

**ERG Renew S.p.A.**

Interim Management Report at 30 September 2010



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## CORPORATE BODIES

### Board of Directors

<b>Chairman</b>		Pietro Giordano
<b>Deputy Chairman</b>		Vittorio Garrone
<b>Chief Executive Officer</b>		Francesco Del Balzo
<b>Directors</b>	Independent	Italo Giorgio Alfieri Luca Bettonte
	Independent	Lorenzo Caprio
	Independent	Giorgio Mazzanti
	Independent	Ernesto Monti Pietro Muti

### Board of Statutory Auditors

<b>Chairman</b>	Lelio Fornabaio
<b>Standing Auditors</b>	Francesco Gatti Andrea Manzitti

### Manager responsible for preparing financial information (Law 262/05)

**Luca Giorgerini**

### External Auditors

**Deloitte & Touche S.p.A.**

## Foreword

The Interim Management Report at 30 September 2010, which has not been subjected to a legal audit, has been prepared in compliance with the valuation and measurement criteria established by International Financial Reporting Standards (IFRSs) and on the basis of the requirements contained in Article 154-ter, Paragraph 5, of the Italian Consolidated Finance Law, applying Directive 2004/109/EC (the Trans.p.a.rency Directive).

Consolidation and accounting policies are the same as those indicated in the 2009 Annual Consolidated Financial Report, to which reference should be made. It should also be noted that preparation of the Interim Management Report requires management to make estimates and assumptions that affect the amounts of the revenues, costs, and assets and liabilities and disclosure concerning contingent assets and liabilities as at the interim date of reference. If in future these estimates and assumptions, which are based on the best current evaluation made by management, should differ from actual circumstances, they will be modified appropriately in the period when the circumstances happen to change.

It is also pointed out that some assessment processes – in particular the more complex ones, such as calculation of any impairment of non-current assets - are generally performed in full only when annual financial statements are prepared, i.e. when any and all information needed is available, except in cases where there are impairment indicators such as to require immediate assessment of any impairment of value. Similarly, quantification of the value of green certificates based on current regulatory requirements requires estimation during the year of green certificates' average market price in FY2010. As regards this Interim Report, it should also be noted that the acquisition of ERG Eolica Adriatica Srl, as more clearly commented in the following section, is subject to estimation processes connected with the definition of the price and allocation of the surplus values paid for the acquisition according to the provisions set forth in the purchase agreement and within the limits allowed by IFRS 3.

Insofar as concerns the so-called "Tremonti-ter" tax relief, which accounts for Euro 7.2 million of the item "Income taxes" (positive by Euro 9 million) and refers to the investments carried out involving the subsidiary ERG Eolica Ginestra, the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September and October last year regarding the cumulability of the "Tremonti-ter" tax relief and the green certificates incentive system, they consider that the conditions do not yet exist for cancelling as at 30 September 2010 the above mentioned income of Euro 7.2 million, which was recognised at the time of preparing the half-year financial report at 30 June 2010 prior to any verdict against cumulability; in this connection, the Directors will systematically monitor the regulatory trend in order to be able to support the accounting treatment chosen at the time of drawing up the financial statements at 31 December 2010, in the hope that by then the Government will have conveyed its final decision regarding the aforesaid situation.

As already indicated in the Report on Operations attached to the 2009 Consolidated Annual Financial Statements, on 2 March 2010 the Board of Directors of ERG Renew approved the new 2010-2013 Business Plan. The new plan envisages investments totalling approximately Euro 254 million by the end of 2013 (of which Euro 121 million in 2010) for an overall installed capacity of 428 MW at the end of 2013 (of which 208.5 MW already installed). Considering the high degree of regulatory uncertainty at national and regional level and in order to give investments visibility and

certainty, the plan is based on the development of wind farm projects for which site work can effectively be initiated. Investments carried out up to 30 September 2010 are not in keeping with the 2010 investment budget, since authorisation for the construction of the French Greneville wind farm (20 MW), which was due to be obtained during the current period, is now expected to be received in the first six months of 2011 and furthermore because the investments relating to the Fossa del Lupo wind farm are also experiencing some delays and will therefore be completed in 2011. In any case, the amount of overall investments for the entire plan period is confirmed.

It should be noted that, following the postponement of the planned cash capital increase approved in 2008, caused by the critical conditions of financial markets, 2010 investments will be backed by the parent company ERG S.p.A. During the month of January 2010 the latter formally and irrevocably renewed its commitment, already assumed in 2009, to also support ERG Renew's investments planned during 2010, increasing the credit line signed in May 2009 from the original amount of Euro 140 million to Euro 231 million.

### **Acquisition of IVPC Power 5 S.r.l. (now ERG Eolica Adriatica S.r.l.)**

It should be noted that, from 23 July 2010, ERG Renew consolidates the operations of the new Ascoli Satriano and Rotello wind farms. In fact, during the month of June 2010 ERG Renew reached an agreement with IVPC S.a.s., leading Italian operator in the sector of power generation from wind energy sources, for the purchase of a 100% equity interest in IVPC Power 5 S.r.l., whose name, following the closing completed on 23 July 2010 by subholding company ERG Eolica Italia S.r.l., was changed to ERG Eolica Adriatica S.r.l.. The company owns two wind farms, including one in Molise (40 MW) which became commercially operational in January 2010, and one in Puglia (62 MW) which started commercial operation in June 2010, adding an overall installed capacity of 102 MW to the 208 MW already in production, while with respect to the 2010-2013 Business Plan, estimated installed capacity at the end of 2013 increases from 428 MW to 530 MW.

The acquisition price of the equity investment was Euro 69.5 million, of which Euro 59.5 million was paid at the time of executing the deed for the sale and purchase of the company's quotas, while the balance of Euro 10 million will be paid, as contractually agreed, thirty months after the date of the closing and, therefore, on 31 December 2012.

Consolidation determined a higher price paid of Euro 44 million, which, if grossed up to take account of the tax effect, amounts to Euro 64 million assigned to the value of the wind farm lease agreements. The calculation of this amount ascribable to the item "Concessions" was made after allocating Euro 4.4 million to "Deferred Tax Assets" following quantification of the effects of the so-called "Tremonti-ter" rules based on the assumptions of eligibility for entry, quantification of the benefit and measurement of its potential recovery by way of future taxable income available to date.

The effects relating to the definition of the current values of ERG Eolica Adriatica's identifiable assets and liabilities are still being precisely determined and identified, also in view of the application of IFRS 3. As from the completion of these activities, which will take place within 12 months of the date of execution as set forth by such accounting principle, changes may arise in the determination of the higher price value, allocated to Intangible Assets.

The acquisition was financially possible due to the support provided by the parent company ERG S.p.A., the latter having increased the credit line available to ERG Renew from the original amount of Euro 231 million to Euro 311 million, applying to such extension a different pricing and expiry

date, as well as subordinating same in case of insolvency to the prior satisfaction of third-party lenders. For further considerations, reference should be made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulation adopted by CONSOB with resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)) and on the company's website [www.ergrenew.it](http://www.ergrenew.it).

### **Discontinued operations**

Finally, as previously announced by the Company, we report that the hydroelectric power plant business, represented by the investments held in Ecopower S.r.l. (100%) and ISEA S.r.l. (90%), has been discontinued. The results generated by this business and its disposal have been separately reclassified, in both the income statement and the balance sheet, under discontinued operations, in accordance with IFRS 5.

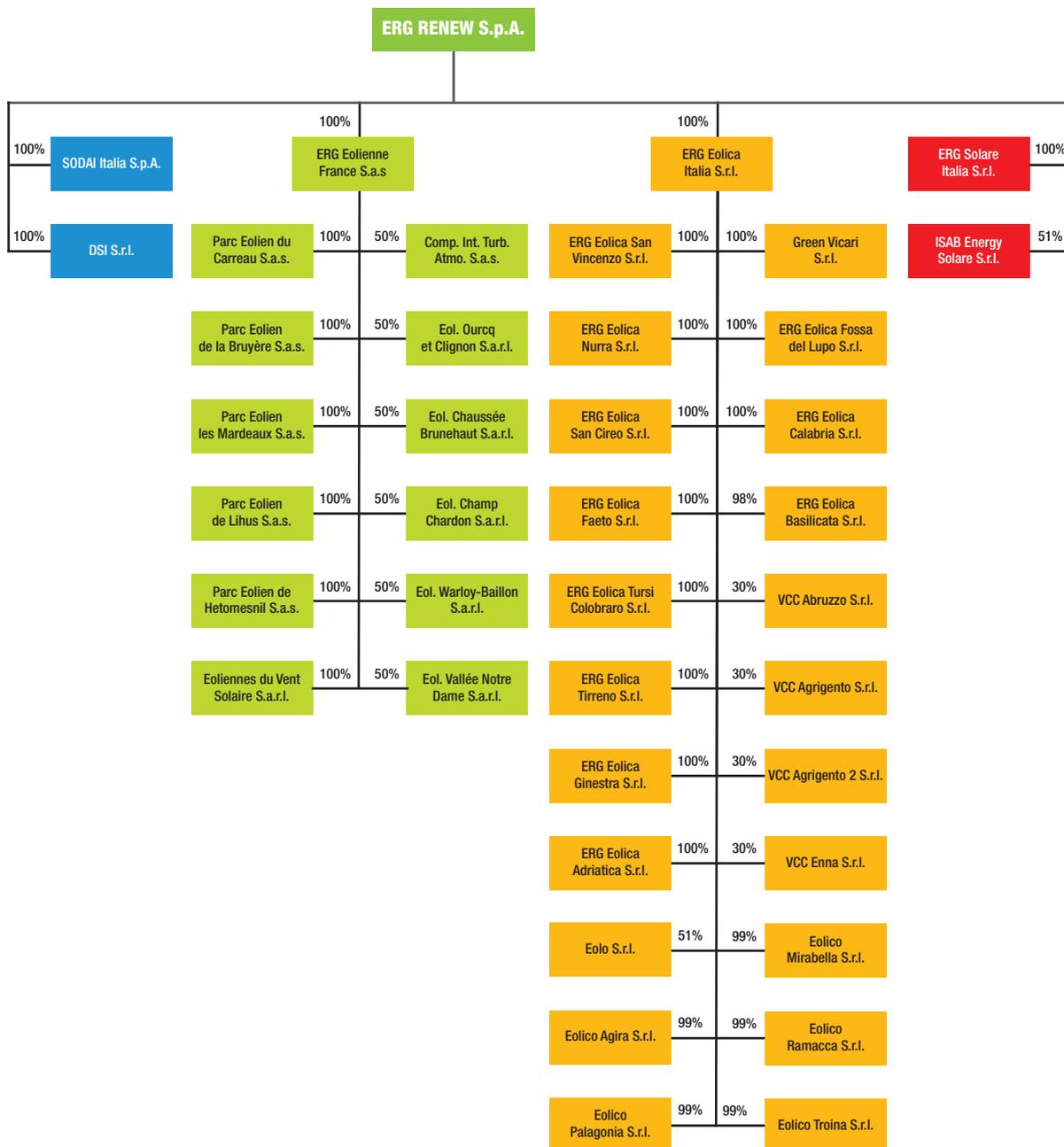
The results shown and commented in the Management Report reflect the consolidation of the company IVPC Power 5 S.r.l. (now Eolica Adriatica S.r.l.), as mentioned above. In order, therefore, to enable a clearer interpretation and understanding of performance during the quarter and during the first nine months of the current year, the table below summarising the performance highlights also provides the pro forma figures for the main financial and economic data without considering the contribution of the new equity interest acquired, which owns the Ascoli Satriano and Rotello wind farms, with a total operating capacity of 102 MW.

## ERG Renew Group Business Description

The ERG Renew Group is active in the following businesses:

- **Wind - Italy:** via its subsidiary ERG Eolica Italia S.r.l., ERG Renew generates electricity from wind sources. There are currently 8 wind farms in operation: San Vincenzo (42 MW), San Cireo (30 MW), Faeto (24 MW), Viticuso (9 MW), Green Vicari (37,5 MW), Pian de Corsi Baltera (1.6 MW), Ascoli Satriano (61.8 MW) and Rotello (40 MW), with installed capacity in operation totalling 245.9 MW; the latter two wind farms, whose overall capacity totals 101.8 MW, belong to the company ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 S.r.l.), acquisition of which was completed in July 2010, as already mentioned in the Foreword.
- **Wind - France:** via its subsidiary ERG Eolienne France S.a.s., ERG Renew generates electricity from wind sources. There are currently 6 facilities with a total installed capacity of 64.4 MW, including 9.2 MW pertaining to the Plogastel wind farm, which came into commercial operation at the end of April 2010. During 2008, ERG Eolienne France S.a.s. also completed two transactions whereby it purchased from the French Group GSEF a 50% stake in Cita Wind and in five project companies. At the same time, ERG Eolienne France also executed a memorandum of understanding for the future acquisition of the company Eoliennes de Greneville, set up to build a wind farm south of Paris with capacity of 20 MW.
- **Photovoltaics:** ERG Renew plans to diversify its presence in the field of renewable energy by also focusing on photovoltaics. ERG Renew is participating in a new generation solar power (so-called organic photovoltaics) research and development project, in partnership with Permasteelisa, Dyesol and some of the Italian universities. The Consortium set up for such purpose is profitably continuing its research activity. More specifically, specifications have been defined for the product which is to be developed. Activities have also commenced to prepare for planning the pilot line, with a view to moving on to the realisation phase during the first half of 2011. Moreover, the Company is installing a traditional plant at ISAB Energy's Sicilian industrial site in Priolo Gargallo (Syracuse) with a capacity of approximately 1 MW.
- **Water Services:** via its subsidiaries SODAI Italia S.p.A. and DSI S.r.l., ERG Renew performs treatment of industrial waste. While SODAI Italia S.p.A. operates via purification platforms adjacent to 20 workshops of Trenitalia, DSI S.r.l. treats solid and liquid waste on behalf of third parties, as well as for SODAI Italia. As already announced several times, the ERG Renew Group intends to terminate its activity in the segment because it is not considered core, proceeding with disposal of the related equity investments by the end of FY2010.

## ERG Renew at 30 September 2010



## ERG Renew stock market performance

On 30 September 2010 the reference price of ERG Renew stock was Euro 0.78, +15.8% compared to the 2009 year-end price. This compared with performances of -17.5% in the European sector index (Dow Jones Utilities Index) and -12.9% in the FTSE MIB index.

Below we show some data concerning the prices and trading volume of ERG Renew stock during the first nine months of 2010.

Share price	Euro
Reference price on 30.09.10	0.78
High (02.02.2010) <sup>(1)</sup>	1.02
Low (04.01.2010)	0.65
Average price	0.81

<sup>(1)</sup> The lowest and highest prices recorded during the day's trading and therefore not the same as official and reference prices on the same date.

Daily volume traded	No. of shares
Highest daily volume (26.01.2010)	7,429,302
Lowest daily volume (06.09.2010)	5,300
Average volume	385,772

Market capitalisation at 30 September 2010 was Euro 103.5 million (86.2 million at the end of 2009).

## ERG Renew performance vs. Dow Jones Utilities Index and FTSE MIB Index



## Performance Highlights

Pro forma 3Q10 without IVPC Power 5	Third quarter 2010 2009			First 9 months 2010 2009		Pro forma First 9 months 2010 without IVPC Power 5
<b>Main economic data (thousand Euro)</b>						
10,209	15,594	10,507	Operating revenues	44,910	33,528	39,525
880	4,953	5,069	EBITDA <sup>(1)</sup>	20,041	14,071	15,968
880	4,953	5,069	Adjusted EBITDA <sup>(2)</sup>	20,041	14,071	15,968
(5,216)	(3,675)	(2,020)	EBIT	(517)	(2,828)	(2,058)
57	57	(49)	Net profit (loss) from discontinued operations	955	(257)	955
(6,183)	(9,336)	(4,333)	Net profit (loss)	(3,639)	(10,167)	(486)
6	6	(6)	<i>of which Minority Interest</i>	(81)	(152)	(81)
(6,177)	(9,330)	(4,339)	Group net profit (loss)	(3,720)	(10,319)	(567)
<b>Main balance sheet and financial data (million Euro)</b>						
–	–	–	Net invested capital *	751.5	398.3	468.3
–	–	–	Shareholders' equity *	100.0	107.3	79.7
–	–	–	Net financial debt *	651.5	291.0	432.0
–	–	–	<i>of which non-recourse Project Financing</i>	365.2	182.6	174.5
–	–	–	Financial leverage *	86.7%	73.1%	92.2%
14.0	14.0	11.4	Investments	53.0	27.2	53.0
* 2009 data refer to 31/12/2009						
<b>Operational data</b>						
208.5	310.3	199.3	Installed wind capacity	MW	310.3	199.3
144.1	245.9	144.1	<i>installed capacity in Italy</i>	MW	245.9	144.1
64.4	64.4	55.2	<i>installed capacity in France</i>	MW	64.4	55.2
59,243	92,332	57,922	Unit sales of electricity from wind sources	MWh	281,899	207,696
39,982	73,071	38,495	<i>unit sales of electricity in Italy</i>	MWh	199,292	138,827
19,261	19,261	19,427	<i>unit sales of electricity in France</i>	MWh	82,607	68,869
89,620	89,620	92,002	Liquid waste treated	mc	305,989	300,457
1,443	1,443	1,315	Solid waste treated	tons	5,230	4,185
<b>Electricity/green certificate prices</b>						
68.01	68.01	69.22	Electricity selling prices in Italy	Euro/MWh	67.24	69.25
86.68	86.68	N/A	Green certificates 2010	Euro/MWh	86.68	N/A
N/A	N/A	88.16	Green certificates 2009	Euro/MWh	N/A	88.16
84.83	84.83	86.05	Electricity selling prices in France *	Euro/MWh	84.82	86.02
* inclusive of incentive						

(1) "EBITDA" corresponds to net income adjusted for taxes, for the result of asset disposal or discontinued operations, for financial income/expenses, as well as for depreciation/amortisation of tangible and intangible assets, and write-downs of non-current assets. EBITDA is a metric used by the Group to monitor and assess its operating performance and is not defined as an accounting metric within IFRSs. Given this, it must not be considered a metric alternative to intermediate reported results for assessment of operating performance. As the composition of EBITDA is not regulated by the reference accounting standards, the policy for calculation applied by the Group may not be the same as that adopted by others and therefore may not be comparable.

(2) "Adjusted EBITDA" corresponds to EBITDA as defined above adjusted for non-recurring items, if any.

## Divisional performance highlights

Third quarter		(thousand Euro)	First 9 months	
2010	2009		2010	2009
<b>Operating revenues</b>				
12,083	7,174	Wind Italy	31,799	22,651
1,634	1,664	Wind France	6,882	6,040
<b>13,717</b>	<b>8,838</b>	<b>Total Wind</b>	<b>38,681</b>	<b>28,691</b>
1,639	1,670	Water services	5,783	4,829
238	(1)	Holding Division	446	8
<b>15,594</b>	<b>10,507</b>	<b>Total</b>	<b>44,910</b>	<b>33,528</b>
<b>EBITDA</b>				
6,365	6,146	Wind Italy	20,463	17,862
998	1,085	Wind France	4,879	4,221
<b>7,363</b>	<b>7,231</b>	<b>Total Wind</b>	<b>25,342</b>	<b>22,083</b>
419	141	Water services	1,140	568
(2,829)	(2,303)	Holding Division	(6,441)	(8,580)
<b>4,953</b>	<b>5,069</b>	<b>Total</b>	<b>20,041</b>	<b>14,071</b>
<b>Adjusted EBITDA</b>				
6,365	6,146	Wind Italy	20,463	17,862
998	1,085	Wind France	4,879	4,221
7,363	7,231	Total Wind	25,342	22,083
419	141	Water services	1,140	568
(2,829)	(2,303)	Holding Division	(6,441)	(8,580)
<b>4,953</b>	<b>5,069</b>	<b>Total</b>	<b>20,041</b>	<b>14,071</b>
<b>EBIT</b>				
(144)	991	Wind Italy	5,991	6,632
(974)	(664)	Wind France	(742)	(1,020)
<b>(1,118)</b>	<b>327</b>	<b>Total Wind</b>	<b>5,249</b>	<b>5,612</b>
298	1	Water services	756	233
(2,855)	(2,348)	Holding Division	(6,522)	(8,673)
<b>(3,675)</b>	<b>(2,020)</b>	<b>Total</b>	<b>(517)</b>	<b>(2,828)</b>
<b>Investments in tangible and intangible fixed assets</b>				
13,952	9,137	Wind Italy	51,328	23,724
26	1,678	Wind France	1,096	1,992
13,978	10,815	Total Wind	52,424	25,716
(13)	524	Water services	232	1,297
84	28	Holding Division	334	204
<b>14,049</b>	<b>11,367</b>	<b>Total</b>	<b>52,990</b>	<b>27,217</b>

## Comment on third-quarter results

**Revenues** in the **third quarter** of 2010 (3Q10), at Euro 15.6 million, were up by 48.4% over 3Q09 when they amounted to Euro 10.5 million. This increase was almost exclusively ascribable to the Wind Italy sector, first of all following the consolidation, from 23 July 2010, of the Ascoli Satriano and Rotello wind farms, with an overall 101.8 MW, whose acquisition was already reported in the above section "Acquisition of IVPC Power 5 S.r.l. (now ERG Eolica Adriatica S.r.l.); and, secondly, due to the total output of the other Italian wind farms, in keeping with that of 3Q09 (3.9%). This positive contribution from the wind Italy business was largely eroded by (i) the reduced output of the French wind farms despite the contribution of the new Plogastel wind farm which, in 3Q09, was not yet operational, (ii) the lower electricity selling prices in Italy, down from 69.22 Euro/MWh in 3Q09 to 68.01 Euro/MWh in 3Q10, (iii) the lesser value assigned to green certificates, down from 88.16 Euro/MWh in 3Q09 to 86.68 Euro/MWh in 3Q10, (iv) the lower electricity selling prices in France, down from 86.05 Euro/MWh in 3Q09 to 84.83 Euro/MWh in 3Q10 as a result of a decline in some indices used to calculate the sale price.

**Revenues** in the **first nine months** of 2010 amounted to Euro 44.9 million, with an increase of 33.9% over the first nine months of 2009, when they totalled Euro 33.5 million. This increase was ascribable to: the Wind Italy sector as a result of the already mentioned consolidation of the Ascoli Satriano and Rotello wind farms and, secondly, due to the higher output of the other Italian wind farms compared to the first nine months of 2009 (+19.7%); the output of the French wind farms which, thanks also to the new Plogastel wind farm, increased by 21% over the first nine months of 2009; and the Water Services business which was up by approximately 20% compared to the first nine months of 2009 due to the new services performed by SODAI for Trenitalia and the growth in volumes and tariffs as regards DSI. This positive effect was partly eroded by (i) the lower electricity selling prices in Italy, down from 69.25 Euro/MWh in the first nine months of 2009 to 67.24 Euro/MWh in the corresponding period of 2009, (ii) the lesser value assigned to the green certificates, down from 88.16 Euro/MWh in the first nine months of 2009 to 86.68 Euro/MWh in the corresponding period of 2010, (iii) the lower electricity selling prices in France, down from 86.02 Euro/MWh in the first nine months of 2009 to 84.82 Euro/MWh in the first nine months of 2010 as a result of a decline in some indices used to calculate the sale price.

**3Q10 EBITDA** amounted to Euro 5 million compared to Euro 5.1 million reported in 3Q09.

The trend in EBITDA reflects the following factors:

- **Wind - Italy:** a contribution of Euro 6.4 million compared to Euro 6.1 million reported in 3Q09. The trend in this result, apart from the reasons already highlighted with regard to revenues, was negatively impacted by some provisions for liabilities allocated to cover extraordinary interventions involving the Vicari wind farm and a bad debt provision made in connection with what is currently considered a problem receivable.
- **Wind - France:** a contribution of Euro 1 million compared to Euro 1.1 million in 3Q09 for the reasons already highlighted with regard to revenues.
- **Water Services:** a positive contribution of Euro 0.4 million, with an increase of Euro 0.3 million over 3Q09.

- **Holding Division:** a negative contribution of Euro 2.8 million, showing a further deterioration with respect to the negative contribution of Euro 2.3 million reported in 3Q09. This negative trend is ascribable above all to the advisory expenses incurred in connection with the aforesaid acquisition of the equity interest in ERG Eolica Adriatica S.r.l.

**EBITDA** in the **first nine months** of 2010 amounted to Euro 20 million compared to Euro 14.1 million posted for the first nine months of 2009, with an increase of 42.4%.

The trend in EBITDA reflects the following factors:

- **Wind - Italy:** a contribution of Euro 20.5 million compared to Euro 17.9 million reported in the first nine months of 2009 for the reasons already highlighted with regard to revenues.
- **Wind - France:** a contribution of Euro 4.9 million compared to Euro 4.2 million in the first nine months of 2009 for the reasons already highlighted with regard to revenues.
- **Water Services:** a positive contribution of Euro 1.1 million, up by Euro 0.5 million over the first nine months of 2009. This increase is ascribable to the reasons already explained with regard to revenues.
- **Holding Division:** a negative contribution of Euro 6.4 million, showing an improvement of Euro 2.1 million with respect to the first nine months of 2009. This upturn is mainly ascribable to the reduction in legal advisory expenses, to lower charges from the parent company and affiliates for the supply of staff services, to lower insurance brokerage fees. It should also be considered that this result reflects an overall cost of approximately Euro 1 million in connection with the expenses relating to the acquisition of the equity interest in the company IVPC Power 5 S.r.l. (now ERG Eolica Adriatica S.r.l.) which owns the Ascoli Satriano and Rotello wind farms, details of which are provided in the Foreword. These savings, which will be consolidated from now until the end of the financial year, will amount to at least Euro 1 million.

**EBIT** in **3Q10** was negative by Euro 3.7 million (Euro -2 million in 3Q09), after depreciation and amortisation totalling Euro 8.6 million (Euro 7.1 million in 3Q09).

**EBIT** in the **first nine months** of 2010 was negative by Euro 0.5 million (Euro -2.8 million in the first nine months of 2009), after depreciation and amortisation totalling Euro 20.5 million (Euro 16.9 million in the first nine months of 2009).

In **3Q10** the **Group net loss** was Euro 9.3 million, compared to a loss of Euro 4.3 million reported in 3Q09. This result reflects (i) financial expenses of Euro 7.9 million which, despite the lower interest rates with respect to the corresponding period of 2009, showed an increase due to the frequently mentioned consolidation of the new Ascoli Satriano and Rotello wind farms financed through project financing; (ii) a loss of Euro 0.2 million relating to the 50% stake held by ERG Eolienne France in C.I.T.A. S.a.s., a company booked at equity, which performs development work in the wind business in France; (iii) positive taxes of Euro 2.3 million ascribable to deferred tax assets.

The **Group net loss** in the **first nine months** of 2010 amounted to Euro 3.7 million compared to a loss of Euro 10.3 million reported for the first nine months of 2009. This result reflects (i) financial expenses of Euro 12.6 million which, despite the lower interest rates compared to the corresponding period of 2009, showed an increase due to the already frequently mentioned consolidation of the new Ascoli Satriano and Rotello wind farms, which were financed through project financing; (ii) a

loss of Euro 0.5 million relating to the 50% stake held by ERG Eolienne France in C.I.T.A. S.a.s., a company booked at equity, which performs development work in the wind business in France; (iii) a positive result of Euro 1 million from discontinued operations ascribable, on the one hand, to the recognition and receipt of a tax earn-out of Euro 1.6 million accrued in favour of ERG Renew up to 31 December 2008 on the sale to ACEA S.p.A. of the investment in TAD Energia Ambiente (waste to energy/waste management) in July 2006, following utilisation of part of the tax loss carryforwards generated by TAD Energia Ambiente and its subsidiaries in the years prior to the closing of the sale; on the other hand, such income was partially offset by the result from ordinary operations as regards the business of the hydroelectric power plants which, since they were subject to sale, was reclassified accordingly; (iv) positive taxes of Euro 9 million concerning the positive impact of deferred tax assets recognised and benefits available to the subsidiary ERG Eolica Ginestra under the so-called “*Tremonti ter*” tax relief (Euro 7.2 million). With regard to the said tax relief, the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September and October last year regarding the cumulability of the “*Tremonti-ter*” tax relief and the green certificates incentive system, they consider that the conditions do not yet exist for cancelling as at 30 September 2010 the above mentioned income of Euro 7.2 million, which was recognised at the time of preparing the half-year financial report at 30 June 2010 prior to any verdict against cumulability; in this connection, the Directors will systematically monitor the regulatory trend in order to be able to support the accounting treatment chosen at the time of drawing up the financial statements at 31 December 2010, in the hope that by then the Government will have conveyed its final decision regarding the aforesaid situation.

**Investments** during the first nine months of 2010 totalled Euro 53 million (Euro 27.2 million in the first nine months of 2009) and were ascribable almost exclusively to the wind business and, more specifically, Euro 30.8 million to the Fossa del Lupo wind farm and Euro 20.3 million to the Ginestra wind farm. The 2010 investment budget, amounting to Euro 121 million, will not be entirely allocated during the course of the current year, which will close with investments totalling between Euro 65 and 70 million, since (i) the portion pertaining to the French Greneville wind farm, amounting to Euro 30 million, cannot be realised owing to failure to obtain the authorisation (ZDE – Zone de Développement Eolien) which is expected to be received during 2011 and (ii) some delays affecting the investments concerning the Fossa del Lupo wind farm, which will be completed in FY2011. In any case, the amount of overall investments for the entire plan period is confirmed.

**Net financial debt** at 30 September 2010 was Euro 651.5 million, up by Euro 360.5 million compared to 31 December 2009, when it amounted to Euro 291 million. This major increase in debt is ascribable, above all, to the consolidation of the net debt pertaining to ERG Eolica Adriatica (Euro 219.5 million, including project financing of Euro 190.7); secondly, as this new acquisition was concluded with the financial support of ERG S.p.A., the latter having made available to ERG Renew a specific credit line for a maximum amount of Euro 80 million, to a disbursement made under the said credit line for the amount of Euro 60 million.

At 30 September 2010, **net invested capital** amounted to Euro 751.5 million, up by Euro 353.2 million compared to the figure at 31 December 2009 (Euro 398.3 million). The increase is almost exclusively ascribable to the consolidation of the new equity investment in ERG Eolica Adriatica, which owns the Ascoli Satriano and Rotello wind farms.

## Events during the third quarter

### Wind - Italy

As already frequently mentioned, on **23 July**, following the resolution adopted by ERG Renew's Board of Directors on 22 June 2010, ERG Eolica Italia, subholding company for the wind business in Italy, completed the closing for the acquisition of 100% of the share capital of IVPC Power 5 S.r.l., owner of 2 wind farms, one in Molise (40 MW) commercially operational since January 2010 and one in Puglia (62 MW) which started commercial operation during the month of June 2010, with an overall installed capacity of 102 MW. On the same date, the Quotaholders' Meeting of the new investee company changed the company's name to ERG Eolica Adriatica and moved its registered office to Genoa. The acquisition was financially possible due to the backing provided by the parent company ERG S.p.A., the latter having increased the credit line in favour of ERG Renew from the original amount of Euro 231 million to Euro 311 million, applying to such extension a different pricing and expiry date, also subordinating same in case of insolvency to the prior satisfaction of third-party lenders.

For further considerations, reference should be made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulation adopted by CONSOB with resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)) and on the company's website, [www.ergrenew.it](http://www.ergrenew.it).

On **26 July 2010**, the areas where 4 of the 20 wind turbines which are to make up the Ginestra wind farm, currently under construction, are being installed were placed under preventive sequestration by the Benevento Judicial Authority. The order refers to alleged environmental torts arising from the execution of works in woodland, in the claimed absence of the required authorisation. Again in this case, the Company, considering its actions to be entirely correct, requested and obtained a hearing to re-examine the order, which took place on 20 September and following which the order was confirmed. The Company has already taken steps to present a motion of release from seizure, the outcome of which is reasonably expected by the end of the year. Moreover, we report that the above areas were already concerned with a regional temporary suspension order regarding the Single Authorisation which, following the appeal to the Campania Regional Administrative Tribunal (TAR), was provisionally suspended.

### Photovoltaics

On **23 July** ERG Renew increased, from 12.4% to 24.7%, its stake in the Dyepower Consortium, set up to perform research and development activities in the field of so-called organic photovoltaics.

### **Hydroelectric power plants**

On **30 July**, following the agreement signed on 30 June with a leading sector operator concerning the sale of the equity investments held in Ecopower S.r.l. and ISEA S.r.l., ERG Renew completed the closing for the sale of the investment in ISEA S.r.l.. The sale of the investment in Ecopower had already been completed on 30 June, at the time of signing the agreement. As a result of this last action, the Company has fulfilled its anticipated and previously announced disposal of the hydroelectric power plant business, which is no longer considered core.

### **Holding Division**

On **12 July** it was announced that ERG Renew and Lukoil had signed a Memorandum of Understanding with a view to setting the basic terms and conditions for a cooperation in the market of renewable energy sources, particularly in the wind energy sector. Above all, the two companies will be evaluating business opportunities in the Eastern European countries and Russia.

On **16 July** an agreement was finalised with ACEA S.p.A. for the repurchase of past due trade receivables claimed by TAD Energia Ambiente and its subsidiaries vis-à-vis third-party customers. This was in compliance with the agreement signed in May 2006 which provided for all trade receivables past due as at 31 December 2005 and not paid during the 24 months following the date of the closing (4 July 2006) to be repurchased by ERG Renew. We report that, in respect of these receivables, which amount to a nominal value of approximately Euro 9 million, as from the 2006 financial year the Company, in addition to having acquired together with the receivables also a bad debt provision of Euro 1.1 million, set up a provision for liabilities, currently standing at around Euro 5.5 million, which at the time of drawing up this quarterly report has been reclassified as a bad debt provision: the Company, whilst continuing to give priority to monitoring the adequacy of the estimation processes regarding the collectability of the receivables recorded, considers there is reasonable certainty that the net amount of such receivables will be paid. Moreover, ACEA has recognised a tax earn-out in favour of ERG Renew, accrued as contractually envisaged up to 31 December 2008 and amounting to Euro 1.6 million.

## Business divisions

### Wind - Italy

ERG Renew operates in the generation of wind power, via its subsidiary ERG Eolica Italia Srl. There are currently 8 plants in operation: San Vincenzo (42 MW), San Ciro (30 MW), Faeto (24 MW), Viticuso (9 MW), Green Vicari (37,5 MW), Pian de Corsi Baltera (1.6 MW), Ascoli Satriano (61.8 MW) and Rotello (40 MW), with installed capacity in operation totalling 245.9 MW; the latter two wind farms, whose overall capacity totals 101.8 MW, belong to the company ERG Eolica Adriatica S.r.l.

Subject to plant availability, the results expected from each wind farm are clearly affected by the anemological (wind) characteristics of the site where the wind farm is located.

Operating profitability is also influenced by the selling price of electricity and green certificates, while net profitability is also affected by interest-rate trends.

### Electricity and green certificate selling prices

Third quarter		Electricity/green certificate prices	First 9 months		
2010	2009		2010	2009	
68.01	69.22	Electricity selling prices in Italy	Euro/MWh	67.24	69.25
86.68	N/A	Green certificates 2010	Euro/MWh	86.68	N/A
N/A	88.16	Green certificates 2009	Euro/MWh	N/A	88.16

Reference should be made to the Explanatory Notes in the next section "Summary of results" for the considerations made concerning the valuation of green certificates, in view of the (present and expected) trend of the related market and of the electricity market.

### Summary of results

Third quarter		Economic results (thousand Euro)	First 9 months	
2010	2009		2010	2009
<b>12,083</b>	<b>7,174</b>	<b>Operating revenues</b>	<b>31,799</b>	<b>22,651</b>
<b>6,365</b>	<b>6,146</b>	<b>EBITDA</b>	<b>20,463</b>	<b>17,862</b>
<b>6,365</b>	<b>6,146</b>	<b>Adjusted EBITDA</b>	<b>20,463</b>	<b>17,862</b>
(6,509)	(5,155)	Amortisation, depreciation and write-downs	(14,472)	(11,230)
<b>(144)</b>	<b>991</b>	<b>EBIT</b>	<b>5,991</b>	<b>6,632</b>
13,952	9,137	Investments in tangible and intangible assets	51,328	23,724
		<b>Operational data</b>		
<b>73,071</b>	<b>38,495</b>	<b>Production output (MWh)</b>	<b>199,292</b>	<b>138,827</b>
		of which		
12,387	11,114	San Vincenzo	44,343	39,525
9,872	9,843	San Ciro	37,222	34,457
6,946	8,203	Faeto	26,992	14,664
2,102	2,748	Viticuso	9,804	10,792
8,541	6,283	Vicari	47,250	38,361
134	304	Pian de Corsi Baltera	592	1,028
14,961	–	Rotello	14,961	–
18,128	–	Ascoli Satriano	18,128	–

In **3Q10**, the operating **revenues** of the Wind Italy business increased by 68.4% over 3Q09, from Euro 7.2 million to Euro 12.1 million. The growth of Euro 4,9 million is almost exclusively ascribable to the consolidation, from 23 July 2010, of the new Ascoli Satriano and Rotello wind farms belonging to ERG Eolica Adriatica, as already abundantly mentioned. The output of these new wind farms led to a growth of 89.8% in electricity sold, from 38,495 MWh in 3Q09 to 73,071 MWh in 3Q10, without which the output for 3Q10 (39,982 MWh) would have been in line with that reported for the corresponding quarter in 2009 (+3.9%). Moreover, we mention that the positive trend in revenues was partly eroded by (i) the lower electricity selling price in Italy, down from 69.22 Euro/MWh in 3Q09 to 68.01 Euro/MWh in 3Q10 (-1.75%) and (ii) the lesser value assigned to green certificates, which went down from 88.16 Euro/MWh in 3Q09 to 86.68 Euro/MWh in 3Q10 (-1.7%). As regards green certificates, their value was estimated based on the rules set forth by Ministerial Decree dated 18 December 2008, enacted by the Ministry for Economic Development in agreement with the Ministry for the Environment and Territorial and Marine Protection, and published in the Italian Official Journal (Gazzetta Ufficiale) on 12 January 2009, which regulated the transition from the old to the new incentive mechanism approved by the 2008 Finance Law. In fact, this decree, also with a view to avoiding the penalisation of investments already underway, established that green certificates pertaining to production accrued and accruing up to the end of 2010 will, at their holders' request, be acquired by the GSE. This purchase, the application for which must be sent on or before 31 March of the year following the one to which the certificates refer, will take place at a price equal to the market average during the three-year period preceding the year of filing the application. The GSE will purchase the green certificates by 30 June.

Lastly, we report that the growth in output and revenues continues to be negatively impacted by the upgrade interventions on the national transmission grid. In this connection, we mention that in order to compensate for the lower electricity output during the third quarter, under AEEG resolution 330/2007 the companies concerned are to be paid an indemnity.

In the **first nine months** of 2010, the operating revenues of the Wind Italy business increased by 40.4% compared to the first nine months of 2009, from Euro 22.7 million to Euro 31.8 million. The growth of Euro 9.1 million is ascribable to both the consolidation, from 23 July 2010, of the new Ascoli Satriano and Rotello wind farms belonging to ERG Eolica Adriatica, as already abundantly mentioned, and the good output of the other wind farms. In fact, the overall output, up from 138,827 MWh in the first nine months of 2009 to 199,292 MWh in the first nine months of 2010 (+43.6%), featured both the contribution of 33,089 MWh from the new wind farms and that of 27,376 MWh from the other wind farms (+19.7%). Moreover, we mention that the positive trend in revenues was partly eroded by (i) the lower electricity selling price in Italy, down from 69.25 Euro/MWh in the first nine months of 2009 to 67.24 Euro/MWh in the first nine months of 2010 (-2.90%) and (ii) the lesser value assigned to green certificates, which went down from 88.16 Euro/MWh in the first nine months of 2009 to 86.68 Euro/MWh in the first nine months of 2010 (-1.7%). As regards green certificates, their value was estimated based on the rules set forth by Ministerial Decree dated 18 December 2008, enacted by the Ministry for Economic Development in agreement with the Ministry for the Environment and Territorial and Marine Protection, and published in the Italian Official Journal (Gazzetta Ufficiale) on 12 January 2009, which regulated the transition from the old to the new incentive mechanism approved by the 2008 Finance Law. In fact, this decree, also with a view to avoiding the penalisation of investments already underway, established that green certificates

pertaining to production accrued and accruing up to the end of 2010 will, at their holders' request, be acquired by the GSE. This purchase, the application for which must be sent on or before 31 March of the year following the one to which the certificates refer, will take place at a price equal to the market average during the three-year period preceding the year of filing the application. The GSE will purchase the green certificates by 30 June.

Lastly, we report that the growth in output and revenues continues to be negatively impacted by the upgrade interventions on the national transmission grid. In this connection, we mention that in order to compensate for the lower electricity output during the first nine months of the year, under AEEG resolution 330/2007 the companies concerned are to be paid an indemnity.

In 3Q10, the Wind Italy business posted **EBITDA** of Euro 6.4 million, up by 3.6% compared to Euro 6.1 million reported in 3Q09. This increase is exclusively ascribable to the contribution of the new Ascoli Satriano and Rotello wind farms, without which the result would have featured a notable downturn compared to 3Q09 due, apart from the negative trend in the prices of electricity sold and the value assigned to the green certificates matured, to the amount of Euro 1.6 million allocated to the provision for liabilities to cover extraordinary interventions to restore some areas of the Vicari wind farm and to a bad debt provision of Euro 1 million regarding an amount considered by the company to be a problem receivable.

In the first nine months of 2010, the Wind Italy business posted **EBITDA** of Euro 20.5 million, up by 14.6% compared to Euro 17.9 million reported in the first nine months of 2009. The increase is due both to the contribution of the new Ascoli Satriano and Rotello wind farms and to the higher output of the other farms. This growth was partially penalised, first of all, by the negative trend in the prices of electricity sold and the value assigned to the green certificates matured and, secondly, by the amount of Euro 2.1 million allocated to the provision for liabilities to cover extraordinary interventions to restore some areas of the Vicari wind farm and a bad debt provision of Euro 1 million regarding an amount considered by the company to be a problem receivable.

**Amortisation and depreciation** for the Wind Italy business in **3Q10** amounted to Euro 6.5 million, up by Euro 1.3 million compared to Euro 5.2 million recorded for 3Q09. This increase is ascribable to the consolidation of the new Ascoli Satriano and Rotello wind farms.

**Amortisation and depreciation** for the Wind Italy business in the **first nine months** of 2010 amounted to Euro 14.5 million, up by Euro 3.3 million compared to the first nine months of 2009, when it amounted to Euro 11.2 million. This increase is mainly ascribable to the consolidation of the new Ascoli Satriano and Rotello wind farms.

In **3Q10**, the Wind Italy business posted a negative **EBIT** of Euro 0.1 million, down by Euro 1.1 million compared to Euro 1 million reported in 3Q09. The reasons are the same as those already highlighted with regard to revenues, EBITDA and amortisation and depreciation.

**EBIT** of the Wind Italy business for the **first nine months** of 2010 was positive by Euro 6 million, down by Euro 0.6 million compared to Euro 6.6 million recorded for the first nine months of 2009. The reasons are the same as those already highlighted with regard to revenues, EBITDA and amortisation and depreciation.

## Wind - France

In France, ERG Renew operates in the sector of wind power generation via its subsidiary ERG Eolienne France S.a.s. There are currently 6 facilities with a total installed capacity of 64.4 MW, including 9.2 MW pertaining to the new Plogastel wind farm, which came into commercial operation at the end of April 2010.

## Summary of results

Third quarter		Economic results (thousand Euro)	First 9 months	
2010	2009		2010	2009
<b>1,634</b>	<b>1,664</b>	<b>Revenues from ordinary operations</b>	<b>6,882</b>	<b>6,040</b>
<b>998</b>	<b>1,085</b>	<b>EBITDA</b>	<b>4,879</b>	<b>4,221</b>
<b>998</b>	<b>1,085</b>	<b>Adjusted EBITDA</b>	<b>4,879</b>	<b>4,221</b>
(1,972)	(1,749)	Amortisation, depreciation and write-downs	(5,621)	(5,241)
<b>(974)</b>	<b>(664)</b>	<b>EBIT</b>	<b>(742)</b>	<b>(1,020)</b>
26	1,678	Investments in tangible and intangible assets	1,096	1,992
<b>Operational data</b>				
<b>19,261</b>	<b>19,427</b>	<b>Production output (MWh)</b>	<b>82,607</b>	<b>68,869</b>
		of which		
3,959	4,078	Hetomesnil	15,278	13,797
2,937	3,733	Le Mardeaux	15,327	13,956
3,407	3,627	Le Carreau	15,245	13,455
3,796	3,855	Lihus	14,946	12,528
3,360	4,134	La Bruyere	16,606	15,133
1,802	-	Plogastel	5,205	-

In **3Q10** the **revenues** of the Wind France business, which amounted to Euro 1.6 million, were down by 1.80% compared to Euro 1.7 million in 3Q09. This decrease, despite the contribution of the new Plogastel wind farm, which came on stream in April 2010, was ascribable both to the lack of windiness which caused a decline of 0.9% in electricity output, from 19,427 MWh in 3Q09 to 19,261 MWh in 3Q10, and to the downturn in the selling price of electricity, from 86.05 Euro/MWh in 3Q09 to 84.83 Euro/MWh in 3Q10. This price – originally contractually established with the operator EDF at 82 Euro/MWh, including both the price of the electricity sold and the incentive portion, valid for ten years and for another five years according to the production performance of the wind farms - is indexed on an annual basis. The decrease compared to 3Q09 is the result of a decline in some indices used to calculate the sale price.

The **revenues** of the Wind France business in the **first nine months** of 2010, which amounted to Euro 6.9 million, were up by 13.9% compared to Euro 6 million reported for the first nine months of 2009. This increase was due to the growth of 19.9% in electricity output, up from 68,869 MWh in the first nine months of 2009 to 82,607 MWh in the first nine months of 2010, thanks also to the contribution from the output of the new Plogastel wind farm, which came on stream in April 2010. This was despite the downturn in electricity selling prices, from 86.02 Euro/MWh in the first nine months of 2009 to 84.82 Euro/MWh in the first nine months of 2010. This price – originally

contractually established with the operator EDF at 82 Euro/MWh, including both the price of the electricity sold and the incentive portion, valid for ten years and for another five years according to the production performance of the wind farms – is indexed on an annual basis. The decrease compared to 3Q09 is the result of a decline in some indices used to calculate the sale price.

The contribution of the Wind France business to consolidated **EBITDA** in **3Q10** amounted to Euro 1 million, down by 8% with respect to Euro 1.1 million reported in 3Q09, for the reasons already highlighted with regard to revenues.

The contribution of the Wind France business to consolidated **EBITDA** in the **first nine months** of 2010 amounted to Euro 4.9 million, up by 15.6% compared to the first nine months of 2009, when it amounted to Euro 4.2 million, for the reasons already highlighted with regard to revenues.

**Amortisation and depreciation** in **3Q10** amounted to Euro 2 million, up by Euro 0.3 million over 3Q10, following the coming on stream of the new Plogastel wind farm starting from April 2010.

**Amortisation and depreciation** in the **first nine months** of 2010 amounted to Euro 5.6 million, with an increase of Euro 0.4 million over the first nine months of 2009, following the coming on stream of the new Plogastel wind farm starting from April 2010.

In **3Q10**, **EBIT** for the Wind France business was negative by Euro 1 million, with a further deterioration compared to the negative result of Euro 0.7 million reported in the corresponding period of 2009.

**EBIT** for the Wind France business in the **first nine months** of 2010 was negative by Euro 0,7 million, with an upturn of Euro 0.3 million compared to the first nine months of 2009 when it was negative by Euro 1 million.

## Water Services

### Summary of results

Third quarter		Economic results (thousand Euro)	First 9 months	
2010	2009		2010	2009
<b>1,639</b>	<b>1,670</b>	<b>Revenues from ordinary operations</b>	<b>5,783</b>	<b>4,829</b>
<b>419</b>	<b>141</b>	<b>EBITDA</b>	<b>1,140</b>	<b>568</b>
<b>419</b>	<b>141</b>	<b>Adjusted EBITDA</b>	<b>1,140</b>	<b>568</b>
(121)	(140)	Amortisation, depreciation and write-downs	(384)	(335)
<b>298</b>	<b>1</b>	<b>EBIT</b>	<b>756</b>	<b>233</b>
(13)	524	Investments in tangible and intangible assets	232	1,297
<b>Operational data</b>				
<b>Waste treated</b>				
81,240	78,285	SODAI Italia – waste treated (m <sup>3</sup> )	275,554	278,842
8,380	13,717	DSI Servizi Industriali – liquid waste treated (m <sup>3</sup> )	30,435	21,615
1,443	1,315	DSI Servizi Industriali – solid waste treated (tons)	5,230	4,185

In **3Q10**, operating **revenues** of the Water Services business totalled Euro 1.6 million, with a decrease of 1.9% compared to Euro 1.7 million in 3Q09. This decline is ascribable above all to the company DSI, which featured a major downturn (-38,9%) in the quantities of liquid waste treated compared to 3Q09; the negative contribution of DSI in terms of quantities was partly compensated by the rise in tariffs compared to those applied in 3Q09, an increase in the quantities treated by SODAI and the new services supplied by the latter to Trenitalia.

Operating **revenues** of the water services business in the **first nine months** of 2010 amounted to Euro 5.8 million, with a growth of 19.8% over the first nine months of 2009 when they amounted to Euro 4.8 million. This increase is ascribable, first of all, to the higher net quantities of waste treated by the company DSI, secondly, to the rise in tariffs applied by DSI and SODAI compared to the first nine months of 2009 and, lastly, to the new services supplied by SODAI to Trenitalia.

In **3Q10 EBITDA** for the water services business was positive by Euro 0.4 million, with an increase of Euro 0.3 million compared to 3Q09. This positive performance was due to the margins generated by the new services supplied by SODAI to Trenitalia.

**EBITDA** for the water services business in the **first nine months** of 2010 was positive by Euro 1.1 million, up by Euro 0.5 million compared to the first nine months of 2009. This positive performance was due to the margins generated by the new services supplied by SODAI to Trenitalia.

**Amortisation and depreciation** for the water services business in **3Q10** amounted to Euro 0.1 million, in line with the corresponding period in 2009.

**Amortisation and depreciation** for the water services business in the **first nine months** of 2010 amounted to Euro 0.4 million, in line with the figure reported for the first nine months of 2009.

In **3Q10 EBIT** for the water services business was positive by Euro 0.3 million, up by Euro 0.3 million compared to 3Q09 when it was at break-even.

**EBIT** for the water services business in the **first nine months** of 2010 was positive by Euro 0.8 million, up by Euro 0.6 million compared to the first nine months of 2009 when it was positive by Euro 0.2 million.

### Holding Division

Third quarter		Economic results (thousand Euro)	First 9 months	
2010	2009		2010	2009
238	(1)	Revenues from ordinary operations	446	8
(2,829)	(2,303)	EBITDA	(6,441)	(8,580)
(2,829)	(2,303)	Adjusted EBITDA	(6,441)	(8,580)
(26)	(45)	Amortisation, depreciation and write-downs	(81)	(93)
(2,855)	(2,348)	EBIT	(6,522)	(8,673)
84	28	Investments in tangible and intangible assets	334	204

In **3Q10**, the Holding Division's **revenues** amounted to Euro 0.2 million and consisted of services provided to affiliated companies and to the parent company ERG S.p.A..

The Holding Division's **revenues** in the **first nine months** of 2010 amounted to Euro 0.4 million and consisted of services provided to affiliated companies and to the parent company ERG S.p.A..

In **3Q10** the Holding Division posted negative **EBITDA** of Euro 2.8 million, with a further deterioration of Euro 0.5 million compared to 3Q09 when the result was negative by Euro 2.3 million. This negative trend is ascribable above all to the advisory costs incurred to finalise the acquisition of the equity interest in ERG Eolica Adriatica S.r.l. which owns the Ascoli Satriano and Rotello wind farms.

In the **first nine months** of 2010 the Holding Division posted negative **EBITDA** of Euro 6.4 million, with an improvement of Euro 2.2 million compared to the first nine months of 2009 when the result was negative by Euro 8.6 million. This upturn is mainly ascribable to the net reduction in legal consultancy expenses, lower charges from the parent company and affiliates for the supply of staff services, lower insurance brokerage fees and despite advisory costs of approximately Euro 1 million connected with the acquisition of the new Ascoli Satriano and Rotello wind farms, which was completed in July 2010. These savings, which will be consolidated from now until the end of the financial year, will amount to at least Euro 1 million.

At **EBIT** level, in **3Q10** the holding company posted a negative result of Euro 2.9 million, with a further deterioration of Euro 0.6 million compared to the negative result of Euro 2.3 million reported in 3Q09, for the reasons already mentioned with regard to EBITDA.

At **EBIT** level, in the **first nine months** of 2010 the holding company posted a negative result of Euro 6.5 million, with an improvement of Euro 2.2 million compared to the negative result of Euro 8.7 million reported in the first nine months of 2009, for the reasons already mentioned with regard to EBITDA.

## Investments

Investments made by the Group during the first nine months of 2010 totalled Euro 53 million (Euro 27.2 in the first nine months of 2009). The following table shows the investment breakdown by business division:

Third quarter		Investments (thousand Euro)	First 9 months	
2010	2009		2010	2009
13,952	9,137	Wind Italy	51,328	23,724
26	1,678	Wind France	1,096	1,992
<b>13,978</b>	<b>10,815</b>	<b>Total Wind</b>	<b>52,424</b>	<b>25,716</b>
(13)	524	Water Services	232	1,297
84	28	Holding division	334	204
<b>14,049</b>	<b>11,367</b>	<b>Total</b>	<b>52,990</b>	<b>27,217</b>

Investments, which almost exclusively concerned the wind business, were principally ascribable to the Fossa del Lupo (Euro 30.8 million) and the Ginestra (Euro 20.3 million) wind farms. The 2010 investment budget, amounting to Euro 121 million, will not be entirely allocated during the course of the current year, which will close with investments totalling between Euro 65 and 70 million, since (i) the portion pertaining to the French Greneville wind farm, amounting to Euro 30 million, cannot be realised owing to failure to obtain the authorisation (ZDE – Zone de Développement Eolien) which is expected to be received during 2011 and (ii) some delays affecting the investments concerning the Fossa del Lupo wind farm, which will be completed in FY2011. In any case, the amount of overall investments for the entire plan period is confirmed.

## Financial reporting overview

### Reclassified Income Statement

Third quarter		Reclassified Income Statement (thousand Euro)	First 9 months	
2010	2009		2010	2009
15,594	10,507	Operating revenues	44,910	33,528
1,077	1,866	Other revenues and income	2,750	3,649
<b>16,671</b>	<b>12,373</b>	<b>TOTAL REVENUES</b>	<b>47,660</b>	<b>37,177</b>
(116)	(133)	Purchase of raw, ancillary and consumable materials and goods for resale	(401)	(398)
(6,809)	(5,129)	Services	(18,078)	(16,312)
(1,182)	(1,271)	Personnel costs	(3,904)	(4,361)
(3,611)	(771)	Other operating costs	(5,236)	(2,035)
<b>4,953</b>	<b>5,069</b>	<b>EBITDA</b>	<b>20,041</b>	<b>14,071</b>
(8,618)	(7,089)	Amortisation and depreciation	(20,548)	(16,899)
(10)	–	Write-downs	(10)	–
<b>(3,675)</b>	<b>(2,020)</b>	<b>EBIT</b>	<b>(517)</b>	<b>(2,828)</b>
(7,851)	(3,090)	Net financial income (expenses)	(12,644)	(8,893)
(162)	(187)	Income (loss) from equity investments	(476)	(573)
<b>(11,688)</b>	<b>(5,297)</b>	<b>Profit before taxes</b>	<b>(13,637)</b>	<b>(12,294)</b>
2,295	1,013	Income taxes	9,043	2,384
6	(6)	Minority interests	(81)	(152)
57	(49)	Net profit (loss) from discontinued operations	955	(257)
<b>(9,330)</b>	<b>(4,339)</b>	<b>Group net profit (loss)</b>	<b>(3,720)</b>	<b>(10,319)</b>

The operating components contributing to EBIT have already been discussed in the previous section “Comment on third-quarter results”.

#### Net financial income (expenses)

Net financial expenses in **3Q10** totalled Euro 7.9 million, up by Euro 4.8 million compared to 3Q09. This increase, despite a decline in the reference interest rates, is ascribable to the consolidation of the debt relating to the new Ascoli Satriano and Rotello wind farms and to the growth in ERG Renew's debt towards ERG S.p.A.

Net financial expenses in the **first nine months** of 2010 amounted to Euro 12.6 million, up by Euro 3.7 million over the first nine months of 2009. This increase, despite a decline in the reference interest rates, is ascribable to the consolidation of the debt relating to the new Ascoli Satriano and Rotello wind farms and to the growth in ERG Renew's debt towards ERG S.p.A.

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

The net loss from equity investments in **3Q10** amounted to Euro 0.2 million, in line with the loss reported in 3Q09. This loss is ascribable to the valuation of the 50% stake in the French company CITA Wind, booked at equity, whose loss for the period is associated with the actual operating expenses pertaining to the operational start-up phase.

The net loss from equity investments in the **first nine months** of 2010 amounted to Euro 0.5 million, in line with the loss reported for the first nine months of 2009. This loss is ascribable to the valuation of the 50% stake in the French company CITA Wind, booked at equity, whose loss for the period is associated with the actual operating expenses pertaining to the operational start-up phase.

### **Income taxes**

Income taxes pertaining to **3Q10** were positive by Euro 2.3 million and concerned deferred tax assets. Income taxes pertaining to the **first nine months** of 2010 were positive by Euro 9 million and refer to the positive impact of deferred tax assets recognised and benefits available to the subsidiary ERG Eolica Ginestra under the so-called “*Tremonti ter*” tax relief (Euro 7.2 million). With regard to the said tax relief, the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September and October last year regarding the cumulability of the “*Tremonti ter*” tax relief and the green certificates incentive system, they consider that the conditions do not yet exist for cancelling as at 30 September 2010 the above mentioned income of Euro 7.2 million, which was recognised at the time of preparing the half-year financial report at 30 June 2010 prior to any verdict against cumulability; in this connection, the Directors will systematically monitor the regulatory trend in order to be able to support the accounting treatment chosen at the time of drawing up the financial statements at 31 December 2010, in the hope that by then the Government will have conveyed its final decision regarding the aforesaid situation.

### **Net profit (loss) from discontinued operations**

The net profit of Euro 0.1 million from discontinued operations in **3Q10** refers to the result posted during the period by the company Ecopower S.r.l.. In fact, following the agreement signed on 30 June 2010 concerning the sale of the investments held in the companies Ecopower and ISEA, the former perfected by way of relative closing on the same date and the latter on 30 July 2010, the result pertaining to the hydroelectric power plant business was removed from ordinary operations and reclassified accordingly. This result component, amounting to Euro 0.7 million and ascribable to the net result generated by ISEA during the half year and to the capital losses generated at the time of sale with respect to book value (Euro 0.4 million), has been more than adequately offset by the recognition and payment of a tax earn-out in the amount of Euro 1.6 million accrued by ERG Renew up to 31 December 2008 on the sale to ACEA S.p.A. of the investment in TAD Energia Ambiente S.p.A. (waste to energy/waste management) in July 2006 and matured following the utilisation of part of the tax loss carryforwards generated by TAD Energia Ambiente S.p.A. and its subsidiaries during the financial years preceding the sale closing.

The net profit of Euro 1 million from discontinued operations in the **first nine months** of 2010 refers to the recognition and payment of a tax earn-out of Euro 1.6 million accrued by ERG Renew up to 31 December 2008 on the sale to ACEA S.p.A. of the investment in TAD Energia Ambiente S.p.A. (waste to energy/waste management) in July 2006 and matured following the utilisation of part of the tax loss carryforwards generated by TAD Energia Ambiente S.p.A. and its subsidiaries during the financial years preceding the sale closing. This positive result was partly offset by the negative performance of the hydroelectric power plant business during the period and the disposal of same which took place in the months of June and July 2010. In fact, following the agreement signed on 30 June 2010 concerning the sale of the investments held in the companies Ecopower (100%) and ISEA (90%), the former perfected by way of relative closing on the same date and the latter on 30 July 2010, the result in question was removed from ordinary operations and reclassified accordingly.

## Reclassified Balance Sheet

30.9.2009	(thousand Euro)	30.9.2010	30.6.2010	31.12.2009
<b>363,985</b>	<b>Capital assets</b>	<b>685,141</b>	<b>418,982</b>	<b>401,908</b>
270,105	Tangible assets	545,156	347,136	325,541
89,015	Intangible assets	138,313	70,055	74,405
4,865	Financial assets	1,672	1,791	1,962
<b>18,850</b>	<b>Working capital</b>	<b>66,968</b>	<b>40,692</b>	<b>(3,124)</b>
–	Inventories	–	–	–
9,520	Trade receivables	12,266	16,016	11,048
61,634	Other assets	120,870	73,012	72,520
–	Assets held for sale	–	4,615	–
(18,400)	Trade payables	(16,019)	(19,552)	(52,430)
(7,080)	Provision for liabilities and charges	(4,272)	(7,448)	(7,930)
(26,824)	Other liabilities	(45,877)	(25,823)	(26,332)
–	Liabilities held for sale	–	(128)	–
<b>(453)</b>	<b>Employee leaving indemnity</b>	<b>(560)</b>	<b>(524)</b>	<b>(489)</b>
<b>382,382</b>	<b>Net Invested Capital</b>	<b>751,549</b>	<b>459,150</b>	<b>398,295</b>
<b>124,614</b>	<b>Shareholders' equity</b>	<b>100,034</b>	<b>112,021</b>	<b>107,258</b>
124,221	Parent Company	99,518	111,455	106,823
393	Minority interest	516	566	435
<b>257,768</b>	<b>Net Financial Debt</b>	<b>651,515</b>	<b>347,129</b>	<b>291,037</b>
<b>382,382</b>	<b>Shareholders' equity and financial debt</b>	<b>751,549</b>	<b>459,150</b>	<b>398,295</b>

At 30 September 2010 net invested capital amounted to Euro 751.5 million, up by Euro 353.2 million compared to Euro 398.3 million at 31 December 2009. This increase was almost exclusively ascribable to the consolidation of the new investment in ERG Eolica Adriatica.

Financial leverage, expressed as the ratio of total net financial debt to net invested capital was 86.7% (73.1% at 31 December 2009).

### Capital assets

Capital assets, amounting to Euro 685.1 million, include tangible, intangible and financial assets. The increase of Euro 283.2 million over 31 December 2009 is ascribable, first of all, to the consolidation of the new investment in ERG Eolica Adriatica, owner of the new Ascoli Satriano and Rotello wind farms, and, secondly, to the investments carried out during the first nine months in the wind business.

### Working capital

Net working capital rose by Euro 70.1 million, from a negative balance of Euro 3.1 million at 31 December 2009 to a positive balance of Euro 67 million at 30 September 2010.

This increase is ascribable, first of all, to the consolidation of the new investment in ERG Eolica Adriatica,

owner of the new Ascoli Satriano and Rotello wind farms, and, secondly, to the investments carried out in the wind business which, at the end of the 2009 financial year, had reached a peak and financial settlement of which, as contractually agreed, took place during the first few weeks of 2010.

### Consolidated Net Financial Position

From an operational standpoint, the consolidated Net Financial Position is detailed as follows:

30.9.2009	(thousand Euro)	30.9.2010	30.6.2010	31.12.2009
<b>69,982</b>	<b>Current financial assets</b>	<b>75,902</b>	<b>58,411</b>	<b>58,381</b>
-	Parent companies	-	-	-
-	Group companies	-	-	-
-	Third parties	-	-	17
65,576	Cash and cash equivalents	71,668	54,152	53,995
4,170	Cash and cash equivalents under lien	4,170	4,170	4,170
236	Receivables from derivative instruments	64	89	199
<b>(68,314)</b>	<b>Current financial liabilities</b>	<b>(99,883)</b>	<b>(54,334)</b>	<b>(60,022)</b>
-	Parent companies	(267)	(489)	(237)
-	Associate companies	-	-	(240)
(62,097)	Third parties	(56,795)	(47,067)	(54,183)
(6,217)	Derivative instruments	(42,821)	(6,778)	(5,362)
<b>1,668</b>	<b>CURRENT FINANCIAL POSITION</b>	<b>(23,981)</b>	<b>4,077</b>	<b>(1,641)</b>
-	<b>Non-current financial assets</b>	-	-	-
-	Associate companies	-	-	-
-	Third parties	-	-	-
<b>(259,436)</b>	<b>Non-current financial liabilities</b>	<b>(627,534)</b>	<b>(351,206)</b>	<b>(289,396)</b>
-	Parent companies	(256,318)	(174,393)	(118,802)
-	Group companies	-	-	-
(176,380)	Third parties	(361,504)	(175,958)	(169,647)
(83,056)	Other lenders	(9,712)	(855)	(947)
-	Derivative instruments	-	-	-
<b>(259,436)</b>	<b>NON-CURRENT NET FINANCIAL POSITION</b>	<b>(627,534)</b>	<b>(351,206)</b>	<b>(289,396)</b>
<b>(257,768)</b>	<b>NET FINANCIAL POSITION</b>	<b>(651,515)</b>	<b>(347,129)</b>	<b>(291,037)</b>

At 30 September 2010, the consolidated net financial position featured a net debt of Euro 651.5 million, with an increase of Euro 360.5 million over the net debt at 31 December 2009. This major growth in debt is ascribable to (i) the consolidation of the net debt pertaining to ERG Eolica Adriatica – in the amount of Euro 219.5 million including Euro 190.7 of project financing – which owns the new Ascoli Satriano and Rotello wind farms acquired in July 2010; (ii) the further increase of Euro 137.5 million in the debt towards ERG S.p.A. which, through a specific credit line for a maximum amount of Euro 311 million made available to ERG Renew, enabled the latter to support investments, complete the acquisition of the equity interest referred to in point (i) and cover ordinary and current operations.

**Current financial assets**, amounting to Euro 75.9 million, concern above all cash and cash equivalents of Euro 71.7 million primarily relating to the wind business and therefore with restricted availability under the project financings and Euro 4.2 million pledged as collateral for the granting of suretyships.

**Current financial liabilities**, totalling Euro 99.9 million, mainly comprise:

- Financial payables of Euro 56.8 million due to third parties, of which Euro 24.8 million as short-term portion of the non-recourse debt relating to the wind business project financing, Euro 9.2 million as short-term portion of two medium/long-term credit lines pertaining to the parent company ERG Renew and Euro 22.8 million in current account overdrafts
- Derivatives payable of Euro 42.8 million primarily concerning the derivative instruments entered into by the wind companies to cover the interest-rate risk on project financings and, secondly, the put option of Euro 1.8 million granted to Gepafin S.p.A. in October 2003 on its 0.27% stake in Ansaldo Fuel Cells S.p.A., in respect of which the exercise deadline of 29 January 2009 was punctually met. Moreover, by way of information, we point out that ERG Renew considers the option right to be non-existent and has notified the counterparty of its objection to the exercise.

**Non-current financial liabilities**, totalling Euro 627.5 million, mainly comprise:

- Euro 256.3 million as balance utilised under the credit line made available up to the amount of Euro 311 million by the parent company ERG S.p.A. since February 2009 in order, primarily, to bring back under ERG Renew the outstanding debt of some of the former subsidiaries of ERG Power & Gas vis-à-vis the latter; secondly, to provide financial support for the investments carried out by ERG Renew during 2009 and the first nine months of 2010; thirdly, to support the acquisition of the investment in ERG Eolica Adriatica S.r.l. and regarding which the parent company ERG S.p.A. has made available a specific credit line up to the amount of Euro 80 million, of which at 30 September 2010 the amount of Euro 60 million was utilised; and, lastly, to cover the funding requirements arising from ERG Renew's ordinary and current operations;
- Euro 361.5 million, including Euro 340.4 million as medium/long-term portion of the non-recourse debt relating to the wind business project financing and Euro 21.1 million as medium/long-term portion of two credit lines pertaining to the parent company ERG Renew.

## Events after the end of the reporting period

There is nothing to report.

## Business outlook

ERG Renew will continue to carry out the actions required to implement the new 2010-2013 Business Plan approved by the Board of Directors Meeting on 2 March 2010. Whilst, on the one hand, the Plan provides for investments totalling Euro 254 million and an installed capacity of 428 MW by the end of 2013, of which 199.3 MW already installed, on the other, it is worth remembering that, as already pointed out on several occasions, following the acquisition of a new investee company owner of the two Ascoli Satriano and Rotello wind farms with overall 102 MW in operation, the anticipated installed capacity at the end of 2013 amounts to 530 MW.

The 2010 investment budget, amounting to Euro 121 million, will not be entirely allocated during the course of the current year, which will close with investments totalling between Euro 65 and 70 million, since (i) the portion pertaining to the French Greneville wind farm, amounting to Euro 30 million, cannot be realised owing to failure to obtain the authorisation (ZDE – Zone de Développement Eolien) which is expected to be received during 2011 and (ii) some delays affecting the investments concerning the Fossa del Lupo wind farm, which will be completed in FY2011. In any case, the amount of overall investments for the entire plan period is confirmed.

We should mention that investments in 2010 are financed through bank borrowing and a loan from the parent company ERG S.p.A.; in January 2010, the latter formally renewed its commitment to support ERG Renew also as regards its investments planned during 2010 up to the overall amount of Euro 169 million, increasing the credit line set up in 2009 from the original amount of Euro 140 million to Euro 231 million. It is also worth remembering that in June 2010 this credit line was further increased to Euro 311 million in order to support the Company's acquisition of the two new Ascoli Satriano and Rotello wind farms, which have a total capacity of 102 MW; this extension features a different pricing and expiry date, and is also subordinated in case of insolvency to the prior satisfaction of third-party lenders.

### Wind - Italy

Construction of the Ginestra wind farm (40 MW) will be completed between the end of the current 2010 financial year and the first quarter of 2011.

Construction of the Fossa del Lupo wind farm (90 MW) is proceeding behind schedule.

Owing to a possible continuation of the congestion on the National Transmission Grid in Puglia, output pertaining to the wind farms in this region may be penalised, in any case in line with the restrictions suffered during the first nine months of 2010. To a marginal extent, the phenomenon could also affect the Vicari wind farm, in Sicily.

### **Wind - France**

The construction authorisation (ZDE) for the Greneville wind farm, which was originally expected to be received in the first few months of 2010, is considered obtainable during the course of 2011

### **Photovoltaics**

The new generation solar power (so-called organic photovoltaics) research and development operation, in partnership with Permasteelisa, Dyesol and some of the Italian universities, will continue its research activity. More specifically, activities to prepare for planning the pilot line have been completed, with a view to proceeding to the realisation phase during the first half of 2011. During the last quarter of 2010 construction work will continue at the ISAB Energy industrial site in Priolo Gargallo (Syracuse) on the approximately 1 MW photovoltaic plant, which is expected to come on stream between the end of the current 2010 financial year and the first quarter of 2011.

### **Water services**

As already mentioned, the companies SODAI Italia and DSI, which are no longer considered 'core', will be sold during the current financial year. The relative negotiations are at an advanced stage.

The Directors call attention to the possibility that events, unknown today, may arise such as to affect implementation of some of the actions outlined above.

Declaration of the Manager responsible for preparing the company's financial reports as per the requirements of Article 154-bis, paragraph 2, of Italian Legislative Decree 58/1998 (Italian Consolidated Finance Law)

The Manager responsible for preparing the corporate financial reports of ERG Renew S.p.A., Luca Giorgerini, hereby declares, pursuant to Article 154-bis, paragraph 2, of the Italian Consolidated Finance Law, that the accounting information contained in this Interim Management Report, to the best of his knowledge, corresponds to the document results, books and accounting records.

Genoa, 9 November 2010

The Manager responsible  
for preparing the Company's financial reports

Luca Giorgerini

A handwritten signature in black ink, appearing to read 'Luca Giorgerini', with a long horizontal flourish extending to the right.

## GLOSSARY

**AEEG (*Autorità per l'Energia Elettrica e il Gas*) = Italian Electricity and Gas Authority:** an independent authority set up pursuant to Law no. 481 of 14 November 1995 with regulatory and control functions in the electricity and gas sectors. An independent authority is a public administration that takes its decisions based on legislation enacted and its own procedures and regulations with a major degree of autonomy in its judgements and evaluations from the executive body. The regulatory powers in the sector refer to the determination of the tariffs, the quality of the services and the technical-economic conditions of access and interconnection to the grids, in services where the market would be unable to guarantee the best interest of users and consumers due to technical, legal and other restrictions that limit the normal functioning of competition.

**GME (*Gestore del Mercato Elettrico S.p.A.*):** this is the company, set up by Gestore della Rete di Trasmissione Nazionale S.p.A. (now Gestore dei Servizi Elettrici - GSE S.p.A.), with the mission of organising and managing transactions in the electricity market, according to criteria of neutrality, transparency, objectivity and competition between producers, also ensuring the economic management of an adequate availability of reserve capacity.

**Green Certificates (GCs):** certificates that, pursuant to Article 5 of the Decree of the Ministry of Industry dated 11 November 1999, attest the production of electricity from renewable energy sources as required from producers and importers of electricity generated from non-renewable sources for a quantity exceeding 100 GWh/year. Green Certificates are issued by the GSE for the first eight years of a plant's functioning and, until 31 December 2007, had a value equal to 50 MWh and could be sold or acquired on the Green Certificates Market by parties with a surplus or deficit of production from renewable sources. The 2008 Finance Law establishes that, as from 1 January 2008, each Green Certificate has a value equal to 1 MWh, and the incentivised period is increased from eight to fifteen years.

**GSE (*Gestore dei Servizi Elettrici S.p.A.*):** the GSE has a central role in the promotion, incentivisation and development of renewable sources in Italy. The sole shareholder of the GSE is the Ministry of Economy and Finance, which exercises shareholder rights together with the Ministry of Production Activities. The GSE is the parent company of two subsidiaries AU (*Acquirente Unico*) and GME (*Gestore del Mercato Elettrico*).

**MW (million watts):** unit of measurement of a plant's electricity production capacity.

**Waste to energy:** the process of transforming waste into energy. This business was discontinued in 2006.

**Waste management:** all activities relating to the collection, transportation and sorting of waste. This business was discontinued in 2006.

**Wind energy:** energy generated from wind.

**Wind turbine:** plant capable of transforming the kinetic energy of wind into mechanical energy, which in turn is used to produce electricity.

**ZDE (*Zone de Développement Eolien*):** authorisation issued in France for the construction of a wind farm.

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