the collapse of the Morandi bridge.	
25 October 2018	**Thermoelectric**	ERG S.p.A., through its subsidiary ERG Power Generation S.p.A., and E.ON Energia S.p.A., signed a framework agreement for the three-yearly supply of electricity intended for the Italian market, which can be renewed for an additional year. The agreement makes provision for ERG's supply to E.ON of a total electricity volume of up to around 3TWh in the 2019-21 three-year period, which will meet the needs of customers who are increasingly more sensitive to environmental sustainability. Based on the agreement, ERG will be able to supply the volumes of electricity required by E.ON to cover the hourly requirements of its customers.	Press release of 25.10.2018

BUSINESS OUTLOOK

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

Wind

ERG continues its strategy of international development in Wind power. In fact, thanks to the purchases of the wind farms Melier (8 MW), Vent d'Est (16.25 MW), plus the planned entry into operation during the year of the wind farms under construction of Torfou (18 MW) and Vallée de l'Aa (13 MW), installed capacity in France will exceed 300 MW by the end of 2018. As regards Italy, EBITDA is expected to decrease, in line with the expectations of the 2018-2022 Business Plan, as a result of the negative effect of the new legislation on imbalances, the gradual exit from the incentive system of approximately 72 MW in the course of the year and of the lower price of the incentive, the value of which is determined on the basis of the average price of electricity recorded in 2017. Abroad, the result is expected to be roughly in line with the previous year, while the greater installed power in France and the favourable scenario in Poland more than offset the loss of the double green certificate in Romania.

In general, the total EBITDA of the Wind sector is thus expected to record a clear decrease, also in light of poor wind conditions recorded in the first nine months of the year both in Italy and abroad.

Solar

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

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

For the whole of 2018, EBITDA exceeding EUR 30 million is estimated, in line with the provisions of the Industrial Plan.

Hydroelectric

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

The EBITDA of the hydroelectric sector is expected to rise markedly.

Thermoelectric

During 2018, ERG will continue to improve the operating efficiency of the ERG Power CCGT plant. Results are expected to decrease as a result of a less favourable price scenario and the reduction in the price of white certificates, partly mitigated by participation in the dispatching services market and the recoveries of operating efficiency and Energy Management activities.

The EBITDA of the thermoelectric sector is expected to fall.

Therefore, FY2018 EBITDA forecast is confirmed within a range of between Euro 490 and 500 million, with growth compared to 2017 (Euro 472 million) despite the decreasing incentivised perimeter in the Italian Wind Power sector and the lower incentive price as regards both Wind and Hydro. These effects are more than offset by the contribution of the new Solar Power assets and the new overseas wind farms, as well as the forecast growth in volumes as regards the Hydro sector.

FY2018 investments are expected to be in a range of between Euro 520 and 540 million, in line with the previous indication.

ERG's cash generation, both operational and arising from the sales of TotalErg and Brockaghboy, will keep borrowing largely stable at around EUR 1.35 billion (EUR 1.23 billion in 2017), partially offsetting the investments in the period as well as the ordinary and extraordinary distribution of dividends at EUR 1.15 per share and the payment of financial expenses.

Genoa, 13 November 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

DECLARATION BY THE MANAGER IN CHARGE OF FINANCIAL REPORTING PURSUANT TO THE PROVISIONS OF ART. 154-*BIS*, PARAGRAPH 2 OF LEGISLATIVE DECREE 58/1998 (ITALIAN CONSOLIDATED FINANCE ACT)

The Manager in charge of financial reporting of ERG S.p.A., Paolo Luigi Merli, hereby declares, pursuant to paragraph 2 of art. 154-*bis*, of the Italian Consolidated Finance Act, that the accounting information contained in this Interim Management Report, corresponds to the documentary results, the books and the accounting records.

Genoa, 13 November 2018

The Manager in charge
of financial reporting
Paolo Luigi Merli

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