



INTERIM DIRECTORS' REPORT

AS AT 30 SEPTEMBER 2019

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 generation technologies, in line with the Group's internal performance measurement methods.

The results by business segment also reflect the energy sales on markets by Group Energy Management, in addition to the application 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 power 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 IAS/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 with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "**Adjusted results**".

A definition of the indicators and the reconciliation of the amounts involved is provided in the specific “Alternative Performance Indicators” section and the comments in the following IFRS 16 paragraph.

IFRS 16

IFRS 16 - Leases 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 gross operating profit (EBITDA) in respect of the leasing instalments that fall within the scope of IFRS 16, of approximately EUR 6.4 million in the first nine months of 2019;
- the increase (approximately EUR 73 million as at 30 September 2019) of the net financial indebtedness and of the net invested capital (approximately EUR 72 million) in relation to the application of the asset method indicated by the new standard;
- greater depreciation and amortisation expense (EUR 5.0 million) and greater financial expenses (EUR 2.4 million) linked to the application of the above-mentioned 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, and given the typical nature of the item, in order to best represent the business profitability, it has been deemed opportune to recognise, in the **Adjusted Income Statement**, leasing costs within the Adjusted EBITDA, in continuity with the representation of the previous years and in accordance with the financial expression (periodic instalment) of the same.

In accordance with it, **the adjusted net financial indebtedness** and the **adjusted net invested capital** are represented net of the liability linked to the discounting of future payments of leasing instalments. For the reconciliation of the above-mentioned amounts, reference is made to 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.

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CORPORATE BODIES

BOARD OF DIRECTORS¹

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 *(non-executive)*⁵
SILVIA MERLO *(independent)*⁴
ELISABETTA OLIVERI *(independent)*⁴
MARIO PATERLINI *(independent)*⁴

BOARD OF STATUTORY AUDITORS⁶

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.⁷

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 Upon his appointment as (non-executive) Director of the parent company San Quirico S.p.A., while the Board of Directors of ERG S.p.A., at its meeting of 16 July 2019, confirmed his autonomy of judgement, deemed it preferable to qualify him as a non-independent director in accordance with Article 148, paragraph 3 of the Consolidated Finance Act.

⁶ Board of Statutory Auditors appointed on 17 April 2019.

⁷ Appointed on 23 April 2018 for the period 2018-2026.

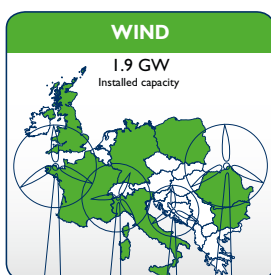
BUSINESS DESCRIPTION

The ERG Group is a major independent operator in the production of electricity from renewable sources such as wind, solar, hydroelectric and high-efficiency, low environmental impact 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 Complex and the Priolo CCGT plant. It provides technical and administrative services in France and Germany for both Group companies and third parties through its foreign subsidiaries.

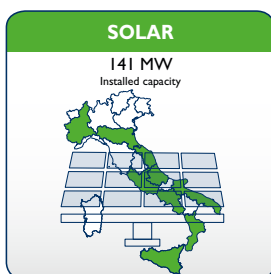
ERG Power Generation S.p.A., with generating facilities comprising over 3,000 MW of installed capacity, also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



Wind

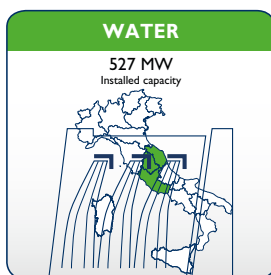
ERG is active in the generation of electricity from wind sources, with 1,929 MW of installed power at 30 September 2019. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence also abroad (836 MW operational), mainly in France (359 MW), Germany (272 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).



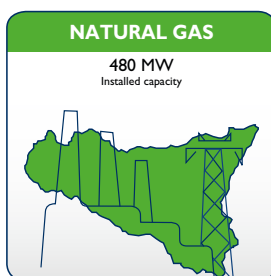
Solar

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, low environmental impact cogeneration plant (HEC), which uses combined cycle technology fuelled with natural gas. It entered commercially into operation in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities.

GEOGRAPHICAL SEGMENTS AT 30 SEPTEMBER 2019

TOTAL: 3,077 MW

Wind: 1,929 MW (1,093 MW Italy and 836 MW Abroad)

Solar: 141 MW

Hydroelectric: 527 MW

Thermoelectric: 480 MW

FRANCE

Wind: 359 MW

ITALY

Wind: 1,093 MW

Solar: 141 MW

Hydroelectric: 527 MW

Thermoelectric: 480 MW

GERMANY

Wind: 272 MW

POLAND

Wind: 82 MW

ROMANIA

Wind: 70 MW

BULGARIA

Wind: 54 MW

PIEDMONT

Solar: 21 MW

UMBRIA, LAZIO, MARCHE

Hydroelectric: 527 MW

LAZIO

Wind: 51 MW

SARDINIA

Wind: 111 MW

CAMPANIA

Wind: 247 MW

Solar: 7 MW

SICILY

Wind: 198 MW

Solar: 11 MW

Thermoelectric: 480 MW

EMILIA ROMAGNA

Solar: 3 MW

MARCHE

Solar: 4 MW

ABRUZZO

Solar: 5 MW

MOLISE

Wind: 79 MW

APULIA

Wind: 249 MW

Solar: 15 MW

BASILICATA

Wind: 89 MW

CALABRIA

Wind: 120 MW

Solar: 24 MW



Wind farm



Solar farm



Hydroelectric plant



Thermoelectric plant

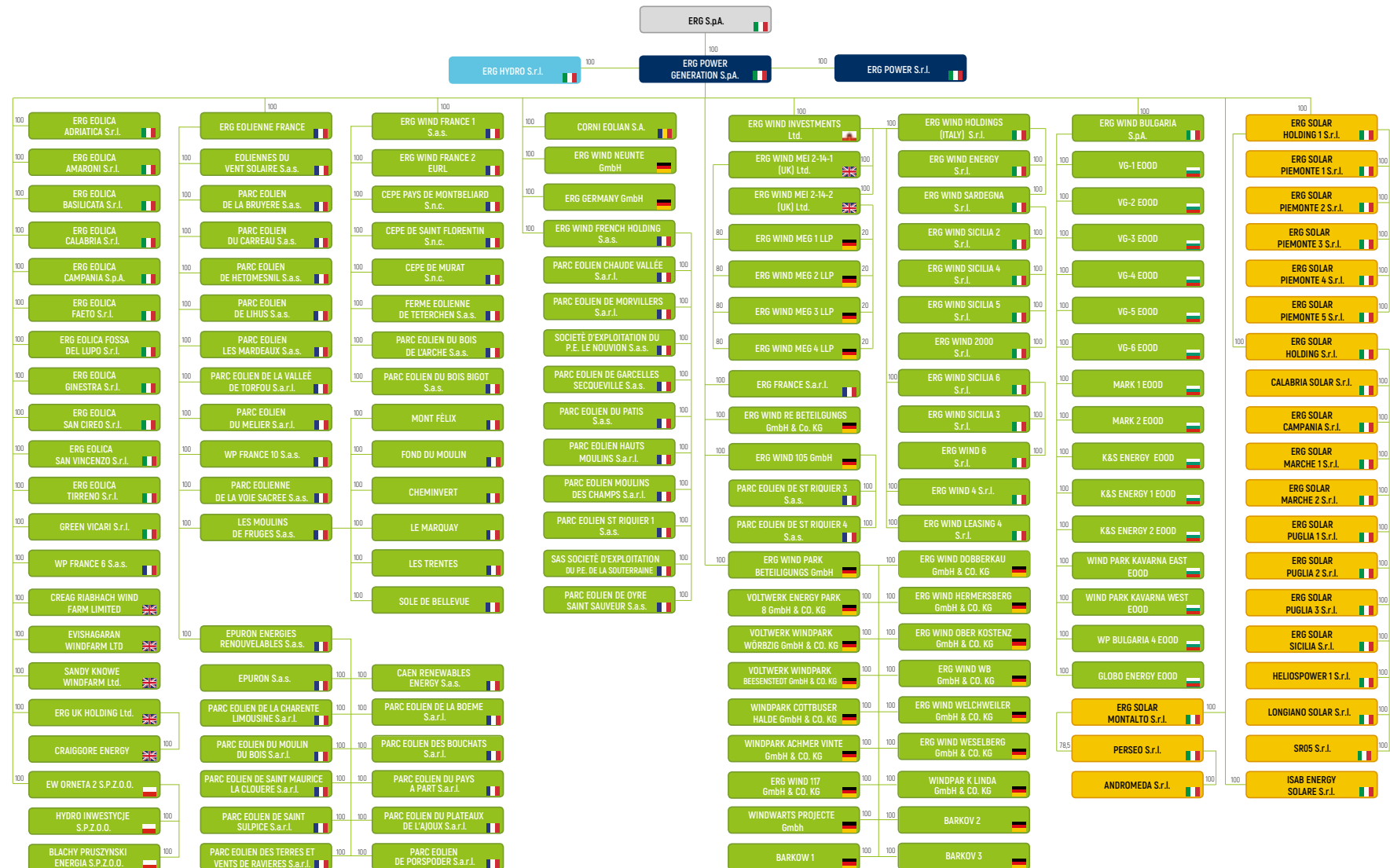


Offices



Logistic centre

LINE-BY-LINE CONSOLIDATION SCOPE AT 30 SEPTEMBER 2019



ORGANISATIONAL MODEL



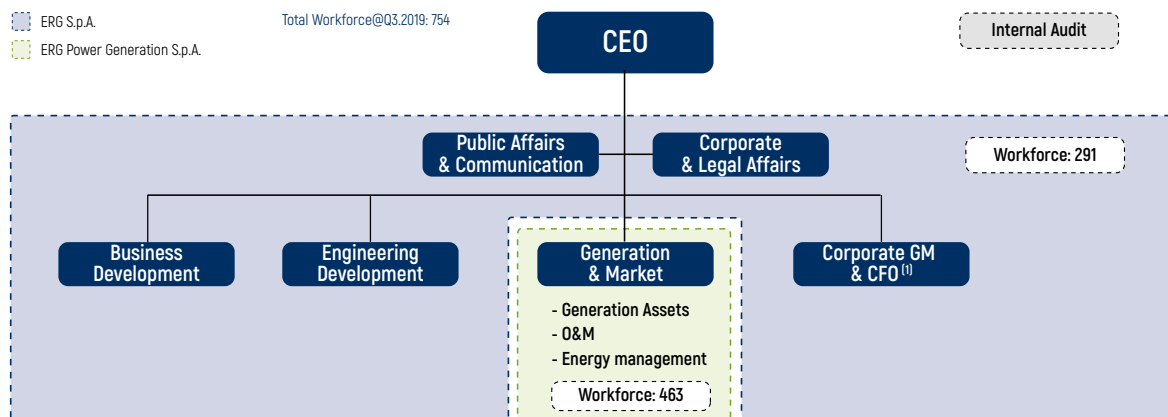
The Group's organisational structure is characterised by the definition of two macro-roles:

- 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. Following the recent organisational changes, the company has been organised into the following areas:
 - Business Development ;
 - Engineering Development;
 - Corporate General Manager & CFO;
 - Public Affairs & Communication;
 - Corporate & Legal Affairs .

It should be stressed that Corporate General Manager & CFO, established on 2 August 2019, includes the areas of Administration, Finance, Planning and Control, Risk Management, M&A, Investor Relations, Purchasing and Human Capital & ICT with the goal of placing under a single General Management Department the activities pertaining to the main services supporting the Business.

- 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, Group Risk Management & Corporate Finance, Procurement and Human Capital & ICT

CHANGE IN BUSINESS SCOPE IN THE THIRD QUARTER OF 2019

Wind - Germany

On **19 August 2019** ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, executed an agreement with a subsidiary of Aquila Capital, a German investment company, for the acquisition of 100% of the capital of three German companies owning as many wind farms located in the Mecklenburg-Western Pomerania region in the North-eastern area of the country.

The wind farms, with total installed capacity of 34 MW and equipped with 11 Vestas V112 turbines, started operating in 2014 and in the last four years their average annual generation has been approximately 89 GWh corresponding to over 2,600 hour equivalents and equal to approximately 67,000 t of CO₂ emissions avoided per year. The wind farms benefit for 20 years from the initial date of operations from a total feed-in tariff that, for 2018, averaged 97 EUR/MWh. The transaction, closed on **13 September 2019**, following Antitrust authorisation in Germany, entailed a price, in terms of equity value, of EUR 37 million, to which corresponded an enterprise value of EUR 84 million.

ERG'S STOCK MARKET PERFORMANCE

On 30 September 2019, the reference price of ERG's shares was EUR 18.50, up (+12.1%) from the end of 2018, versus an increase, in the same period, in the FTSE All Share index (+19.4%), the FTSE Mid Cap index (+11.2%) and the Euro Stoxx Utilities Index (+23.8%).

During the period under review, the listed price of the ERG's share ranged between a minimum of EUR 15.69 (25 March 2019) and a maximum of EUR 19.18 (11 July 2019).

Figures relating to the prices and exchange volumes of ERG's shares at 30 September 2019 are set out below.

Share price	EUR
Reference price as at 30.09.19	18.50
Maximum price (11.07.19) ⁽¹⁾	19.18
Minimum price (25.03.19) ⁽¹⁾	15.69
Average price	17.40

(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

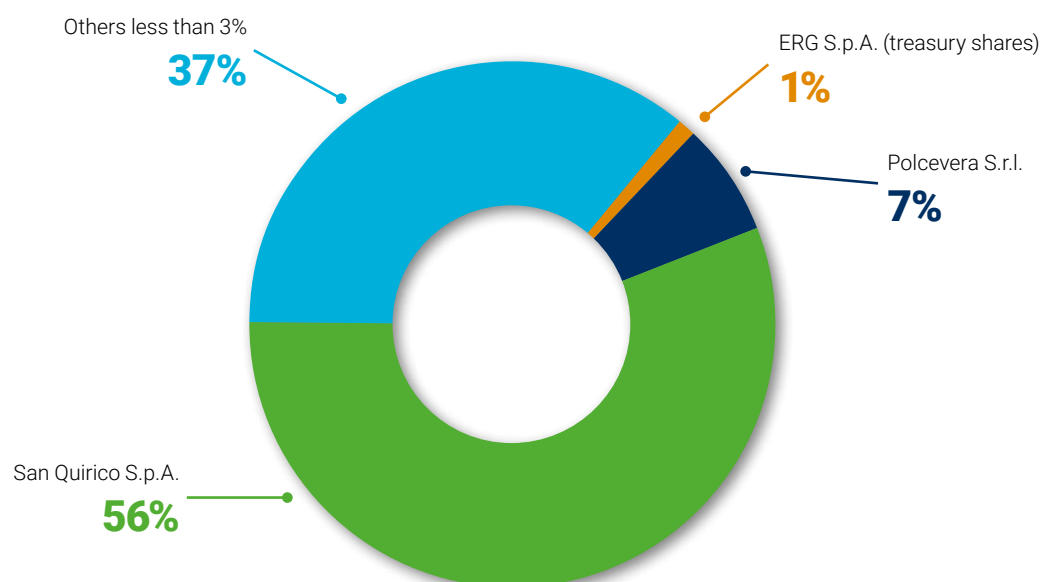
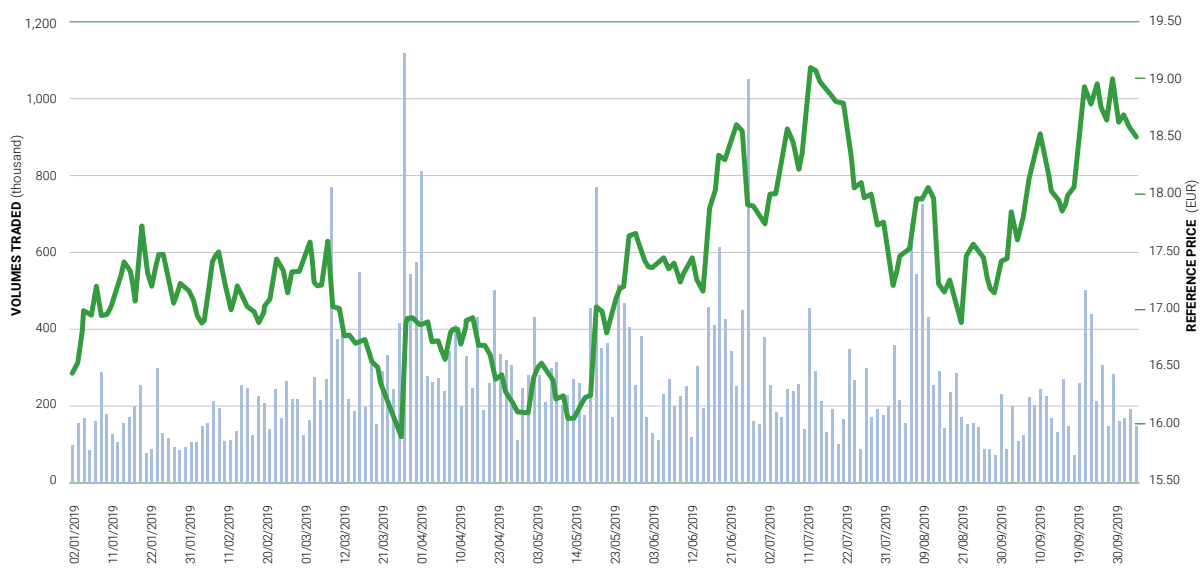
Volumes traded	No. of shares
Maximum volume (26.03.19)	1,113,089
Minimum volume (26.08.19)	71,571
Average volume	278,254

Market capitalisation was approximately EUR 2,781 million at 30 September 2019 (EUR 2,480 million at the end of 2018).

The average number of shares outstanding in the period was 148,867,963.

Performance of ERG's Shares and Shareholding Structure

Performance of ERG Shares
Volumes and reference price 02/01/2019 - 30/09/2019



SIGNIFICANT EVENTS DURING THE QUARTER

Date	Sector	Significant events	Press release
2 August 2019	Corporate	Appointment by the Board of Directors of ERG S.p.A. of Paolo Luigi Merli as "Corporate General Manager & CFO".	Press release 02/08/2019
19 August 2019	Wind Germany	Execution of an agreement with Aquila Capital for the acquisition of 100% of the capital of three German companies owning as many wind farms, with total installed power of 34 MW. The transaction's closing date was 13 September .	Press release 19/08/2019 Press release 13/09/2019

PERFORMANCE HIGHLIGHTS

3 rd quarter			9 Months 2019		
2019	2018	(EUR million)	2019	2018	
KEY ECONOMIC DATA					
231	250	Adjusted revenue	762	766	
107	105	Adjusted EBITDA	380	381	
29	38	Adjusted EBIT	157	178	
5	19	Profit	8	124	
4	19	<i>of which profit attributable to owners of the parent</i>	6	124	
7	17	Adjusted profit attributable to owners of the parent ⁽¹⁾	75	92	
KEY FINANCIAL DATA					
3,320	3,209	Adjust net invested capital ⁽²⁾	3,320	3,209	
1,751	1,819	Equity	1,751	1,819	
1,569	1,389	Adjusted total net financial indebtedness ⁽²⁾	1,569	1,389	
843	1,228	<i>of which non recourse Project Financing ⁽³⁾</i>	843	1,228	
47%	43%	Financial leverage	47%	43%	
46%	42%	EBITDA Margin %	50%	50%	
OPERATING DATA					
1,929	1,791	Installed capacity of wind farms at the end of the period	MW	1,929	1,791
692	578	Electric power output from wind farms	kWh million	2,846	2,509
480	480	Installed capacity of thermoelectric plants	MW	480	480
725	591	Electric power output from thermoelectric plants	kWh million	1,941	1,645
527	527	Installed capacity of hydroelectric plants at the end of the period	MW	527	527
274	401	Electric power output from hydroelectric plants	kWh million	867	1,402
141	90	Installed capacity of solar plants at the end of the period	MW	141	90
75	45	Electric power output from solar plants	kWh million	194	109
3,549	3,133	Total sales of electric power	kWh million	11,191	10,218
94	37	Capital expenditure ⁽⁴⁾	EUR million	401	484
754	742	Employees at the end of the period	Units	754	742
NET UNIT REVENUE ⁽⁵⁾					
121.0	130.8	Wind Italy	EUR/MWh	119.5	125.0
94.8	95.2	Wind Germany	EUR/MWh	97.7	93.8
88.5	86.5	Wind France	EUR/MWh	88.8	86.9
72.5	57.7	Wind Poland	EUR/MWh	71.2	57.7
66.8	72.7	Wind Bulgaria	EUR/MWh	74.6	71.6
72.5	59.7	Wind Romania	EUR/MWh	68.6	52.9
n.a.	n.a.	Wind UK	EUR/MWh	n.a.	100.4
318.9	302.4	Solar	EUR/MWh	315.9	295.3
105.9	119.2	Hydroelectric	EUR/MWh	105.2	104.8
43.3	46.7	Thermoelectric	EUR/MWh	39.7	42.8

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

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

(2) as already indicated in the Introduction, adjusted 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 approximately EUR 73 million on net financial indebtedness and approximately EUR 72 million on net invested capital at 30 September 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 assets. They also include M&A investments of EUR 364 million made in the first nine months of 2019 for the acquisition of two photovoltaic plants from Soles Montalto GmbH with a total installed capacity of 51.4 MW (EUR 220 million), for the acquisitions of companies owning wind farms in France and Germany (respectively, EUR 52 million and EUR 84 million), of a pipeline in Germany (EUR 2 million) and of a project for the construction of a wind farm in the United Kingdom (EUR 6 million). In the first nine months of 2018 M&A investments were equal to EUR 449 million in relation to the acquisition of the companies of the ForVei (Solare) Group and for the acquisitions of companies owning wind farms in France, Germany and United Kingdom

(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

3 rd quarter			9 Months 2019	
2019	2018	(EUR million)	2019	2018
ADJUSTED REVENUE				
70	70	Wind	298	280
24	14	Solar	61	32
28	51	Hydroelectric	88	151
109	115	Thermoelectric ⁽¹⁾	314	302
8	8	Corporate	26	25
(8)	(8)	Intra-segment revenue	(26)	(25)
231	250	Total adjusted revenue	762	766
ADJUSTED EBITDA				
43	40	Wind	214	199
22	12	Solar	56	28
20	38	Hydroelectric	64	118
25	18	Thermoelectric ⁽¹⁾	59	48
(4)	(3)	Corporate	(13)	(11)
107	105	Adjusted EBITDA	380	381
AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES				
(45)	(39)	Wind	(127)	(120)
(11)	(5)	Solar	(31)	(15)
(14)	(14)	Hydroelectric	(43)	(43)
(7)	(8)	Thermoelectric	(21)	(23)
(1)	(1)	Corporate	(2)	(2)
(78)	(67)	Adjusted depreciation and amortisation	(223)	(203)
ADJUSTED EBIT				
(1)	1	Wind	87	79
12	7	Solar	25	13
6	23	Hydroelectric	21	74
18	11	Thermoelectric ⁽¹⁾	38	25
(4)	(4)	Corporate	(15)	(13)
29	38	Adjusted EBIT	157	178
CAPITAL EXPENDITURE⁽²⁾				
92	32	Wind	172	130
0	0	Solar	220	345
1	2	Hydroelectric	3	3
1	2	Thermoelectric	5	4
0	1	Corporate	1	2
94	37	Total capital expenditure	401	484

(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 assets and M&A investments

COMMENTS ON THE PERIOD'S PERFORMANCE

THIRD QUARTER

In the **third quarter of 2019 revenue** amounted to EUR 231 million, down compared to the third quarter of 2018 (EUR 250 million) mainly as a result of the volumes in the hydroelectric sector, far smaller than the exceptionally high ones of the third quarter of 2018, and in Wind Power in Italy, due to exceptionally weak wind conditions in the summer months. These effects were only partly offset by the expansion of the portfolio of wind assets operated abroad and of the solar sector in Italy.

Adjusted EBITDA amounted to EUR 107 million, substantially in line with EUR 105 million recognised in the same period of 2018. The change is a result of the following factors:

Wind (EUR +4 million): EBITDA of EUR 43 million, up compared to the same period of 2018 (EUR 40 million) with less favourable wind conditions in Italy. In particular, the results of wind farms in Italy (EUR 23 million, down compared to the previous year's EUR 30 million), were affected by the lower output, of which the incentivised ones declined slightly from 74% to 72%. With reference to the Italy Portfolio, the negative effects deriving from the scenario of Electricity prices, which contracted sharply, as well as from the lower value of the unit incentive (92 EUR/MWh versus 99 EUR/MWh), were neutralised by the hedging actions. Results abroad grew strongly (EUR +10 million) thanks mainly to the higher volumes associated with the 138 MW of the new parks acquired in France and Germany.

Solar (EUR +10 million): the EBITDA, of EUR 22 million, substantially doubled with respect to the same period of 2018 (EUR 12 million) thanks to the contribution of 51 MW of the newly acquired photovoltaic plants.

Hydroelectric (EUR -18 million): EBITDA of EUR 20 million (EUR 38 million in the third quarter of 2018), markedly lower than the corresponding period of the previous year. The result was affected by significantly reduced volumes as a result of the lower water resources recorded in the period with respect both to historical levels and to the particularly high values of last year. The scenario of lower Electricity prices and the lower value of the incentive (92 EUR/MWh versus 99 EUR/MWh), were only partly offset by the hedging actions.

Thermoelectric (EUR +6 million): thermoelectric EBITDA, amounting to EUR 25 million, is higher than the EUR 18 million in the third quarter of 2018 as a result of a better spark spread, including the effect of the hedging actions, due to the significant reduction in the cost of natural gas which more than offset the growing trend of the prices of CO₂, and to the higher quantities sold to the customers of the Priolo Site as well as to the performance of the plants.

The **adjusted EBIT** amounted to EUR 29 million (EUR 38 million in 2018) after amortisation and depreciation for EUR 78 million, up by EUR 11 million with respect to the third quarter of 2018 (EUR 67 million) as a result of the new investments in the Solar sector and of the acquisitions of the operating wind farms in France and Germany, which took place in 2019.

The **adjusted profit attributable to owners of the parent amounted** to EUR 7 million, including approximately EUR 1 million attributable to minorities, a decrease from the profit of EUR 17 million of the third quarter of 2018, mainly as a consequence of the previously commented operating results and, to a lesser extent, of a higher effective tax rate mainly because of the cessation of the tax relief tied to economic growth (ACE).

The **profit attributable to owners of the parent**, which included the adoption of IFRS 16 and IFRS 9 as well as of special items, amounted to EUR 4 million, versus EUR 19 million in the third quarter of 2018, and it reflects the lower operating results, commented previously. In addition, the third quarter of 2018 included the capital gain tied to the refinancing of the period in accordance with IFRS 9.

In the third quarter of 2019 **capital expenditure** amounted to **EUR 94 million** (EUR 37 million in the third quarter of 2018) and refer to the acquisition of wind farms in Germany (EUR 84 million). **EUR 11 million in investments in property, plant and equipment and intangible assets** were also made during the quarter, of which 73% in the Wind sector (64% in the third quarter of 2018), 10% in the Thermoelectric sector (13% in 2018), 11% in the Hydroelectric sector (15% in 2018), 2% in the Solar sector and 4% in the Corporate sector (6% in 2018), mostly for ICT.

Adjusted net financial indebtedness amounted to **EUR 1,569 million**, down (EUR 93 million) from 30 June 2019 (EUR 1,662 million) and reflects the positive net operating cash flow (EUR 213 million) as a result of positive working capital changes which further benefited from the reduction of the timelines for the collection of the incentives (EUR 152 million) relating to the first seven months of 2019 and to the collection of the Energy Efficiency Certificates (EUR 26 million) produced in 2018, partly offset by the acquisition of the wind farms in Germany (EUR 84 million), by the payment of taxes (EUR 25 million) and by the capital expenditure of the period (EUR 11 million).

FIRST NINE MONTHS

In the first nine months of 2019 **revenue** was EUR 762 million, slightly down compared to the first nine months of 2018 (EUR 766 million), mainly as a result of the hydroelectric volumes, much lower than last year's exceptionally high ones, partly offset by the increase in wind and solar power generation, both in Italy and abroad, also as a result of the expansion of the managed assets portfolio, and of the thermoelectric sector.

Adjusted EBITDA amounted to EUR 380 million, substantially in line with EUR 381 million recognised in 2018. The change is a result of the following factors:

Wind (EUR +15 million): EBITDA of EUR 214 million, up compared to the same period of 2018 (EUR 199 million) with more favourable wind conditions in Italy. In particular, the results of the wind farms in Italy (EUR 140 million, down from the previous year's EUR 146 million) were mainly affected by the lower value of the unit incentive (92 EUR/MWh versus 99 EUR/MWh), and by lower incentivised output. The unfavourable trend in energy prices was offset by the hedging transactions. Results abroad are growing (EUR +21 million) thanks mainly to the contribution of the 138 MW of new wind farms in France and Germany, to the higher output of the wind farms in all foreign countries, as well as to the better price scenario in Eastern European countries. It should be recalled that the first nine months of 2018 had benefited from the contribution from the 48 MW Brockaghboy farm (EUR +3 million), sold on 7 March 2018.

Solar (EUR +28 million): the EBITDA, of EUR 56 million, doubled with respect to the first nine months of 2018 (EUR 28 million) thanks to the contribution of 51 MW of the newly acquired photovoltaic plants in a favourable irradiation environment.

Hydroelectric (EUR -54 million): EBITDA of EUR 64 million (EUR 118 million in 2018), markedly decreased from the previous year. Performance was affected by the significantly reduced water resources recorded in the period compared to the historical one and in particular to the significantly high one of last year, with effect on volumes and on the GRIN incentive and, to a lesser extent, of the GRIN price, lower than last year.

Thermoelectric (EUR +11 million): thermoelectric EBITDA, amounting to EUR 59 million, is higher than the EUR 48 million in 2018 as a result of a better spark spread, due to the significant reduction in the cost of natural gas which more than offset the growing trend of the prices of CO₂, and to the higher quantities sold to the customers of the Priolo Site and of the performance of the plants.

The **adjusted EBIT** amounted to EUR 157 million (EUR 178 million in 2018) after amortisation and depreciation of EUR 223 million, up by EUR 20 million with respect to the first nine months of 2018 (EUR 203 million) mainly due to the new capital expenditure made in the Solar sector and to the acquisitions of the operating wind farms in France and Germany, which took place in 2019.

The **adjusted profit attributable to owners of the parent** amounted to EUR 75 million, including approximately EUR 1.5 million pertaining to minorities, a decrease from the profit of EUR 92 million of the first nine months of 2018, as a consequence of the previously commented operating results and of a higher effective tax rate because of the cessation of the tax relief tied to economic growth (ACE). In spite of growing indebtedness, financial charges were markedly lower than in the corresponding period of 2018 due to the reduction in the cost of debt thanks to the important liability management transactions carried out in the second quarter of 2019 and the concurrent issue of a Green Bond under improved conditions.

The **profit for the period attributable to the owners of the parent** amounted to EUR 6 million compared to EUR 124 million of the first nine months of 2018 and, relative to the aforementioned adjusted profit for the period attributable to the owners of the parent, it was mainly affected by the extraordinary financial expenses tied to debt restructuring through the issue of the first Green Bond and the concurrent closure of two important Project Financing facilities. Moreover, the first nine months of 2018 benefited from the capital gain related to the sale of the Brockaghboy wind farm in the United Kingdom (EUR 27 million).

In the first nine months of 2019, **investments** totalled **EUR 401 million** (EUR 484 million in 2018) and relate mainly to the acquisition of two photovoltaic plants in Italy (EUR 220 million), of operational wind farms in France and Germany (respectively EUR 52 million and EUR 84 million), of a project for the construction of a wind farm in the United Kingdom (EUR 6 million) and of a pipeline of 224 MW in Germany (EUR 2 million). Moreover, during the period **EUR 37 million in investments in property, plant and equipment and intangible assets** were also made, of which 75% in the Wind sector (74% in 2018), mainly related to the completion of the wind farm in Germany (Windpark Linda), 14% in the Thermoelectric sector (11% in 2018), 8% in the Hydroelectric sector (9% in 2018) and 3% in the Corporate sector (5% in 2018), mostly for ICT.

Adjusted net financial indebtedness totalled **EUR 1,569 million**, up by EUR 226 million compared to 31 December 2018 (EUR 1,343 million). The change mainly reflects the investments in the period (EUR 401 million) as a result of the additional growth in the solar sector in Italy and in the wind sector in France and Germany, dividend distribution (EUR 112 million), the extraordinary expenses incurred in the course of the significant liability management transactions (EUR 43 million), the increase of the fair value of hedging derivatives, the payment of taxes (EUR 25 million), partly offset by the positive cash flow of the period (EUR 372 million), also as a result of the reduction of the timelines for collection on incentives in Italy.

As already specified in the Introduction, adjusted net financial indebtedness is represented net of the effects deriving from the application of IFRS 16, therefore excluding the discounting of future payments of leasing instalments of approximately EUR 73 million as at 30 September 2019.

PROFIT FOR THE PERIOD - BUSINESS

REFERENCE MARKET

Price scenario

PRICE SCENARIO (Euro/MWh)

3 rd quarter			First 9 months	
2019	2018		2019	2018
Italy				
51.0	68.8	National single price - Electricity reference price in Italy (baseload) ⁽¹⁾	53.7	58.9
48.8	67.6	Electricity price North area	52.5	58.0
50.2	68.2	Electricity price Central-North area	53.7	58.5
51.5	68.1	Electricity price Central-South area	53.8	58.8
51.5	66.2	Electricity price South area	52.2	57.6
51.4	68.1	Electricity price Sardinia	53.5	58.5
66.4	84.0	Electricity price Sicily	65.2	68.3
55.9	73.9	Zonal price Central-North (peak)	59.8	65.3
92.1	99.0	Feed-In Premium (FIP) (former Green Certificates) - Italy	92.1	99.0
Abroad				
35.5	56.5	France (baseload electricity)	39.2	45.8
37.6	53.1	Germany (baseload electricity)	38.2	41.6
88.6	85.6	Poland	84.5	70.8
58.0	58.9	of which (baseload electricity)	54.9	51.3
30.6	26.7	of which Certificates of Origin	29.7	19.5
54.2	40.2	Bulgaria (baseload electricity)	47.7	35.9
88.1	79.6	Romania (baseload electricity + 1 Green Certificate)	80.9	70.6
58.7	50.2	of which baseload electricity	51.5	41.2
29.4	29.4	of which Green Certificate	29.4	29.4
101.1	116.2	Northern Ireland (baseload electricity + 90% ROC)	106.2	109.1
46.7	63.5	of which baseload electricity	51.7	57.3
60.4	58.5	of which ROC	60.6	57.5

(1) Single National Price

Italian Market - Demand and output

ITALIAN MARKET ⁽¹⁾ (GWh)

3 rd quarter			First 9 months	
2019	2018		2019	2018
84,586	84,017	Demand	241,936	242,247
416	345	Pumping consumption	1,670	1,685
8,512	10,085	Import/Export	27,923	33,928
76,490	74,277	Internal production ⁽²⁾	215,683	210,004
		of which		
50,276	49,306	Thermoelectric	141,545	135,364
13,497	12,638	Hydroelectric	34,815	38,368
1,433	1,406	Geothermal	4,280	4,265
3,148	2,920	Wind	14,356	12,572
8,136	8,007	Photovoltaic	20,687	19,435

(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

In the **third quarter of 2019** the electricity demand of the national electrical system amounted to 84.6 TWh, up by 1% from the values recorded in the third quarter of 2018. With regard to Sicily, a region in which ERG is present with its CCGT plant and with wind and photovoltaic installations, demand of approximately 5.6 TWh was recorded during the period, up (+2.2%) compared to the third 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 11.9 TWh (+1.1%).

In the **first nine months of 2019** the electricity demand of the national electrical system amounted to 241.9 TWh, in line with the values recorded in the same period of 2018. With regard to Sicily, a region in which ERG is present with its CCGT plant and with wind and photovoltaic installations, demand of approximately 14.9 TWh was recorded during the period, up (+1.5%) compared to 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 33.8 TWh (+0.3%).

In the same period, (net) domestic electricity output was 215.7 TWh, up by 3% compared with 2018, whilst the net balance of trades with other countries recorded net imports of 27.9 TWh (-18% compared to the first nine months of 2018).

66% of (net) domestic output was covered by thermoelectric power plants and the remaining 34% by renewable sources; specifically, 16% of this output was from hydroelectric power, 10% from photovoltaic plants, 7% from wind farms and 2% from geothermal sources. Compared to the first nine months of 2018, there was an increase in wind (+14%), photovoltaic (+6 %) and thermoelectric (+5%) outputs, while hydroelectric output declined (-9%) and geothermal output was substantially unchanged.

GROUP SALES

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

During the **third quarter of 2019**, total sales of electricity amounted to 3.5 TWh (3.1 TWh in 2018), in the presence of an overall output from the Group plants of approximately 1.8 TWh (1.6 TWh in the same period of 2018), of which roughly 0.4 TWh abroad and 1.4 TWh in Italy. The latter figure corresponds to approximately 1.6% of electric power demand in Italy (1.6% in the third quarter of 2018).

During the **first nine months of 2019**, total sales of electricity amounted to 11.2 TWh (10.2 TWh in 2018), in the presence of an overall output from the Group plants of approximately 5.8 TWh (5.7 TWh in the same period of 2018), of which roughly 1.3 TWh abroad and 4.6 TWh in Italy. The latter figure corresponds to approximately 1.9% of electric power demand in Italy (1.9% in the first nine months of 2018).

The breakdown of sale volumes and electric power output, by type of source, is shown in the following table⁸:

SOURCES OF ELECTRIC POWER (GWh)

3 rd quarter		9 months	
2019	2018	2019	2018
317	338	1,575	1,490
374	240	1,271	1,019
75	45	194	109
725	591	1,941	1,645
274	401	867	1,402
1,782	1,518	5,342	4,553
3,549	3,133	11,191	10,218
Total			

SALES OF ELECTRIC POWER (GWh)

3 rd quarter		9 months	
2019	2018	2019	2018
152	161	393	433
3,023	2,732	9,527	8,765
374	240	1,271	1,019
3,549	3,133	11,191	10,218
Total			

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.

Wholesale sales of energy include sales on the IPEX electricity stock 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 third quarter of 2019, steam sales⁹ amounted to 186 thousand tonnes, up compared to 154 thousand tonnes in the same period of 2018; 679 thousand tonnes in the first nine months of 2019 (498 thousand tonnes in the same period of 2018).

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		9 months		Δ	Δ%
		2019	2018		
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	836	698	138	20%
	of which				
216	Germany	272	216	55	26%
307	France	359	276	83	30%
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 capacity at the end of the period ⁽¹⁾	1,929	1,791	138	8%

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

Installed power at 30 September 2019, equal to 1,929 MW, was up 138 MW with respect to 30 September 2018 following the start of commercial operations in two wind farms in France from December 2018 (30.8 MW) and the aforementioned acquisition in France of an additional 52.0 MW already in operation, for a total increase of approximately 82.8 MW in France, to which is added a further increase by 55.4 MW in Germany as a result of the start of commercial operations of a wind farm (21.6 MW), which occurred at the end of June 2019 and of the acquisition of three wind farms for an additional 33.8 MW, which took place in September 2019.

Highlights of adjusted performance items

OPERATING RESULTS

3 rd quarter			9 months	
2019	2018	(EUR million)	2019	2018
70	70	Adjusted revenue from sales and services	298	280
43	40	Adjusted EBITDA ⁽¹⁾	214	199
(45)	(39)	Amortisation, depreciation and impairment losses ⁽¹⁾	(127)	(120)
(1)	1	Adjusted EBIT ⁽¹⁾	87	79
92	32	Investments in property, plant and equipment and intangible assets	172	130
62%	57%	EBITDA MARGIN % ⁽²⁾	72%	71%
692	578	Total wind farm generation (GWh)	2.846	2.509

(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

Consolidated **revenue** recorded **in the third quarter of 2019**, of approximately EUR 70 million, in line with the third quarter of 2018 as a result of the contribution provided by the higher MW in operations abroad, offset by the reduction deriving from the lower unit value of the incentive in Italy (from 99.0 EUR/MWh to 92.1 EUR/MWh) as well as from the reduced price scenario and from the impact of the less favourable wind conditions in Italy. It is noted in particular that, compared to the third quarter of 2018, no longer incentivised output amounts to 7 GWh, with consequent lower revenue for a value of less than EUR 1 million.

With regard to net unit revenue in Italy in the third quarter of 2019, taking into consideration the sale price of electricity, incentives (former green certificates) and other minor components, was equal to 121 EUR/MWh for ERG in Italy, down compared to the value of 131 EUR/MWh in the third quarter of 2018, as a result of the already discussed lower unit value of incentives.

Consolidated **revenue** recognised **in the first nine months of 2019** increased mainly as a result of the higher output both due to more favourable wind conditions, both in Italy and abroad, and to the contribution provided by the higher MW in operation abroad. These increases more than offset the reduction deriving from the lower unit value of the incentive in Italy (from 99.0 to 92.1 EUR/MWh). It is noted in particular that, compared to the first nine months of 2018, no longer incentivised output amounts to 8 GWh, with consequent lower revenue for a value of less than EUR 1 million.

With regard to net unit revenue in Italy in the first nine months of 2019, taking into consideration the sale price of electricity, incentives (former green certificates) net of hedges and other minor components, was equal to 119 EUR/MWh for ERG in Italy, down compared to the value of 125 EUR/MWh in the first nine months 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

3 rd quarter					9 Months			
2019	2018	Δ	Δ%	(EUR million)	2019	2018	Δ	Δ%
37	49	(13)	-25%	Italy	185	196	(10)	-5%
34	21	13	60%	Abroad	113	84	29	34%
				of which				
12	6	7	114%	Germany	33	23	10	42%
13	7	6	82%	France	47	33	14	43%
3	3	0	15%	Poland	13	9	4	45%
2	2	(0)	-6%	Bulgaria	9	9	1	7%
3	3	0	1%	Romania	11	8	3	42%
0	0	0	0%	UK	0	3	(3)	-100%
70	70	0	0%	Total	298	280	18	7%

NET UNIT REVENUE

3 rd quarter					9 Months			
2019	2018	Δ	Δ%	(EUR/MWh)	2019	2018	Δ	Δ%
121.0	130.8	(10)	-8%	Wind Italy	119.5	125.0	(6)	-4%
94.8	95.2	(0)	0%	Wind Germany	97.7	93.8	4	4%
88.5	86.5	2	2%	Wind France	88.8	86.9	2	2%
72.5	57.7	15	26%	Wind Poland	71.2	57.7	14	24%
66.8	72.7	(6)	-8%	Wind Bulgaria	74.6	71.6	3	4%
72.5	59.7	13	21%	Wind Romania	68.6	52.9	16	30%
n.a.	n.a.	n.a.	n.a.	Wind UK	n.a.	100.4	n.a.	n.a.

In the **third quarter of 2019** net unit revenue in France and Germany was 88.5 EUR/MWh and 94.8 EUR/MWh respectively (including refunds for limitations in Germany). The main changes in net unit revenue abroad occurred in Poland (+26%, thanks to the significant increase in the sale price of certificates of origin as well as the energy sale price) and in Romania (+21% following the increase in energy sale prices).

In the **first nine months of 2019** net unit revenue in France and Germany was 88.8 EUR/MWh and 97.7 EUR/MWh respectively (including refunds for limitations in Germany). The main changes in net unit revenue abroad were seen in Romania (+30% following the increase in energy sale prices), and in Poland (+24%, thanks to the significant increase in the sale price of certificates of origin as well as the energy sale price). 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)

3 rd quarter					9 Months			
2019	2018	Δ	Δ%		2019	2018	Δ	Δ%
317	338	-21	-6%	- Italy	1.575	1.490	85	6%
				of which				
66	72	-6	-8%	Campania	358	326	32	10%
48	53	-5	-10%	Calabria	170	175	(5)	-3%
82	89	-7	-8%	Puglia	399	354	45	13%
23	28	-5	-19%	Molise	129	115	14	13%
28	31	-3	-11%	Basilicata	136	132	3	2%
37	37	0	-1%	Sicily	224	242	(18)	-7%
34	27	6	23%	Sardinia	159	146	13	9%
374	240	135	56%	- Abroad	1.271	1.019	252	25%
				of which				
130	56	73	131%	Germany	327	234	93	40%
142	79	63	80%	France	527	375	152	41%
44	39	5	14%	Poland	179	151	28	18%
25	26	-2	-6%	Bulgaria	100	101	(1)	-1%
34	39	-5	-14%	Romania	138	130	8	6%
0	0	0	n.a.	UK	0	29	(29)	-100%
692	578	114	20%	Total plants generation	2.846	2.509	337	13%

In the third quarter of 2019, the **electricity output** from wind power amounted to 692 GWh, up compared to the corresponding period in 2018 (578 GWh), as a result of an output increase of 56% abroad (from 240 GWh to 374 GWh), partly offset by an approximately 6% decrease in Italy (from 338 GWh to 317 GWh).

The decreased output in Italy (-21 GWh) is linked to worse wind conditions than those recorded in the same period of 2018 across most regions, with the exception of Sardinia.

Abroad, the net increase of 135 GWh is due to higher output in Germany (+73 GWh, including the first half output of the newly acquired plant in Germany, i.e. 47 GWh) and France (+63 GWh), substantially due to the output of the newly acquired plants or of those that started commercial operations in the second half of 2018.

In the first nine months of 2019, the **electricity output** from wind power amounted to 2,846 GWh, up compared to the corresponding period in 2018 (2,509 GWh), as a result of an increase in output of approximately 6% in Italy (from 1,490 GWh to 1,575 GWh) and of 25% abroad (from 1,019 GWh to 1,271 GWh).

The increased output in Italy (+85 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 Calabria.

As regards abroad, the net increase of 252 GWh is attributable to greater output in France (+152 GWh, substantially from plants that were recently acquired or that became operational in the second half of 2018), in Germany (+93 GWh, mainly as a result of the recent acquisitions), as well as in Eastern Europe (+35 GWh), net of reduced output in the UK (-29 GWh) following the sale of the Brockaghboy wind farm.

The following table shows wind farm **load factors** 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 %

3 rd quarter			9 Months		
2019	2018	Δ	2019	2018	Δ
13%	14%	-1%	22%	21%	1%
- Italy					
of which					
12%	13%	-1%	22%	20%	2%
18%	20%	-2%	22%	22%	-1%
15%	16%	-1%	25%	22%	3%
13%	16%	-3%	25%	22%	3%
14%	16%	-2%	23%	23%	1%
8%	9%	0%	17%	19%	-1%
14%	11%	3%	22%	20%	2%
18%	16%	2%	24%	22%	2%
- Abroad					
of which					
14%	12%	2%	19%	17%	3%
18%	13%	5%	22%	21%	2%
24%	21%	3%	33%	28%	5%
21%	22%	-1%	28%	28%	0%
22%	25%	-4%	30%	28%	2%
15%	15%	1%	23%	21%	1%
Load factor⁽¹⁾					

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

In the third quarter of 2019, the overall load factor, equal to 15%, was in line with respect to the value recorded in the third quarter of 2018 (15%), increasing from 16% to 18% abroad and decreasing from 14% to 13% in Italy.

The slight decrease in load factor in Italy is due to the worse wind conditions in the quarter and it was substantially offset by the increased load factor abroad, in particular in France, Germany and Poland.

In the first nine months of 2019, the overall load factor, of 23%, was up with respect to the value recorded in 2018 (21%), increasing from 22% to 24% abroad and from 21% to 22% in Italy.

The slight increase of the load factor in the first nine months is due to the greater wind speeds recorded in the first part of the year and in particular in the month of February, only partly offset by the lower wind speeds in Italy in the third quarter, in addition to the high levels of plant availability.

The above-mentioned data do not include the data relating to the plants in Northern Ireland following the aforementioned sale on 7 March 2018 of the 47.5 MW plant and of the new 21.6 MW plant that became operational in Germany at the end of the first half of 2019; in addition, the calculation of the load factor for the third quarter sterilises the impact of the first half-year output of the new wind farms acquired in Germany at the end of the period, but consolidated with effectiveness from the start of the year.

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

ADJUSTED EBITDA

3 rd quarter				(EUR million)	9 months			
2019	2018	Δ	Δ%		2019	2018	Δ	Δ%
23	30	(7)	-23%	Italy	140	146	(6)	-4%
20	10	10	106%	Abroad	74	53	21	39%
				of which				
8	3	5	215%	Germany	22	14	8	54%
7	2	5	201%	France	30	20	10	48%
2	2	0	24%	Poland	10	6	4	74%
1	1	(0)	-6%	Bulgaria	6	5	1	11%
2	2	0	10%	Romania	7	4	3	65%
(0)	0	(0)	n.a.	UK	(1)	3	(4)	n.a.
43	40	4	9%	Total	214	199	15	8%

The **adjusted EBITDA** of the third quarter of 2019 totalled EUR 43 million, up compared to the values recorded in the same period of the previous year (EUR 40 million), in a general environment of more favourable wind conditions abroad.

The decreased contribution in Italy compared to the previous year reflects mainly the lower output, as well as the lower value of the unit incentive, discussed above.

The better results abroad (EUR +10 million) benefited from the higher capacity installed in France (EUR +2 million) and in Germany (EUR +6 million) as a result of the contribution provided by the new acquisitions as well as from higher wind speeds (EUR +3 million) in particular in France.

The **adjusted EBITDA** of the first nine months of 2019 totalled EUR 214 million, up compared to the values recorded in the same period of the previous year (EUR 199 million), in a general environment of more favourable wind conditions both in Italy and abroad.

The decreased contribution in Italy compared to the previous year reflects mainly the lower value of the unit incentive, discussed above.

The improved results abroad (EUR +21 million) benefit from the greater installed capacity in France (EUR +7 million) and Germany (EUR +6 million), of the improved environment mainly in East European countries (EUR +6 million) and greater output (EUR +6 million); these positive results more than offset the impact of the sale of the Brockaghboy wind farm in the UK, of which the third quarter of 2018 had benefited by approximately EUR 3 million.

The **EBITDA margin** of the third quarter of 2019 totalled 62%, up compared to the similar period of the previous year (57%), in spite of the phase out of the incentives of some facilities, commented above, also thanks to the contribution of the wind farms abroad.

The **EBITDA margin** of the first nine months of 2019 totalled 72%, confirming its particularly high absolute value, in line with the same period of the previous year (71%), in spite of the phase out of the incentives of some facilities, commented above, also thanks to the contribution of the wind farms abroad.

Capital expenditure

The capital expenditure of the third quarter of 2019 (**EUR 92 million**) refers mainly to the investment made in the quarter for the acquisition of 34 MW of operational wind farms in Germany.

The capital expenditure of the first nine months of 2019 (**EUR 172 million**) refers mainly to the investment made for the acquisition of 52 MW of wind farms in France, as well as for the development of the Windpark Linda wind farm in Germany, which started operating at the end of June, and to the aforementioned acquisition of the wind farms in Germany. In addition, the first reblading operation was successfully completed on a 13.2 MW wind farm in Italy.

Relevant legislative and regulatory updates during the period

Italy

- **Ministerial Decree of 4 July 2019**

Last 9 August, the Ministerial Decree of 4 July 2019 was promulgated; it was prepared by the Ministry of Economic Development with the concurrence of the Ministry of the Environment, introducing "Incentives for the electricity generated by onshore wind, solar photovoltaic, hydroelectric facilities and for those fuelled by residual gases from purification processes".

The scope of application is limited to sources and technologies defined as "mature", comprising onshore wind, photovoltaic, hydroelectric and residual gases from purification processes.

The decree covers the three-year interval from September 2019 to September 2021 and it confirms the use of limited incentive schemes by energy quotas, divided between registries (for projects with power below 1 MW) and auctions (for projects with size greater than or equal to 1 MW).

Direct access to the incentives is no longer provided for small facilities (e.g. mini-hydroelectric).

Different technologies considered homogeneous, such as wind and photovoltaic, are now grouped in "technologically neutral" quotas and thus they compete within the same auctions.

Notices are expected to be published every four months both for auctions and for registries; the first competition was opened last 30 September and closed on 4 November. The total quota for wind and photovoltaic technologies, divided in 7 auctions, amounts to 5.5 GW.

Inasmuch as the law known in Italy as "Spalmaincentivi volontario" ("Voluntary incentive allocation"), nearly all projects for the repowering of existing facilities are excluded from participating in the auctions and registries provided by the Decree.

- **Basilicata Region - Wind Farms Safety Booklet**

On 26 February 2019, 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 carried out, as well as annually record the technical and functional checks of all wind power generators in wind farms.

This instrument will 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.

- **Revision of the timelines for the payment of incentives**

On 9 August 2019, the GSE, as it had already indicated in the news of 3 August 2017 and in consideration of the first instance ruling of the Regional Administrative Court of Lazio with respect to the repeal of the “GRIN convention” scheme, communicated, pending the definition of the ultimate outcome of the litigation, the revision of the timelines for the payment of the feed-in tariffs.

In particular, the timelines for the payment of the incentives are revised similarly to the provisions in place only for plants generating electricity from biomasses and from bioliquids, also for all the other fuel sources, starting from the amounts of July 2019, which were accounted for in August, and the payment took place before the end of September 2019.

According to the GSE Communication, for the generic “m” month the payment, following publication of the report highlighting the incentives due for the month “m+1”, will take place by the end of the “m+2” month.

Therefore, the reports that originally stated that 31 December 2019 would be the payment date were revised with 30 September 2019 as the payment date.

For the ERG Group, the aforementioned reduction in the collection timelines entailed, in the third quarter of 2019, higher collection than expected, at EUR 58 million.

Poland

On 15 May 2019, the Polish Minister of Energy published the reference price (cap) of the Dutch auctions, amounting to 285 PLN/MWh for wind power, to be carried out by the end of 2019 for the allocation of a quota of wind power and photovoltaic > 1 MW of 113,970 GWh for a maximum expenditure of PLN 32,577,000,000. In August 2019, amendments to the RES Act entered into force, containing a series of changes to the procedures of the next

auctions, and to the Distance Act of May 2016, providing a three-year extension of the validity of the authorisations to build not conforming to the rule of minimum distance from other buildings (or protected natural areas) equal to at least 10 times the height of the turbine.

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 State Aid regulations. The immediate consequence of the judgement was the indefinite postponement of future auctions and the block of all payments due from previous auctions.

On 1 April 2019, although the EU Commission had not yet completed its verification procedure on the Capacity Market, the British Parliament passed an act authorising the Government to restart the auction procedures for capacity procurement, subordinating its effectiveness to compliance with state aid regulations.

In May 2019, after a consultation on the Capacity Market, the UK Department for Business, Energy and Industrial Strategy (BEIS) established a first opening to participation of non-programmable renewable sources in the scheme.

On 22 July, the TSO published the instructions for the auctions to be held in 2019 including, for the first time, the technical provisions for the participation also of facilities from non-programmable renewable sources, in particular wind and solar.

Last 24 October, the BEIS announced the restoration by the Commission of the declaration of conformity of the scheme with respect to the aforementioned State aid regulations. Consequently, the scheme was reauthorised and therefore previously suspended payments to suppliers are scheduled; in addition, the validity of the contracts assigned in the substitute auction held in July 2019 and the three auctions planned for the start of 2020 are also confirmed.

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 panels installed in Sicily at the IGCC ISAB site in Priolo).

Highlights of adjusted performance items

OPERATING RESULTS

3 rd quarter			9 Months	
2019	2018	(EUR million)	2019	2018
24	14	Adjusted revenue from sales and services	61	32
22	12	Adjusted EBITDA ⁽¹⁾	56	28
(11)	(5)	Amortisation, depreciation and impairment losses ⁽¹⁾	(31)	(15)
12	7	Adjusted EBIT ⁽¹⁾	25	13
0	0	Investments in property, plant and equipment and intangible assets	220	345
94%	89%	EBITDA Margin % ⁽²⁾	91%	87%
75	45	Total solar plant generation (GWh)	194	109

(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 **third quarter of 2019**, output was of around 75 GWh, of which 31 GWh relative to newly acquired plants; the overall load factor was 24% (23% in the third quarter of 2018).

Revenue for the third quarter of 2019 amounted to EUR 24 million, of which EUR 20 million relating to revenue from the feed-in premium and EUR 4 million to revenue from the sale of energy.

In the third quarter of 2019, the relative **net unit revenue** amounted to 319 EUR/MWh, of which 268 EUR/MWh relating to feed-in premiums and approximately 51 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in the third quarter of 2019 totalled EUR 22 million, of which EUR 24 million relating to the above-mentioned revenue and EUR 2 million in fixed costs related mainly to maintenance costs.

EBITDA margin of the third quarter of 2019 totalled 94% (89% in the third quarter of 2018).

In the first nine months of 2019, output amount to approximately 194 GWh and the related load factor was 21% (19% in the first nine months of 2018).

Revenue for the first nine months of 2019 totalled EUR 61 million, of which EUR 52 million relating to revenue from the feed-in premium and EUR 10 million to revenue from the sale of energy.

In the first nine months of 2019, the related **net unit revenue** totalled 316 EUR/MWh (295 EUR/MWh in the first nine months of 2018 relating to ForVei that in 2019 has unit revenue of 284 EUR/MWh compared to the 407 EUR/MWh of Andromeda), of which 265 EUR/MWh relating to feed-in premiums and approximately 51 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in the first nine months of 2019 totalled EUR 56 million, of which EUR 61 million relating to the above-mentioned revenue and EUR 5 million in fixed costs related mainly to maintenance costs.

EBITDA margin in the first nine months of 2019 totalled 91% (87% in the same period of 2018).

Capital expenditure

Investments in the first nine months 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 estimated annual output of approximately 96 GWh, which benefit from the Second Feed-in Premium for 20 years until 2030. The enterprise value of the transaction amounted to approximately EUR 220 million.

Relevant legislative and regulatory updates during the quarter

With regard to the new Decree of 4 July 2019, please refer to the corresponding paragraph of the Wind chapter.

HYDROELECTRIC

ERG is active in 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:

OPERATING RESULTS

3 rd quarter			9 Months	
2019	2018	(EUR million)	2019	2018
28	51	Adjusted revenue from sales and services	88	151
20	38	Adjusted EBITDA ⁽¹⁾	64	118
(14)	(14)	Amortisation, depreciation and impairment losses ⁽¹⁾	(43)	(43)
6	23	Adjusted EBIT ⁽¹⁾	21	74
1	2	Investments in property, plant and equipment and intangible assets	3	3
72%	74%	EBITDA Margin %	73%	78%
274	401	Total hydroelectric plant generation (GWh)	867	1.402

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

In the **third quarter of 2019**, revenue, amounting to EUR 28 million, related mainly to electricity sales (mostly on the spot market) for EUR 16 million, as well as to revenue from the feed-in premium (former Green Certificates) for EUR 12 million.

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

EBITDA in the third quarter of 2019 amounted to EUR 20 million (EUR 38 million in the third quarter of 2018), a decrease of EUR 18 million, mainly due to the reduced availability of water resources, significantly lower than the historical average and than the particularly high value recorded in 2018.

ERG Hydro's total output in the third quarter of 2019 of 274 GWh benefited from a net unit revenue, taking into consideration the sales price of electricity, revenue from MSD and from replacement incentives of the period (down by 7 EUR/MWh), as well as hedging actions and other minor components, totalling approximately 106 EUR/MWh in the quarter, lower than the 119 EUR/MWh in the third quarter of 2018, both as a result of the price scenario and of a lesser modulation of the installation.

The EBITDA margin of the third quarter of 2019 totalled 72%, down from 74% in the third quarter of 2018.

The final load factor for the period, of 24% in the third quarter (35% in 2018) was affected by the reduced availability of water resources.

In the **first nine months of 2019**, revenue, amounting to EUR 88 million, related mainly to electricity sales (mostly on the spot market) for EUR 53 million, revenue from the feed-in premium (former Green Certificates) for EUR 35 million, as well as revenue from MSD for approximately EUR 1 million.

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

EBITDA in the first nine months of 2019 amounted to EUR 64 million (EUR 118 million in the first nine months of 2018), a decrease of EUR 54 million, mainly due to the reduced availability of water resources, significantly lower than the historical average and than the particularly high value recorded in the first half of 2018.

The total output of ERG Hydro in the first nine months of 2019, equal to 867 GWh, benefited from a net unit revenue, considering the sale value of the energy of revenue from MSD and from substitute incentives of the period and other lesser components, amounting to approximately 105 EUR/MWh in the nine months, in line with 105 EUR/MWh in the nine months of 2018.

It should be recalled that the average sale prices reflect both the electricity sales price 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.

The EBITDA margin of the first nine months of 2019 totalled 73%, down compared to 78% in the first nine months of 2018.

The final load factor in the period, equal to 25% in the first nine months of 2019 (versus 41% in 2018) was affected by the reduced water resources recorded.

The level of the reservoirs of the Turano, Salto and Corbara lakes at the end of the period were respectively approximately 524, 522 and 127 metres above sea level, a decrease compared to 30 June 2019 (respectively 529, 528 and 134 metres above sea level) due to seasonal factors and uses in the period but an increase compared to 31 December 2018 (respectively 522, 518 and 124 metres above sea level).

Capital expenditure

Hydroelectric investments in the first nine months, totalling approximately EUR 3 million, relate mainly to maintenance orders and planned projects in the fields of seismic improvement of infrastructures and of Health, Safety and the Environment.

Relevant legislative and regulatory updates during the period

With regard to the new Decree of 4 July 2019, please refer to the corresponding paragraph of the Wind chapter.

THERMOELECTRIC

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

Highlights of adjusted performance items

OPERATING RESULTS

3 rd quarter			9 Months	
2019	2018	(EUR million)	2019	2018
109	115	Adjusted revenue from sales and services	314	302
25	18	Adjusted EBITDA ⁽¹⁾	59	48
(7)	(8)	Amortisation, depreciation and impairment losses ⁽¹⁾	(21)	(23)
18	11	Adjusted EBIT ⁽¹⁾	38	25
1	2	Investments in property, plant and equipment and intangible assets	5	4
23%	16%	EBITDA Margin %	19%	16%
725	591	Total thermoelectric plant generation (GWh)	1,941	1,645

(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 (IUN), all of the electricity output of ERG Power is allocated to the market by capturing the Sicily area 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 third quarter of 2019, ERG Power's net electricity generation was 725 GWh, up compared to the same period of 2018 (591 GWh), in relation to the more favourable market context, with increased net generation margins, mainly due to the significant decrease in gas prices in spite of a significant increase in CO₂ prices. This trend was stronger than 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 186 thousand tonnes, up strongly with respect to the 154 thousand tonnes in the same period in 2018.

Adjusted EBITDA **of the third quarter of 2019** amounted to EUR 25 million (EUR 18 million in the same period of 2018), an increase as a result of the improvement in the spark spread, of the higher sales to customers at the Priolo Site and of the performance of the plants.

In the first nine months of 2019, ERG Power's net electricity generation was 1,941 GWh, up compared to the same period of 2018 (1,645 GWh), in relation to the more favourable market context, with increased net generation margins, mainly due to the significant decrease in gas prices in spite of a significant increase in CO₂ prices. This trend was stronger than 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 679 thousand tonnes, up strongly with respect to the 498 thousand tonnes in the same period in 2018.

Adjusted EBITDA **of the first nine months of 2019** amounted to EUR 59 million (EUR 48 million in the same period of 2018), an increase as a result of the improvement in the spark spread, of the higher sales to customers at the Priolo Site and of the performance of the plants.

Capital expenditure

Investments in 2019 (EUR 1 million in the quarter and EUR 5 million in the first nine months of 2019) 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

• Regulation of the Capacity Market remuneration scheme

On 27 June 2019, ARERA issued its favourable Opinion on the draft decree of the Ministry of Economic Development directed at the approval of the capacity market (CM) remuneration scheme.

The following day, the Ministry of Economic Development signed the Decree of 28 June 2019, approving the regulations for the remuneration scheme of the availability of energy generation capacity. The Decree prescribes competitive tender procedures to be held by 2019 and referred to delivery years 2022 and 2023. The two competitive tender procedures will be held respectively on 6 and 28 November 2019. The Regulations prescribe that the CM shall be organised according to a "Mother" Auction procedure and adjustment Auctions directed at refining the adequacy objectives as the delivery period approaches and at allowing the renegotiation of the positions assumed by market participants.

In September, ARERA approved two additional resolutions, functional to the start of the CM; with resolution 363/2019/R/eel, it defined the economic parameters of the remuneration mechanism, while with resolution 365/2019/R/eel it approved the methods for determining the price to be paid by end customers to cover the net costs deriving from the CM.

INCENTIVE FRAMEWORK

WIND SECTOR INCENTIVES

Italy	<ul style="list-style-type: none"> • Plants that entered into operation before 2013: feed-in premium (FIP) equal to $(180 \text{ EUR/MWh} - P^{-1}) \times 0.78$ 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. With the Ministerial Decree of 4 July 2019, wind power and photovoltaic compete together for the same quota both for the registries and for the auctions. Duration of the incentive: 20 years.
Germany	<ul style="list-style-type: none"> • Plants that entered into operation by July 2014: feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012). • Plants that entered into operation from August 2014 to December 2016: FIP (EEG 2014). • Plants authorised by the end of 2016 and in operation by the end of 2018: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed power in the period. • Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017). • From 2018 to June 2020 cooperatives may participate to the auctions only if in possess of authorisation like the other wind power producers.
France	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 2,200 equivalent hours of operation annually), the FIT recognised amounts to approximately 97 EUR/MWh, while some changes to regulation, whose legitimacy is the subject of pending litigation, significantly reduced revenue for higher production levels. <p>From 1 January 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. From May 2019, existing plants with capacity between 1 MW and 4 MW will also have to move to the FIP no later than 1 October 2019.</p>
Poland	<ul style="list-style-type: none"> • 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%. • From 2018 onwards, a multi-technology Dutch auction system was reintroduced, i.e. wind - photovoltaic, differentiated by size (threshold of 1 MW) for access to incentives. The quotas and the starting auction prices are defined by the Government. The incentive is calculated as the difference between the awarded price, inflated on a yearly basis, and the average daily price of electricity (two-way CFD).

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.
 - The 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;
 - The 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 17/10/2014 (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.
 - The Ministerial Decree of 4 July 2019 allows photovoltaic plants to access the incentives through auctions and registries together with the wind power quota provided that:
 - a) they are authorised;
 - b) they use new components;
 - c) they comply with the prohibition to install ground-located modules in a farming area.
- Duration of the incentive: 20 years.

HYDROELECTRIC

Italy

- Plants that entered into operation before 2013: feed-in premium (FIP) equal to $(180 \text{ EUR/MWh} - P^{-1}) \times 0.78$ 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.
- Facilities starting operations from 2013 onwards: assignment of all-inclusive tariff for hydroelectric plants with less than 250 kW of power through direct access, which requested the incentive no later than 31 December 2017 in accordance with Ministerial Decree of 23 June 2016, if they fall within determined cases, and through Registry for hydro plants < 1 MW regulated by the Ministerial Decree of 4 July 2019. Duration of the incentive: 20 years.

THERMOELECTRIC (Cogeneration)

Italy

- High-Efficiency Cogeneration - HEC (cogeneration of electricity and useful heat) is incentivised through the recognition of Energy Efficiency Certificates - EECs (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 and IFRS 9 standards and of special items.

It should be recalled that this Report reflects the impact of the consolidation of the newly acquired companies in Germany as from 1 January 2019.

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.

3 rd quarter			First 9 months		
2019	2018	(EUR million)	2019	2018	
231.5	250.3	Revenue	761.9	766.0	1
2.0	2.8	Other income	8.3	16.8	2
233.4	253.1	TOTAL REVENUE	770.2	782.9	
(71.1)	(93.8)	Purchases and change in inventories	(217.7)	(233.4)	3
(40.2)	(39.9)	Services and other operating costs	(125.0)	(122.7)	4
(15.5)	(14.8)	Personnel expense	(47.5)	(45.4)	
106.6	104.7	EBITDA	380.0	381.4	
(77.6)	(67.1)	Amortisation, depreciation and impairment of non-current assets	(222.9)	(203.3)	5
29.0	37.5	Operating profit (EBIT)	157.1	178.0	
(15.0)	(15.3)	Net financial income (expense)	(47.8)	(53.1)	6
0.0	0.1	Net gains (losses) on equity investments	0.1	0.1	7
14.0	22.3	Profit before taxes	109.3	125.0	
(6.0)	(5.7)	Income taxes	(33.2)	(32.8)	8
7.9	16.6	Profit for the period	76.1	92.2	
(0.9)	(0.0)	Non-controlling interests	(1.5)	(0.1)	
7.1	16.6	Profit attributable to owners of the parent	74.6	92.1	

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 of the **third quarter of 2019** amounted to EUR 231 million, a decrease from EUR 250 million in the third quarter of 2018. The change is a result of the following factors:

- the increase of the **Solar sector** (EUR +10 million), as a result of the additional growth in the sector due to the acquisition of two photovoltaic plants with installed capacity of 51.4 MW (EUR 24 million versus EUR 14 million);
- the **Hydroelectric sector**, markedly lower than in the third quarter of 2018 (EUR -23 million) as a result of the reduced water resources compared to the particularly high values of 2018 (EUR 28 million versus EUR 51 million);
- the slight decrease (EUR -6 million) of the **Thermoelectric sector** (EUR 109 million versus EUR 115 million).

The revenue of the **first nine months of 2019** amounted to EUR 762 million, down compared to EUR 766 million in the first nine months of 2018. The change is a result of the following factors:

- the increase (EUR +18 million) of the **Wind power sector**, which rose mainly as a result of the higher output both due to more favourable wind conditions, both in Italy and abroad, and to the contribution provided by the higher MW in operation abroad (totalling EUR 298 million versus EUR 280 million);
- the increase of the **Solar sector** (EUR +29 million), as a result of the additional growth in the sector due to the acquisition of two photovoltaic plants with installed capacity of 51.4 MW (EUR 61 million versus EUR 32 million);
- the **Hydroelectric sector**, markedly lower than in the 2018 (EUR -64 million) as a result of the reduced water resources compared to the particularly high values of the first nine months of 2018 (EUR 88 million versus EUR 151 million);
- the increase (EUR +12 million) of the **Thermoelectric sector** (EUR 314 million versus EUR 302 million).

2 - Other income

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

3 - Purchases and changes in inventories

Costs for purchases include costs for the purchase of gas and CO₂, 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 tied mainly to greater depreciation and amortisation expense due to the acquisition of new photovoltaic plants at the start of 2019 and to the change in the scope of the wind power facilities acquired in France and in Germany in the first nine months of 2019.

6 - Net financial income (expense)

Net financial expense in the third quarter of 2019 were EUR 15 million, in line with the third quarter of 2018.

The average cost of medium-long term debt in 2019 was 2.7% compared to 2.9% in the third quarter of 2018 as a result of significant refinancing operations that took place during the year.

Net financial expense in the first nine months of 2019 amounted to EUR 48 million, down compared to 2018 (EUR 53 million). The average cost of medium-long term debt in 2019 was 2.7% compared to 3.1% in the first nine months of 2018 as a result of significant refinancing operations that took place in the second quarter of 2019. Remuneration of invested liquidity was lower 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 commented herein do not include the following extraordinary components (special items) linked to liability management operations:

- expenses (EUR -66 million) relating to the closure of project financing and related IRS derivative instruments.
- financial expenses (EUR -3 million), tied to the reversal effect recognised upon application of IFRS 9 and relating to refinancing operations carried out 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 nine months of 2018, the Group had sold its equity investment in Brockaghboy Windfarm Ltd, generating a capital gain of EUR 27 million, net of the related tax effects and other ancillary components. The gain and the other income statement components associated with the sale of the equity investment were considered special items and therefore not reflected in the line "Net gains (losses) on equity investments" of the adjusted income statement for the first nine months of 2018.

8 - Income taxes

The income taxes of the third quarter of 2019 amounted to EUR 6 million, substantially in line with the third quarter of 2018. The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 43% (26% in third quarter of 2018). The income taxes of the first nine months of 2019 amounted to EUR 33 million (EUR 33 million in the same period of 2018). The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 30% (26% in 2018).

The tax rate increase in the reference periods 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 30 September 2019, impact deriving from the application of IFRS 16 standard of approximately EUR 73 million on net financial indebtedness with a balancing entry in Net invested capital amounting to approximately EUR 72 million.

ADJUSTED RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30/09/2018	(EUR million)		30/09/2019	30/06/2019	31/12/2018
3,312.7	Non-current assets	1	3,491.3	3,472.1	3,273.6
182.7	Net working capital	2	107.1	225.5	179.3
(6.0)	Provisions for employee benefits		(5.5)	(5.6)	(5.8)
316.4	Other assets	3	337.5	333.8	291.7
(597.0)	Other liabilities	4	(610.8)	(622.4)	(567.0)
3,208.7	Net invested capital		3,319.7	3,403.4	3,171.8
1,819.3	Equity att. to the owners of the parent		1,731.5	1,722.9	1,828.8
0.0	Non-controlling interests	5	19.0	18.2	0.0
1,389.4	Net financial indebtedness	6	1,569.1	1,662.4	1,343.0
3,208.7	Equity and financial indebtedness		3,319.7	3,403.4	3,171.8
43%	Financial leverage		47%	49%	42%

1 - Non-current assets

(EUR million)	Intangible assets	Property, plant and equipment	Financial assets	Total
Non-current assets as at 31/12/2018	930.8	2,288.3	54.5	3,273.6
Capital expenditure	2.0	35.3	0.0	37.3
Change in the consolidation scope	183.0	224.1	0.4	407.5
Divestments and other changes	(6.8)	3.0	(0.4)	(4.2)
Amortisation and depreciation	(47.0)	(175.9)	0.0	(222.9)
Non-current assets as at 30/09/2019	1,062.0	2,374.7	54.5	3,491.3

The "Change in the consolidation scope" relates to the acquisition of two photovoltaic plants in Italy and of wind farms in France and Germany, fully consolidated from 1 January 2019 onwards.

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

The values at 30 September 2019 do not include the assets linked to the application of IFRS 16 of approximately EUR 72 million¹⁰.

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 dynamics of collections relating to incentives as well as to the effects of the change in the consolidation scope.

The significant decrease with respect to 30 June is mainly due to the collections of the incentives relating to the output of the first seven months of 2019, as a result of the change in the timelines for collection of the feed-in tariffs for the wind and hydroelectric sectors, and for the collection of the Energy Efficiency Certificates relating to 2018.

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 in the first nine months 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 business combinations.

5 - Non-controlling interests

The increase in minority interest in the first nine months 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

30/09/2018	(EUR million)	30/09/2019	30/06/2019	31/12/2018
1,777.2	Non-current financial indebtedness	2,075.3	2,036.1	1,832.2
(387.8)	Current financial indebtedness (cash and cash equivalents)	(506.2)	(373.7)	(489.2)
1,389.4	Total	1,569.1	1,662.4	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 the 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 Ratings.

Thanks to the liquidity deriving from the issue of the bond, from the subscription of a 5-year bilateral corporate loan 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:

- loan for ERG Wind Investments Ltd. with a net residual nominal value at the time of repayment of EUR 461 million¹¹. The loan was hedged by an IRS derivative instrument with a fair value at the end of the period of EUR 53 million;
- loan for ERG Power S.r.l. with a net residual nominal value at the time of repayment 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.

The issue of the first Green Bond by ERG and the repayment of the above mentioned project financings 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:

NON-CURRENT FINANCIAL INDEBTEDNESS

30/09/2018	(EUR million)	30/09/2019	30/06/2019	31/12/2018
678.4	Non-current loans and borrowings	679.7	679.2	794.0
(150.6)	Current portion of bank loans and borrowings	(7.8)	(7.8)	(162.0)
209.8	Non-current financial liabilities	672.4	663.1	204.8
737.7	Total	1,344.4	1,334.5	836.8
1,228.2	Total Project Financing	842.6	809.0	1,177.6
(152.0)	Current portion of Project Financing	(111.6)	(107.5)	(146.2)
1,076.3	Non-current Project Financing	731.0	701.6	1,031.4
(36.7)	Long-term loan assets	0.0	0.0	(36.1)
1,777.2	TOTAL	2,075.3	2,036.1	1,832.2

- The **"Non-current loans and borrowings"** at 30 September 2019 total EUR 680 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

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.

UniCredit S.p.A. (EUR 75 million) entered into in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l. and the project financing for the wind farm in Corni (Romania);

- a corporate loan with Mediocredito (EUR 61 million) for the early termination of leasing contracts of 5 solar companies acquired in January 2018;
- two Environmental, Social and Governance senior loans ("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;
- a corporate loan with Commerzbank (EUR 60 million) entered into the second quarter of 2019 as part of the Liability Management activities.

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 3 million) and the effect of the renegotiation of borrowing (EUR 3 million) following the application of IFRS 9.

- The **current portion of loans and borrowings** (EUR 8 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.
- "**Non-current loans and borrowings**", amounting to EUR 672 million, refer mainly to:
 - net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 58 million (EUR 88 million at 31 December 2018);
 - liability deriving from the issue of the non-convertible bond (EUR 99 million¹²) in 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;
 - liability deriving from placement of a bond ("Green Bond") amounting to EUR 496¹³ million with a 6-year duration at fixed rate, issued within the scope of the Euro Medium Term Notes (EMTN) Programme;
 - 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).

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

¹³ Net of ancillary costs, recognised with the amortised cost method.

- The payables for “**Total Project Financing**” (EUR 843 million at 30 September 2019) are for:
 - EUR 291 million in loans related to the companies 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 552 million in loans issued for the construction of wind farms.

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

As a result of the refinancing transactions concluded in the period, net of the reversal effect relating to the refinancing transactions performed in previous years, the reduction in total debt as at 30 September 2019 came to EUR 8 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 of 2019, ahead of time.

The breakdown of **current net financial indebtedness** is shown below:

CURRENT FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30/09/2018	(EUR million)	30/09/2019	30/06/2019	31/12/2018
81.4	Current bank loans and borrowings	110.0	110.4	20.1
150.6	Current portion of bank loans and borrowings	7.8	7.8	162.0
2.6	Other current financial liabilities	1.5	2.2	3.9
234.6	Current financial liabilities	119.3	120.3	185.9
(502.5)	Cash and cash equivalents	(501.1)	(407.6)	(611.4)
(63.0)	Securities and other current financial assets	(18.6)	(27.0)	(47.1)
(565.4)	Current financial assets	(519.7)	(434.7)	(658.5)
152.0	Current Project Financing	111.6	107.5	146.2
(209.0)	Cash and cash equivalents	(217.4)	(166.9)	(162.8)
(57.0)	Project Financing	(105.7)	(59.4)	(16.6)
(387.8)	TOTAL	(506.2)	(373.7)	(489.2)

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

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

The amount of liquidity decreased in the first nine months of 2019 mainly due to the acquisitions that took place in the period and to the payment of dividends to shareholders.

The amount of liquidity in the third quarter increased as a result of the collections on incentives that took place in the period as a consequence of the adjustment of the timelines by the GSE.

Cash flows

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

3 rd quarter			First 9 months	
2019	2018	(amounts in millions)	2019	2018
106.6	104.7	Adjusted EBITDA	380.0	381.4
118.4	36.6	Change in net working capital	39.5	(106.8)
225.0	141.2	Cash Flow from operations	419.4	274.5
–	–			
(10.7)	(13.0)	Investments in property, plant and equipment and intangible assets	(37.3)	(34.4)
(83.7)	(24.1)	Company acquisitions (business combinations)	(364.0)	(449.4)
–	0.9	Capital expenditure in financial fixed assets	–	–
–	–	Sale of equity investment in TotalErg	–	179.5
–	–	Sale of Brockaghboy net assets	–	105.7
(0.1)	0.0	Divestments and other changes	0.9	0.2
(94.5)	(36.1)	Cash Flow from investments/divestments	(400.4)	(198.2)
(15.0)	(15.3)	Financial income (expense)	(47.8)	(53.1)
–	–	Closure fair value ERG Wind loan	(43.5)	–
0.0	0.1	Net gains (losses) on equity investment	0.1	0.1
(15.0)	(15.2)	Cash Flow from financial management	(91.3)	(53.0)
(25.5)	(8.1)	Cash Flow from tax management	(25.5)	(8.1)
–	–	Distribution of dividends	(112.4)	(171.1)
3.2	(4.9)	Other changes in equity	(16.1)	1.3
3.2	(4.9)	Cash Flow from Equity	(128.5)	(169.8)
–	0.1	Change in the consolidation scope	–	(2.1)
1,662.4	1,466.4	Opening net financial indebtedness	1,343.0	1,232.7
(93.2)	(77.0)	Net change	226.1	156.7
1,569.1	1,389.3	Closing net financial indebtedness	1,569.1	1,389.4

The **Cash Flow from operations** of the third quarter of **2019** is positive by EUR 225 million, up by EUR 84 million compared to the corresponding period of 2018, mainly due to changes in working capital and to the adjustment of the timelines for the collection of incentives in the Wind and Hydroelectric sectors.

The **Cash Flow from operations** of the first nine months of **2019** is positive by EUR 419 million, up by EUR 145 million compared to the corresponding period of 2018, mainly due to changes in working capital and to the adjustment of the timelines for the collection of incentives in the Wind and Hydroelectric sectors, which led to the collection of the incentives relating to the first seven months of 2019. In addition, the cash flows of the first nine months of 2018 was affected by the payment of a debt position tied to OIL purchases in previous years.

The **Cash flow from investments** of the third quarter of **2019** is mainly tied to the M&A activity and in particular to the acquisition of operational wind farms in Germany (EUR 84 million).

The **Cash flow from investments** of the first nine months of **2019** is tied mainly to the M&A activity and in particular to the acquisition of two photovoltaic facilities with total installed capacity of 51.4 MW from Soles Montalto GmbH (EUR 220 million), of operational wind farms in France (EUR 52 million) and Germany (EUR 84 million), of a project for the construction of a wind farm in the United Kingdom (EUR 6 million) and of a pipeline in Germany (EUR 2 million), and to the investments in property, plant and equipment and intangible assets (EUR 37 million).

Cash flow from financial management refers to the interest accrued during the period. Financial management also includes the effect of the closure of the fair value of the project financing of ERG Wind Investment Ltd.

The **Cash flow from Equity** refers mainly to the changes of the cash flow hedge reserve tied to derivative financial instruments.

Adjusted net financial indebtedness totalled **EUR 1,569 million**, up by EUR 226 million compared to 31 December 2018 (EUR 1,343 million). The change mainly reflects the investments in the period (EUR 401 million) as a result of the additional growth in the solar sector in Italy and in the wind sector in France and Germany, dividend distribution (EUR 112 million), the extraordinary expenses incurred in the course of the significant liability management transactions (EUR 43 million), the increase of the fair value of hedging derivatives, the payment of taxes (EUR 25 million), partly offset by the positive cash flow of the period (EUR 372 million), also as a result of the reduction of the timelines for collection on incentives in Italy.

Consolidation of German companies

It should be recalled that this Report reflects the impact of the consolidation of the newly acquired German companies as from 1 January 2019.

The effect of the aforementioned consolidation is approximately EUR 5 million at the EBITDA level and EUR 1 million at the EBIT level.

IFRS 16

The Group has applied IFRS 16 - Lease 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 in the legal form of a lease. The Group has applied IFRS 16 from the date of first application (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 new liabilities for operating 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 gross operating profit (EBITDA) in respect of the leasing instalments that fall within the scope of IFRS 16, of approximately EUR 6.4 million in the first nine months of 2019;
- the increase (EUR 73 million as at 30 September 2019) of the net financial indebtedness and of the net invested capital (approximately EUR 72 million) in relation to the application of the asset method indicated by the new standard;
- greater depreciation and amortisation expense (EUR 5 million) and greater financial expenses (EUR 2.4 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 profitability, it has been deemed opportune to recognise, in the Adjusted Income Statement, leasing costs within the Adjusted EBITDA in continuity with previous years' representation and in accordance with the financial expression (periodic instalment) of the same.

In accordance with it, the adjusted net financial indebtedness and the adjusted net invested capital are represented also net of the liability linked to the discounting of future payments of leasing instalments.

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

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 IAS/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 with the exclusion of significant special income components of an extraordinary nature (special 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 of an extraordinary nature (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 impact tied to the IFRS 16 application;
- **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 impact tied to the IFRS 16 application;

- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **Adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax;
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special income components of an extraordinary nature (special items), and with the adjustment of the impact tied to the IFRS 16 application, 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 determined by 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 impact 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 portion of 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 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 the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital.
- **Special items** include significant special income components of an extraordinary nature. These include:
 - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do not 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

3 rd quarter			Note	9 months	
2019	2018	(EUR million)		2019	2018
107.1	104.7	EBITDA for continuing operations		372.0	378.1
0.0	0.0	Contribution of discontinued operations (Brockaghboy)	1	0.0	3.3
107.1	104.7	EBITDA		372.0	381.4
Special items exclusion and impact of IFRS 16:					
Corporate					
2.0	0.0	- Reversal of ancillary charges on non-recurring operations (Special Projects)	2	8.4	–
(0.2)	0.0	- Adjustment for impact of IFRS 16	3	(0.7)	–
0.0	0.0	- Reversal of HR and corporate reorganisation costs	4	6.0	–
Thermoelectric					
(0.3)	0.0	- Adjustment for impact of IFRS 16	3	(0.7)	–
Hydroelectric					
(0.0)	0.0	- Adjustment for impact of IFRS 16	3	(0.1)	–
Solar					
(0.1)	0.0	- Adjustment for impact of IFRS 16	3	(0.3)	–
Wind					
(1.8)	0.0	- Adjustment for impact of IFRS 16	3	(4.6)	–
106.6	104.7	Adjusted EBITDA		380.0	381.4

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

3 rd quarter			Note	9 months	
2019	2018	(EUR million)		2019	2018
(79.5)	(67.1)	Amortisation and depreciation expense for continuing operations		(227.9)	(202.6)
0.0	0.0	Contribution of discontinued operations (Brockaghboy)	1	–	(0.7)
(79.5)	(67.1)	Amortisation, depreciation and impairment losses		(227.9)	(203.3)
Special items exclusion					
1.9	0.0	- Adjustment for impact of IFRS 16	3	5.0	–
(77.6)	(67.1)	Adjusted depreciation and amortisation		(222.9)	(203.3)

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

3 rd quarter			Note	9 months	
2019	2018	(EUR million)		2019	2018
4.5	19.2	Profit attributable to owners of the parent		6.4	124.3
Special items exclusion:					
0.1	0.0	Exclusion of impact of IFRS 16	3	0.7	–
0.0	0.0	Exclusion of impact of HR and corporate reorganisation costs		4.5	–
0.0	0.0	Exclusion of ancillary charges on corporate loan prepayments	5	2.0	–
0.0	0.0	Exclusion of ancillary charges on ERG Wind loan prepayments	5	49.4	–
0.0	0.0	Exclusion of ancillary charges on ERG Power loan prepayments	5	1.5	–
1.9	0.0	Exclusion of ancillary charges on non-recurring operations		7.8	–
0.0	0.0	Exclusion of capital gain from sale of UK equity investment		0.0	(26.2)
0.6	(2.6)	Exclusion of the net gain on refinancing (IFRS 9)	6	2.2	(6.0)
7.1	16.6	Adjusted profit attributable to owners of the parent		74.6	92.1

- 1 The accounting 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 comparative 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 related mainly to the acquisition in the period involving in 2019 to two photovoltaic plants in Italy and operational wind farms in France and Germany.
- 3 Adjustment for impact of IFRS 16. Reference is made to the comments made in the previous article.
- 4 Expenses related to corporate reorganisation of the Group, in particular to the simplification and rationalisation of the organisational-corporate structure of the Group in Italy and abroad.
- 5 Financial expenses correlated to the early closure of a Corporate loan and project financing as part of Liability Management activities concurrently with the launch of the first Green Bond. Of particular note are the expenses recognised as a consequence of the closure of the ERG Wind Investment project financing and tied to the reversal (EUR 43 million¹⁴) of the positive adjustment, recognised upon first consolidation, of the fair value of the debt and to the prepayment of the related IRS instrument (EUR 23 million¹⁴, net of the reversal of the first consolidation reserve).
- 6 The Group renegotiated a number of loans during the year. IFRS 9 does not allow the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a net financial expense of approximately EUR 2 million being accounted for in the first nine months 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.

14 Before the tax effect.

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

INCOME STATEMENT 3RD QUARTER 2019

(EUR million)	Condensed interim consolidated financial statements	Adjustment for impact of IFRS 16	Adjustment for impact of IFRS 9	Reversal of special items	Adjusted income statement
Revenue	231.5	–	–	–	231.5
Other income	2.0	–	–	–	2.0
Total revenue	233.4	–	–	–	233.4
Purchases	(71.4)	–	–	–	(71.4)
Change in inventories	0.3	–	–	–	0.3
Services and other operating costs	(39.7)	(2.5)	–	2.0	(40.2)
Personnel expense	(15.5)	–	–	–	(15.5)
EBITDA	107.1	(2.5)	–	2.0	106.6
Amortisation, depreciation and impairment of non-current assets	(79.5)	1.9	–	–	(77.6)
Operating profit (EBIT)	27.6	(0.6)	–	2.0	29.0
Net financial income (expense)	(16.6)	0.8	0.7	–	(15.0)
Net gains (losses) on equity investments	0.0	–	–	–	0.0
Profit before taxes	11.0	0.2	0.7	2.0	14.0
Income taxes	(5.6)	(0.1)	(0.2)	(0.2)	(6.0)
Profit (loss) from continuing operations	5.4	0.1	0.6	1.9	7.9
Net profit (loss) from continuing operations	–	–	–	–	–
Net profit (loss) for the period	5.4	0.1	0.6	1.9	7.9
Non-controlling interests	(0.9)	–	–	–	(0.9)
Profit (loss) attributable to the owners of the parent	4.5	0.1	0.6	1.9	7.1

INCOME STATEMENT 3RD QUARTER 2018:

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

INCOME STATEMENT FIRST 9 MONTHS 2019

(EUR million)

	Condensed interim consolidated financial statements	Adjustment for impact of IFRS 16	Adjustment for impact of IFRS 9	Reversal of special items	Adjusted income statement
Revenue	761.9	–	–	–	761.9
Other income	8.3	–	–	–	8.3
Total revenue	770.2	–	–	–	770.2
Purchases	(219.1)	–	–	–	(219.1)
Change in inventories	1.4	–	–	–	1.4
Services and other operating costs	(130.8)	(6.4)	–	12.3	(125.0)
Personnel expense	(49.6)	–	–	2.1	(47.5)
EBITDA	372.0	(6.4)	–	14.4	380.0
Amortisation, depreciation and impairment of non-current assets	(227.9)	5.0	–	–	(222.9)
Operating profit (EBIT)	144.1	(1.4)	–	14.4	157.1
Net financial income (expense)	(121.8)	2.4	2.8	68.7	(47.8)
Net gains (losses) on equity investments	(0.2)	–	–	0.3	0.1
Profit before taxes	22.1	1.0	2.8	83.4	109.3
Income taxes	(14.2)	(0.3)	(0.7)	(18.1)	(33.2)
Profit (loss) from continuing operations	7.9	0.7	2.2	65.3	76.1
Net profit (loss) from continuing operations	–	–	–	–	–
Net profit (loss) for the period	7.9	0.7	2.2	65.3	76.1
Non-controlling interests	(1.5)	–	–	–	(1.5)
Profit (loss) attributable to the owners of the parent	6.4	0.7	2.2	65.3	74.6

INCOME STATEMENT FIRST 9 MONTHS 2018

(EUR million)

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

**RECLASSIFIED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019**

(EUR million)	Reported Statement of financial position	Adjustment for impact of IFRS 16	Adjusted Statement of financial position
Intangible assets	1,062.0	–	1,062.0
Property, plant and equipment	2,449.6	(74.9)	2,374.8
Equity investments and other financial fixed assets	54.5	–	54.5
Non-current assets	3,566.2	(74.9)	3,491.3
Inventories	22.6	–	22.6
Trade receivables	150.1	–	150.1
Trade payables	(63.7)	–	(63.7)
Excise duties payable to tax authorities	(1.9)	–	(1.9)
Net working capital	107.1	–	107.1
Post-employment benefits	(5.5)	–	(5.5)
Other assets	334.6	2.9	337.5
Other liabilities	(610.8)	–	(610.8)
Net invested capital	3,391.6	(71.9)	3,319.7
Equity attributable to the owners of the parent	1,730.8	0.7	1,731.5
Non-controlling interests	19.0	–	19.0
Non-current financial indebtedness	2,141.1	(68.2)	2,072.85
Current net financial indebtedness	(499.3)	(4.4)	(503.70)
Equity and financial indebtedness	3,391.6	(71.9)	3,319.7

	Condensed interim consolidated financial statements	Non-current assets	Net working capital	Post-employment benefits	Other assets	Other liabilities	REPORTED		Adjustment for impact of IFRS 16	ADJUSTED	
							NET INVESTED CAPITAL	Net financial indebtedness		NET INVESTED CAPITAL	Net financial indebtedness
(EUR million)											
Intangible assets	881.3	881.3					881.3			881.3	
Goodwill	180.8	180.8					180.8			180.8	
Property, plant and equipment	2,374.8	2,374.8					2,374.8			2,374.8	
Right of use of leased assets	74.9	74.9					74.9		(74.9)	-	
Equity investments	13.8	13.8					13.8			13.8	
Other non-current financial assets	40.8	40.8					40.8			40.8	
Deferred tax assets	138.0				138.0		138.0			138.0	
Other non-current assets	47.5				47.5		47.5			47.5	
Non-current assets	3,751.7										
Inventories	22.6		22.6				22.6			22.6	
Trade receivables	150.1		150.1				150.1			150.1	
Other current assets	149.0				149.0		149.0		2.9	152.0	
Current financial assets	23.9							(23.9)			(23.9)
Cash and cash equivalents	718.5							(718.5)			(718.5)
Current assets	1,064.2										
Discontinued operations	-										
TOTAL ASSETS	4,815.9										
Equity attributable to the owners of the parent	1,730.8										
Non-controlling interests	19.0								0.7		
Equity	1,749.8										
Provisions for employee benefits	5.5			(5.5)			(5.5)				
Deferred tax liabilities	316.8					(316.8)	(316.8)			(5.5)	
Other non-current provisions	153.0					(153.0)	(153.0)			(316.8)	
Non-current financial liabilities	2,075.3							2,075.3		(153.0)	
Liability for leased assets (non-current)	65.7							65.7			2,075.3
Other non-current liabilities	34.7					(34.7)	(34.7)		(65.7)		-
Non-current liabilities	2,651.0									(34.7)	
Other current provisions	37.2					(37.2)	(37.2)				
Trade payables	63.7		(63.7)				(63.7)			(37.2)	
Current financial liabilities	236.2							236.2		(63.7)	
Liability for leased assets (current)	6.9							6.9			236.2
Other current liabilities	71.1		(1.9)			(69.2)	(71.1)		(6.9)		-
Current liabilities	415.1									(71.1)	
Discontinued operations	-										
TOTAL EQUITY AND LIABILITIES	4,815.9										
Reclassified statement of financial position		3,566.2	107.1	(5.5)	334.6	(610.8)	3,391.6	1,641.8		3,319.7	1,569.1

SIGNIFICANT EVENTS AFTER THE END OF THE QUARTER

Date	Sector	Significant events	Press release
18 October 2019	Thermoelectric	Execution of two Power Purchase Agreements (PPAs) between ERG Power Generation and ACEA for the supply of a total amount of 1.5 TWh of energy in the 2020-2022 time interval.	Press release 18/10/2019

BUSINESS OUTLOOK

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

Wind

for wind power in **Italy**, although slightly greater output than in 2018 is expected, the expectation of lower prices on electricity markets albeit mitigated to a good extent by the hedging actions, associated with the lower unit revenue of the incentive and higher production costs due to some maintenance activities, lead to forecast a slightly lower result than in the previous year.

On the contrary, with regard to **other Countries**, results are expected to increase significantly in 2018, mainly as a result of:

- higher installed power in France by approximately 90 MW fully operational for the entire year 2019;
- higher installed capacity in Germany, by 55 MW, also thanks to the recently carried out capital expenditure;
- better performance of existing assets, both in terms of volumes and due to the higher prices of electricity;
- partly offset by the smaller presence in Northern Ireland as a result of the sale of a wind farm of 48 MW, which took place in March 2018.

In general, the total EBITDA of the Wind sector is expected to grow compared to the previous year thanks to the increased capacity and output abroad which more than offset the slight decrease in the expected results in Italy.

Solar

The expected results for 2019 are significantly higher than in 2018, thanks to the good performance of existing installations and to the contribution of the new ones acquired in January of this year.

For the entire year 2019, the EBITDA is expected to be more than doubled compared to EUR 32 million in 2018.

Hydroelectric

For these assets, significantly lower results are expected than those of 2018, due to persistent markedly lower water resources compared both to the historical average and to the exceptionally high values recorded the previous year. In addition, this also negatively affects the possibility of modulating the plants and participating in the dispatching services market as in 2018.

EBITDA for the hydroelectric sector is therefore forecast to be significantly lower compared to the exceptionally high values recorded last year.

Thermoelectric

We expect **EBITDA to be significantly higher than in 2018**, thanks to the very low prices of natural gas and to the higher prices of electricity in Sicily, which more than offset the rise in the costs of CO₂, consequently with higher Clean Spark Spreads. Control over costs and the greater production of White Certificates (TEE) will also contribute to these better results.

In brief, at consolidated level for the 2019 financial year, **EBITDA is forecast to be higher than in 2018 (EUR 491 million), between EUR 495 million and EUR 505 million**, confirming the previous indication. This growth is expected in spite of a decreasing incentivised perimeter in the Wind sector in Italy and the lower price of the unit incentive both for the Wind and Hydroelectric sectors, and in spite of a forecast sharp decline in the results of the Hydroelectric sector relative to the extraordinary ones of the previous year. These effects are more than offset by the growth in installed capacity abroad, by the better results expected from all the other generation assets and by the energy management activity.

Capital expenditure for 2019 is expected to be between EUR 430 million and EUR 450 million, higher than the previous indication (between EUR 340 million and EUR 370 million), as a consequence of the recent acquisition carried out in the Wind sector in Germany (EUR 83 million, 34 MW), and lower by approximately EUR 70 million compared to 2018 (EUR 510 million).

Operational cash generation will allow to contain **the forecast increase in Net Financial Indebtedness from EUR 1.34 billion in 2018 to an amount between EUR 1.50 billion and EUR 1.56 billion at the end of 2019** (previous indication between EUR 1.39 billion and EUR 1.47 billion, increased to take into account the higher investments), partly offsetting the investments of the period, the distribution of the ordinary dividend of EUR 0.75 per share and payment of financial expenses.

Genoa, 13 November 2019

On behalf of the Board of Directors

The Chairman

Edoardo Garrone



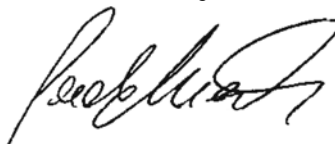
DECLARATION OF THE MANAGER RESPONSIBLE FOR PREPARING THE FINANCIAL REPORTS PURSUANT TO THE PROVISIONS OF ARTICLE 154-BIS PARAGRAPH 2 OF ITALIAN LEGISLATIVE DECREE 58/1998 (CONSOLIDATED LAW ON FINANCE (TUF))

The Manager responsible for preparing the financial reports of ERG S.p.A., Paolo Luigi Merli, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance (TUF), declares that the information included in this Interim Directors' Report corresponds to documentary evidence, accounting records and accounting entries.

Genoa, 13 November 2019

Manager responsible
for preparing the financial reports

Paolo Luigi Merli





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