INTERIM DIRECTORS' REPORT

AT 31 MARCH 2019

ERG

EVOLVING ENERGIES

INTRODUCTION

QUARTERLY REPORT

It should be noted that on 23 February 2017 the Board of Directors of ERG S.p.A. deliberated, pursuant to Article 82-ter of the Issuers Regulations, to continue to prepare, on a voluntary basis, Interim Directors' Reports (as at 31 March and 30 September) in line with the content of the interim reports of the previous years, in accordance with valuation and measurement criteria established by the International Financial Reporting Standards (IFRS), which will be approved and subsequently published as in previous years with the information given to the market up to now, or within 45 days from the end of the first and the third quarter of the year.

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

Disclosure pursuant to Articles 70 and 71 of the Issuers Regulations

The Group 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.

Operating segments

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, therefore the wind and hydroelectric power results include the hedges entered into in relation to renewable sources ("RES") and the thermoelectric results include the hedges on the "spark spread".

Alternative Performance Indicators (APIs) and adjusted results

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

For the definition of the indicators and the reconciliation of the amounts involved, please refer to the specific “Alternative Performance Indicators” section and the comments in the following IFRS 16 paragraph.

IFRS 16

IFRS 16 - Financial Instruments has been applied from 1 January 2019.

The Group, as lessee, has recognised a new liability for leases and higher Right of use assets amounting to approximately EUR 63 million at 1 January 2019 related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory.

The application of the new standard has changed the nature and the representation in the income statement of charges for operating leases: these costs are now recognised as amortisation of the right of use and as financial charges correlated to the liability linked to the discounting of future payments of leasing instalments. Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially in line with the financial occurrence of relative rentals payments.

The application of the IFRS 16 standard has therefore involved:

- the improvement in EBITDA in respect of the leasing instalments that fall within the scope of IFRS 16, of around EUR 1.8 million in the first quarter of 2019;
- the increase (EUR 65 million at 31 March 2019) of the net financial indebtedness and of the net invested capital in relation to the application of the asset method indicated by the new standard;
- greater depreciation and amortisation expense (EUR 1.5 million) and greater financial expenses (EUR 0.8 million) linked to the application of the above-mentioned asset method.

At the time of the first application, ERG availed itself of the option to use the modified retroactive method, therefore without restating previous financial years for comparison.

In view of foregoing submissions, in order to represent the business actual profitability, it has been deemed opportune to recognise, in the **Adjusted Income Statement**, leasing costs within the Adjusted EBITDA, in accordance with management reports for the previous years and with the financial expression (periodic instalment) of the same.

Also in accordance with the **adjusted net financial indebtedness** and the **adjusted net invested capital**, these are represented net of the liability linked to the discounting of future payments of leasing instalments.

For the definition of the above-mentioned amounts, reference is made to that indicated in the “Alternative Performance Indicators” section.

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[1]

Chairman
EDOARDO GARRONE *(executive)*

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

Chief Executive Officer
LUCA BETTONTE

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

BOARD OF STATUTORY AUDITORS[5]

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
FABRIZIO CAVALLI

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

PAOLO LUIGI MERLI

INDEPENDENT AUDITORS

KPMG S.p.A.[6]

1 Board of Directors appointed on 23 April 2018.
2 Director in charge of the Internal Control and Risk Management System.
3 With reference to the provisions of Article 148, paragraph 3, of the Italian Consolidated Finance Act.
4 With reference to the provisions of Article 148, paragraph 3, of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.
5 Board of Statutory Auditors appointed on 17 April 2019.
6 Appointed on 23 April 2018 for the period 2018-2026.

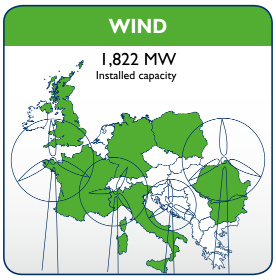
BUSINESS DESCRIPTION

The ERG Group is a major independent operator in the production of electricity from renewable sources such as wind, solar, hydroelectric and high-efficiency cogenerative thermoelectric power plants.

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 and Maintenance activities of its Italian wind farms and part of the plants in France and Germany, as well as the Terni hydroelectric hub 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.

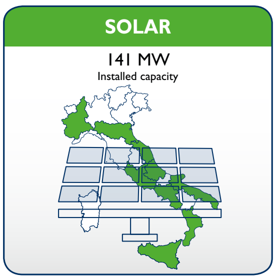
ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



Wind

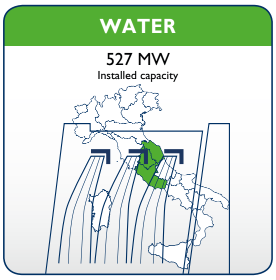
ERG is active in the generation of electricity from wind sources, with 1,822 MW of installed power at 31 March 2019. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (729 MW operational), mainly in France (307 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).



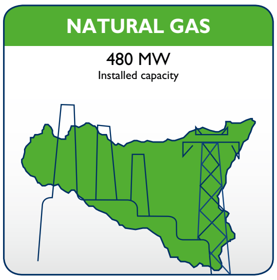
Solar

ERG is active in the generation of electricity from solar sources, with an installed capacity of 141 MW, an increase of 51.4 MW following the acquisition in January 2019 of two photovoltaic plants in Lazio, which have been added to the 31 photovoltaic plants acquired in 2018, 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, linked by a network of rivers and canals of over 150 km with a capacity of 527 MW.

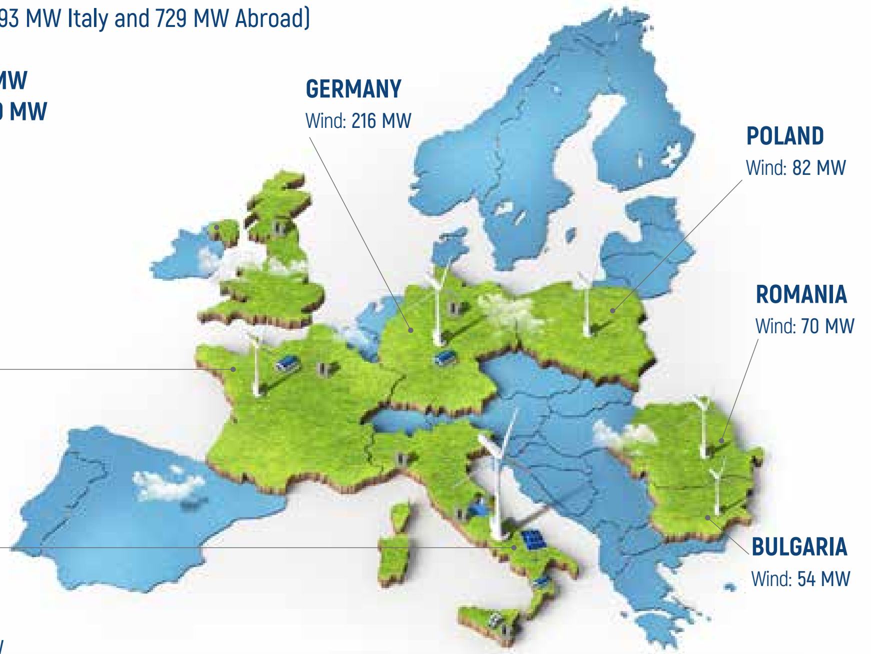


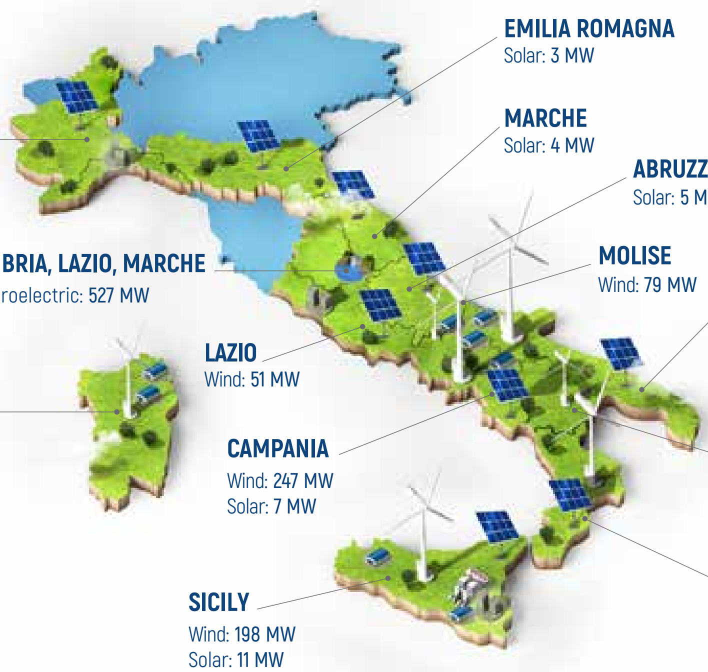
Thermoelectric

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 31 MARCH 2019

Wind: **1,822 MW** (1,093 MW Italy and 729 MW Abroad)
Solar: **141 MW**
Hydroelectric: **527 MW**
Thermoelectric: **480 MW**





Wind farm | Solar farm | Hydroelectric plant | Thermoelectric plant | Offices | Logistic centre

FULL CONSOLIDATION SCOPE AT 31 MARCH 2019

ORGANISATIONAL MODEL

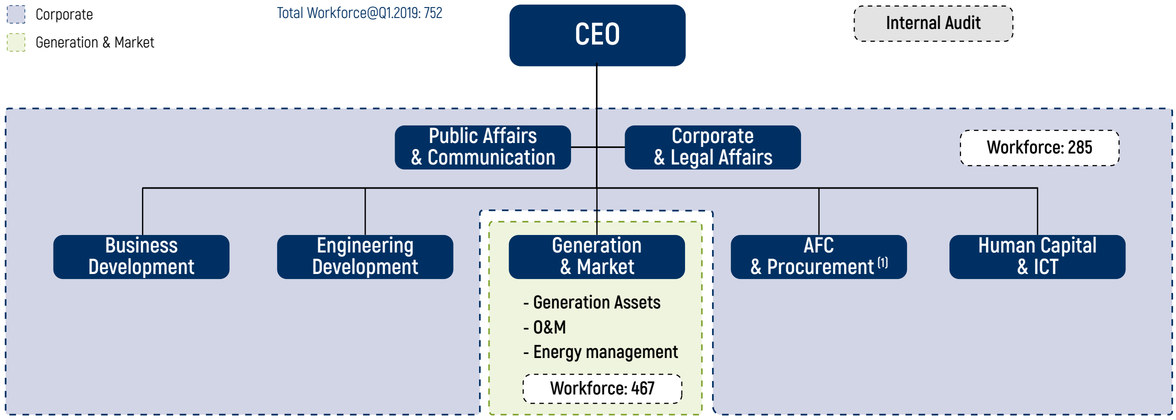
The group's organisational structure is characterised by the definition of two macro-roles:

- 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.

Lastly, it should be noted that in January 2019 the Engineering Development Organisational Unit was established, reporting directly to the Group CEO, with the mission of creating value by ensuring the implementation of the Group's new industrial investments (development engineering and construction), according to the objectives set out in the 2018-2022 Business Plan.

- 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 process engineering technological excellence relative 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.

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 FIRST QUARTER OF 2019

Solar

On **12 February 2019** ERG, through its subsidiary ERG Solar Montalto S.r.l., completed the **acquisition** by Soles Montalto GmbH, an investment fund managed by the AREM group - a European asset manager in the renewable sector, of 78.5% of Perseo S.r.l., owner of 100% of Andromeda PV S.r.l., a company which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW.

It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation.

The plants are located in Montalto di Castro (Lazio), and in 2018 recorded a total output of 85.6 GWh and an EBITDA of EUR 30 million. Equipped with Sun Power and uni-axial tracker technology, the plants on average came into operation in the 4th quarter of 2010 and will benefit from the second feed-in premium for 20 years, until 2030.

The enterprise value of the transaction is of around EUR 221 million, corresponding to the equity value of the acquired portion of EUR 97 million and the net financial position of the Target as at 31 December 2018 of EUR 124 million.

This Report reflects the impacts of the consolidation of the companies acquired since 1 January 2019: for more information on the Purchase Price Allocation for solar, reference is made to the section "Financial Statements and Alternative Performance Indicators".

ERG’S STOCK MARKET PERFORMANCE

On 29 March 2019[7], the reference price of ERG’s shares was EUR 16.87, up (+2.2%) from the end of 2018, in the presence of an increase, in the same period, in the FTSE All Share index (+15.7%), the FTSE Mid Cap index (+12.4%) and the Euro Stoxx Utilities Index (+11.1%).

During the period under review, the listed price of the ERG share ranged between a minimum of EUR 15.69 (25 March 2019) and a maximum of EUR 17.84 (18 January 2019).

Figures relating to the prices and exchange volumes of ERG’s shares at 29 March 2019 are set out below:

Share price	EUR
Reference price as at 29.03.19	16.87
Maximum price (18.01.19) (1)	17.84
Minimum price (25.03.19) (1)	15.69
Average price	17.04

(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

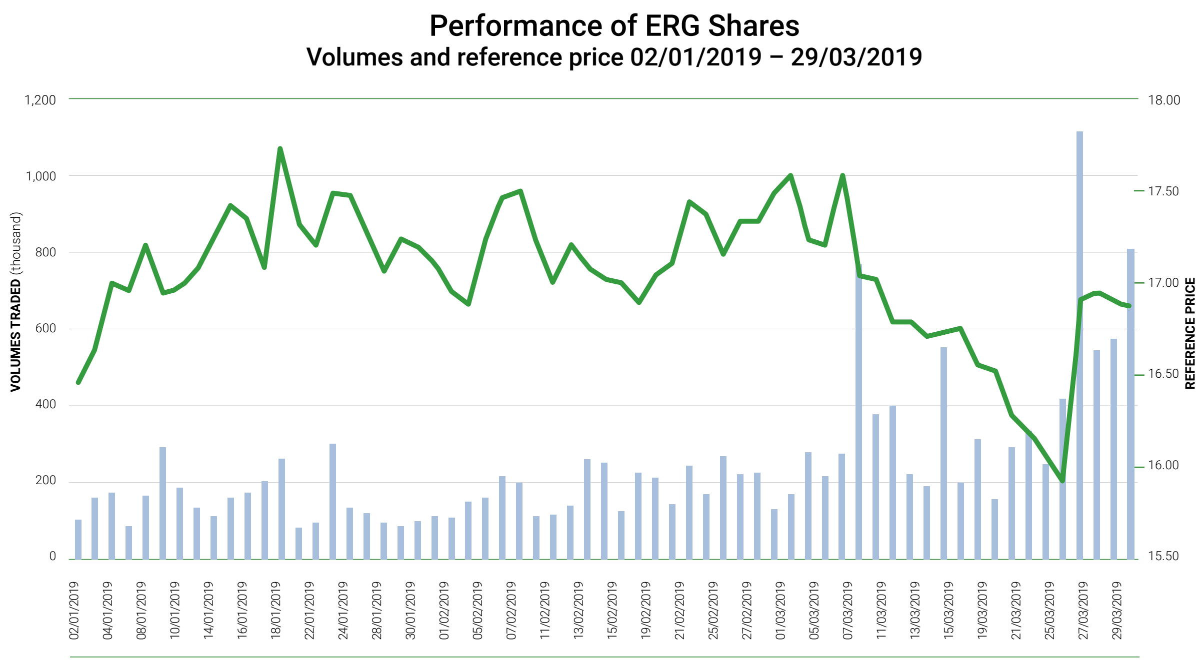
Volumes traded	No. of shares
Maximum volume (26.03.19)	1,113,089
Minimum volume (21.01.19)	75,726
Average volume	242,060

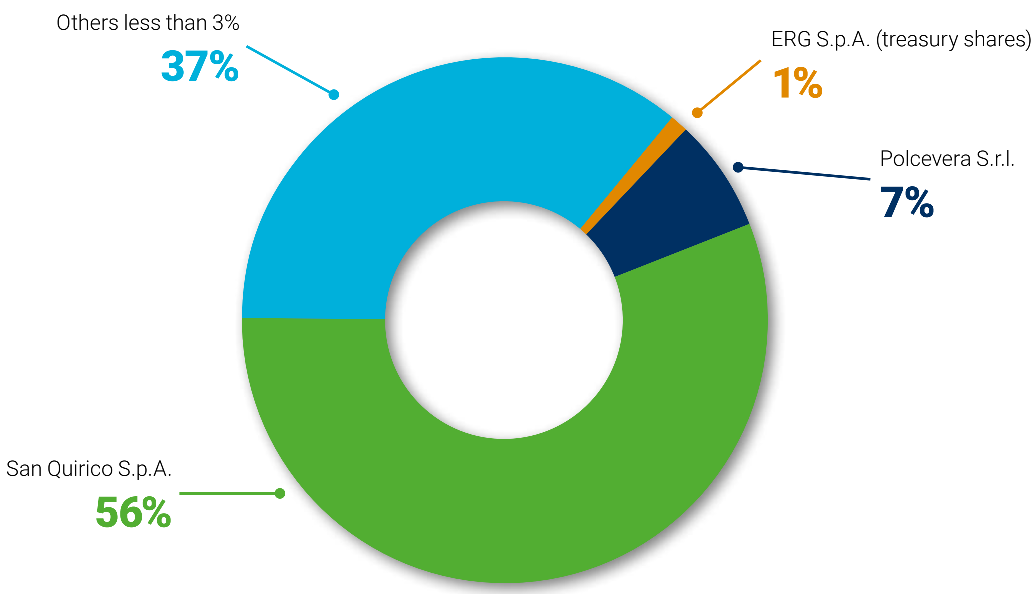
Market capitalisation was approximately EUR 2,536 million at 29 March 2019 (EUR 2,480 million at the end of 2018).

The average number of shares outstanding in the period was 148,864,018.

7 Last available day for the quotation of the first quarter of 2019.

Performance of ERG Shares and Shareholding Structure





SIGNIFICANT EVENTS DURING THE QUARTER

Date	Sector	Significant events	Press release
11 January 2019	Solar	**Acquisition** by Soles Montalto Gmbh of 78.5% of Perseo S.r.l., owner of 100% of Andromeda PV S.r.l. which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW. The transaction's closing date was 12 February 2019.	Press release 11/01/2019
14 January 2019	Corporate	**Finalisation of the free allocation of 80 ERG treasury shares** to each employee of the Italian companies of the ERG Group. The allocation, announced on 20 October 2018 (see press release of same date), concerned a total number of 664 employees and 53,120 shares held in the portfolio by ERG S.p.A., with a total value, including the relative ancillary costs of EUR 1.1 million.	Press release 14/01/2019
15 January 2019	Wind France	Completion of the **commissioning phase for Parc Eolien de la Vallée de Torfou** (**17.6 MW**, with an estimated average annual output of 47 GWh), a wind farm forming part of the 768 MW of assets under construction and being developed by Epuron, acquired last year (see press release of 6/4/2018) and of Parc Eolien Vallée de l'Aa (13.2 MW, with an estimated average annual output of 29 GWh), corresponding to an overall total of around 45,000 tonnes of avoided CO_2 emissions per annum	Press release 15/01/2019
4 February 2019	Corporate	ERG was ranked 16th in the "**Corporate Knights Global 100 Most Sustainable Corporations in the World Index**" published by the Canadian company Corporate Knights. With a score of 75.39%, ERG was the top Italian company, as well as the only Italian company in the Top 50.	Press release 04/02/2019
6 March 2019	Solar	Suspension of the constitution of the joint venture **ERG Q Solar 1**.	Press release 06/03/2019
13 March 2019	Corporate	The early collection of EUR 36.6 million object of the **Vendor Loan** granted to a.p.i. S.p.A. at the time of signature of the agreement for the sale of TotalErg S.p.A.	Press release 13/03/2019
25 March 2019	Wind France	Subscription of an agreement with Profond Finanzgesellschaft AG, based in Zurich, for the **acquisition of 100% of the capital of "Les Moulins de Frouges S.a.s."**, a French company owning six wind farms with total installed capacity of 52 MW located in the Hauts-de-France region in Northern France. The transaction's closing took place on 6 May 2019.	Press release 25/03/2019

PERFORMANCE HIGHLIGHTS

Year 2018	(EUR million)		1st quarter 2019	1st quarter 2018
	KEY FINANCIAL DATA			
1,027	Adjusted revenue		296	284
491	**Adjusted EBITDA**		**164**	**162**
216	**Adjusted EBIT**		**92**	**94**
133	Net profit		49	85
133	*of which profit attributable to owners of the parent*		*49*	*85*
107	**Of which adjusted profit attributable to owners of the parent** (1)		**54**	**56**
	KEY FINANCIAL DATA			
3,172	**Adjusted net invested capital** (2)		**3,411**	**3,197**
1,829	Equity		1,897	1,968
1,343	Adjusted total net financial indebtedness (2)		1,514	1,229
1,178	*of which non recourse Project Financing* (3)		*1,327*	*1,365*
42%	Financial leverage		44%	38%
48%	**EBITDA Margin %**		**55%**	**57%**
	OPERATIONAL DATA			
1,822	**Installed capacity of wind farms at the end of the period**	MW	**1,822**	**1,783**
3,464	Electric power output from wind farms	kWh million	1,328	1,219
480	**Installed capacity of thermoelectric plants at the end of the period**	MW	**480**	**480**
2,151	Electric power output from thermoelectric plants	kWh million	618	527
527	**Installed capacity of hydroelectric plants at the end of the period**	MW	**527**	**527**
1,740	Electric power output from hydroelectric plants	kWh million	301	469
90	**Installed capacity of solar plants at the end of the period**	MW	**141**	**90**
130	Electric power output from solar plants	kWh million	44	21
13,627	**Total sales of electric power**	kWh million	**4,070**	**3,654**
510	Capital expenditure (4)	EUR million	233	365
737	**Employees at the end of the period**	Units	**752**	**714**
	NET UNIT REVENUE (5)			
124.9	Wind Italy	EUR/MWh	120.4	125.9
94.5	Wind Germany	EUR/MWh	100.6	93.4
87.4	Wind France	EUR/MWh	88.6	87.5
63.5	Wind Poland	EUR/MWh	68.9	50.0
74.8	Wind Bulgaria	EUR/MWh	81.2	71.1
58.2	Wind Romania	EUR/MWh	72.0	49.7
100.4	Wind UK	EUR/MWh	n.a.	100.4
293.5	Solar	EUR/MWh	326.8	288.5
106.6	Hydroelectric	EUR/MWh	107.6	94.0
41.4	Thermoelectric	EUR/MWh	36.0	50.8

To enhance the understanding of the Group's business performance, adjusted revenue and operating results are shown, therefore excluding special items.

(1) does not include special items and related applicable theoretical taxes

(2) also as already indicated in the Introduction, net financial indebtedness and the adjusted net invested capital are represented net of the effects deriving from the application of IFRS 16, therefore excluding the recognition of assets and the discounting of future payments of leasing instalments of around EUR 65 million at 31 March 2019.

(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 non-current assets. They include M&A investments of EUR 220 million made in the first quarter of 2019 for the acquisition of two photovoltaic plants from Soles Montalto GmbH with a total installed capacity of 51.4 MW. In the first quarter of 2018 M&A investments were equal to EUR 357 million in relation to the acquisition of the companies of the ForVei Group (solar) and for the acquisitions of companies owning wind farms in France.

(5) net unit revenue is expressed in EUR/MWh and is calculated by dividing the technology output by the revenue achieved on energy markets, inclusive of the impact of hedges, of any incentives due and the relative variable costs associated to generation/sale including, for example, the cost of fuel and imbalance costs.

PERFORMANCE BY SECTOR

Year 2018	(EUR million)	1st quarter 2019	1st quarter 2018
	ADJUSTED REVENUE		
389	Wind	144	133
38	Solar	15	6
194	Hydroelectric	32	44
405	Thermoelectric (1)	106	101
36	Corporate	9	9
(36)	*Intra-segment revenue*	*(9)*	*(9)*
1.027	**Total adjusted revenue**	**296**	**284**
	ADJUSTED EBITDA		
274	Wind	115	107
32	Solar	13	5
146	Hydroelectric	23	35
53	Thermoelectric (1)	17	18
(15)	Corporate	(4)	(2)
491	**Adjusted EBITDA**	**164**	**162**
	AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES		
(159)	Wind	(40)	(41)
(24)	Solar	(10)	(5)
(58)	Hydroelectric	(14)	(15)
(31)	Thermoelectric	(7)	(8)
(3)	Corporate	(1)	(1)
(275)	**Adjusted depreciation and amortisation**	**(72)**	**(69)**
	ADJUSTED EBIT		
115	Wind	75	66
8	Solar	3	0
88	Hydroelectric	9	20
22	Thermoelectric (1)	10	11
(18)	Corporate	(5)	(3)
216	**Adjusted EBIT**	**92**	**94**
	CAPITAL EXPENDITURE (2)		
146	Wind	10	17
345	Solar	220	346
7	Hydroelectric	1	0
8	Thermoelectric	2	2
3	Corporate	0	1
510	**Total capital expenditure**	**233**	**365**

(1) it includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units
(2) includes investments in property, plant and equipment and intangible non-current assets and M&A investments

COMMENTS ON THE PERIOD'S PERFORMANCE

In the first quarter of 2019 **revenue** was EUR 296 million, up compared to the first quarter of 2018 (EUR 284 million), mainly following the increase in wind output both in Italy and abroad as well as in solar output, also following the expansion of the managed assets portfolio, in part offset by lower volumes for hydroelectric output.

Adjusted EBITDA amounted to EUR 164 million, slightly up on the EUR 162 million recorded in the corresponding period in 2018. The change is a result of the following factors:

Wind (+EUR 8 million): EBITDA amounted to EUR 115 million, up with respect to the same period in 2018 (EUR 107 million), in a general context of more favourable wind conditions both in Italy and abroad. In particular, better results for the wind farms in Italy (+EUR 3 million) benefited from greater output (of which 72% incentivised), which have more than offset the lower incentive unit value (92 EUR/MWh compared to 99 EUR/MWh). Result abroad are growing (+EUR 5 million) thanks both to the better price scenario and the greater output of wind farms in all foreign countries. It is reminded that the first quarter of 2018 had benefited from the contribution from the Brockaghboy farm (+EUR 3 million), sold on 7 March 2018.

Solar (+EUR 8 million): EBITDA of EUR 13 million, more than doubled compared to the first quarter of 2018 (EUR 5 million), in particular for the contribution of the newly acquired photovoltaic plants in a favourable context of solar radiation and price scenario.

Hydroelectric (-EUR 11 million): Gross operating margin of EUR 23 million (EUR 35 million for the corresponding period in 2018), sharply down compared to the previous year. Performance was affected by the reduced water resources recorded in the period.

Thermoelectric (-EUR 1 million): the results of thermoelectric generation, amounting to EUR 17 million, is essentially in line with the EUR 18 million in 2018 in spite of the decreased contribution of Energy Efficiency Certificates. The removal of the revaluation of around EUR 3 million for Certificates for the previous year recognised in 2018 was in part offset by the contraction of operational costs as well as by greater volumes of Efficiency Certificates produced in the quarter.

Adjusted EBIT was EUR 92 million (EUR 94 million in 2018) after amortisation and depreciation of EUR 72 million, up EUR 3 million compared to the first quarter of 2018 (EUR 69 million) mainly due to two new Solar investments and the acquisitions of the wind farms in France in the second half of 2018.

Adjusted Group EBIT was EUR 54 million, a slight decrease compared to the EUR 56 million in the first quarter of 2018, as a result of the aforementioned operating results and higher tax rates due to the end of tax benefits linked to economic growth (ACE). In spite of growing indebtedness, financial charges were slightly lower than in the corresponding period in the previous year due to the reduction in the cost of debt.

The **Group's net profit for the period** was EUR 49 million compared to the EUR 85 million in the first quarter of 2018, which benefited from the capital gains relative to the sale of the Brockaghboy wind farm in the United Kingdom (EUR 27 million).

In the first quarter of 2019, **investments** totalled EUR **233 million** (EUR 365 million in the first quarter of 2018) and relate mainly to the acquisition of two photovoltaic plants in Italy (EUR 220 million). During the quarter **EUR 13 million** in investments **in property, plant and equipment and intangible non-current assets** were also made, of which 80% in the Wind sector (67% in the first quarter of 2018), mainly related to the development of the new wind farms in Germany (Windpark Linda), 13% in the Thermoelectric sector (19% in the first quarter of 2018), 4% in the Hydroelectric sector (4% in the first quarter of 2018) and 3% in the Corporate sector (10% in the first quarter of 2018), mostly for ICT.

Adjusted net financial indebtedness totalled **EUR 1,514 million**, up by EUR 171 million compared to 31 December 2018 (EUR 1,343 million). The change reflects the impact deriving from the further growth in the solar sector following the acquisition of two photovoltaic plants in Italy (EUR 220 million) and the investments in the period (EUR 13 million), in part offset by the positive cash flow in the period (EUR 62 million).
Also as already indicated in the Introduction, adjusted net financial indebtedness is represented net of the effects deriving from the application of IFRS 16, therefore excluding the recognition of assets and the discounting of future payments of leasing instalments of around EUR 65 million as at 31 March 2019.

PROFIT FOR THE PERIOD - BUSINESS

REFERENCE MARKET

Price scenario

PRICE SCENARIO (EUR/MWh)

Year 2018		1st quarter 2019	1st quarter 2018
	Italy		
61.3	National single price - Electricity reference price in Italy (baseload) [1]	59.5	54.2
60.7	Electricity price Northern area	59.6	54.3
61.1	Electricity price Central-North area	59.5	54.0
60.9	Electricity price Central-South area	58.7	53.2
59.4	Electricity price Southern area	54.7	51.6
60.7	Electricity price Sardinia	58.6	53.0
69.5	Electricity price Sicily	65.2	59.5
68.8	Zonal price Central-North (peak)	67.1	62.7
99.0	Feed-In Premium (FIP) (former Green Certificates) - Italy	92.1	99.0
	Abroad		
50.0	France (baseload electricity)	47.2	44.0
44.5	Germany (baseload electricity)	41.3	35.6
76.2	Poland	78.8	59.5
52.8	*of which (baseload electricity)*	*50.8*	*44.9*
23.4	*of which Certificates of Origin*	*28.0*	*14.6*
39.9	Bulgaria (baseload electricity)	47.6	33.8
75.8	Romania (baseload electricity + 1 Green Certificate in 2018 and 2 GCs in 2017)	83.6	64.5
46.4	*of which baseload electricity*	*54.2*	*35.1*
29.4	*of which Green Certificate*	*29.4*	*29.4*
113.4	Northern Ireland (baseload electricity + 90% ROC)	115.7	101.9
61.0	*of which baseload electricity*	*61.3*	*54.1*
58.1	*of which ROC*	*60.5*	*53.2*

(1) Single National Price

Italian Market - Demand and output

ITALIAN MARKET [1] **(GWh)**

Year 2018		1st quarter 2019	1st quarter 2018
321,910	Demand	80,341	81,127
2,233	Pumping consumption	652	701
43,909	Import/Export	10,428	13,537
280,234	Internal production [2]	70,565	68,291
	of which		
185,046	*Thermoelectric*	*49,446*	*48,468*
49,275	*Hydroelectric*	*7,500*	*8,519*
5,708	*Geothermal*	*1,417*	*1,431*
17,318	*Wind*	*7,092*	*6,104*
22,887	*Photovoltaic*	*5,110*	*3,769*

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

The electricity demand of the Italian electric system **in the first quarter of 2019** came to 80.3 TWh, down slightly (-1%) compared with the values recorded in the first quarter of 2018. With regard to Sicily, a region in which ERG is present with its CCGT plant, demand of approximately 4.8 TWh was recorded during the period, down slightly (-0.4%) with respect to the first quarter of 2018, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG is active with its hydroelectric plants, the demand for electricity came to 11.0 TWh (-1.4%).

In the same period, net internal electricity output was 70.6 TWh, up by 3% compared with the first quarter of 2018, whilst the net balance of trades with other countries recorded net imports of 10.4 TWh (-23% relative to the first quarter of 2018).

70% of (net) domestic output was covered by thermoelectric power plants and the remaining 30% by renewable sources; specifically, 11% of output was from hydroelectric power, 10% from wind farms, 7% from photovoltaic plants and 2% from geothermal sources. Compared to the first quarter of 2018, there was an increase in photovoltaic (+36%), wind (+16%) and thermoelectric (+2%) outputs, while hydroelectric and geothermal outputs declined (-12% and -1% respectively).

GROUP SALES

The ERG Group's electricity sales, made 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 first quarter of 2019**, total sales of electricity amounted to 4.1 TWh (3.7 TWh in the first quarter of 2018), in the presence of an overall output from the Group plants of approximately 2.3 TWh (2.2 TWh in the same period of 2018), of which roughly 0.5 TWh abroad and 1.8 TWh in Italy. The latter figure corresponds to around 2.2% of electricity demand in Italy (as in the first quarter of 2018).

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

SOURCES OF ELECTRICITY (GWh)	1st quarter	
	2019	2018
Wind - wind power generation Italy	803	732
Wind - wind power generation Abroad	525	487
Solar - photovoltaic power generation	44	21
CCGT - thermoelectric power generation	618	527
Hydroelectric - hydroelectric power generation	301	469
ERG Power Generation S.p.A. - purchases	1,778	1,417
Total	**4,070**	**3,654**

SALES OF ELECTRICITY (GWh)	1st quarter	
	2019	2018
Electricity sold to captive customers	108	127
Electricity sold wholesale (Italy)	3,436	3,040
Electricity sold abroad	525	487
Total	**4,070**	**3,654**

Wholesale sales of electricity include 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 output, in line with Group risk policies.

In the first quarter of 2019, steam sales amounted[9] to 313 thousand tonnes, a marked increase compared to the 170 thousand tonnes in the same period of 2018.

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

Year 2018		1st quarter 2019	2018	Δ	Δ%
1,093	**Italy**	**1,093**	**1,093**	**0**	**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%*
729	**Abroad**	**729**	**690**	**39**	**6%**
	of which				
216	*Germany*	*216*	*216*	*0*	*0%*
307	*France*	*307*	*268*	*39*	*14%*
82	*Poland*	*82*	*82*	*0*	*0%*
54	*Bulgaria*	*54*	*54*	*0*	*0%*
70	*Romania*	*70*	*70*	*0*	*0%*
0	*UK*	*0*	*0*	*0*	*n.a.*
1,822	**Total installed power at the end of the period** (1)	**1,822**	**1,783**	**39**	**2%**

(1) power of plants in operation at period end. It is reminded that the Brockaghboy wind farm in Northern Ireland was sold (47.5 MW) on 7 March 2018

Installed power at 31 March 2019, equal to 1,822 MW, was up 39 MW compared to 31 March 2018 following the start of commercial operations in two wind farms in France from December (for a total of 30.8 MW) and the acquisition in 2018 of one wind farm, again in France, for 8 MW in the second half of the year.

Highlights of adjusted performance items

ECONOMIC RESULTS

Year 2018		1st quarter 2019	1st quarter 2018
389	**Adjusted revenue from sales and services**	**144**	**133**
274	**Adjusted EBITDA** (1)	**115**	**107**
(159)	Amortisation, depreciation and impairment losses (1)	(40)	(41)
115	**Adjusted net operating profit** (1)	**75**	**66**
146	Investments in property, plant and equipment and intangible non-current assets	10	17
70%	**EBITDA Margin %** (2)	**80%**	**80%**
3,464	**Total wind farm generation (GWh)**	**1,328**	**1,219**

(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 increase in consolidated **revenue in the first quarter of 2019**, of approximately EUR 10 million, is due mainly to the greater output due to better wind conditions, both in Italy and abroad, in spite of the lower incentive unit value in Italy (from 99.0 to 92.1 EUR/MWh).

It is noted in particular that, compared to the first quarter of 2018, no longer incentivised output amounts to 8 GWh, for an economic countervalue of less than EUR 1 million.

With regard to net unit revenue in Italy in the first quarter of 2019, taking into consideration the sale price of electricity, incentives (former green certificates) and other minor components, was equal to 120.4 EUR/MWh for ERG in Italy, down compared to the value of 125.9 EUR/MWh in the first quarter of 2018, as a result of the already discussed lower unit value of 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%) by the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year.

The following table reports revenue by country:

ADJUSTED REVENUE

Year 2018		1st quarter 2019	1st quarter 2018	Δ	Δ%
266	**Italy**	**96**	**93**	**3**	**4%**
124	**Abroad**	**47**	**40**	**7**	**18%**
	of which				
33	*Germany*	*13*	*10*	*3*	*27%*
49	*France*	*19*	*18*	*1*	*6%*
14	*Poland*	*6*	*3*	*3*	*89%*
13	*Bulgaria*	*5*	*4*	*1*	*25%*
12	*Romania*	*5*	*2*	*3*	*107%*
3	*UK*	*0*	*3*	*(3)*	*-100%*
389	**Total**	**144**	**133**	**10**	**8%**

NET UNIT REVENUE

Year 2018		1st quarter 2019	2018	Δ	Δ%
124.9	Wind Italy	120.4	125.9	(6)	-4%
94.5	Wind Germany	100.6	93.4	7	8%
87.4	Wind France	88.6	87.5	1	1%
63.5	Wind Poland	68.9	50.0	19	38%
74.8	Wind Bulgaria	81.2	71.1	10	14%
58.2	Wind Romania	72.0	49.7	22	45%
100.4	Wind UK	n.a.	100.4	n.a.	n.a.

In the **first quarter of 2019** net unit revenue in France and Germany was 88.6 EUR/MWh and 100.6 EUR/MWh respectively (including refunds for limitations in Germany). The main changes in net unit revenue abroad were seen in Romania (+45% following the increase in energy sale prices), Poland (+38%, thanks to the significant increase in the sale price of certificates of origin as well as the energy sale price) and Bulgaria (+14%). For completeness, the unit revenue relative to wind farms in Northern Ireland owned by the group until the beginning of March 2018 is also reported.

GENERATION (GWh)

Year 2018		1st quarter 2019	2018	Δ	Δ%
2,012	**Italy**	**803**	**732**	**71**	**10%**
	of which				
439	*Campania*	*195*	*165*	*30*	*18%*
219	*Calabria*	*72*	*65*	*7*	*10%*
471	*Puglia*	*211*	*162*	*49*	*30%*
156	*Molise*	*70*	*54*	*16*	*30%*
178	*Basilicata*	*69*	*63*	*6*	*9%*
341	*Sicily*	*114*	*141*	*(27)*	*-19%*
207	*Sardinia*	*72*	*81*	*(9)*	*-11%*
1,452	**Abroad**	**525**	**487**	**38**	**8%**
	of which				
337	*Germany*	*130*	*107*	*23*	*21%*
552	*France*	*209*	*200*	*9*	*4%*
219	*Poland*	*82*	*61*	*21*	*34%*
138	*Bulgaria*	*49*	*43*	*5*	*12%*
176	*Romania*	*56*	*47*	*9*	*19%*
29	*UK*	*0*	*29*	*(29)*	*-100%*
3,464	**Total plants generation**	**1,328**	**1,219**	**109**	**9%**

In the first quarter of 2019, the **electricity output** from wind power amounted to 1,328 GWh, up compared to the corresponding period in 2018 (1,219 GWh), following an output increasing by approximately 10% in Italy (from 732 GWh to 803 GWh) and by 8% abroad (from 487 GWh to 525 GWh).

The increased output in Italy (+71 GWh) is linked to better wind conditions than those recorded in the same period in 2018 across most regions, with the exception of Sicily and Sardinia.

With regard to abroad, the net increase of 38 GWh is attributable to greater output in Eastern Europe (+35 GWh), Germany (+23 GWh) and France (+9 GWh, of which around 27 GWh from French recently acquired plants or that became operational in the last quarter of the year), net of reduced output in the UK (-29 GWh) following the sale of the Brockaghboy wind farm.

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 %

Year 2018		**1st quarter 2019**	**1st quarter 2018**	**Δ**
21%	**Italy**	**34%**	**31%**	**3%**
	of which			
20%	*Campania*	*36%*	*31%*	*6%*
21%	*Calabria*	*28%*	*25%*	*3%*
22%	*Puglia*	*39%*	*30%*	*9%*
22%	*Molise*	*41%*	*32%*	*9%*
23%	*Basilicata*	*36%*	*33%*	*3%*
20%	*Sicily*	*27%*	*33%*	*-6%*
21%	*Sardinia*	*30%*	*34%*	*-4%*
23%	**Abroad**	**33%**	**31%**	**3%**
	of which			
18%	*Germany*	*28%*	*23%*	*5%*
23%	*France*	*31%*	*35%*	*-3%*
31%	*Poland*	*46%*	*34%*	*12%*
29%	*Bulgaria*	*42%*	*37%*	*5%*
29%	*Romania*	*37%*	*31%*	*6%*
22%	**Load factor** (1)	**34%**	**31%**	**3%**

(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 first quarter of 2019, the overall load factor, equal to 34%, was up with respect to that recorded in the first quarter of 2018 (31%), increasing from 31% to 33% abroad and from 31% to 34% 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 increase in the load factor is attributable to the greater windiness recorded in the period, in particular in February, in addition to the high levels of plant availability.

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

ADJUSTED EBITDA

Year 2018		1st quarter 2019	2018	Δ	Δ%
195	**Italy**	**80**	**77**	**3**	**4%**
79	**Abroad**	**35**	**30**	**6**	**19%**
	of which				
22	*Germany*	*10*	*8*	*2*	*32%*
30	*France*	*14*	*13*	*0*	*1%*
10	*Poland*	*5*	*2*	*3*	*190%*
8	*Bulgaria*	*4*	*3*	*1*	*40%*
7	*Romania*	*3*	*1*	*2*	*202%*
3	*UK*	*–*	*3*	*(3)*	*n.a.*
274	**Total**	**115**	**107**	**8**	**8%**

Adjusted EBITDA for the first quarter of 2019 amounted to EUR 115 million, down with respect to the figures for the same period of the previous year (EUR 107 million), in a general context of more favourable wind conditions both in Italy and abroad.

The higher contribution in Italy (+EUR 3 million) mainly reflects greater output, in addition to a positive scenario for prices in the energy markets, only in part offset by the lower incentive unit value.

The improved results abroad (+EUR 5 million) benefit from the improved environment and greater output in the countries of Eastern Europe, the greater output in Germany as well as, thanks to the greater installed capacity, the greater output in France and in spite of the fact that the first quarter of 2018 had benefited from the contribution of around EUR 3 million from the UK Brockaghboy wind farm sold on 7 March 2018.

The **EBITDA margin** in 2018 was 80%, which was very positive, despite the above-mentioned phase out of the incentives for some plants, and also due to the contribution of the new wind farms abroad.

Capital expenditure

Capital expenditure in the first quarter of 2019 (**EUR 10 million**) refers mainly to the development of Windpark Linda in Germany, which is expected to become operational in the second quarter.

Relevant legislative and regulatory updates during the period

Italy

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

  For the purposes of determining the 2019 feed-in premium (2019 FIP), the Authority disclosed, by means of resolution 16/2019 of 22 January 2019, the average annual value recorded in 2018 for electricity sale prices, equal to 61.91 EUR/MWh. The 2019 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sales price of electricity in the previous year, therefore amounts to 92.11 EUR/MWh.

- **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 later repealed by regional Law no. 16 of 9 August 2018, published in the Official Gazette of the Sicily Region no. 36 of 17 August 2018.

- **Basilicata Region - Wind farms Safety Booklet**

  On 26 February of this year, the Regional Council of Basilicata adopted the "Operational provisions for the preparation of a safety booklet for wind farms" in order to reduce the risk of accidents caused by the accidental breakage of wind turbines (especially small ones).

  The provision, prepared by the Environment and Energy Department, anticipates the preparation of an information booklet through the Region's web portal which has the purpose to induce the subjects responsible for the management of plants to disclose maintenance interventions, as well as annually record the technical and functional checks of all wind turbines in wind farms.

  This instrument will also allow to identify and check the construction, conditions and operational modalities and maintenance of existing plants.

  The annual update will be the responsibility of the person responsible for the management and operation of the wind farm, for the entire life of the same, regardless of the number of wind turbines, their power, and in the light of verification and maintenance interventions carried out.

  These procedures will be necessary so not to incur the application of financial penalties of up to EUR 30,000.

Germany

- **Acceleration of the expansion of the transmission network**

  In mid-December 2018 Chancellor Angela Merkel approved a draft law which facilitates the authorisation procedure, and therefore accelerate the expansion of the German electricity transmission network.

  The acceleration will be possible thanks to the improved coordination of the different planning phases, tighter deadlines and the elimination of superfluous procedures. New higher power transmission lines are also planned to replace existing lines which will no longer be subject to a federal planning process.

- **Extension of the obligation of "Cooperatives" to obtain authorisation to participate in wind power auctions**

  On 29 June, the amendment to the law on renewable energy sources, extending the suspension of the exemption for "citizen energy cooperatives" (Bürgerenergiegenossenschaft) from being required to submit previously authorised projects to auctions, came into force.

  The suspension, which aims to ensure a level playing field for all industrial operators, will be extended to June 2020.

France

- **FIP 2017+ (Arrêté tarifaire du 6 mai 2017)**

  The Feed In Premium planned for renewable projects after 2017 has received the approval of the European Commission for a period covering the three-year period from 2018 to 2020. The French government intends to maintain the "FIP 2017+" until the natural end of the three-year period.

  For wind farms constituted by maximum of 6 turbines with a maximum power of 3 MW each (for a maximum total of 18 MW), it is possible to access FIP through a request of access to incentives. The incentive system is of the type FIP plus premium, allocated for a period of 20 years, made up of an incentive component and a management premium to cover management costs of the sale of energy.

Bulgaria

- **Change to the incentive system**

  In May 2018 an amendment to the Energy Act of Bulgaria was approved which anticipates, among other measures, the incentive scheme to move from a FIT structure to a FIP structure for existing plants with capacity of over 4 MW from 1 January 2019. The incentive is calculated as the difference between the value of the FIT tariff, as previously recognised, and a Reference Price calculated on the estimate of the future price of electricity adjusted on the wind profile.

- **Pronouncement of the Sofia Court of Cassation on the Authority Provision to regulate the energy sector (EWRC) relative to the introduction of a cap on energy eligible for incentives**

  The Sofia Court of Cassation, with pronouncement of 28 January 2019, defined the SP-1 provision of EWRC of 31 July 2015 unlawful. The SP-1 provision had changed the existing regulatory system by introducing, also with retrospective effect, maximum thresholds for the quantity of energy output from wind farms eligible for incentives. On 28 March 2019 EWRC, with provision SP-5, reintroduced the provisions cancelled by the pronouncement of the Court of Cassation, determining provision SP-5 to be retroactively effective from 31 July 2015. Following the above-mentioned SP-5 provision, the Group has lodged an appeal in the relevant forums.

Romania

- **The regulatory Agency has approved an increase in the annual contribution due by operators in the electricity and gas energy sectors**

  At the end of December 2018, the government approved an order including tax and budgetary measures with effects on the electricity, gas and telecommunications sectors. In particular, for electricity producers, there is a provision to increase the annual contribution to the Agency of Natural Resources and Energy (ANRE), set fat 2% of the revenue of the previous year for 2019 compared to 0.1% for 2018. With Decision no. 18 of 25 February 2019, ANRE also clarified that revenue deriving from the sale of Green Certificates is not to be included in the tax basis for the purposes of the calculation of the new contribution.

- **Amendment to tax regulations for wind farms**

  On 3 December 2018 an amendment to the tax regulations requiring the inclusion of the value of wind towers in the tax basis for Local Building Tax was published in the Official Gazette; previously, for the purposes of the calculation of the tax, only the foundations were taken into account.

  There are no impacts for the Group.

UK

- **Great Britain electricity market: Capacity Market**

  On 15 November 2018 the European Court of Justice annulled the 2014 provision of the European Commission declaring the compatibility of the mechanism for the remuneration of capacity with the European discipline of State Aids. The immediate consequence of the judgement was the indefinite postponement of future auctions and the block of all payments due from previous auctions. In the course of the development of the new European Commission verification Procedure, the Energy Department of the British government, with order of 10 April, issued provisions for the restart of the auction for the supply of T-1 2018 capacity (delivery from October 2019), which should have taken place at the end of 2018. The results of the auction are specifically conditioned by the compliance with the regulations on State Aids.

Republic of Ireland and Northern Ireland

- **Start of the Integrated Electric Power Market (I-SEM)**

  Since 1 October 2018 the island of Ireland has a new wholesale electric power market (I-SEM: Integrated-Single Energy Market) integrated with electric power markets of other European countries. In particular, I-SEM introduces a new structure in the in the day ahead market and intraday market, as well as a review of the settlement and network balancing processes in real-time.

- **Capacity Market**

  On 29 June 2018 network operators in the Republic of Ireland and in Northern Ireland published a call for the participation to the T-4 auction for the supply of existing and new capacity for the years 2022/2023. For new construction capacity there is the possibility of winning contracts for the maximum duration of 10 years. The auction, registration for which closed on 25 October, was concluded on 28 March of this year with an assigned volume of 7,412 MW and a clearing price of 46,150 EUR/MW/year.

SOLAR

ERG is active in the generation of electricity from solar sources, with an installed capacity of 141 MW, an increase of 51.4 MW following the acquisition in January 2019 of two photovoltaic plants in Lazio, which have been added to the 31 photovoltaic plants acquired in 2018, which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy, and the plant of ISAB Energy Solare S.r.l, a Group company (installed capacity less than 1 MW and annual output of around 1 GWh, through solar panel installed in Sicily at the IGCC ISAB site in Priolo).

Highlights of adjusted performance items

ECONOMIC RESULTS

Year		1st quarter	
2018	(EUR million)	2019	2018
38	**Adjusted revenue from sales and services**	**15**	**6**
32	**Adjusted EBITDA** (1)	**13**	**5**
(24)	Amortisation, depreciation and impairment losses (1)	(10)	(5)
8	**Adjusted net operating profit** (1)	**3**	**0**
345	Investments in property, plant and equipment and intangible non-current assets	220	346
84%	**EBITDA Margin %** (2)	**86%**	**80%**
130	**Total solar plant generation (GWh)**	**44**	**21**

(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 adjusted revenue from sales and services

In the first quarter of 2019, output was of around 44 GWh, of which 16 GWh relative to newly acquired months; the overall load factor was 14% (11% in the first quarter of 2018).

Revenue for the first quarter of 2019 amounted to EUR 15 million, of which EUR 12 million relating to revenue from the feed-in premium and EUR 2 million to revenue from the sale of energy.

In the first quarter of 2019, the relative **net unit revenue** amounted to 327 EUR/MWh, of which 277 EUR/MWh relating to feed-in premiums and approximately 52 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in the first quarter of 2019 amounted to EUR 13 million, of which EUR 15 million relating to the above-mentioned revenue and EUR 2 million in fixed costs related mainly to maintenance costs.

The **EBITDA margin** for the first quarter of 2019 was 86%.

Capital expenditure

Investments in the first quarter of 2019 referred to the acquisition of two photovoltaic plants, located in Montalto di Castro (Lazio), with an installed capacity of 51.4 MW and an annual output of around 96 GWh, which will benefit from second feed-in premium for 20 years until 2030. The enterprise value of the transaction amounted to approximately EUR 221 million.

Relevant legislative and regulatory updates during the period

With regard to the suspension of authorisations for the installation of photovoltaic plants in Sicily, reference is made to 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.

Highlights of adjusted performance items

The contribution of the hydroelectric assets to the Group's results is shown below:

ECONOMIC RESULTS

Year 2018	(EUR million)	1st quarter 2019	1st quarter 2018
194	**Adjusted revenue from sales and services**	**32**	**44**
146	**Adjusted EBITDA** (1)	**23**	**35**
(58)	Amortisation, depreciation and impairment losses (1)	(14)	(15)
88	**Adjusted net operating profit** (1)	**9**	**20**
7	Investments in property, plant and equipment and intangible non-current assets	1	0
75%	**EBITDA Margin %**	**72%**	**80%**
1,740	**Total hydroelectric plant generation (GWh)**	**301**	**469**

(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 first quarter of 2019, revenue, amounting to EUR 32 million, related mainly to electricity sales (mostly on the spot market) for EUR 19 million, revenue from the feed-in premium (former Green Certificates) for EUR 12 million, and revenue from MSD for EUR 1 million.

The costs are essentially attributable to the concession fees, personnel expenses, operation and maintenance costs, insurance payments and costs for services.

Adjusted EBITDA in the first quarter of 2019 amounted to EUR 23 million (EUR 35 million in the first half of 2018), a decrease of EUR 12 million, mainly due to the reduced availability of water resources.

The average sale prices reflect both the electricity sales price, which benefits from the modulation of the plants, and the feed-in premium (former green certificate), recognised on a portion of approximately 40% of output with a lower unit value than that of 2018 of 99 EUR/MWh and equal to approximately 92 EUR/MWh.

ERG Hydro's total output in the first quarter of 2019 of 301 GWh has 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 108 EUR/MWh, higher than the 94 EUR/MWh in the first quarter of 2018.

The EBITDA margin for the first quarter of 2019 was 72% in total, down compared to the 80% of the first quarter of 2018.

The final load factor for the period, of 26% (41% in the first quarter of 2018) was affected by the reduced availability of water resources.

The level of the reservoirs of the Turano, Salto and Corbara lakes at the end of the period were respectively approximately 525, 525 and 129 metres above sea level, a steady increase with respect to the levels of 31 December 2018 (respectively 522, 518 and 124 metres above sea level).

Capital expenditure

Hydroelectric investments, totalling EUR 1 million, relate mainly to maintenance orders and planned projects in the fields of seismic improvement of infrastructures, health, safety and the environment.

Relevant legislative and regulatory updates during the period

There is nothing to report in the period.

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

  Reference is made to the Wind section.

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

ECONOMIC RESULTS

Year		1st quarter	
2018	**(EUR million)**	**2019**	**2018**
405	**Adjusted revenue from sales and services**	**106**	**101**
53	**Adjusted EBITDA** (1)	**17**	**18**
(31)	Amortisation, depreciation and impairment losses (1)	(7)	(8)
22	**Adjusted net operating profit** (1)	**10**	**11**
8	Investments in property, plant and equipment and intangible non-current assets	2	2
13%	**EBITDA Margin %**	**16%**	**18%**
2,151	**Total thermoelectric plant generation (GWh)**	**618**	**527**

(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 zonal 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 the **first quarter of 2019**, ERG Power's net electricity generation was 618 GWh, up compared to the same period of 2018 (527 GWh), in relation to the more favourable market context, with increased net generation margins due to the gradual increase in the prices of CO_2 in the period reflected in the sale 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 313 thousand tonnes, up strongly with respect to the 170 thousand tonnes in the same period in 2018.

The adjusted EBITDA in the **first quarter of 2019** amounted to EUR 17 million (EUR 18 million in the same period in 2018), essentially in line in spite of the decreased contribution for the current year of Energy Efficiency Certificates due to the CCGT plant qualifying as high performance cogenerating energy, which in 2018 benefited for approximately EUR 3 million from the revaluation of Certificates matured in the previous year, mainly thanks to the higher volume of Energy Efficiency Certificates produced in the period (122 thousand of Certificates compared to 103 thousand for the corresponding period in 2018), as well as the control of operating costs.

Capital expenditure

Investments in the first half of 2019 (EUR 2 million) mainly refer to the ERG Power CCGT plant which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects.

Relevant legislative and regulatory updates during the period

- **Essential units pursuant to Italian Legislative Decree 91/2014**

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

  The ARERA then confirmed said situation by way of Resolution 274/2016/R/eel.

  The CCGT plant of ERG Power Generation was subject to the of essential plants required by Italian Legislative Decree 91/2014 until 27 May 2016.

  With reference to the compensation scheme request relative to the period from 1 January 2016 to 27 May 2016, with resolution 841 of 5 December 2017 ARERA provided for the recognition of an extraordinary account. Subsequently, with resolution no. 48 of 12 February 2019, ARERA has implemented the quantification of the adjustment value, equal to EUR 4.7 million, relative to the 2016 compensation scheme, and the determined value resulted slightly higher than that already recognised. The payment of the adjustment was finalised in favour of ERG Power Generation S.p.A. on 28 February 2019.

INCENTIVE FRAMEWORK

WIND POWER SECTOR INCENTIVES

Italy

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

Germany

- **Plants that entered into operation by July 2014**: feed-in tariffs (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).
- From 2018 to June 2020 **cooperatives** may participate to the auctions only if in possess of authorisation like the other wind power producers.

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.
  From 2019, for existing plants with capacity of over 4 MW, the incentive scheme has moved from a FIT structure to a FIP structure. The incentive is calculated as the difference between the value of the FIT tariff, as previously recognised, and a Reference Price calculated on the estimate of the future price of electricity adjusted on the wind profile.

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 the previous year, plus 25%. • **A multi technology wind** - photovoltaic **auction system was reintroduced in 2018**. Auction contingents 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. Specifically: a) recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (it takes place at constant instalments through the years 2018-2025); b) period of validity of the GCs, which is planned until 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.

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 feed-in tariff was introduced in Italy with Interministerial Decrees of 28/07/2005 and of 06/02/2006 (1st Feed-in Premium) which provided for a financing system for electric power generation operating expenses. • New measures were introduced with Italian Ministerial Decree of 19/02/2007 (2nd Feed-in Premium) such as the application of the incentive tariff on all energy produced by the plant and differentiation of tariffs also in function of the type of architectural integration and the size of the plant. • In 2010, the 3rd Feed-in Premium came into effect with Italian Ministerial Decree of 06/08/2010, applicable to plants which came into operation from 1 January 2011 to 31 May 2011, which introduced specific tariffs for integrated photovoltaic plants with innovative characteristics. Law n. 129/2010 (so-called "save Alcoa law") then confirmed the 2010 tariffs of the 2nd Feed-in Premium for all plants able to certify the conclusion of works by 31 December 2010 and become operational by 30 June 2011. • Italian Ministerial Decree of 05/05/2011 (4th Feed-in Premium) defined the incentive mechanism relating to plants coming into operation after 31 May 2011 and introduced an annual cumulative cost limit for incentives, set at EUR 6 billion. • Italian Ministerial Decree of 05/07/2012 (5th Feed-in Premium) partly confirmed the provisions of Italian Ministerial Decree of 05/05/2011 and fixed the cumulative cost of incentives at EUR 6.7 billion. The incentive provisions of the Feed-in Premium were no longer applied after 6 July 2013 when the ceiling of EUR 6.7 billion was reached. • The provisions contained in the Ministerial Decree of 17 October 2014 (so-called "incentive spreading") provided, by November 2014, for 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 unit incentive by a value of between 17% and 25%, depending on the residual life of the right to incentives; b) an initial period of incentive reduction followed by a subsequent period of 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 sale 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 understandability of the Group's performance, as already indicated in the Introduction, the operating results are shown in this section excluding the impact relative to the application of the IFRS 16 standard and of special items.

For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, reference is made to that indicated in the section Alternative Performance Indicators below.

		1st quarter	
(EUR million)		**2019**	**2018**
Revenue	1	296.5	284.4
Other income	2	3.0	2.8
TOTAL REVENUE		**299.4**	**287.1**
Purchases costs and change in inventories	3	(78.1)	(69.3)
Services and other operating costs	4	(41.9)	(40.7)
Personnel expense		(15.8)	(14.6)
EBITDA		**163.7**	**162.5**
Amortisation, depreciation and impairment of non-current assets	5	(71.9)	(68.6)
EBIT		**91.8**	**93.9**
Net financial income (expense)	6	(17.6)	(18.1)
Net gains (losses) on equity investments	7	0.0	0.0
Profit before taxes		**74.3**	**75.9**
Income taxes	8	(20.3)	(19.5)
Profit for the period		**53.9**	**56.4**
Non-controlling interests		0.1	(0.1)
Profit attributable to owners of the parent		**54.0**	**56.3**

1 - Revenue

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms, thermoelectric installations, hydroelectric plants and solar installations. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. Specifically, electricity 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.

The revenue for the **first quarter of 2019** was EUR 296 million, up compared with EUR 284 million in 2018. The change is a result of the following factors:

- the increase (+EUR 10 million) in the **Wind sector** following greater outputs both in Italy and abroad (a total of EUR 144 million, compared to EUR 133 million);
- the increase in the **Solar sector** (+EUR 9 million), following further growth in the sector due to the acquisition of two photovoltaic plants with installed capacity of 51.4 MW (EUR 15 million compared to EUR 6 million);
- **Hydroelectric sector**, down on the corresponding period of the previous year (-EUR 12 million) due to the reduced water availability in the period (EUR 32 million compared to EUR 44 million);
- the increase (+EUR 5 million) in the **Thermoelectric sector** (EUR 106 million, compared to EUR 101 million).

2 - Other revenue and income

These mainly include insurance reimbursements, compensation and expense repayments, in material chargebacks to third parties and grants related to income.

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.

4 - Services and other operating costs

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

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

5 - Amortisation, depreciation and impairment losses

Amortisation and depreciation refer to wind farms, hydroelectric sector plants, the CCGT plant and solar installations. The increase is mainly linked to higher amortisation and depreciation due to the acquisition of new photovoltaic installations at the start of 2019 and to the change in scope of the wind power plants acquired in France in the second half of 2018, partly offset by the removal of amortisation and depreciation for the Brockaghboy wind farm in the UK.

6 - Net financial expense

Net financial expense in the first quarter of 2019 were EUR 18 million, in line with 2018.

The average cost of medium-long term debt in 2018 was of 3.1% compared to 3.2% in the first quarter of 2018. Remuneration of invested liquidity was higher than in 2018 because of interest rate trends.

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

Lastly, it is specified that adjusted net financial charges for the first quarter of 2019 do not include the following negative components (special items):

- financial charges (-EUR 1 million), linked to the reversal effect recognised in application of standard IFRS 9 and relating to refinancing operations in previous years;
- financial expenses (-EUR 2 million) relative to prepayment of a corporate loan in the first quarter of 2019.

7 - Net gains (losses) on equity investments

During the first quarter 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 line "Net gains (losses) on equity investments" of the adjusted income statement for the first quarter of 2018.

8 - Income taxes

Adjusted EBITDA in the first quarter of 2019 amounted to EUR 20 million (EUR 19 million in the first half of 2018). The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 27% (26% in first half of 2018). The tax rate increase is mainly attributable to the 2019 Budget Law's revocation of ACE (Aid to economic growth) from 1 January 2019.

ADJUSTED STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, used in the preparation of the annual financial report, 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.

The adjusted reclassified statement of financial position is shown below and does not include, at 31 March 2019, impacts deriving from the application of IFRS 16 standard of EUR 65 million on net financial indebtedness with a balancing entry of equal amount in Net invested capital.

ADJUSTED RECLASSIFIED BALANCE SHEET

31/03/2018	(EUR million)		31/03/2019	31/12/2018
3,322.6	Non-current assets	1	3,470.2	3,273.6
196.9	Net working capital	2	255.9	179.3
(6.4)	Provisions for employee benefits		(5.8)	(5.8)
318.8	Other assets	3	318.6	291.7
(634.9)	Other liabilities	4	(627.6)	(567.0)
3,197.0	**Net invested capital**		**3,411.3**	**3,171.8**
1,966.7	Equity att. to the owners of the parent		1,878.9	1,828.8
1.2	Non-controlling interests	5	18.2	0.0
1,229.1	Net financial indebtedness	6	1,514.2	1,343.0
3,197.0	**Equity and financial debt**		**3,411.3**	**3,171.8**
38%	**Financial leverage**		44%	42%

1 - Non-current assets

(EUR million)	Intangible non-current assets	Property, plant and equipment	Financial non-current assets	Total
Non-current assets as at 31/12/2018	**930.8**	**2,288.3**	**54.5**	**3,273.6**
Capital expenditure	0.6	12.3	0.0	12.9
Change in the consolidation scope	128.0	129.4	0.0	257.4
Divestments and other changes	0.4	(2.1)	(0.2)	(1.9)
Amortisation and depreciation	(15.2)	(56.7)	0.0	(71.9)
Non-current assets as at 31/03/2019	**1,044.6**	**2,371.3**	**54.3**	**3,470.2**

The "Change in the consolidation scope" relates to the acquisition of two photovoltaic plants in Italy, fully consolidated.

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

The values at 31 March 2019 do not include the assets linked to the application of IFRS 16 of around EUR 65 million[10].

10 Net of what already recognised under Other assets as prepayments on leasing instalments.

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.

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.

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 increase is mainly linked to the appropriation of the deferred tax liability recognised in the context of the purchase price allocation procedure relative to the already mentioned "ERG Solar Montalto" business combination.

5 - Non-controlling interests

The increase in minority interest in the first quarter of 2019 is linked to the already mentioned acquisition of part of the equity (78.5%) of Perseo S.r.l. ("ERG Solar Montalto" business combination).

6 - Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

31/03/2018	(EUR million)	31/03/2019	31/12/2018
1,939.9	Medium/long-term financial indebtedness	1,482.6	1,832.2
(710.8)	Short-term financial indebtedness (cash and cash equivalents)	31.6	(489.2)
1,229.1	**Total**	**1,514.2**	**1,343.0**

Emission Bond and refinancing operations

On 4 April 2019 ERG completed the placement of a non-convertible bond for an amount of EUR 500,000,000 with a maturity of 6 years at fixed rate, issued in the context of its own Euro Medium Term Notes (EMTN) Programme. The issue took the form of a Green Bond, aimed at financing or refinancing renewable sources, wind and solar power generation projects of the ERG Group.

The issue was very successful, being over six times oversubscribed, receiving applications from top standing investors and representatives from many geographical areas, with significant participation of green and sustainable investors. The notes, which have a minimum unit value of EUR 100,000, pay an annual gross coupon at a fixed rate of 1.875% and were placed at an issuing price of 99.674% of their nominal value.

Since December 2018 ERG S.p.A. has had a public rating of BBB- from the Fitch Ratings agency; the issue also benefited from the BBB- rating by Fitch Rating.

Thanks to the liquidity deriving from the issue of the bond, from revenue deriving from a 5-year bilateral corporate loan subscribed with Commerzbank and from the liquidity generated by the ERG Group, in the first part of the second quarter of 2019, the Group proceeded to pay off the following loans ahead of time:

- a loan for ERG Wind Investments Ltd. with a net nominal book value at 31 March 2019 of EUR 460 million[11]. The loan was hedged by an IRS derivative instrument with a fair value at the end of the period of EUR 53 million;
- a loan for ERG Power S.r.l with a net nominal book value at 31 March 2019 of EUR 49 million. The loan was hedged by an IRS derivative instrument with a fair value at the end of the period of EUR 2 million;

In view of the foregoing submissions the above-mentioned project financing and the relative hedging instruments were reclassified in this interim report under Current net financial indebtedness.

The issue of the first Green Bond by ERG and the repayment of the above mentioned project financing is consistent with the strategy of progressive transformation of the Group's financial structure from Project to Corporate Financing and allows to rebalance the burden of corporate debt, which becomes prevalent, with respect to project financing borrowing.

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

31/03/2018	(EUR million)	31/03/2019	31/12/2018
671.0	Medium/long term bank loans	623.3	794.0
(119.4)	Current portion of loans and borrowings	(54.1)	(162.0)
205.8	Non-current financial liabilities	159.4	204.8
757.4	**Total**	**728.6**	**836.8**
1,364.5	Total Project Financing	1,327.2	1,177.6
(146.0)	Current portion of Project Financing	(573.2)	(146.2)
1,218.5	**Non-current Project Financing**	**754.0**	**1,031.4**
(36.0)	**Long-term financial receivables**	**0.0**	**(36.1)**
1,939.9	**TOTAL**	**1,482.6**	**1,832.2**

- The "**Non-current bank borrowings**" at 31 March 2019 total EUR 623 million (EUR 794 million at 31 December 2018), and refer to:
  - 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);

11 The net book value is of EUR 417 million, net of the positive fair value relative to the notional of approximately EUR 44 million.

- a corporate loan with Mediocredito (EUR 66 million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year.
- two Environmental, Social and Governance senior loan ("ESG Loans") with BNL (EUR 120 million) entered into in the fourth quarter of 2018, and with Credit Agricole (EUR 120 million), entered into in the first quarter of 2019, with the purpose to support the substantial investment plan of the Group and to refinance certain corporate credit lines, thus allowing a significant extension of the duration of the debt while improving its financial terms.

It is noted that in the first quarter of 2019 a corporate acquisition loan of EUR 291 million, subscribed in 2015 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., was paid off early.
The loans indicated above are recognised net of ancillary costs, recognised with the amortised cost method (EUR 4 million) and the effect of the renegotiation of borrowing (EUR 4 million) following the application of IFRS 9.

- The **current portion of loans and borrowings** (EUR 54 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

- "**Non-current loans and borrowings**", amounting to EUR 160 million, refer mainly to:
  - net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 43 million (EUR 88 million at 31 December 2018). It is specified that Other current loans and borrowings include the impact of fair value of the derivatives linked to the ERG Wind loan, paid off early in April 2019.
  - 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 correlated to a deferred component (EUR 12 million) of the consideration for the acquisition of Creag Riabhach Wind Farm Ltd., older of authorisations for the construction of a wind farm in Scotland and of the consideration for the acquisition of the Epuron Group (EUR 5 million).

- The payables for "**Total Project Financing**" (EUR 1,327 million at 31 March 2019) are for:
  - EUR 49 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.
  - EUR 302 million in loans related to the companies newly acquired from Soles Montalto in the first quarter, the companies acquired in 2018 from the ForVei (Solare) Group and the subsidiary ISAB Energy Solare;
  - EUR 976 million in loans issued for the construction of wind farms, of which EUR 417 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 44 million. With regard to the ERG Wind acquisition, it is noted that in accordance with IFRS 3 the financial liability relating to

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

Project Financing is measured, when calculating 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 at 31 March 2019 came to EUR 10 million.
It is noted that in the adjusted Income Statement revenue and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place are highlighted as special items.
The component of the consideration for the transfer of TotalErg to api S.p.A of the value of EUR 36 million was collected in the first quarter, ahead of time.

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

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

31/03/2018	(EUR million)	31/03/2019	31/12/2018
42.2	Current amounts payable to banks	20.1	20.1
119.4	Current portion of loans and borrowings	54.1	162.0
2.4	Other current financial liabilities	57.1	3.9
164.1	**Current financial liabilities**	**131.3**	**185.9**
(650.4)	Cash and cash equivalents	(410.8)	(611.4)
(145.7)	Securities and other current financial receivables	(39.3)	(47.1)
(796.1)	**Current financial assets**	**(450.0)**	**(658.5)**
146.0	Current Project Financing	573.2	146.2
(224.8)	Cash and cash equivalents	(222.9)	(162.8)
(78.8)	**Project Financing**	**350.3**	**(16.6)**
(710.8)	**TOTAL**	**31.6**	**(489.2)**

The current portion of mortgages and loans relates to maturity dates set by the Corporate financing amortisation plans.

Other current loans and borrowings include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 55 million in relation to the ERG Wind loan, paid off early in April 2019.

Current financial assets also include cash collateral on the trading operation on futures derivative instruments.

The amount of liquidity has decreased in the first quarter of 2019 due to the acquisition of two photovoltaic plants from Soles Montalto Gmbh.

The current portion of project financing includes the Group's loans closed in the second quarter of 2019.

Cash flows

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

Year 2018	(EUR million)	1st quarter 2019	1st quarter 2018
490.6	Adjusted EBITDA	163.7	162.5
(114.0)	Change in net working capital	(85.1)	(64.6)
376.6	**Operative Cash Flow**	**78.6**	**97.9**
(60.2)	Investments in property, plant and equipment and intangible non-current assets	(12.9)	(8.1)
(449.4)	Company acquisitions (business combination)	(219.6)	(357.3)
–	Capital expenditure in financial fixed assets	–	(1.7)
179.5	Sale of equity investment in TotalErg	–	179.5
105.7	Sale of Brockaghboy net assets	–	105.8
(0.2)	Divestments and other changes	0.5	(1.3)
(224.5)	**Cash Flow from capital expenditure/divestments**	**(232.1)**	**(83.1)**
(69.7)	Financial income (expense)	(17.6)	(18.1)
(0.1)	Net gains (losses) on equity investment	0.0	0,0
(69.8)	**Cash Flow from financial management**	**(17.6)**	**(18.0)**
(20.5)	**Cash Flow from tax management**	**–**	**–**
(171.1)	Distribution of dividends	–	–
1.4	Other changes in equity	(0.2)	8.9
(169.7)	**Cash Flow used in equity**	**(0.2)**	**8.9**
(2.4)	**Change in the consolidation scope**	**–**	**(2.2)**
1,232.7	**Opening net financial indebtedness**	**1,343.0**	**1,232.7**
110.3	*Net change*	*171.2*	*(3.6)*
1,343.0	**Closing net financial indebtedness**	**1,514.2**	**1,229.1**

Operative Cash flow in the **first quarter of 2019** was a positive EUR 79 million, a decrease of EUR 19 million compared to the same period of 2018, primarily due to seasonal dynamics of working capital relative to the methods of payment of incentives in a context of greater wind output in Italy as well as seasonal dynamics linked to the start of operations of wind farms in France.

Cash flow from investments in the first quarter of 2019 is mainly linked to M&A operations and in particular to the acquisition of two photovoltaic plants with total installed capacity of 51.4 MW from Soles Montalto Gmbh (EUR 220 million), as well as investments in property, plant and equipment and intangible fixed assets (EUR 13 million).

Cash flow used in financial management refers to the interest accrued during the period.

Cash flow used in equity relates mainly to the impact of changes in the hedging reserve linked to derivative financial instruments.

Adjusted net financial indebtedness totalled **EUR 1,514 million**, up by EUR 171 million compared to 31 December 2018 (EUR 1,343 million). The change reflects the impact deriving from the further growth in the solar sector following the acquisition of two photovoltaic plants in Italy (EUR 220 million) and the investments in the period (EUR 13 million), in part offset by the positive cash flow in the period (EUR 62 million).

CONSOLIDATION SOLAR

On 12 February 2019 ERG finalised the agreement with Soles Montalto GmbH, an investment fund managed by the AREM group - a European asset manager in the renewable sector - to acquire 78.5% of Perseo S.r.l., owner of 100% of Andromeda PV S.r.l., a company which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW.
The enterprise value of the transaction is of around EUR 221 million, corresponding to the equity value of the acquired portion of EUR 97 million and the net financial position of the Target estimated at 31 December 2018 of EUR 124 million.

At the date of this Report, a temporary purchase price allocation procedure was performed on the basis of the available information: consistently with the indications of IFRS 3 and in consideration of the short period of time between the acquisition date and the date of preparation of the document, this procedure shall be deemed provisional and subject to changes and adjustments.
Additional details, including any updates regarding prices and the allocation of gains, and the related accounting effects, will be provided in the interim half-year financial statements at 30 June 2019.

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

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

The acquisition was measured according to the provisions of IFRS 3 on business combinations; based on this standard, for the transaction to be properly accounted for, it is necessary to:
- determine the acquisition cost;
- determine the fair value of the acquired assets and liabilities assumed;
- allocate, at the date of acquisition, the cost of the business combination to the acquired assets and the liabilities assumed, including those not recognised before the acquisition;
- recognise any goodwill acquired in the business combination.

In the determination of the fair value of the acquired assets and liabilities, the main differences identified refer to the measurement of non-current assets and, in particular, authorisations for the generation of electricity at feed-in tariffs for solar installations in operation. These assets were provisionally measured with the support of models set up when assessing the validity of the investment; The valuation was carried out on 100% of identifiable assets: the greater identified values were attributed to the relative minority portion.

The difference between the total acquisition price and the fair value of the acquired assets and liabilities was recognised residually as goodwill (EUR 29 million).

The impact of the transaction on the Group's net financial indebtedness is EUR 220 million and refers to the acquisition price paid (EUR 96 million) and to the net financial position of the acquired companies.

The impacts of Solar Consolidation are set out below:

(EUR million)	Solar Consolidation
Non-current assets	**257.4**
Net working capital	**5.0**
Provisions for employee benefits	–
Other assets	5.6
Other liabilities	(30.2)
Net invested capital	**237.9**
Equity att. to the owners of the parent	–
Non-controlling interests	18.3
Net financial indebtedness	219.6
Equity and financial debt	**237.9**

IFRS 16

The Group has applied IFRS 16 - Financial Instruments has been applied from 1 January 2019.
The new standard introduces a single model of accounting for leases in the financial statements of lessees according to which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are exceptions to the application of IFRS 16 for short-term leases and for low value assets. The accounting procedures for the lessor remain similar to those foreseen by the standard currently in force, i.e. the lessor continues to classify the lease as operating or finance.

IFRS 16 replaces the current provisions on leases, including IAS 17-Leases, IFRIC-4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group has applied IFRS 16 from the date of first adoption (i.e. 1 January 2019) using the modified retrospective approach. Therefore, the cumulative effect of the adoption of IFRS 16 is recognised to adjust the opening balance at 1 January 2019, without restating the comparative information.

The Group, as lessee, has recognised a new liability for leases and higher Right of use assets amounting to approximately EUR 63 million at 1 January 2019 related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory.
The application of the new standard has changed the nature and the representation in the income statement of charges for operating leases: these costs are now recognised as amortisation of the right of use and as financial charges correlated to the liability linked to the discounting of future payments of leasing instalments. Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially in line with the financial occurrence of relative rentals payments.

The application of the IFRS 16 standard has therefore involved:

- the improvement in EBITDA in respect of the leasing instalments that fall within the scope of IFRS 16, of around EUR 1.8 million in the first quarter of 2019;
- the increase (EUR 65 million at 31 March 2019) of the net financial indebtedness and of the net invested capital in relation to the application of the asset method indicated by the new standard;
- greater depreciation and amortisation expense (EUR 1.5 million) and greater financial expenses (EUR 0.8 million) linked to the application of the above-mentioned asset method.

At the time of the first application, ERG availed itself of the option to use the modified retroactive method, therefore without restating previous financial years for comparison.

In view of the foregoing submissions, in order to represent the business actual profitability, it has been deemed opportune to recognise, in the Adjusted Income Statement, leasing costs within the Adjusted EBITDA, in accordance with management reports for the previous years and with the financial expression (periodic instalment) of the same and in continuity with the representation in previous years.
Also in accordance with the adjusted net financial indebtedness and the adjusted net invested capital, these are represented net of the liability linked to the discounting of future payments of leasing instalments.

For the definition of the above-mentioned amounts, reference is made to that indicated in the "Alternative Performance Indicators" section.

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 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:

- **Adjusted revenue** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components (special items);
- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment losses" 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 of an extraordinary nature (special items) and with the adjustment of the legal impacts of IFRS 16;
- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income components of an extraordinary nature (special items) and with the adjustment of the legal impacts of IFRS 16;
- **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 profit or loss components of an extraordinary nature (special items) and the adjustment linked to the legal impacts of IFRS 16, 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;
- **Adjusted net invested capital** is Net invested capital, as defined above, with the inclusion of impacts relative to the application of IFRS 16 mainly linked to the increase in right of use assets;
- **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 assets relative to derivative financial instruments. Until 31 December 2018 the indicator also included the non-current financial loan to api S.p.A. (EUR 36 million) as deferred component of the TotalErg sale price;
- **Adjusted net financial indebtedness** is the adjusted net financial indebtedness, as defined above, net of the liability linked to the discounting of future payments of leasing instalments, following the application of IFRS 16.
- **Financial leverage** is calculated by comparing total net financial liabilities (including Project Financing) to the adjusted 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

Year 2018		Note	1st quarter 2019	1st quarter 2018
479.6	**EBITDA for continuing operations**		**163.2**	**159.2**
3.3	*Contribution of discontinued operations (Brockaghboy)*	**1**	*0.0*	*3.3*
482.9	**EBITDA**		**163.2**	**162.5**
	Special items exclusion and impact of IFRS 16			
	Corporate			
2.7	- Reversal of ancillary charges on non-recurring operations (Special Projects)	**2**	2.3	–
–	- Adjustment for impact of IFRS 16	**3**	(0.2)	–
5.1	- Reversal liabilities/charges ERG80	**4**	–	–
	Thermoelectric			
–	- Adjustment for impact of IFRS 16	**3**	(0.2)	–
	Hydroelectric			
–	- Adjustment for impact of IFRS 16	**3**	(0.0)	–
	Solar			
–	- Adjustment for impact of IFRS 16	**3**	(0.1)	–
	Wind			
–	- Adjustment for impact of IFRS 16	**3**	(1.3)	–
490.6	**Adjusted EBITDA**		**163.7**	**162.5**

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Year 2018		Note	1st quarter 2019	1st quarter 2018
(274.1)	**Amortisation and depreciation expense for continuing operations**		**(73.3)**	**(67.9)**
(0.7)	*Contribution of discontinued operations (Brockaghboy)*	**1**	–	*(0.7)*
(274.8)	**Amortisation, depreciation and impairment losses**		**(73.3)**	**(68.6)**
	Special items exclusion			
0.0	**- Adjustment for impact of IFRS 16**	**3**	**1.5**	**–**
(274.8)	**Adjusted depreciation and amortisation**		**(71.9)**	**(68.6)**

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Year 2018		Note	1st quarter 2019	1st quarter 2018
132.6	**Profit attributable to owners of the parent**		**49.2**	**84.9**
	Special items exclusion and impact of IFRS 16			
0.0	*Exclusion impact of IFRS 16*	**3**	*0.3*	–
0.0	*Exclusion of ancillary charges on corporate financial prepayments*	**5**	*1.6*	–
2.2	*Exclusion of ancillary charges on non-recurring operations*		*2.2*	–
4.4	*Exclusion liabilities/charges ERG80*		*0.0*	–
(26.4)	*Exclusion of capital gain from sale of UK equity investment*		*0.0*	*(26.5)*
(6.0)	*Exclusion of the net gain on refinancing (IFRS 9)*	**6**	*0.6*	*(2.3)*
107.0	**Adjusted profit attributable to owners of the parent**		**54.0**	**56.3**

1 The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5. In this Interim Financial Report, to facilitate understanding of the figures, it was deemed necessary to show and comment the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold under ordinary operations, in line with the approach already adopted in the Report on Operations on the 2018 Financial Statements.

2 Ancillary charges relating to other operations of a non-recurrent nature and capitalised charges on holdings managed as ancillary charges on the Group consolidated financial statements following the acquisition of two photovoltaic plants in the first quarter of 2019.

3 Adjustment for impact of IFRS 16. Reference is made to the comments made in the previous article.

4 Charges related to the ERG Group's 80th anniversary celebrations in the fourth quarter of 2018.

5 Financial expenses correlated to the early closure of a Corporate loan in the context of a refinancing process of some credit lines for ERG S.p.A.

6 The Group renegotiated a number of loans during the year. Standard 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 a net gain of approximately EUR 1 million being accounted for in the first quarter of 2019. 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, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein 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.

INCOME STATEMENT 1ST QUARTER 2019 (EUR million)	**Financial statements**	**Adjustment for impact of IFRS 16**	**Reversal Special items**	**Adjusted income statement**
Revenue	296.5	–	–	296.5
Other income	3.0	–	–	3.0
Total revenue	**299.4**	**–**	**–**	**299.4**
Purchases	(78.8)	–	–	(78.8)
Change in inventories	0.7	–	–	0.7
Services and other operating costs	(42.3)	(1.8)	2.3	(41.9)
Personnel expense	(15.8)	–	–	(15.8)
EBITDA	**163.2**	**(1.8)**	**2.3**	**163.7**
Amortisation, depreciation and impairment of non-current assets	(73.3)	1.5	–	(71.9)
EBIT	**89.9**	**(0.4)**	**2.3**	**91.8**
Net financial income (expense)	(21.3)	0.8	2.9	(17.6)
Net gains (losses) on equity investments	0.0	–	–	0.0
Profit before taxes	**68.6**	**0.4**	**5.2**	**74.3**
Income taxes	(19.4)	(0.1)	(0.8)	(20.3)
Profit from continuing operations	**49.2**	**0.3**	**4.4**	**53.9**
Net profit from continuing operations	–	–	–	–
Net profit for the period	**49.2**	**0.3**	**4.4**	**53.9**
Non-controlling interests	0.1	–	–	0.1
Profit attributable to the owners of the parent	**49.2**	**0.3**	**4.4**	**54.0**

INCOME STATEMENT 1ST QUARTER 2018: (EUR million)	**Financial statements**	**Reversal reclassifications IFRS 5 Brockaghboy**	**Reversal Special items**	**Adjusted income statement**
Revenue from sales and services	281.4	2.9	–	284.4
Other revenue and income	1.9	0.9	–	2.8
Total revenue	**283.3**	**3.8**	**–**	**287.1**
Purchases	(69.8)	(0.0)	–	(69.8)
Change in inventories	0.4	–	–	0.4
Services and other operating costs	(40.1)	(0.6)	–	(40.7)
Personnel expense	(14.6)	–	–	(14.6)
EBITDA	**159.2**	**3.3**	**–**	**162.5**
Amortisation, depreciation and impairment of non-current assets	(67.9)	(0.7)	–	(68.6)
EBIT	**91.3**	**2.6**	**–**	**93.9**
Net financial income (expense)	(14.6)	(0.6)	(2.8)	(18.1)
Net gains (losses) on equity investments	0.0	26.8	(26.8)	0.0
Profit before taxes	**76.7**	**28.8**	**(29.6)**	**75.9**
Income taxes	(20.3)	(0.2)	1.0	(19.5)
Profit (loss) from continuing operations	**56.5**	**28.5**	**(28.6)**	**56.4**
Net profit (loss) from continuing operations	28.5	(28.5)	–	–
Net profit (loss) for the period	**85.0**	**–**	**(28.6)**	**56.4**
Non-controlling interests	(0.1)	–	–	(0.1)
Profit (loss) attributable to the owners of the parent	**84.9**	**–**	**(28.6)**	**56.3**

RECLASSIFIED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2019 **(EUR million)**	**Reported Statement of financial position**	**Adjustment for impact of IFRS 16**	**Adjusted statement of financial position**
Intangible non-current assets	1,044.6	–	1,044.6
Property, plant and equipment	2,440.1	(68.8)	2,371.3
Participating interests and other financial non-current assets	54.3	–	54.3
Non-current assets	**3,539.0**	**(68.8)**	**3,470.2**
Inventories	22.2	–	22.2
Trade receivables	311.8	–	311.8
Trade payables	(76.8)	–	(76.8)
Excise duties payable to tax authorities	(1.3)	–	(1.3)
Net working capital	**255.9**	**–**	**255.9**
Post-employment benefits	(5.8)	–	(5.8)
Other assets	315.0	3.6	318.6
Other liabilities	(627.6)	–	(627.6)
Net invested capital	**3,476.5**	**(65.2)**	**3,411.3**
Equity attributable to the owners of the parent	1,878.6	0.3	1,878.9
Non-controlling interests	18.2	–	18.2
Medium/long-term financial indebtedness	1,543.9	(61.3)	1,482.6
Short-term net financial indebtedness	35.8	(4.2)	31.6
Equity and financial debt	**3,476.5**	**(65.2)**	**3,411.3**

(EUR thousand)	Financial Statements	Non-current assets	Net working capital	Post-employment benefits	Other assets	Other liabilities	REPORTED NET INVESTED CAPITAL	REPORTED Net financial indebtedness	Adjustment for impact of IFRS 16	ADJUSTED NET INVESTED CAPITAL	ADJUSTED Net financial indebtedness
Intangible non-current assets	867.0	867.0					**867.0**			**867.0**	
Goodwill	177.6	177.6					**177.6**			**177.6**	
Property, plant and equipment	2,371.3	2,371.3					**2,371.3**			**2,371.3**	
Right of use of leased assets	68.8	68.8					**68.8**		**(68.8)**	**–**	
Equity investments	14.0	14.0					**14.0**			**14.0**	
Other non-current financial assets	40.3	40.3					**40.3**			**40.3**	
Deferred tax assets	130.6				130.6		**130.6**			**130.6**	
Other non-current assets	42.1				42.1		**42.1**			**42.1**	
Non-current assets	**3,711.8**										
Inventories	22.2		22.2				**22.2**			**22.2**	
Trade receivables	311.8		311.8				**311.8**			**311.8**	
Other current assets	142.2				142.2		**142.2**		**3.6**	**145.8**	
Current financial assets	41.1							(41.1)			**(41.1)**
Cash and cash equivalents	633.6							(633.6)			**(633.6)**
Current assets	**1,150.9**										
Discontinued operations	**–**										
TOTAL ASSETS	**4,862.7**										
Equity attributable to the owners of the parent	1,878.6								**0.3**		
Non-controlling interests	18.2								**–**		
Equity	**1,896.8**								**–**		
									–		
Provisions for employee benefits	5.8			(5.8)			**(5.8)**		**–**	**(5.8)**	
Deferred tax liabilities	314.7					(314.7)	**(314.7)**		**–**	**(314.7)**	
Other non-current provisions	143.9					(143.9)	**(143.9)**		**–**	**(143.9)**	
Non-current financial liabilities	1,482.6							1,482.6			**1,482.6**
Liability for leased assets (non-current)	61.3							61.3	**(61.3)**		**–**
Other non-current liabilities	35.3					(35.3)	**(35.3)**		**–**	**(35.3)**	
Non-current liabilities	**2,043.5**								**–**		
									–		
Other current provisions	47.9					(47.9)	**(47.9)**		**–**	**(47.9)**	
Trade payables	76.8		(76.8)				**(76.8)**		**–**	**(76.8)**	
Current financial liabilities	706.3							706.3			**706.3**
Liability for leased assets (current)	4.2							4.2	**(4.2)**		**–**
Other current liabilities	87.2		(1.3)			(85.9)	**(87.2)**		**–**	**(87.2)**	
Current liabilities	**922.4**										
Discontinued operations	**–**										
TOTAL EQUITY AND LIABILITIES	**4,862.7**										
Adjusted reclassified balance sheet		**3,539.0**	**255.9**	**(5.8)**	**315.0**	**(627.6)**	**3,476.5**	**1,579.7**		**3,411.3**	**1,514.2**

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Date	Sector	Significant events	Press release
4 April 2019	**Corporate**	**Placement** of a non-convertible bond of an amount of EUR 500,000,000 with a maturity of 6 years at a fixed rate, issued in the context of its own EUR 1 million Euro Medium Term Notes (EMTN) Programme.	Press release 04/04/2019
2 May 2019	**Wind UK**	**Acquisition** by RES, an international company in the renewable energy sector, of a 100% equity interest in Craiggore Energy Ltd., a company incorporated under Northern Irish law, holder of authorisations for the construction of a wind farm in Northern Ireland, in the county of Londonderry. The total estimated investment required to build the wind farm is approximately GBP 37 million (around EUR 41 million), already including the amount paid to purchase the equity investment.	Press release 02/05/2019
6 May 2019	**Wind France**	Completion of the **acquisition of six wind farms in France** with an installed capacity of 52 MW.	Press release 06/05/2019

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2019 is as follows:

Wind

ERG continues its strategy of international development in Wind power; in particular abroad, the forecast is for a growth in results thanks to the full contribution of the wind farms in Melier (8 MW), Torfou (17.6 MW) and Vallée de l'Aa (13.2 MW), which entered service in 2018, and the contribution of the newly acquired wind farms in France (52 MW) as well as the anticipated entry into service of the Linda wind farm (21.6 MW) in Germany. As regards Italy, thanks to the good windiness levels recorded in the first few months of the year, EBITDA is expected to be in line with 2018 despite the lower price of the incentive, the negative effect for the duration of 2019 of the 72 MW which exited the incentive scheme in 2018, and the progressive exit of a further 32 MW during the year.

In general, the total EBITDA of the Wind sector is thus expected to grow compared to the previous year.

Solar

In 2019, ERG increased its presence in the Solar sector with the acquisition of ANDROMEDA (51 MW), further strengthening its strategy of technological diversification. In addition, the considerable size of the operation (around 140 MW) also in the light of the acquisition in 2018 of ForVei (89 MW) will make it possible to extend and optimise the Energy Management portfolio and capitalise on industrial expertise in the management of assets.

An EBITDA of approximately twice the level of 2018 (EUR 32 million) is forecast for the 2019 financial year.

Hydroelectric

taking into account the low volumes recorded in the first few months of the year, it is forecast that results for this asset will be lower compared to 2018, which had benefited from volumes significantly higher compared to historical averages, as well as from the lower price of the incentive which benefits around 40% of the output; the forecast of a lower volume will be accompanied by the optimisation of production by Energy Management on spot markets and of dispatching services. EBITDA for the hydroelectric sector is therefore forecast to be significantly lower compared to the exceptionally high values recorded in 2018.

Thermoelectric

During 2019, ERG will continue to improve the operating efficiency of the ERG Power CCGT plant, also following the planned shut-down in November/December 2018. Generation margins (so-called spark spread) are expected to improve following the drop in the price of gas and the transfer of CO_2 costs to final sales prices. Furthermore, thanks to operational efficiency recoveries, the activity of Energy Management on energy markets and the greater production of White Certificates (TEE), EBITDA is forecast to grow compared to 2018.

In brief, at consolidated level for the 2019 financial year, EBITDA is forecast within a range of between EUR 495 million and EUR 515 million, up compared to 2018 (EUR 491 million) despite the forecast reduction in volumes in the Hydro sector, a decreasing incentivised perimeter in the Italian Wind sector and the lower incentive price as regards both Wind and Hydro. These effects are more than offset by the contribution deriving from the continuous growth of Solar installed capacity of 51 MW, and of 112.4 MW in the Wind sector abroad, as well as by the greater production of TEEs and operational efficiency and energy management.

Capital expenditure for 2019 is expected to be between EUR 340 million and EUR 370 million, down compared to 2018 during which some capital expenditure previously planned for 2019 was carried out.

ERG’s cash generation will allow to contain the increase in borrowing which will remain largely stable in a range of between EUR 1.36 billion and EUR 1.44 billion (EUR 1.34 billion in 2018), compensating for new investments in the period as well as the distribution of ordinary dividends of EUR 0.75 per share and the payment of financial expenses.

Genoa, 14 May 2019

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

DECLARATION OF THE MANAGER RESPONSIBLE FOR PREPARING THE FINANCIAL REPORTS PURSUANT TO THE PROVISIONS OF ARTICLE 154-*BIS* SUBSECTION 2 OF ITALIAN LEGISLATIVE DECREE 58/1998 (CONSOLIDATED LAW ON FINANCE (T.U.F.)

The Manager responsible for preparing the financial reports of ERG S.p.A., Paolo Luigi Merli, pursuant to subsection 2 of Article 154-*bis* of the Consolidated Law on Finance (T.U.F.), declares that the information included in this Interim Directors' Report corresponds to documentary evidence, accounting records and accounting entries.

Genoa, 14 May 2019

Manager responsible
for preparing the financial reports
Paolo Luigi Merli

ERG S.P.A.

Torre WTC

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