



INTERIM FINANCIAL REPORT

AT 30 SEPTEMBER 2016





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CORPORATE BODIES

BOARD OF DIRECTORS ⁽¹⁾

Chairman
EDOARDO GARRONE *(Executive)*

Deputy Chairman
ALESSANDRO GARRONE⁽²⁾ *(Executive)*
GIOVANNI MONDINI *(Non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(Independent)*⁽³⁾
MARIA ANNA RITA CAVERNI *(Independent)*⁽⁴⁾
ALESSANDRO CHIEFFI *(Independent)*⁽⁴⁾
BARBARA COMINELLI *(Independent)*⁽⁴⁾
MARCO COSTAGUTA *(Non-executive)*
LUIGI FERRARIS *(Independent)*⁽⁴⁾
PAOLO FRANCESCO LANZONI *(Independent)*⁽³⁾
SILVIA MERLO *(Independent)*⁽⁴⁾

BOARD OF STATUTORY ⁽⁵⁾

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

**MANAGER RESPONSIBLE
(ITALIAN LAW NO. 262/05)**
PAOLO LUIGI MERLI

INDEPENDENT AUDITORS
DELOITTE & TOUCHE S.p.A.

(1) Appointed on 24 April 2015.

(2) Director in charge of the Internal Control and Risk Management System.

(3) With reference to the provisions of Article 148, Third Paragraph, of the Consolidated Finance Law.

(4) With reference to the provisions of Article 148, Third Paragraph, of the Consolidated Finance Law and the matters contained in the current Corporate Governance Code promoted by Borsa Italiana S.p.A.

(5) Appointed on 3 May 2016.

INTRODUCTION

The Interim Financial Report at 30 September 2016, not subjected to audit, while awaiting the expiration of the term of validity of Article 82-ter of the Issuers' Regulation and a decision in this regard by the company, has been drawn up - on a voluntary basis consistently with the interim reports of the previous years - in compliance with the accounting and measurement standards established by the International Financial Reporting Standards (IFRS) and will consequently be published in continuity with the disclosure provided to the market to-date.

The consolidation principles and the evaluation criteria are the same indicated in the Consolidated Financial Statements for 2015, to which reference is made.

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

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

Results at replacement cost

To enhance understandability of business performance, the operating results are also shown at replacement cost, excluding inventory gains (losses) ⁶ and non-recurring items⁷.

You are reminded that at the end of 2015, the winding up of the LUKERG Renew GmbH joint venture (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated in full as from 1 January 2016.

In consideration of the commented change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which included the portion relating to ERG of the economic results at replacement cost of the LUKERG Renew GmbH joint venture (50%).

⁶ TotalErg's equity contribution is reported net of inventory gains (losses) and non recurring items.

⁷ Non-recurring items include significant but unusual earnings.

Change in the business scope

The comparison with the results for the first nine months of 2015 was affected significantly by the change in the scope of the Group which essentially took place in the second half of 2015 and in particular:

- acquisition of six wind farms (63 MW) in France from the Macquarie group in July 2015 (equal scope in the third quarter);
- start-up of the wind farm of EW Orneta 2 (42 MW) in July 2015 (equal scope in the third quarter);
- acquisition of the integrated hydroelectric complex of Terni (527 MW) from E.ON on 30 November 2015;
- dissolution of the LUKERG Renew GmbH (50%) joint venture, with the acquisition, by ERG Renew S.p.A., of the wind farms in Bulgaria and of the Gebeleisis wind farm in Romania (totalling 20 MW), at the end of 2015;
- start-up of the wind farms in Hydro Inwestycje and Blachy Pruszyński in Poland (40 MW) at the start of 2016;
- acquisition of eleven wind farms in France (124 MW) and six in Germany (82 MW) from Impax Asset Management Group in the first quarter of 2016.

BUSINESS DESCRIPTION

In 2016, the ERG Group completed a thorough transformation process, from leading Italian private oil operator to leading independent operator in the generation of electricity from renewable sources, both non-programmable (wind) and programmable (thermoelectric and hydroelectric), while expanding abroad, with a growing presence in particular in the French and German wind market.

Today on the wind market, the Group is leader in Italy and has a prominent position in Europe; furthermore, it is among the leading operators active in the production of energy from water sources in Italy and is also active in high-efficiency low-environmental impact heat production in the thermoelectric sector with a CCGT plant which is modulable and high-output co-generative, as well as on the energy markets by means of Energy Management activities.

The ERG Group, through its subsidiaries, operates in the Electricity generation sectors using:

Non-programmable Sources

Through ERG Renew (93% owned subsidiary at 30 September 2016), ERG is active in the generation of electricity from wind sources with 1,720 MW of installed wind power at 30 September 2016. ERG Renew is the first wind power operator in Italy and among the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,094 MW), but with a significant and rising presence also abroad (626 MW operational and 47.5 MW under construction), in particular in France (252 MW), Germany (168 MW), Poland (82 MW entirely developed by ERG in 2015) as well as in Romania and Bulgaria (70 MW and 54 MW after the termination of the Joint Venture with LUKOIL), in addition to 47.5 MW under construction in Great Britain, expected to be commissioned in 2017.

ERG, through the company ERG Renew O&M, also performs Operation & Maintenance activities on its own Italian wind farms and on some of the farms in France and Germany.

Programmable Sources

The Group is active in the production and marketing of electric energy and utilities via:

- ERG Power S.r.l.: a company which owns the so-called “Centrale Nord” of North Plant (480 MW) located in the industrial site in Priolo Gargallo (SR) in Sicily, which operated until 27 May 2016 as an Essential Unit in accordance with the Mucchetti Amendment⁸. This is a high-output co-generation plant (C.A.R.), based on latest generation

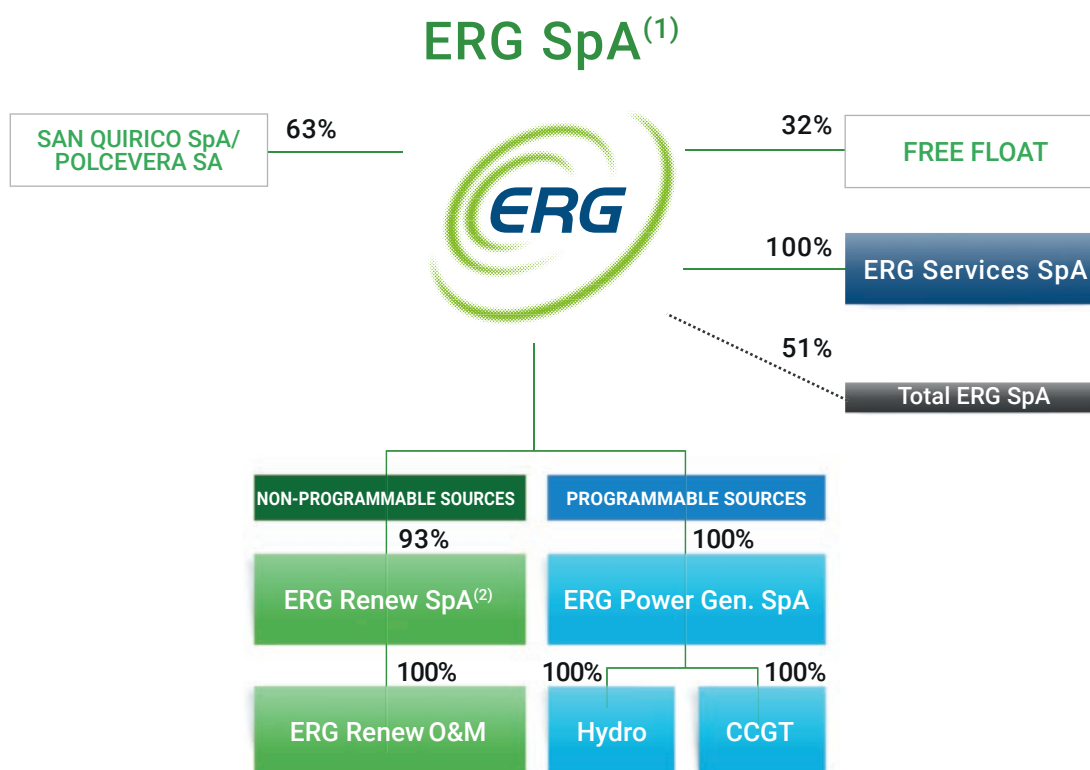
⁸ Law converting Italian Law Decree No. 91/14 (“Competitiveness Decree”). For additional details, please see the Thermoelectric Paragraph.

combined cycle technology using natural gas, which started commercial operations in April 2010 and other ancillary plants for the production of steam and other utilities;

- ERG Hydro S.r.l.: a newly-established company to which the hydroelectric business segment acquired from E.ON Produzione S.p.A. at the end of 2015 was transferred. The integrated assets portfolio of ERG Hydro consists of 16 plants, 7 dams, 3 reservoirs and a pumping station, located geographically in Umbria, Marche and Lazio, with a rated capacity of 527 MW;
- ERG Power Generation S.p.A. (wholly-owned): a company which carries out Energy Management activities for the entire ERG Group, as well as the O&M activities for the ERG Power S.r.l. plant.
ERG Power Generation holds 100% of ERG Power S.r.l. and ERG Hydro S.r.l.

The ERG organisational model also provided the centralisation of cross-Group services into ERG Services, the company that was tasked with achieving operational excellence in the performance of shared services. The ERG Group also has an equity investment of 51% in TotalErg, a joint venture in the integrated downstream sector, which is not considered part of the core business of the Group and whose results are included using the equity method.

Group structure at 30 September 2016



(1) ERG owned 5% of treasury shares* at 30 September 2016

(2) UniCredit owned 7.14% of the share capital of ERG Renew* at 30 September 2016

* On 12 October 2016, ERG S.p.A. executed an agreement with UniCredit, whereby all shares already held by UniCredit in ERG Renew (7.14%) were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital.

ERG'S STOCK MARKET PERFORMANCE

At 30 September 2016 the closing price of ERG's shares was EUR 10.21, down (-18,1%) from the end of 2015, whilst in the same period the FTSE All Share index declined by 22.4%, the FTSE Mid Cap index by 14.8% and the Euro Stoxx Utilities Index by 5.4%.

The decline is also tied to the distribution of the dividend of EUR 1.00 per share, paid in May 2016, which included a non-recurring component of EUR 0.50 per share.

During the period under review, the listed price of the ERG stock varied between a minimum of EUR 9.50 (27 June) and a maximum of EUR 12.45 (4 January).

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

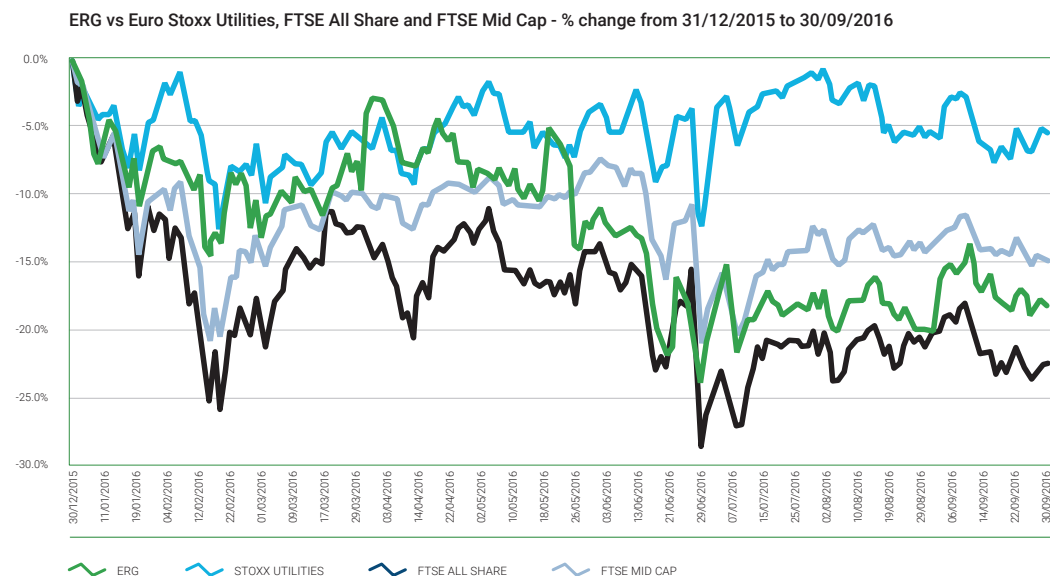
Stock price	EUR
Closing price as at 30.09.16	10.21
Highest price (04.01.16) ⁽¹⁾	12.45
Lowest price (27.06.16) ⁽¹⁾	9.50
Average price	10.89

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

Traded volumes	No. of shares
Maximum volume (23.03.16)	932,125
Minimum volume (26.07.16)	60,076
Average volume	258,291

Market capitalisation at 30 September 2016 was approximately EUR 1,535 million (EUR 1,874 million at the end of 2015).

ERG's share price performance compared with leading indices (normalised)



PERFORMANCE HIGHLIGHTS

3 rd Quarter			First 9 months		
2016	2015	(EUR million)	2016	2015	
MAIN INCOME STATEMENT DATA					
227	216	Revenues from ordinary operations	757	713	
78	66	EBITDA at replacement cost	351	264	
13	25	EBIT at replacement cost	158	141	
19	(5)	Net income	94	69	
19	(4)	of which Group net income	92	66	
9	19	Group net profit (loss) at replacement cost⁽¹⁾	83	76	
MAIN FINANCIAL DATA					
3,289	2,196	Net invested capital	3,289	2,196	
1,612	1,725	Shareholders' equity	1,612	1,725	
1,677	471	Total net financial indebtedness	1,677	471	
1,332	1,201	of which non-recourse Project Financing ⁽²⁾	1,332	1,201	
51%	21%	Financial leverage	51%	21%	
34%	31%	EBITDA Margin %	46%	37%	
OPERATING DATA					
1,720	1,446	Installed capacity of wind farms at the end of the period	MW	1,720	1,446
583	528	Electricity output from wind farms	millions of kWh	2,631	2,011
480	480	Installed capacity of thermoelectric plants	MW	480	480
740	724	Electricity output from thermoelectric plants	millions of kWh	2,032	1,935
527	-	Installed capacity of hydroelectric plants at the end of the period	MW	527	-
277	-	Electricity output from hydroelectric plants	millions of kWh	1,028	-
3,093	2,449	Total sales of electricity	millions of kWh	9,140	7,439
12	17	Capital expenditures ⁽³⁾	EUR million	31	69
721	588	Employees at the end of the period	units	721	588
MARKET INDICATORS					
40.9	56.7	Reference price of electricity – Italy (baseload) ⁽⁴⁾	EUR/MWh	38.4	52.1
100.1	99.9	Feed-In Premium (former green certificates) - Italy	EUR/MWh	100.1	99.9
54.3	61.9	Zone price Sicily (baseload)	EUR/MWh	46.1	57.9
45.4	61.0	Zone price Centre North (peak)	EUR/MWh	41.8	56.6
138.4	153.2	Average unit ERG wind energy sale price in Italy	EUR/MWh	136.2	147.8
91.9	96.1	Feed-In Tariff - Germany ⁽⁵⁾	EUR/MWh	92.1	96.1
88.6	90.8	Feed-In Tariff - France ⁽⁵⁾	EUR/MWh	88.6	91.3
96.4	95.0	Feed-In Tariff - Bulgaria ⁽⁵⁾	EUR/MWh	96.6	96.3
32.6	35.1	Electricity price - Poland	EUR/MWh	32.7	35.1
7.1	26.5	Certificate of origin price - Poland	EUR/MWh	11.8	26.5
27.2	29.7	Electricity price - Romania ⁽⁶⁾	EUR/MWh	27.4	31.1
29.6	29.6	Green certificate price - Romania ⁽⁷⁾	EUR/MWh	29.6	29.6

To enhance understandability of business performance, the revenues and operating results are shown at replacement cost, excluding non-recurring items.

You are reminded that at the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated on a line by line basis as from 1 January 2016.

In consideration of the commented change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which ERG's portion of the revenues and of the economic results at replacement cost of the LUKERG Renew GmbH joint venture (50%).

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

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

(3) in tangible and intangible fixed assets. Do not include the M&A investments amounting to EUR 306 million.

(4) Single National Price

(5) the values of the Feed-In Tariff abroad refer to the prices obtained by ERG Renew plants

(6) the Electricity price Romania refers to the price set by the company with bilateral agreements

(7) price referred to the unit value of the green certificate

PERFORMANCE HIGHLIGHTS BY SEGMENT

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
REVENUES FROM ORDINARY OPERATIONS				
71	71	Non-programmable Sources	316	270
71	71	Wind	316	270
155	144	Programmable Sources	440	447
129	144	Thermoelectric ⁽¹⁾	353	447
26	–	Hydroelectric	87	–
8	5	Corporate	24	16
(8)	(3)	<i>Intra-segment revenues</i>	(23)	(19)
227	216	Total revenues from ordinary operations	757	713
EBITDA				
43	45	Non-programmable Sources	230	202
43	45	Wind	230	202
36	27	Programmable Sources	129	78
19	27	Thermoelectric ⁽¹⁾	70	78
17	–	Hydroelectric	59	–
(2)	(6)	Corporate	(8)	(16)
78	66	EBITDA at replacement cost	351	264
AMORTISATION, DEPRECIATION AND WRITE-DOWNS				
(42)	(33)	Non-programmable Sources	(125)	(99)
(42)	(33)	Wind	(125)	(99)
(22)	(7)	Programmable Sources	(67)	(22)
(7)	(7)	Thermoelectric	(22)	(22)
(15)	–	Hydroelectric	(44)	–
(1)	(1)	Corporate	(2)	(2)
(65)	(41)	Amortisation and depreciation at replacement cost	(193)	(123)
EBIT				
2	12	Non-programmable Sources	105	103
2	12	Wind	105	103
14	19	Programmable Sources	62	56
11	19	Thermoelectric ⁽¹⁾	48	56
3	–	Hydroelectric	14	–
(3)	(6)	Corporate	(10)	(18)
13	25	EBIT at replacement cost	158	141
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS				
8	15	Non-programmable Sources	21	62
8	15	Wind	21	62
3	2	Programmable Sources	8	5
2	2	Thermoelectric	6	5
1	–	Hydroelectric	2	–
–	–	Corporate	1	1
12	17	Total capital expenditures	31	69

(1) includes Energy Management contribution

SALES

POWER GENERATION

The electricity sales of the ERG Group, carried out in Italy via the Energy Management of ERG Power Generation S.p.A., refer to the electricity generated by its plants, wind power (ERG Renew), thermoelectric (ERG Power) and, from December 2015 onwards, hydroelectric (ERG Hydro), as well as purchases on organised markets and through physical bilateral agreements.

In the **third quarter** of 2016, total sales of electricity came to 3.1 TWh (2.4 TWh in the same period in 2015), whereas the overall value of production for the Group plants amounted approximately to 1.6 TWh, of which roughly 0.2 TWh abroad and 1.4 TWh in Italy. The latter figure accounts for approximately 1.7% of electricity demand in Italy (1.3% in the third quarter of 2015).

During the **first nine months** of 2016, total sales of electricity came to 9.1 TWh (7.4 TWh in the same period in 2015), in the presence of an overall value of production for the Group plants of around 5.7 TWh, of which roughly 0.9 TWh abroad and 4.8 TWh in Italy. The latter figure accounts for approximately 2.1% of electricity demand in Italy (1.5% in the first nine months of 2015).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table⁹:

3 rd Quarter			First 9 months	
2016	2015	SOURCE OF ELECTRIC POWER (GWh)	2016	2015
368	361	ERG Renew – wind power generation in Italy	1,711	1,542
215	167	ERG Renew – wind power generation Abroad	920	469
740	724	ERG Power Generation - thermoelectric power generation	2,032	1,935
277	–	ERG Power Generation - hydroelectric power generation	1,028	–
1,494	1,197	ERG Power Generation - purchases	3,448	3,494
3,093	2,449	Total	9,140	7,439

3 rd Quarter			First 9 months	
2016	2015	SALES OF ELECTRICITY (GWh)	2016	2015
140	146	Electricity sold to captive customers	403	399
508	508	Electricity sold to IREN	1,512	1,507
2,446	1,796	Electricity sold Wholesale	7,225	5,534
2,231	1,629	- of which in Italy	6,305	5,065
215	167	- of which Abroad	920	469
3,093	2,449	Total	9,140	7,439

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



In the **third quarter** of 2016, moreover, steam sales¹⁰ amounted to 118 thousand tons (211 in the third quarter of 2015).

In the **first nine months** of 2016, steam sales¹⁰ amounted to approximately 570 thousand tonnes (599 thousand tonnes in the first nine months of 2015).

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

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

COMMENTS ON THE PERIOD'S PERFORMANCE

THIRD QUARTER

In the third quarter of 2016, **revenues from ordinary operations** amounted to EUR 227 million, up with respect to the EUR 216 million in the third quarter of 2015, as a result of significantly increased generation in Italy, both wind and thermoelectric, of the contribution from the newly operational wind capacity in France, Germany and Poland, as well as of the contribution from the newly acquired hydroelectric complex. The additional output, which grew overall by 28% compared to the same period of 2015, more than offset the average decrease in the prices of energy.

The **EBITDA at replacement cost** amounted to EUR 78 million, higher than EUR 66 million in the third quarter of 2015. The change is a result of the following factors:

Non-programmable Sources

EBITDA amounted to EUR 43 million, substantially in line with the same period of the previous year (EUR 45 million) thanks to the increased generation in Italy and to the contribution from the new farms in France, Germany and Poland, which substantially offset the impact of the general decrease in the average sale prices and the weak wind conditions observed abroad in the third quarter.

Programmable Sources

EBITDA of EUR 36 million, higher than in the same period of the previous year (EUR 27 million) as a result of the contribution provided by the newly acquired hydroelectric complex, equal to EUR 17 million to the result; the thermoelectric figure, amounting to EUR 19 million, remained at highly positive levels, albeit lower than EUR 27 million in the third quarter of 2015, thanks to the high efficiency of the plants, to the increase in the spark spread and to the results of the Energy Management activity to hedge the generation margin, which made it possible to mitigate the negative impacts deriving from the changed market scenario. In the third quarter of 2016, ERG Power's CCGT plant was no longer subject to the current regulations pertaining to Essential Units for the security of the electrical system, which instead were in force in the same period of 2015.

EBIT at replacement cost was EUR 13 million (EUR 25 million in the third quarter of 2015) after amortisation and depreciation amounting to EUR 65 million (EUR 41 million in the third quarter of 2015).

Group net profit (loss) at replacement cost, amounting to EUR 9 million (EUR 19 million in the third quarter of 2015), was influenced by the seasonal trend in production and was affected by the higher amortisation and depreciation tied to the changed scope of consolidation and by the higher financial expenses of the period resulting from the new acquisitions.



Group net profit¹¹ was EUR 19 million (EUR -4 million in the third quarter of 2015).

In the third quarter of 2016, **Group capital expenditure** totalled EUR 12 million (EUR 17 million in the third quarter of 2015), of which 70% in the Non-programmable sector (87% in the third quarter of 2015) and 28% in the Programmable sector (10% in the third quarter of 2015).

Net financial indebtedness was EUR 1,677 million, down by EUR 163 million compared to 30 June 2016 (EUR 1,840 million) mainly because of the operating cash flow for the period, tied to the collections of the incentives relating to the production of the fourth quarter of 2015 and of the first quarter of 2016, in accordance with current regulations.

FIRST NINE MONTHS

In the first nine months of 2016, **revenues from ordinary operations** amounted to EUR 757 million, up compared to EUR 713 million of the first nine months of 2015, as a result of the significantly increased generation in Italy, both wind and thermoelectric, of the contribution of the newly operational wind capacity in France, Germany and Poland, and of the contribution of the newly acquired hydroelectric complex. The additional production, which grew by 44% overall, more than offset the average decrease in the prices of energy.

The **EBITDA at replacement cost** amounted to EUR 351 million, higher than EUR 264 million in the first nine months of 2015. The change is a result of the following factors:

Non-programmable Sources

EBITDA amounted to EUR 230 million, up sharply compared to the same period of the previous year (EUR 202 million) thanks to the significant increase in production, in light of both the contribution of the new wind farms in France, Germany and Poland, and of the better wind conditions in the period, in particular in Italy, which more than offset the impact of the lower average sales prices.

Programmable Sources

EBITDA of EUR 129 million, higher than in the previous year (EUR 78 million) as a result of the contribution provided by the newly acquired hydroelectric complex equal to EUR 59 million, in spite of the reduced rainfall observed in the period; the thermoelectric result, amounting to EUR 70 million, remained a high levels, albeit decreasing compared to last year's EUR 78 million thanks to the high efficiency of the plants, to the increased spark spreads and to the results of the Energy Management activities hedging the generation margin. Since 28 May 2016, ERG Power's CCGT plant has no longer been

¹¹ Includes inventory gains (losses) of EUR 1 million (EUR -19 million in 2015) and non characteristic items of EUR 11 million (EUR -4 million in 2015). Values are net of tax effects. For additional details, please refer to the chapter "Alternative performance indicators".

subject to the current regulations pertaining to Essential Units for the security of the electrical system which instead had been in force for the entire year 2015.

EBIT at replacement cost amounted to EUR 158 million (EUR 141 million in the first nine months of 2015) after amortisation and depreciation of EUR 193 million (EUR 123 million in the first nine months of 2015).

The **Group net profit (loss) at replacement cost** amounted to EUR 83 million, higher than the result of EUR 76 million of the first nine months of 2015, mainly because of the reasons already explained when commenting the operating results, in spite of the higher depreciation and amortisation and financial expenses of the period as a result of the new acquisitions.

Group net profit¹² amounted to EUR 92 million (EUR 66 million of the first nine months of 2015).

In the first nine months of 2016, **Group capital expenditures** amounted to EUR 31 million (EUR 69 million in the first nine months of 2015), 69% of which in the Non Programmable sector (91% in the first nine months of 2015), 28% in the Programmable sector (8% in the first nine months of 2015). This figure does not include the value of the acquisitions in the wind power sector, i.e. EUR 306 million in the first nine months of 2016.

Net financial indebtedness was EUR 1,677 million, up by EUR 229 million compared to 31 December 2015 mainly as a result of the acquisition of the French and German wind farms from the Impax group (EUR 292 million), of the entry into the United Kingdom (EUR 14 million), of the distribution of dividends (EUR 143 million) as well as of the capital expenditures of the period (31 million) and the increase (EUR 18 million) of the negative Fair Value of the IRS derivatives hedging the rates in existing loans. The high operating cash flow of the period significantly offset these effects.

¹² Includes inventory gains (losses) of EUR 6 million (EUR -7 million in 2015) and non recurring items of EUR 3 million (EUR -3 million in 2015). Values are net of tax effects. For additional details, please refer to the chapter "Alternative performance indicators".

SIGNIFICANT EVENTS DURING THE QUARTER

13
July
2016

Massimo Derchi, Chief Executive Officer of ERG Renew S.p.A. and Key Manager, resigned from all offices held, in order to pursue new

professional opportunities outside the ERG Group.

The Board of Directors of ERG Renew S.p.A., which met on the same date, therefore appointed as Chief Executive Officer Mr. Luca Bettonte, former director of ERG Renew S.p.A. from 2008 and current Chief Executive Officer of ERG S.p.A., and to co-opt as a Director of ERG Renew S.p.A. Mr. Pietro Tittoni, Key Manager, who was designated as General Manager.

03
August
2016

ERG Wind France 1 SAS, a French subsidiary of ERG Renew S.p.A., executed a loan agreement in the form of non-recourse portfolio

project finance for six wind farms situated in France, with a total installed capacity of 63.4 MW, owned by its subsidiaries. The farms started operations between 2005 and 2008 were acquired by ERG Renew on 27 July 2015 from Macquarie European Infrastructure Fund. The loan, amounting to EUR 42 million with a duration of 9.5 years, was subscribed by UniCredit Bank AG as lender and Mandated Lead Arranger (MLA).

BUSINESS SEGMENTS

NON-PROGRAMMABLE SOURCES

The ERG Group operates in the Wind segment through the subsidiary ERG Renew.

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

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

REFERENCE MARKET ⁽¹⁾

3 rd Quarter			First 9 months	
2016	2015		2016	2015
Italian Renewable Energy Sources Market ⁽²⁾ (GWh)				
24,444	24,712	Generation from renewable sources ⁽³⁾	70,309	73,057
of which:				
12,241	12,395	Hydroelectric	33,746	35,996
1,456	1,444	Geothermal	4,409	4,318
2,994	2,698	Wind	13,132	11,598
7,753	8,175	Photovoltaic	19,022	21,145
Sale prices (EUR/MWh)				
40.9	56.7	Reference price of electricity – Italy (baseload ⁽⁴⁾)	38.4	52.1
100.1	99.9	Feed-In Premium (former Green Certificates) - Italy	100.1	99.9
39.8	55.1	Electricity price - Centre-South zone	38.3	50.5
38.2	54.4	Electricity price - South zone	37.1	49.6
54.3	61.9	Electricity price - Sicily	46.1	57.9
39.8	55.1	Electricity price - Sardinia	38.3	50.5
138.4	153.2	Average unit ERG energy sale price in Italy ⁽⁵⁾	136.2	147.8
91.9	96.1	Feed-In Tariff - Germany ⁽⁶⁾	92.1	96.1
88.6	90.8	Feed-In Tariff - France ⁽⁶⁾	88.6	91.3
96.4	95.0	Feed-In Tariff - Bulgaria ⁽⁶⁾	96.6	96.3
32.6	35.1	Electricity price - Poland	32.7	35.1
7.1	26.5	Certificate of origin price - Poland	11.8	26.5
27.2	29.7	Electricity price - Romania ⁽⁷⁾	27.4	31.1
29.6	29.6	Green certificate price - Romania ⁽⁸⁾	29.6	29.6

(1) estimated output for September

(2) source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction

(3) sources considered: hydroelectric, geothermal, wind power and photovoltaic

(4) Single National Price – Source: GME S.p.A.

(5) the average value in Italy does not consider the Feed-In Tariff of 123.8 EUR/MWh recognised to the Palazzo S. Gervasio plant

(6) the values of the Feed-In Tariff abroad refer to the prices obtained by ERG Renew plants

(7) the Electricity price Romania refers to the price set by the company with bilateral agreements

(8) price referred to the unit value of the green certificate (the number of green certificates recognised and the timeline are discussed in the section describing the scenario in Romania)



MARKET SCENARIO IN ITALY

In the **third quarter** of 2016, 34% of (net) domestic electricity output of 70,922 GWh (-4.3%) was covered by renewable sources (24,444 GWh), approximately in line with the same period of 2015 in an environment of lower output from thermoelectric source; in particular, 17% of this output is from hydroelectric plants, 11% from photovoltaic plants, 4% from wind farms and 2% from geothermal sources.

Compared to the third quarter of 2015, wind power generation grew (+11%) along with geothermal power (+1%), whilst photovoltaic output decreased (-5%) as did hydroelectric power (-1%).

In the **first nine months** of 2016, 35% of (net) domestic electricity output of 200,610 GWh (-2.7%) was covered by renewable sources (70,309 GWh), similarly to the same period of 2015; in particular, 17% of the output derives from hydroelectric power, 9% from photovoltaic plants, 7% from wind farms and 2% from geothermal sources.

Compared to the first nine months of 2015, wind power grew (+13%) along with geothermal (+2%), while photovoltaic output decreased sharply (-10%), as did hydroelectric power generation (-6%).

REGULATORY SCENARIO

Italy

The incentive system in Italy prescribes, for on-shore wind farms in operation before the end of 2012¹³, the continuation of the green certificates system until 2015 and the conversion from 2016, for the residual period of entitlement to incentives, to a feed-in premium calculated using a similar formula and paid on a quarterly basis no later than the last business day of the second quarter after that of accrual. In detail, the GSE established that the payment of the incentive which replaces the green certificates shall take place for the first quarter of 2016 no later than 30 September 2016 while for the second quarter of 2016, no later than 31 December 2016. Collection of the incentive relating to the production of the third quarter 2016 will take place no later than 31 March 2017.

With regard to the value of the 2015 green certificates withdrawal price and the 2016 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 29/2016/R/EFR dated 28 January 2016, the average annual value recorded in 2015 for electricity sale prices for incentive purposes, amounting to 51.69 EUR/MWh. Therefore, the withdrawal price of the 2015 green certificates and 2016 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year¹⁴, amounts to 100.08 EUR/MWh¹⁵.

In accordance with the Ministerial Decree of 6 July 2012, wind farms with more than 5 MW capacity built from 2013 onwards (starting operations after April 2013) instead shall gain access to the incentives by participating in a Dutch auction¹⁶. As a result of the first auction, 442 MW were assigned for on-shore wind power (the total amount allocated

¹³ There is a transitional period until 30 April 2013, for plants already authorised no later than 11 July 2012.

¹⁴ Electricity sales price defined by the Italian Authority for Electricity and Gas implementing Article 13, Paragraph 3, of Italian Legislative Decree No. 387 of 29 December 2003.

¹⁵ With regard to the Green Certificates for the first and second quarter of 2015, the price of 96.00 EUR/GC was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.

¹⁶ Starting price 127 EUR/MWh.

for 2013 was 500 MW), whilst the second auction, completed on 10 June 2013, led to the assignment of the entire amount available for 2014, i.e. 399.9 MW versus a capacity demand of 1,086 MW¹⁷. With the third auction, relating to the amount for 2015, which was completed on 26 June 2014, the entire amount available for onshore wind power, i.e. approximately 356 MW, was assigned once again (capacity demand greatly exceeded the available amount, at approximately 1,261 MW).

Pursuant to the "Prices" Ministerial Decree, starting from 2013, moreover, for all entities accessing the incentive schemes for the generation of electricity from plants powered by renewable sources (with the exclusion of photovoltaic plants and of plants allowed for Inter-ministerial Price Committee Order 6/92), a contribution of EUR 0.5 is provided for each MWh of subsidised energy, to be paid to the Italian National Grid Operator (GSE).

Regarding the new incentives for Renewable Energy Sources other than photovoltaic, please refer to the comments about the new Ministerial Decree of 23 July 2016¹⁸ in the chapter "Regulatory framework", in the most recent 2016 half-year financial report.

Concerning regulations on imbalances, on 28 July 2016, with Resolution no. 444/2016 the Energy Authority introduced a new system for valuing actual imbalances, but leaving unchanged the current regulations for significant generating units powered by non-programmable renewable sources.

Italian Stability Law No. 208/2015

With the approval of Italian Stability Law No. 208/2015, new regulations were introduced, and will come into force on 1 January 2016, for the determination of the cadastral income of property units used for generation purposes. Specifically, in Article 1, Paragraphs 21-24 the 2016 Stability Law prescribes that for electricity generation plants, the components of the wind turbine generators are no longer subject to taxation with a consequent positive impact in terms of lower tax costs.

More recently (June 2016), the Agency specified that in its opinion the exemption should not be extended to the towers supporting the wind turbine generators, because they are complex constructions, often provided with vertical connection structures (ladders, elevators). All operators and their business associations, instead, consider that the exclusion of the wind towers is formally and substantially correct because it fulfils the new criteria introduced by the 2016 Stability Law and that, therefore, it is prevalently qualified as "functional" for the specific production process of these components that for their specific technical-physical characteristics are typically integral and functional parts of the wind farm, and they certainly are not at all akin to buildings.

¹⁷ As a result of the decision by the Regional Administrative Court of Lombardy of 14 February 2014, 66 MW were reinstated, after they had been excluded from the second auction (after the end of the period for submitting auction bids) because they belonged to the transitional period. Consequently, said capacity was subtracted from the 2015 amount.

¹⁸ In accordance with the first paragraph of Article 26 of Ministerial Decree of 23 June 2016, on 20 August 2016 the GSE published the calls pertaining to the records and to the auctions for accessing the new incentives for the generation of electricity from non-photovoltaic Renewable Sources. The auctions and the records were open on 30 August 2016 and will be closed on 27 November 2016.

Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type. The most recent revision of the EEG¹⁹, adopted by the Parliament in July 2016, confirmed the treatment of the on-shore wind farms commissioned before October 2016 as defined in EEG 2014. For wind farms commissioned between October 2016 and the end of 2018, the EEG 2016 established a transition system. The twenty-year constant tariff is set to 84.8 EUR/MWh for 20 years (constant) for all assets becoming operational by March 2017. Starting from that date, the tariff shall undergo successive reductions based on a pre-set calendar²⁰: from April to August 2017, the tariff will undergo a monthly reduction of 1.05% relative to the value of the previous month. Between October 2017 and December 2018, the tariff will be reduced by 0.4% per quarter. The measurement of this last correction may be increased or reduced depending on whether the total level of installed capacity in the reference year is above 2.5 GW or below 2.4 GW.

The EEG 2016 also prescribes the introduction of a Dutch auction system that assigns a twenty-year "Flexible Premium" in addition to the spot price of electricity. The calculation of the Flexible Premium is also corrected on the basis of the average wind intensity coefficients applicable to the geographic area.

The law also updated the calendar of the expected volumes. For on-shore wind power, 2.8 GW per year are expected between 2017 and 2019 and 2.9 GW from 2020 onwards, with the objective of reaching a proportion of renewables of 40-45% by 2025, 55-60% by 2035, minimum 80% by 2050. Three auctions are scheduled in 2017 (the first one in May) and four in 2018. In addition, between 2018 and 2020, 400 MW of annual installed capacity shall be assigned through joint on-shore wind and photovoltaic tenders. The respective assigned portion by technology will be discounted from the respective annual volume.

France

The incentive system for on-shore wind power is of the feed-in tariff type. The incentive for existing plants is recognised for 15 years and it is updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products²¹. For the first 10 years of operation it is the initial tariff, depending on the year of stipulation of the agreement, to be updated annually, whilst for the subsequent 5 years the value to be indexed is decreasing if annual hours of operation exceed 2,400. For 2006, the initial tariff value was 82 EUR/MWh. To define the starting value for new plants in subsequent years, the tariff is reduced by 2% from the previous year, starting from 2008, and it is updated to take into account changes in the aforementioned indices. The value thus determined, for each plant, is then updated annually, according to the scheme described above. Further to the appeal before the Council of State against the 2008 decree for the alleged incompatibility with EC rules on State aid, the 2008 decree itself was repealed on 28 May 2014 (by virtue of the failure to notify the European Commission

¹⁹ Erneuerbare Energien Gesetz, reform of the German law on renewable energies.

²⁰ In fact, the incentive period is divided in two stages: the first one if 5 years long, the second one 15. The tariff for the first 5 years is confirmed for the remaining 15 if generation does not exceed 80% of the reference generation and the duration of the period of recognition of the higher incentive is reduced progressively as output increases.

²¹ The indicators considered are ICHTrevTS ("indice du coût horaire du travail (tous salariés) dans les industries mécaniques et électriques", or index of hourly cost of labour (all personnel) in mechanical and electrical industries") and the PPEI ("indice de prix de production de l'industrie française pour l'ensemble de l'industrie", or index of production prices of French industry for the industry as a whole).

before its implementation), and a new decree was issued on 17 June 2014, which confirms the same incentive system (for existing facilities as well). The decree had previously been definitively approved by the European Commission's General Directorate for Competition, which found the text compatible with current State aid regulations.

Bulgaria

For on-shore wind farms, current regulations prescribe a feed-in tariff in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentives changes according to the date of initial operation and it can be 12 years (Hrabovo wind farm) or 15 years (Tcherga wind farm). In particular, below the first bracket (on average, approximately 2,200 annual equivalent hours of operation), the recognised FIT amounts to approximately 97 EUR/MWh, while the regulatory changes have significantly reduced the revenue in the case of higher output levels. These regulatory changes are currently the subject of an appeal by renewable source producers.

On 2 March 2015, an amendment was introduced to the regulations, barring new plants from accessing the incentive system. This measure, which has no retroactive effects, is justified by the attainment of 2020 objectives in 2013 already.

The cost for accessing transmission and distribution networks (introduced in September 2012 for renewable source producers in operation since 2010) was raised to approximately 3.7 EUR/MWh starting from July 2015.

From July 2015 onwards, a fee amounting to 5% of the revenues relating to plants powered by renewable sources.

From June 2014, the responsibility for balancing was introduced for non-programmable renewable sources as well, entailing a significant cost for the plants.

Romania

Incentives for renewable energy in Romania are provided through green certificates for the first 15 years of operation. The obligation to supply a certain annual quantity of green energy in the grid (or to purchase an equal quantity of green certificates) is on the final consumption of electricity. For wind farms commissioned before 2014, 2 green certificates are provided for each MWh generated until 2017 and 1 green certificate from 2018 onwards, and the unit price of the green certificates ranges between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed to inflation on an annual basis. The green certificates have annual validity and, on the basis of the legislation currently in force, they are recognised on the minimum value between the forecast energy and that effectively generated. Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in March 2014²² and approved by the European Commission – DG Competition in May 2015.

The Law introduced certain amendments to the incentive system; in particular, for existing wind farms, 1 green certificate is to be retained in the 1 July 2013-31 March 2017 time interval. The retained green certificates will

²² Decree no. 270/2014 approving Law 23/2014, which approves the Emergency Ordinance no. 57/2013, amending and supplementing Law no. 220/2008 for the Green Certificate incentive system.

be progressively “released” starting from 1 January 2018 and in any case no later than 31 December 2020, with procedures that are still to be defined. In the meantime, the Government, following the indications of the ANRE, changed the maximum annual percentage of electricity generation from renewable sources that can benefit from incentives in 2016, from 17%, as prescribed by the previous regulations, to 12.15%. Based on the changes introduced by the new law, the ANRE has the task of defining this mandatory percentage on an annual basis.

Wind farms that became operational after 1 January 2014 are instead subjected to the reduction in the number of GCs (“over-compensation”), as prescribed by the Governmental Decision that endorsed the decision of the Regulator, ANRE. As a result of said decision, the wind farms in question have access to 1.5 GC for each MWh until 2017 and 0.75 GC for each MWh generated from 2018 onwards.

The Gebeleisis wind farm (70 MW) accesses the incentive scheme whereby 2 GC are recognised through 2017, one of which will be retained until 31 March 2017.

In October 2014 Directorate General for Competition of the European Commission approved the exemption for energy-intensive industries from the law-mandated obligation to purchase green certificates, and the related decree has been in force since January 2015.

As a result of the legislative amendments (negative for wind power), in particular relating to the lowering of the mandatory quotas, the GC market is in a situation of excess supply and consequently the price dropped to the floor (equal to approximately EUR 29.4 EUR/MWh) and the liquidity of the spot market contracted drastically.

Poland

The incentive system in Poland for plants in operation by June 2016 is based on the Certificates of Origin (CO) for the first 15 years of activities, with annual mandatory quotas on electricity consumption (with the exclusion of energy-intensive entities). The annual mandatory quota is 16% for 2016 and 17% for 2017. To date, no quota has been set for the years after 2017. The law on providing incentives for renewable sources, approved in March 2015 (and amended in December 2015) introduced a number of measures aimed at reducing the current excess supply of COs (which have no expiry date). In particular, from 2016 onwards the incentive for “non-dedicated” co-combustion plants will be halved and the incentive for hydroelectric plants with output greater than 5 MW will be eliminated altogether. However, at the end of June 2016 the new version of the law providing incentives for renewable sources was approved; it prescribes, inter alia, less stringent requirements for the definition of dedicated co-combustion. Therefore, one possible effect could be the reduction of the effectiveness of the rule that halved the number of COs recognised to “non-dedicated” co-combustion. At this time it is still too early to forecast the impacts the rule could have on the CO supply/demand balance, but the uncertainty tied to the regulatory environment has contributed to a sharp decline in the price of the COs traded on the market.

The new law also introduces a Dutch auction system, with quotas on generation, for the awarding of feed-in premium incentives in the form of Contracts for Difference (CfD) for 15 years (with the value inflated on an annual basis). This system is mandatory for plants that will be commissioned from July 2016 onwards. The version of the law approved in

June²³ introduced changes to this system as well, changing the rules for conducting the auctions, introducing separate technological baskets and, de facto, delaying their start. The new version of the law will have to be approved within the scope of the notification to the DG Competition, activated for the previous version of the law and not yet completed by the Commission.

In June, the wind turbine investments act was also approved; inter alia, it changed the calculation of property tax starting from 2017, significantly increasing its amount and also increasing the severity of the rules regarding the minimum distance from other buildings for the construction of new wind farms.

United Kingdom

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

- **RO** (Renewable Obligation – the certificates granted are ROC), with annual mandatory quotas of electricity consumption, defined year by year based on (i) the expected output from Renewable Energy Sources (plus 10% headroom) and (ii) the expected electricity consumption, with the goal of keeping the market balanced/short. The quota calculated for the April 2016 - March 2017 time interval amounts to 34.8% for Great Britain and to 14.2% for Northern Ireland. The incentive is recognised for 20 years. As a result of the approval of the new Energy Bill in 2016, access to this system is substantially prescribed for the plants planned no later than 31 March 2016 and completed no later than 31 March 2017. Grace periods are recognised if construction delays are not directly caused by the producer.
- **CfD** - new renewable source plants are to transition to a CfD incentive system, awarded through multi-technological Dutch auctions. This incentive is recognised for 15 years (inflated). However, the approach to the matter of the Tories, which have been governing since May 2015, has created uncertainty concerning the future of CfD for onshore wind farms and currently no amounts have been allocated for this technology in the upcoming auctions (the auction that was planned for October 2015 has been postponed to a time to be decided, which at the time cannot be predicted).

²³ For additional details, please refer to the chapter "Regulatory framework".

HIGHLIGHTS OF PERFORMANCE ITEMS AT REPLACEMENT COST

At the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated on a line by line basis as from 1 January 2016.

The comparative economic balances for 2015 include ERG's portion of the operating results at replacement cost of the LUKERG Renew GmbH (50%) joint venture.

3 rd Quarter			First 9 months	
2016	2015		2016	2015
INCOME STATEMENT DATA				
71	71	Revenues from ordinary operations	316	270
43	45	EBITDA at replacement cost ⁽¹⁾	230	202
(42)	(33)	Amortisation, depreciation and write-downs ⁽¹⁾	(125)	(99)
2	12	EBIT at replacement cost ⁽¹⁾	105	103
8	15	Capital expenditures on tangible and intangible fixed assets	21	62
MAIN FINANCIAL DATA ⁽²⁾				
2,007	1,739	Net invested capital	2,007	1,739
701	685	Shareholders' equity	701	685
1,306	1,054	Total net financial indebtedness	1,306	1,054
1,200	1,039	of which non-recourse Project Financing ⁽³⁾	1,200	1,039
61%	64%	EBITDA Margin% ⁽⁴⁾	73%	75%

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

(2) figures from the ERG Renew Consolidated Financial Statements. In 2015, these also include the contribution, attributable to ERG, of the results of LUKERG Renew (joint venture with the LUKOIL Group)

(3) including cash and cash equivalents

(4) EBITDA at adjusted replacement cost over revenues from ordinary operations

The breakdown of EBITDA at replacement cost between the various geographic areas of the Wind business was as follows:

EBITDA AT REPLACEMENT COST

3 rd Quarter			First 9 months	
2015	2015		2016	2015
34	36	Italy	179	174
10	9	Abroad	51	28
		of which		
2	2	Germany	12	8
4	3	France	24	8
2	1	Bulgaria	5	4
2	1	Romania	6	7
-	1	Poland	3	1
43	45	Total	230	202

The consolidated revenues reported in the **third quarter** of 2016 were in line with those in the third quarter of 2015, in spite of the lower sale prices both in Italy and abroad, thanks to the higher output, in particular abroad as a result of the full contribution of the new wind farms in France (124 MW), Germany (82 MW) and Poland (82 MW). With regard to revenues from wind farms in Italy, the higher output in the period (+2%) only partly offset the significant reduction in total sale prices in the country (-10%).

With regard to the decrease in sale prices, for ERG Renew in Italy, in the **third quarter** of 2016 the sale price of electricity amounted on average to 38.3 EUR/MWh, down 28% with respect to the figure of 53.3 EUR/MWh recorded in the third quarter of 2015; this value corresponds to the sales price to Energy Management of the ERG Group, which reflects the formation of the price on the spot market (IPEX). Overall, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and that of the incentives (former green certificates), was 138.4 EUR/MWh, down by 10% from the value of 153.2 EUR/MWh of the third quarter of 2015. This decrease is linked to the sharp drop in sales prices of energy observed in the various geographic areas, while the value of the incentives (former green certificates) i.e. 100.1 EUR/MWh, is substantially in line with respect to the value of 99.9 EUR/MWh of the same period of 2015.

In fact, starting from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of the energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) with the prices of the incentive recognised in the year, but will have an impact on the value of the incentive for the subsequent year; in light of the sharp drop of the single national price (PUN) in 2016, the value of the incentive is thus expected to rise significantly next year.

Sales by foreign farms were concentrated in particular in France and Germany, whose average unit revenues were 88.6 EUR/MWh and 91.9 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution of foreign wind farms to production was approximately 215 GWh, of which approximately 86 GWh deriving from the higher installed capacity compared to the third quarter of 2015.

EBITDA at replacement cost for the **third quarter** of 2016 amounted in total to EUR 43 million, substantially in line with the figures of the same period of last year, for the reasons indicated above.

The total EBITDA margin amounted to 61%, slightly down compared to the third quarter of 2015 (64%). In particular, in relation to continuing high profitability in Italy, the indicator decreased due to the increase in the percentage of production abroad, characterised by lower average sales prices and margins.

The consolidated revenues reported in the **first nine months** of 2016 were higher than those in the first nine months of 2015, thanks to the sharp increase in output abroad as a result of the full contribution of the new wind farms in France (124 MW), Germany (82 MW) and Poland (82 MW). With regard to revenues from wind farms in Italy, the higher output in the period (+11%) more than offset the significant reduction in total sale prices in the country (-8%).

With regard to the decrease in sale prices, for ERG Renew in Italy, in the **first nine months** of 2016 the sale price of electricity amounted on average to 36.1 EUR/MWh, down 25% with respect to the figure of 47.9 EUR/MWh recorded in the first nine months of 2015; this value corresponds to the sales price to Energy Management of the ERG Group, which reflects the formation of the price on the spot market (IPEX). Overall, the average unit revenue from ERG Renew

production in Italy, considering the sale value of energy and that of the incentives (former green certificates), was 136.2 EUR/MWh, down from the value of 147.8 EUR/MWh of the first nine months of 2015.

This decrease is linked to the sharp drop in sales prices of energy observed in the various geographic areas, while the value of the incentives (former green certificates), i.e. 100.1 EUR/MWh, is substantially in line with respect to the value of 99.9 EUR/MWh of the same period of 2015.

In fact, starting from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of the energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) with the prices of the incentive recognised in the year, but will have an impact on the value of the incentive for the subsequent year; in light of the sharp drop of the single national price (PUN) in 2016, the value of the incentive is thus expected to rise next year. Sales by foreign farms were concentrated in particular in France and Germany, whose average unit revenues were 88.6 EUR/MWh and 92.1 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution of foreign wind farms to production was approximately 920 GWh, of which over 500 GWh deriving from the higher installed capacity compared to the first nine months of 2015.

EBITDA at replacement cost for the **first nine months** of 2016 amounted in total to EUR 230 million, up with respect to the figures of the same period of last year, (EUR 202 million), for the reasons indicated above.

The total EBITDA margin amounted to 73%, reaching a high absolute value, albeit slightly down compared to the first nine months of 2015 (75%). In particular, in relation to continuing high profitability in Italy, the indicator decreased due to the increase in the percentage of production abroad, characterised by lower average sales prices and margins.

INSTALLED POWER (MW)

Year 2015		First 9 months	
		2016	2015
1,087	Italy	1,094	1,087
	of which		
239	<i>Campania</i>	247	239
120	<i>Calabria</i>	120	120
249	<i>Puglia</i>	249	249
79	<i>Molise</i>	79	79
89	<i>Basilicata</i>	89	89
198	<i>Sicily</i>	198	198
111	<i>Sardinia</i>	111	111
2	<i>Other</i>	2	2
420	Abroad	626	360
	of which		
86	<i>Germany</i>	168	86
128	<i>France</i>	252	128
82	<i>Poland</i>	82	42
54	<i>Bulgaria</i>	54	27
70	<i>Romania</i>	70	77
1,506	Installed power at period end⁽¹⁾	1,720	1,446

(1) power of plants in operation at period end.

The installed power at 30 September 2016 amounted to 1,720 MW, up by 274 MW with respect to the figure at 30 September 2015, mainly as a result of the acquisition of 11 wind farms in France for an additional 124 MW and 6 wind farms in Germany for 82 MW, as well as the development by ERG of wind farms for 40 MW in Poland and the changes which took place starting at end of December 2015 in Bulgaria (+27 MW) and Romania (-7 MW) concurrently with the transaction which led to the winding up of the joint venture with LUKOIL.

GENERATION (GWh)

3 rd Quarter			First 9 months	
2016	2015		2016	2015
368	361	Italy	1,711	1,542
		of which		
78	86	Campania	394	340
52	44	Calabria	202	183
100	102	Puglia	417	388
31	30	Molise	128	126
32	29	Basilicata	146	135
43	35	Sicily	251	222
32	34	Sardinia	174	147
215	167	Abroad	920	469
		of which		
43	29	Germany	175	111
73	57	France	378	128
35	25	Poland	138	26
26	14	Bulgaria	102	58
38	42	Romania	127	146
583	528	Total output from wind farms	2,631	2,011

In the **third quarter** of 2016, ERG Renew's electricity output amounted to 583 GWh, higher than in the third quarter of 2015 (528 GWh), with higher output in Italy by around 2% (from 361 GWh to 368 GWh) and growth abroad of 28% (from 167 GWh to 215 GWh).

The slight increase in output in Italy (+7 GWh) is tied to better overall wind conditions than in 2015, in particular in Sicily and in Calabria albeit still weak in an absolute sense, compared to the historical average.

With regard to foreign countries, output was higher by 48 GWh thanks to the contribution from the new wind farms in France, Germany and Poland, in spite of particularly weak wind conditions in the third quarter of 2016 in France and Germany.

In the **first nine months** of 2016, ERG Renew's electricity output amounted to 2,631 GWh, higher than in 2015 (2,011 GWh), with higher output by approximately 11% in Italy (from 1,542 GWh to 1,711 GWh) and 96% growth abroad (from 469 GWh to 920 GWh).

The increase in output in Italy (+169 GWh) is tied to the better overall wind conditions compared to 2015, in particular in Campania, Puglia, Sicily and Sardinia.

With regard to generation abroad, the total increase by 451 GWh was mainly due to the contribution of the new wind farms in France, Poland and Germany.

The following table shows wind farm load factors by main geographic area; the figure, estimated taking into account the actual start of operations of the wind farms in individual years, provides a measure of the level of generation of the various farms in relative terms, and it is influenced not only by the characteristics of the farm and the wind conditions in the period considered, but also by the level of availability of the plants and any limitations on the energy transport networks.

LOAD FACTOR %

3 rd Quarter			First 9 months	
2016	2015		2016	2015
15%	15%	Italy	24%	22%
		of which		
14%	16%	Campania	24%	22%
20%	17%	Calabria	26%	23%
18%	19%	Puglia	26%	24%
18%	17%	Molise	25%	24%
16%	15%	Basilicata	25%	23%
10%	8%	Sicily	19%	17%
13%	14%	Sardinia	24%	20%
16%	21%	Abroad	22%	25%
		of which		
12%	15%	Germany	16%	20%
13%	20%	France	23%	24%
20%	27%	Poland	26%	28%
22%	23%	Bulgaria	29%	33%
25%	25%	Romania	28%	29%
15%	17%	Load factor⁽¹⁾	23%	22%

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

In the **third quarter** of 2016 the overall load factor, at 15%, was lower than in 2015, stable at 15% in Italy and with a decrease from 21% to 16% abroad, mainly due to a worse result in France, Germany and Bulgaria.

In the **first nine months** of 2016 the overall load factor, at 23%, was higher than in 2015, increasing from 22% to 24% in Italy and with a decrease from 25% to 22% abroad, mainly due to a worse result in Germany and Bulgaria.

PROGRAMMABLE SOURCES

Reference market

3 rd Quarter			First 9 months	
2016	2015		2016	2015
ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWh)				
79,476	83,680	Demand	230,481	237,830
415	362	Pumping consumption	1,655	1,306
8,969	9,961	Import/Export	31,526	32,902
70,922	74,081	Internal generation ⁽²⁾	200,610	206,234
		of which		
46,478	49,369	Thermoelectric	130,301	133,177
12,241	12,395	Hydroelectric	33,746	35,996
12,203	12,317	Other renewables	36,563	37,061
SALE PRICES (EUR/MWh)				
40.9	56.7	PUN ⁽³⁾	38.4	52.1
54.3	61.9	Zone price - Sicily (baseload)	46.1	57.9
45.4	61.0	Zone price - Centre North (peak)	41.8	56.6

(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

(3) Single National Price. Source: GME S.p.A.

Market scenario in Italy

The demand for electricity²⁴ of the Italian electric system in the **third quarter** of 2016 amounted to 79.5 TWh, in decline (-5.0%) compared with the values recorded in the same period of 2015. With regard to Sicily, region in which ERG is present with its CCGT plant, in the third quarter of 2016 a requirement of approximately 5.1 TWh was recorded, down (-7.5%) with respect to the same period in 2015, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, the demand for electricity amounted to 11.4 TWh (-5.4%).

In the same period, net internal electricity generation stood at 70.9 TWh, down by 4.3% compared to the third quarter of 2015, whilst the net balance of trades with other countries recorded net imports of 9.0 TWh (-9.9% relative to the third quarter of 2015). 66% of (net) domestic electricity output was provided by thermoelectric plants and the remaining 34% by renewable sources. With respect to the same period of the previous year, generation from thermoelectric sources contracted sharply (-5.9%) whereas generation from renewable sources declined slightly (-1.1%). Said decrease is due to the drop in photovoltaic (-5%) and hydroelectric (-1%) generation, partly offset by the additional generation from other sources, in particular wind (+11%) and geothermal (+1%).

The average value of the PUN (Single National Price) in the **third quarter** of 2016 was 40.9 EUR/MWh, down by 27.8% compared with the value of the third quarter of 2015 (56.7 EUR/MWh).

²⁴ Including grid losses and net of electricity consumed for the pumping plants.

The demand for electricity²⁵ of the Italian electric system in the **first nine months** of 2016 amounted to 230.5 TWh, in decline (-3.1%) compared with the values recorded in the same period of 2015. With regard to Sicily, region in which ERG is present with its CCGT plant, in the first nine months of 2016 a requirement of approximately 14.0 TWh was recorded, down (-5.9%) with respect to the same period in 2015, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, the demand for electricity amounted to 32.6 TWh (-3.5%).

In the same period, net internal electricity generation stood at 200.6 TWh, down by 2.7% compared to the first nine months of 2015, whilst the net balance of trades with other countries recorded net imports of 31.5 TWh (-4.2% relative to the first nine months of 2015). 65% of (net) domestic electricity output was provided by thermoelectric plants and the remaining 35% by renewable sources. With respect to the same period of the previous year, there was a decline in the output both of thermoelectric sources (-2%) and of renewable sources (-4%). Said decrease is due to the drop in photovoltaic (-10%) and hydroelectric (-6%) generation, partly offset by the additional generation from other sources, in particular wind (+13%) and geothermal (+2%).

The average value of the PUN (Single National Price) in the **first nine months** of 2016 was 38.4 EUR/MWh, down by 26.4% compared with the value of the first nine months of 2015 (52.1 EUR/MWh).

²⁵ Including grid losses and net of electricity consumed for the pumping plants.

Evolution of the regulatory scenario

Thermoelectric: the Mucchetti amendment

Article 23.3-bis of Italian Law Decree No. 91 dated 24 June 2014, converted by Italian Law No. 116 dated 11 August 2014, established that from 1 January 2015, until the date of initial operation of the doubling of the “Sorgente-Rizziconi” power line between Sicily and the Continent: (i) electricity generating units in the Sicily zone with over 50 MW of power, with the exclusion of non-programmable renewable units, shall be considered essential resources for the security of the electrical system (“UESSE”); (ii) the Authority shall define the bidding and remuneration procedures of the aforesaid units no later than ninety days from the date of entry into force of the law converting Law Decree no. 91/14, following the criteria of the timely recognition, for each individual generating unit, of the variable costs and of the fixed costs of an operational nature and of fair remuneration of the residual invested capital related to the same units, in order to assure the reduction of costs for the electrical system.

Executing the provisions of the aforesaid Law Decree, on 24 October 2014 the Authority published its Instruction no. 521/2014/R/EEL, pertaining to provisions on essential facilities in Sicily, directed at regulating, inter alia, the offering and remuneration criteria for units defined as essential in accordance with the Law Decree. Lastly, with its Resolution 667/2014/R/EEL, the AEEGSI approved a number of significant parameters for the calculation of the Recognised Generation Costs of the essential units under Italian Law Decree No. 91/2014.

In October 2015, the Authority also published its Resolution no. 486/2015/R/EEL; while it pertains to Essential Units under ordinary rules, it does clarify and revise certain parameters of the Recognised Variable Cost which also have effect on Essential Units under Italian Law Decree no. 91/2014. Lastly, also in October 2015, the AEEGSI approved Resolution no. 496/2015 which revised and extended the regime pursuant to resolution 521/2014 to 2016.

The application period for the regulations of the essential units on the basis of Italian Law Decree no. 91/2014 and resolution no. 521/2014, as amended, ended on 28 May 2016 when the aforementioned doubling of the Sorgente -Rizziconi power line was brought on stream.

The regulatory framework described above had a significant impact on the sales prices of ERG and in particular on the spot energy markets in the market area in which it operates (Sicily). In fact, the supply restriction on these markets at prices no higher than the recognised variable cost of the generation units identified as UESSE in accordance with the aforementioned Italian Law Decree No. 91/2014, significantly reduced the price differential between the Sicily area and the PUN with a marked decrease in 2015 and until 28 May 2016 with respect to the values recorded in previous years. However, it must be stressed that the reduction in the revenues of the spot markets (MGP, MI and MSD) for the aforesaid reasons was mitigated by the price recognised to UESSE facilities under Law Decree no. 91/2014 to recover variable, operating and investment generation costs, including the fair remuneration of the invested capital.

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

Hydroelectric: concession fees

The Regional Council of the Umbria Regional Authority, by its Resolution No. 1067 dated 22 September 2015, took steps to re-calculate the concession fees for large water offtakes for hydroelectric purposes. The new unit tariff of EUR 31.02 EUR/kW per module, which applies as from 1 January 2016, is twice as high as the tariff in force until 31 December 2015. In December 2015, ERG Hydro S.r.l. filed an appeal to the Higher Court of the Public Waterways in Rome, to request the repeal of the aforementioned resolution. The results for the period prudentially reflect the aforementioned increase.

Italian Stability Law No. 208/2015

With the approval of Italian Stability Law No. 208/2015, new regulations were introduced, and will come into force on 1 January 2016, for the determination of the cadastral income of property units used for generation purposes. Specifically, in Article 1, Paragraphs 21-24, the 2016 Stability Law prescribes that for electricity generation plants, system components are no longer subject to taxation with a consequent positive impact in terms of lower tax costs.

Remarks on the period performance highlights

Starting from the end of 2015, the ERG Group is present in a differentiated manner in the sector of **Programmable sources**, handled by the Power business unit in terms of organisation. In particular, the ERG Group operates:

- in the **hydroelectric** sector: via the equity investment in ERG Hydro S.r.l., owner of the Terni Hydroelectric Complex (527 MW) including a system of highly programmable and flexible plants throughout central Italy;
- in the **thermoelectric** sector: via the equity investment in ERG Power S.r.l., owner of the CCGT (480 MW) high output, high efficiency, low emission, highly modulable and flexible co-generation plant.

The ERG Group has therefore concluded an important industrial development process, completing the transformation of the pre-existing portfolio of thermoelectric assets in Sicily (which also included the 528 MW IGCC plant sold in 2014 to Lukoil at the same time as the early termination of the "CIP 6" convention), into a portfolio of assets differentiated by technology and geographic area and featuring high flexibility, thanks to the purchase, at the end of 2015, of the Terni Hydroelectric Complex, whose concessions expire in 2029.

Period performance highlights

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

INCOME STATEMENT DATA

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
155	144	Revenues from ordinary operations	440	447
36	27	EBITDA at replacement cost ⁽¹⁾	129	78
(22)	(7)	Amortisation, depreciation and write-downs ⁽¹⁾	(67)	(22)
14	19	EBIT at replacement cost ⁽¹⁾	62	56
3	2	Capital expenditures on tangible and intangible fixed assets	8	5
23%	18%	EBITDA MARGIN %	29%	18%

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

Thermoelectric

INCOME STATEMENT DATA

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
129	144	Revenues from ordinary operations	353	447
19	27	EBITDA at replacement cost ⁽¹⁾	70	78
(7)	(7)	Amortisation, depreciation and write-downs ⁽¹⁾	(22)	(22)
11	19	EBIT at replacement cost ⁽¹⁾	48	56
2	2	Capital expenditures on tangible and intangible fixed assets	6	5
15%	18%	EBITDA MARGIN %	20%	18%

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

In the **third quarter** of 2016, the electricity market and the regulatory environment in which the plant operates – unlike the same period of 2015 – was characterised by the greater interconnection between the Sicily zone and the South zone (through the upgrade of the "Sorgente-Rizziconi Underground Power Line", in operation during the period, with the exception of approximately one month of limitations due to maintenance) and by the exit of the North Plant from the scope of the regulation on Essential Units that set a maximum threshold for the bid price corresponding to the variable cost of production, indemnifying operators through the "reintegration consideration".

In this changed environment, the ERG Power's net electricity output was 740 GWh, slightly higher than in the third quarter of 2015 (724 GWh), while revenues declined compared to the same period of the previous year, as a result both of the lower zone prices (-12% of the "baseload" Sicily zone price), and of the missed recovery of the costs, guaranteed in the previous year by the aforesaid "reintegration consideration" (amounting to approximately EUR 18 million in the third quarter of 2015).

The net supply²⁶ of steam to captive customers of the petrochemical site of Priolo Gargallo involving around 118 thousand tons, decreased with respect to the 211 thousand tons in the third quarter of 2015 as a result of the shut-down of the ISAB plants. Approximately one-fourth of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, including the net supply of steam.

The EBITDA at replacement cost in the third quarter of 2016 amounted to EUR 19 million (as expected, it declined compared to EUR 27 million in the same period of 2015) in view of lower sale prices relative to the similar period of the previous year and of the absence of the reintegration consideration in the third quarter 2016, partly offset by the significant contraction in the price of gas and by the consequent increase in the margin (Spark spread).

During the **first nine months** of 2016 ERG Power's net electricity output amounted to 2,032 GWh, up with respect to the first nine months of 2015 (1,935 GWh) due in part to the shorter duration of the shutdown for scheduled general maintenance of module 2 carried out in 2016 compared to the scheduled general maintenance of module 1 of the CCGT plant in the 1st half of 2015. Revenues decreased as a result of the general reduction in electricity sale prices, only partly offset by the "reintegration consideration" due until the Essential Units scheme expired on 27 May, and mitigated by the increase in total quantities sold.

The net supply²⁶ of steam to the captive customers of the petrochemical site of Priolo Gargallo, amounting to approximately 570 thousand tons, decreased with respect to the 599 thousand tons of the first nine months of 2015 as a result of the shut-down of the ISAB plants. Approximately one-fourth of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, including the net supply of steam.

The EBITDA at replacement cost in the **first nine months** of 2016 amounted to EUR 70 million (down compared to EUR 78 million in the same period of 2015) in view of the decline in the sale prices, offset by the significant contraction of the price of gas and by the consequent increase in the margin (Spark spread).

As indicated on the section relating to the evolution of the reference regulatory framework of the Half-Year Financial Report, until 27 May 2016 – the last day of validity of the UESSE scheme – the period was characterised by the drop in prices on the spot market in the Sicily zone as a result of the application of Italian Law Decree No. 91/2014, and led to a reduction in the margins on the energy markets (MGP and MI) and on the dispatch services (MSD). These reductions were mitigated by the consideration reintegrating the generation costs due to the ERG Power production unit, defined as an Essential Unit for the Security of the Electrical System in accordance with the aforesaid Italian Law Decree No. 91/2014.

From 28 May 2016 onwards, after the expiry of the UESSE scheme, the period was characterised by the partial recovery of the energy prices, in particular in Sicily, where the "baseload" prices on average exceeded the PUN by more than 10 EUR/MWh. However, comparison with the third quarter of 2015 is affected by the expected loss of the "reintegration consideration" due in accordance with the UESSE scheme, to which the North Plant was subjected in 2015.

Overall, the achievement of results in line with expectations, but lower than last year's, is substantially due to the

²⁶ i.e. the supply of steam to the industrial site of Priolo Gargallo excluding pipeline losses, net of steam withdrawal from customers

commissioning of the aforementioned Sorgente-Rizziconi power line from late may 2016 onwards, with a partial mitigation due to the reduction in the price of gas, to the improvement of the performance of ERG Power's CCGT plant and to the initiatives to boost industrial efficiency, carried out during the period. In the first nine months of 2016, the plant continued to benefit from high reliability and efficiency, pursued by means of targeted investment measures, as well as through the first scheduled general maintenance carried out between March and April 2015 on module 1 of the ERG Power CCGT plant.

The positive results also reflect the efficacy of energy management with the adoption of effective hedges of the generation margin. These hedges contemplate, inter alia, the multi-year forward sale of electricity to IREN Mercato, the use of instruments for hedging the price risk and the sale of steam and electricity, through multi-year agreements, to the customers of the petrochemical site in Priolo Gargallo.

Hydroelectric

INCOME STATEMENT DATA

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
26	-	Revenues from ordinary operations	87	-
17	-	EBITDA at replacement cost ⁽¹⁾	59	-
(15)	-	Amortisation, depreciation and write-downs ⁽¹⁾	(44)	-
3	-	EBIT at replacement cost ⁽¹⁾	14	-
1	-	Capital expenditures on tangible and intangible fixed assets	2	-
66%	-	EBITDA Margin %	67%	-
277	-	Total output from hydroelectric plants	1,028	-

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

Of the revenues of the **third quarter** of 2016, amounting to EUR 26 million, sales of electricity amounted to EUR 11 million, revenues from feed-in premium (former green certificates) amounted to EUR 12 million, revenues from MSD were EUR 2 million and other revenues were approximately EUR 1 million.

The costs, amounting in total to EUR 9 million, are mainly attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for the **third quarter** of 2016 was EUR 17 million.

The average sales prices reflect the sales price of electricity, higher than the Single National Price thanks to the modulation of the plants, and the value of the feed-in premium (former green certificate), recognised on a portion equal to approximately 40% of the output and for a value of approximately EUR 100/MWh.

ERG Hydro's total output (277 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity and that of the incentives, as well as the revenues from MSD, totalling approximately 96 EUR/MWh. The total EBITDA margin of the **third quarter** of 2016 amounted to 66%, reaching particularly high values.

The final load factor in the quarter, i.e. 24%, was affected by some maintenance shut-downs carried out during the period and by the related management of the seasonal reservoir.

Of the revenues of the **first nine months** of 2016, amounting to EUR 87 million, sales of electricity amounted to EUR 42 million, revenues from feed-in premium (former green certificates) amounted to EUR 36 million, revenues from MSD were EUR 8 million and other revenues were approximately EUR 2 million.

The costs, amounting in total to EUR 28 million, are mainly attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for the **first nine months** of 2016 was EUR 59 million.

The average sales prices reflect the sales price of electricity, higher than the Single National Price thanks to the modulation of the plants, and the value of the feed-in premium (former green certificate), recognised on a portion equal to approximately 40% of the output and for a value of approximately 100 EUR/MWh.

ERG Hydro's total output (1,028 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity and that of the replacement incentives, totalling approximately 85 EUR/MWh.

The total EBITDA margin of the **first nine months** of 2016 amounted to 67%, reaching particular high values.

The final load factor in the period amounted to 30% and was affected by the poor rain conditions in the period.

The total capacity of the plants at the Terni complex came to 526.5 MW, of which 512.4 MW relating to large offtakes and 14.1 MW related to small offtakes.

The level of the reservoirs of lakes Turano, Salto and Corbara were respectively approximately 526, 526 and 126 metres above sea level, in line with the historical average.

CAPITAL EXPENDITURES

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

- the acquisition at the start of 2016 from a fund managed by Impax Management Group of **eleven wind farms in France and six wind farms in Germany**, with total installed capacity of 206 MW (and estimated annual average generation of 410 GWh), plus the two companies which provide technical, operational and commercial assistance to wind operators in France, Germany and Poland, both “captive” and third parties. The value of the acquisition was approximately EUR 290 million in terms of enterprise value, equal to a multiple of approximately EUR 1.4 million per MW.
- the acquisition from TCI Renewables of Brockaghboy Windfarm Ltd. (“BWF”), a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland, with planned capacity of over 47.5 MW and energy output estimated at approximately 150 GWh/year when fully operational. The transaction entailed an initial outlay of approximately EUR 13 million, in addition to the investments made after acquiring the project, commented in the section that follows. The total estimated investment for construction of the farm is approximately EUR 80 million, already including the initial consideration paid for the purchase of the company.

The total capital expenditure in tangible and intangible fixed assets of the ERG Group in the **third quarter** of 2016 was EUR 12 million (EUR 17 million in the same period of 2015), including EUR 11.5 million for tangible fixed assets (EUR 15 million in the third quarter of 2015) and EUR 0.5 million for intangible fixed assets (EUR 2 million in the third quarter of 2015).

In the **first nine months** of 2016 the ERG Group carried out total capital expenditures for tangible and intangible fixed assets totalling EUR 31 million (EUR 69 million in the same period of 2015) of which EUR 29 million relating to tangible fixed assets (EUR 66 million in the first nine months of 2015) and EUR 2 million to intangible fixed assets (EUR 3 million in the first nine months of 2015).

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

3 rd quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
8	15	Non-programmable Sources ⁽¹⁾	21	62
8	15	Wind	21	62
3	2	Programmable Sources	8	5
2	2	Thermoelectric	6	5
1	–	Hydroelectric	2	–
–	–	Corporate	1	1
12	17	Total	31	69

(1) the capital expenditure of the Non-programmable Sources in 2015 includes ERG's share of the capital expenditure made by LUKERG Renew



Non-programmable Sources

The capital expenditures of the **third quarter** of 2016 (EUR 8 million) and of the **first nine months** of 2016 (EUR 21 million) refer mainly to the outlays made by ERG Renew following the start of the works for the construction of the aforementioned wind farm in Northern Ireland. In greater detail, the Brockaghboy wind farm will consist of nineteen 2.5 MW Nordex N90 wind turbine generators, totalling 47.5 MW whose construction is expected to be completed, consistently with the timing of the connection to the distribution grid, by the third quarter of 2017.

During the period, certain outlays were also made in connection with the completion of the new wind farms in Poland, for a total power of 40 MW, all directly built by ERG Renew. In particular, the Szydłowo farm, comprising seven 2MW Vestas V100 wind turbine generators, for a total of 14 MW, started operating at the end of December 2015 and the Słupia farm, whose project passed during the year from 12 to 13 wind turbine generators following the extension of the authorisations, equipped with Vesta V90 machines for an overall output of 26 MW, was completed at the end of 2015 and started up in the opening days of 2016.

Progress was also made on the planned Health, Safety and Environment projects.

Programmable Sources

The investments of the **third quarter** of 2016 (EUR 3.0 million) and of the **first nine months** of 2016 (EUR 8.0 million) refer mainly to ERG Power (respectively, EUR 2 million in the third quarter of 2016 and EUR 6 million in the first nine months of 2016), which continued the focused investment initiatives directed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects. The figure also includes the investments made by ERG Hydro (respectively EUR 1 million in the third quarter of 2016 and EUR 2 million in the first nine months of 2016).

TOTALERG

ERG S.p.A. holds a 51% equity investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger by absorption of Total Italia S.p.A in ERG Petroli S.p.A.

The company is positioned as one of the foremost operators in the downstream market.

As indicated in the Introduction, as from the Interim management report at 31 March 2015 the adjusted balances of the Group no longer include the contribution of the joint venture TotalErg since it is no longer considered to be a core activity in the new strategic and industrial set up of the Group.

The equity investment will continue to be consolidated at equity.

Given the significance of the equity investment and in continuity with the information provided in previous financial reports, this section provides highlights of TotalErg's performance during the period.

HIGHLIGHTS OF TOTALERG PERFORMANCE

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

3 rd quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
INCOME STATEMENT DATA				
44	61	EBITDA at replacement cost ⁽¹⁾	97	114
(19)	(22)	Amortisation, depreciation and write-downs	(55)	(63)
26	39	EBIT at replacement cost ⁽¹⁾	42	51
16	24	Net profit (loss) at replacement cost ⁽²⁾	20	21
15	14	Capital expenditures on tangible and intangible fixed assets	42	39
FINANCIAL HIGHLIGHTS				
635	622	Net invested capital	635	622
266	267	Shareholders' equity	266	267
368	355	Total net financial indebtedness	368	355

(1) the figures shown do not include the inventory gains (losses) amounting to approximately EUR +1 million in the third quarter of 2016 (EUR -55 million in the third quarter of 2015) and EUR +18 million in the first nine months of 2016 (EUR -21 million in the first nine months of 2015); in addition, they do not include non-recurring items amounting to approximately EUR -1 million in the third quarter of 2016 (EUR -2 million in the third quarter of 2015) and EUR -2 million in the first nine months of 2016 (EUR -5 million in the first nine months of 2015)

(2) the figures shown do not include the inventory gains (losses) and non-recurring items, commented in note (1), net of the related tax effect

TotalErg operates in the marketing sector via its Italy Network, comprising 2,591 stations (of which 1,664 are owned by the Group and 927 are leased), compared with 2,654 stations at 30 September 2015 and 2,608 at 31 December 2015. At the end of 2012, the network comprised 3,248 stations and the decrease in sale outlets is due to the fuel network restructuring process, which was continued in recent years, which led to the closure of low throughput out-

lets, the modernisation / automation of the owned outlets with higher throughput and the termination of contracts for third party stations with low profitability.

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

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

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

EBITDA at replacement cost in the **third quarter** of 2016 amounted to approximately EUR 44 million, down with respect to the same period of the previous year (EUR 61 million).

With regard to the marketing sector, the results were affected by an unfavourable market scenario, distinguished by demand up slightly with respect to the same period in 2015 but with market margins down as a result of the competitive context, influenced also by rising commodity price trends. These effects have only been partly mitigated by the cost containment and efficiency-boosting actions implemented by the company and by the process for the restructuring of the fuel network.

In the Wholesale segment, the results of the period declined, while they slightly increased in the Specialties segment. With regard to refining and logistics, the results of the third quarter of 2016 were lower than those of the same period of the previous year, mainly because of lower unit contribution margins than those of the third quarter of 2015 (which had benefited from a favourable scenario tied also to the sharp decline in crude oil prices, that also impacted on the lower variable costs of production of the self-produced utilities).

Processing work carried out in the third quarter amounted to 400 thousand tonnes, down from 419 thousand tonnes in the third quarter of 2015.

EBITDA at replacement cost in the **first nine months** of 2016 amounted to approximately EUR 97 million, down with respect to the same period of the previous year (EUR 114 million).

With regard to the marketing sector, the results were affected by a scenario that is distinguished by slightly higher demand with respect to the first nine months of 2015 but with lower market margins due to the competitive environment that is also characterised by a significant and progressive rise in commodity prices with respect to the minimum at the beginning of the year, which further compressed margins. These effects have only been partly mitigated by the cost containment and efficiency-boosting actions implemented by the company and by the process for the restructuring of the fuel network.

In the Wholesale segment, the operating results for the period declined, whereas for Specialties they were approximately in line.

With regard to refining and logistics, the results of the first nine months of 2016 were lower than those of the same period of the previous year because of a contraction in the refining margins and with the EMC indicator that declined from 3.9 \$/barrel to 2.1 \$/barrel, partly by effect of the progressive growth in crude oil prices.

In the first nine months of 2016, 1,203 thousand tonnes were processed, up from 1,195 thousand tonnes of the first nine months of 2015.

Net profit at replacement cost, EUR +16 million compared to EUR +24 million of the **third quarter** of 2015, was affected by the lower EBITDA, only partly offset by the lower depreciation and amortisation and lower financial expenses.

Net profit at replacement cost, EUR +20 million, in line with EUR +21 million of the **first nine months** of 2015 in spite of the lower EBITDA, benefited from lower depreciation and amortisation and lower financial expenses.

TotalErg's net financial position at 30 September 2016 was EUR 368 million, up compared to EUR 294 million at 31 December 2015 and to EUR 246 million at 30 June 2016 but substantially in line with the figure at 30 September 2015, affected by normal time-limited events involving working capital.

TotalErg is financially autonomous for its operations and for recurring development activities due to a five-year loan agreement denominated in Euro with a group of primary Italian and foreign credit institutions. The loan, represented by a term credit line of EUR 200 million and a revolving credit line of EUR 500 million, for a total amount of EUR 700 million, is senior and it is not secured by any collateral or other guarantees provided by the two shareholders.

TotalErg capital expenditures

During the **third quarter** of 2016, TotalErg made investments of approximately EUR 15 million, substantially in line with the same period in 2015 (EUR 14 million).

Most of the capital expenditure (approximately 69%) involved the Network; in addition, a significant portion was destined to Health, Safety and Environment maintenance and improvements.

During the **first nine months** of 2016, TotalErg made capital expenditures of approximately EUR 42 million, slightly higher than in the same period in 2015 (EUR 39 million).

Most of the capital expenditure (approximately 70%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.), and the activities tied to the optimisation and enhancement of the Rome logistics hub. A significant portion was also destined to Health, Safety and Environment maintenance and improvements.



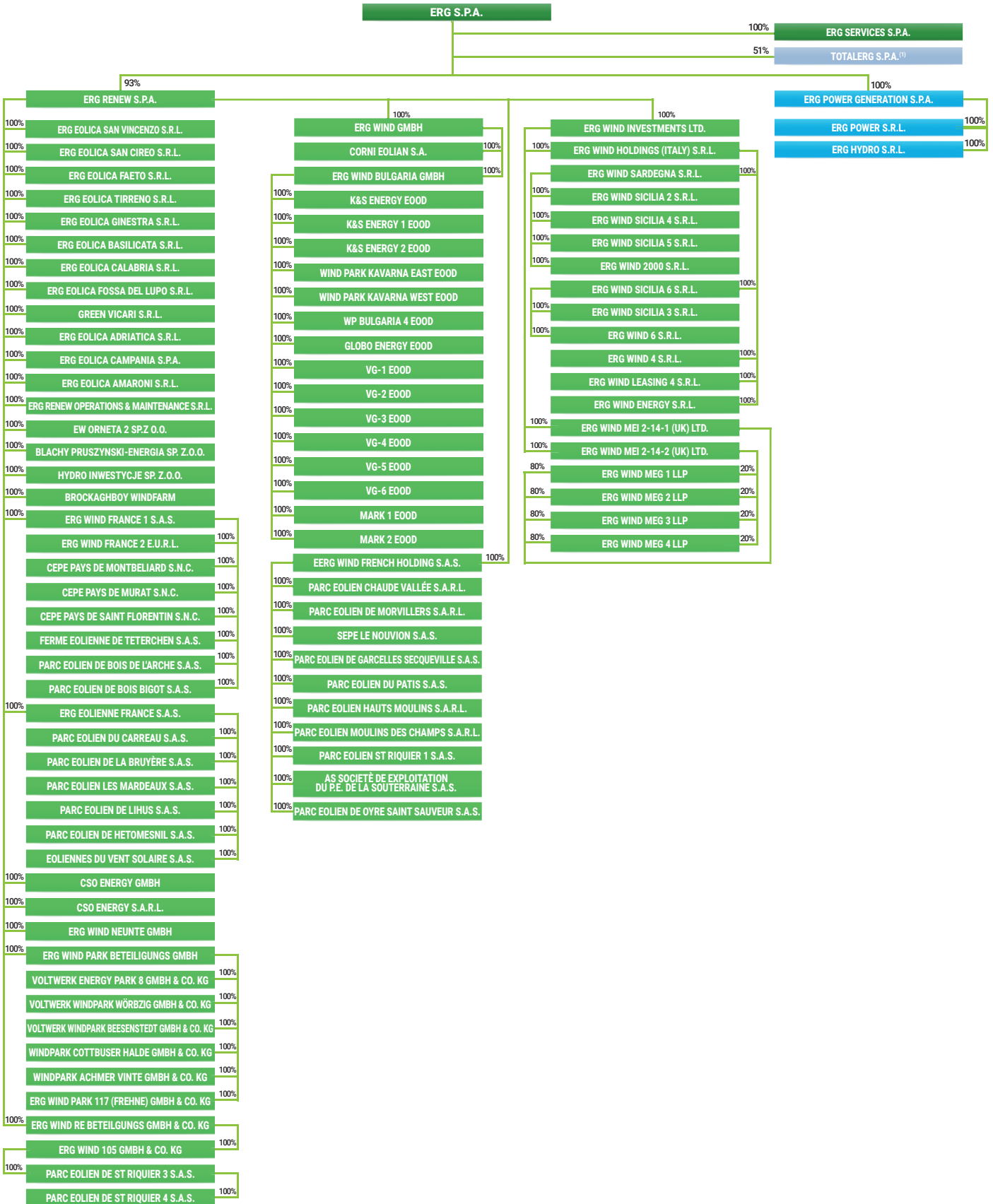
FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 30 September 2016.

Compared with 31 December 2015, the following are noted:

- acquisition from Impax Asset Management Group of thirteen French companies and ten German companies, and two companies, the French CSO Energy Sarl and the German SCO Energy GmbH, which provide technical, operational and commercial assistance to wind operators in France, Germany and Poland;
- acquisition from TCI Renewables ("TCI") of 100% of the share capital of Brockaghboy Windfarm Ltd.



■ NON-PROGRAMMABLE BUSINESS ■ PROGRAMMABLE BUSINESS ■ INTEGRATED DOWNSTREAM BUSINESS

(1) Companies measured with the equity method of accounting

FINANCIAL STATEMENTS

INCOME STATEMENT

The income statement and balance sheet results shown below **include non-recurring items**.

Please see the section "Alternative performance indicators" for the analysis of the results net of these items which more fully represent the operating performance of the Group. Comparison with the 2015 figures is affected by the change in scope, as better commented in the introduction of this Report.

RECLASSIFIED INCOME STATEMENT

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
226.8	210.7	Revenues from ordinary operations	757.0	694.8
3.5	1.1	Other revenues and income	11.6	6.9
230.4	211.8	TOTAL REVENUES	768.7	701.7
(90.7)	(100.7)	Costs for purchases and changes in inventory	(221.7)	(312.4)
(48.6)	(37.7)	Costs for services and other operating costs	(152.7)	(105.7)
(13.5)	(13.2)	Personnel costs	(45.5)	(38.9)
77.6	60.2	EBITDA	348.8	244.6
(64.6)	(39.4)	Amortisation, depreciation and write-downs of fixed assets	(193.2)	(116.8)
13.1	20.8	EBIT	155.6	127.8
(18.0)	(13.1)	Net financial income (expenses)	(64.0)	(40.4)
19.8	(8.8)	Net income (loss) from equity investments	28.1	4.4
14.9	(1.1)	Profit (loss) before taxes	119.6	91.8
4.0	(3.5)	Income taxes	(25.2)	(22.8)
18.9	(4.6)	Profit for the period	94.4	69.0
0.6	0.3	Minority interests	(2.4)	(3.1)
19.5	(4.3)	Group's net profit (loss)	92.0	65.9

Revenues from ordinary operations

Revenues in the **third quarter** of 2016 were EUR 227 million, compared with EUR 211 million in the third quarter of 2015. The change is a result of the following factors:

- revenues **of the wind power sector** were in line with those of the same period of 2015 thanks to the higher output especially as a result of the full contribution of the new wind farms abroad, which offset the lower sale prices. The revenues for 2015 indicated here do not include the contribution of the wind farms in Romania and Bulgaria, consolidated line-by-line from 1 January 2016.
- the decrease in the revenues **of the Thermoelectric sector** mainly as a result of the reduction of the sales prices;
- the contribution **of the hydroelectric sector** acquired in December 2015.

Revenues in the **first nine months** of 2016 were EUR 757 million, compared with EUR 695 million in the first nine months of 2015. The change is a result of the following factors:

- the increase in revenues **of the Wind sector** mainly linked to the changed reference scope thanks to the increase in the installed wind capacity in France, Germany and Poland and to the higher output in Italy. The revenues for 2015 indicated here do not include the contribution of the wind farms in Romania and Bulgaria, consolidated line-by-line from 1 January 2016.
- the decrease in the revenues **of the Thermoelectric sector**, mainly as a result of the reduction of the sale prices;
- the contribution **of the hydroelectric sector** acquired in December 2015.

Other revenues and income

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

Costs for purchases and changes in inventory

Costs for purchases include costs for the purchase of gas, utilities and steam to be used in the ERG Power S.r.l. CCGT plant and costs for electricity intended for resale on the market within the scope of Energy Management activities.

In the **third quarter** of 2016, they amounted to EUR 91 million, down by EUR 10 million relative to the third quarter of 2015 mainly as a result of the lower costs for gas and electricity purchases.

The change in inventories, tied to the spare parts warehouses, was not significant.

In the **first nine months** of 2016 they amounted to EUR 222 million, down by EUR 90 million compared to the first nine months of 2015, mainly as a result of the lower costs for gas and electricity purchases.

The change in inventories, tied to the spare parts warehouses, was not significant.

Costs for services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, for consulting services (ordinary and connected with extraordinary transactions), for 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.

Amortisation, depreciation and write-downs

Amortisation and depreciation refer to wind farms, the plants of the hydroelectric sector and the CCGT plant and were significantly higher than those of the same period of 2015 as a result of the aforesaid change in scope.

Net financial income (expenses)

Net financial expenses in the **third quarter** of 2016 totalled EUR 18 million, compared with EUR 13 million in the third quarter of 2015. The increase was mainly attributable to the higher medium/long-term interest expense and the lower income relating to the liquidity handled as a consequence of the significant additional average indebtedness for the period as a result of the acquisitions made.

In detail, the item includes medium/long term financial expenses of approximately EUR 17 million (EUR 15 million in 2015) as a result of the higher financial debt of the period; medium and long term balances also reflect the effects of the derivative instruments hedging the risk of interest rate fluctuations.

Net financial expenses in the **first nine months** of 2016 totalled EUR 64 million, compared with EUR 40 million in the first nine months of 2015. The increase was mainly attributable to the higher medium/long-term interest expense and the lower income relating to the liquidity handled as a consequence of the significant additional average indebtedness for the period (approximately EUR 1.6 billion) following the acquisitions made when compared with the same period of last year (approximately EUR 300 million) and non-recurring expenses of over EUR 8 million relating to the refinancing of Tranche A of the ERG Hydro acquisition loan and the prepayment of the bank loan taken out by the Romanian company Corni Eolian S.A.

Net of the aforesaid non-recurring expenses, net financial expenses at replacement cost for the first nine months of 2016 amounted to EUR 56 million compared to EUR 45 million in the first nine months of 2015 (included in the same portion of the LUKERG Renew Joint Venture).

In detail, the item includes net short-term financial income of approximately EUR 1 million (EUR 7 million in 2015) deriving mainly from the management of the lower amount of cash available, and medium-long term financial expenses of approximately EUR 56 million (EUR 48 million in 2015); the medium and long term amounts also reflect the effects of the derivatives hedging against the risk of interest rate fluctuations.

Net income (loss) from equity investments

In the **third quarter** of 2016, the item reflects the results of the TotalErg S.p.A. joint venture (EUR +8 million), the income deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A. (EUR +11 million) and the income deriving from the sale of the equity investment in ERG Eolica Lucana (EUR +1 million), while the comparative figure of 2015 includes, in addition to the results of TotalErg S.p.A. (EUR -8 million), also the results of LUKERG Renew GmbH (EUR -1.1 million) measured with the equity method.

At replacement cost, not including the changes in the value of the inventory, the income of TotalErg in the third quarter of 2016 increased compared to the same period of last year (EUR 8 million compared to EUR -8 million in 2015).

In the **first nine months** of 2016, they amounted to EUR +28 million, sharply higher than in the same period of 2015 (EUR +4 million) thanks to the improvement in the operating results of TotalErg S.p.A. (EUR +11 million) and to the previously commented income relating to the option on minorities (EUR +11 million).

Income taxes

In the **third quarter** of 2016, the tax was positive by EUR 4 million (EUR -4 million in the same period of 2015).

The tax rate, obtained from the ratio between taxes and income before taxes, is therefore not indicative, as it was not indicative in the third quarter of 2015.

Income taxes in the **first nine months** of 2016 were EUR 25 million (EUR 23 million in the same period of 2015).

The tax rate, obtained from the ratio between income taxes and income before taxes, amounted to 21% (25% in the first nine months of 2015).

The tax rate at replacement cost of the first nine months, obtained from the ratio between income taxes and income before taxes net of non-recurring items, amounted to 24% (27% in the first nine months of 2015).

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30/09/2015	(EUR million)	30/09/2016	30/06/2016	31/12/2015
2,163.4	Fixed assets	3,409.0	3,454.1	3,223.9
220.1	Net working capital	205.7	313.1	202.1
(3.5)	Employees' severance indemnities	(6.4)	(6.4)	(5.5)
353.6	Other assets	365.6	369.9	324.7
(537.3)	Other liabilities	(685.4)	(697.6)	(621.1)
2,196.1	Net invested capital	3,288.5	3,433.2	3,124.2
1,674.5	Group Shareholders' Equity	1,559.7	1,540.7	1,626.0
50.8	Minority interests	51.8	52.4	50.3
470.9	Net financial indebtedness	1,677.0	1,840.1	1,447.9
2,196.2	Shareholders' equity and financial debt	3,288.5	3,433.2	3,124.2
21%	Financial leverage	51%	54%	46%

At 30 September 2016, net invested capital amounted to approximately EUR 3,289 million, up with respect to 31 December 2015.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 51% (46% at 31 December 2015). The increase in financial leverage also reflects the effects of the acquisition of the French and German wind farms.

Fixed assets

This item includes tangible, intangible and financial fixed assets. The increase compared to 31 December 2015 is mainly attributable to the effect of the acquisition of the French and German wind farms, and to the capital expenditures of the period, partly offset by the amortisation/depreciation for the period.

Net working capital

This balance includes the spare part inventories, the receivables mainly for green certificates on foreign companies, for the sale of electricity with the application of the feed-in premium, for the recovery of costs tied to the Essential Units regulation of ERG Power Generation (Mucchetti Decree), and the trade payables mainly regarding the purchase of electricity and gas, the maintenance of the wind farms and other trade payables.

Other assets

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

Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between the carrying value of recognised

assets and liabilities for financial reporting purposes and their corresponding tax basis (mainly concessions, fixed assets and inventories), the estimate of income taxes owed for the period, and the provisions for liabilities and charges.

Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

30/09/2015	(EUR million)	30/09/2016	30/06/2016	31/12/2015
1,221.2	Medium-long term financial indebtedness	2,044.1	1,994.6	1,987.8
(750.3)	Short term financial indebtedness (cash and cash equivalents)	(367.2)	(154.5)	(540.0)
470.9	Total	1,677.0	1,840.1	1,447.9

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

30/09/2015	(EUR million)	30/09/2016	30/06/2016	31/12/2015
-	Medium/long-term bank borrowings	667.9	667.4	694.6
-	Current portion of mortgages and loans	-	-	-
165.5	Medium/long-term financial payables	171.4	166.5	153.4
165.5	Total	839.3	833.9	848.0
1,201.1	Total Project Financing	1,331.8	1,284.9	1,284.6
(145.4)	Current portion of Project Financing	(127.0)	(124.2)	(144.7)
1,055.7	Medium/long-term Project Financing	1,204.8	1,160.8	1,139.9
1,221.2	TOTAL	2,044.1	1,994.6	1,987.8

The "Medium/long-term bank borrowings" at 30 September 2016 totalled EUR 668 million (EUR 695 million at 31 December 2015), and they referred to:

- a corporate acquisition loan of EUR 350 million, subscribed by seven mandated Italian and foreign lead arrangers and bookrunners directed at the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca Spa (EUR 150 million), UBI Banca Spa (EUR 100 million) and Unicredit Spa (EUR 75 million) entered into in the first half of 2016 to refinance the short term portion of the corporate acquisition loan obtained for the acquisition of ERG Hydro srl and the project loan for the wind farm at Corni (Romania).

"Medium/long-term financial payables" include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 171 million (EUR 153 million at 31 December 2015).

The payables for "medium/long-term Project financing" (EUR 1,332 million at 30 September 2016) relate to:

- loans of EUR 1,197 million issued to companies in the Non-programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 514 million relating to the wind farms of ERG Wind, net of the positive fair value relating to the notional, i.e. approximately EUR 85 million;
- EUR 134 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

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

With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing is measured at fair value. Said fair value was lower than the nominal value, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition. The difference between the positive fair value of the liability and its nominal value is consequently managed through the amortised cost method throughout the duration of the loan.

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

SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30/09/2015	(EUR million)	30/09/2016	30/06/2016	31/12/2015
154.3	Short-term bank borrowings	9.6	93.8	110.0
-	- Current portion of mortgages and loans	-	-	-
9.3	Other short-term financial debts	10.0	5.8	68.7
163.6	Short-term financial liabilities	19.6	99.5	178.7
(863.9)	Cash and cash equivalents	(294.7)	(224.2)	(627.0)
(31.1)	Securities and other short-term financial receivables	(23.1)	(18.0)	(92.9)
(895.0)	Short-term financial assets	(317.8)	(242.2)	(719.8)
145.4	Short-term Project Financing	127.0	124.2	144.7
(164.3)	Cash and cash equivalents	(195.9)	(136.1)	(143.6)
(18.9)	Project Financing	(69.0)	(11.9)	1.1
(750.3)	TOTAL	(367.2)	(154.5)	(540.0)

The decrease in "Other short-term financial debts" is connected to the payment in the period of the percentages of the balances relating to the consideration for the ERG Hydro transaction against a corresponding higher amount of cash and cash equivalents upon acquisition, which took place at the end of 2015.

The amount of the cash and cash equivalents substantially decreased during the first nine months of 2016 as a result of the partial early repayment of the Corporate loan, the purchases during the period and the distribution of dividends to shareholders.

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

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

The change in net financial indebtedness is broken down as follows:

3 rd Quarter		(EUR million)	First 9 months	
2016	2015		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
70.5	43.3	Adjusted cash flow from current operations ⁽¹⁾	302.0	183.3
–	(9.1)	Income taxes paid	(8.7)	(107.9)
107.4	(19.5)	Change in working capital	(2.4)	(30.5)
(3.1)	9.4	Change in other operating assets and liabilities	(32.1)	23.1
174.7	24.0	Total	258.9	68.0
CASH FLOWS FROM INVESTING ACTIVITIES				
(12.3)	(16.9)	Net capital expenditures on tangible and intangible fixed assets	(28.0)	(67.6)
0.9	(1.5)	Net capital expenditures in financial fixed assets	5.4	(1.0)
–	–	Balance of ERG Oil Sicilia sale price	–	(0.5)
(11.4)	(18.4)	Total	(22.6)	(69.0)
CASH FLOW FROM SHAREHOLDERS' EQUITY				
–	–	Distributed dividends	(142.8)	(71.4)
(0.4)	(4.0)	Other changes in equity ⁽³⁾	(16.4)	8.8
(0.4)	(4.0)	Total	(159.2)	(62.6)
0.2	(70.3)	CHANGE IN THE SCOPE OF CONSOLIDATION⁽²⁾	(306.3)	(77.2)
163.2	(68.8)	CHANGE IN NET FINANCIAL INDEBTEDNESS	(229.1)	(140.8)
1,840.1	402.1	INITIAL NET FINANCIAL INDEBTEDNESS	1,447.9	330.1
(163.2)	68.8	CHANGE IN THE PERIOD	229.1	140.8
1,677.0	470.9	FINAL NET FINANCIAL INDEBTEDNESS	1,677.0	470.9

(1) the item does not include inventory gains (losses) and current income taxes for the period.

(2) the change in the scope of consolidation in the first nine months of 2016 refers mainly to the line-by-line consolidation of the companies acquired from Impax Asset Management.

(3) the other changes in shareholders' equity mainly refer to the changes in the cash flow hedge reserve tied to the financial derivatives.

Net financial indebtedness was EUR 1,677 million, up by EUR 229 million compared to 31 December 2015 mainly as a result of the acquisition of the French and German wind farms from the Impax group (EUR 292 million), of the entry into the United Kingdom (EUR 14 million), of the distribution of dividends (EUR 143 million) as well as of the capital expenditures of the period (31 million) and the increase (EUR 18 million) of the negative Fair Value of the IRS derivatives hedging the rates in existing loans. The high operating cash flow of the period significantly offset these effects.

Net financial indebtedness was down by EUR 163 million compared to 30 June 2016 (EUR 1,840 million) mainly because of the operating cash flow for the period, tied to the collections of the incentives relating to the production of the fourth quarter of 2015 and of the first quarter of 2016, in accordance with current regulations.

A detailed analysis of capital expenditures effected is provided in the specific section.

ALTERNATIVE PERFORMANCE INDICATORS

To enhance understandability of business performance, the operating results are also shown at **replacement cost**, excluding non-recurring items.

The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting. Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method adopted by other operators and so these might not be fully comparable.

The components used to determine the calculation of results at adjusted replacement cost are described below.

Non-recurring items include significant but unusual earnings.

Inventory gains (losses)²⁷ are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

The equity investment in the TotalErg joint venture is consolidated using the equity method of accounting.

At the end of 2015, the winding up of the LUKERG Renew GmbH joint venture (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated line-by-line as from 1 January 2016.

In consideration of the commented change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which included ERG's portion of the economic results at replacement cost of the LUKERG Renew GmbH joint venture (50%).

²⁷ Inventory gains and losses refer solely to the "income from equity investment" and referred to the TotalErg joint venture.

Reconciliation with operating results at replacement cost

EBITDA

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
77.6	60.2	EBITDA	348.8	244.6
Exclusion of non-recurring items:				
Corporate				
-	0.6	Ancillary charges on non-recurring transactions	-	1.4
-	-	Ancillary charges on ERG Hydro transactions	-	-
-	-	Ancillary charges on other transactions	-	-
-	-	Write-down of environmental certificates	-	2.6
-	-	Income and expenses related to previous years	-	-
-	1.7	Costs for company reorganisation	-	1.7
Programmable Sources				
-	0.1	Costs for company reorganisation	0.3	1.0
-	-	Ancillary charges on ERG Hydro transactions	-	-
Non-programmable Sources				
-	-	Costs for company reorganisation	0.9	-
-	1.9	Ancillary charges on non-recurring transactions	0.9	2.5
77.6	64.6	EBITDA at replacement cost	350.9	253.8
-	1.8	LUKERG Renew 50% contribution at replacement cost	-	10.2
77.6	66.4	EBITDA at adjusted replacement cost	350.9	264.0

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
(64.6)	(39.4)	Amortisation and depreciation at replacement cost	(193.2)	(116.8)
-	(2.0)	LUKERG Renew 50% contribution at replacement cost	-	(5.9)
(64.6)	(41.3)	Amortisation and depreciation at adjusted replacement cost	(193.2)	(122.7)

EBIT

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
13.0	25.2	EBIT at replacement cost	157.6	137.1
-	(0.1)	LUKERG Renew 50% contribution at replacement cost	-	4.4
13.0	25.1	EBIT at adjusted replacement cost	157.6	141.5



GROUP'S NET PROFIT (LOSS)

3 rd Quarter			First 9 months	
2016	2015	(EUR million)	2016	2015
19.5	(4.3)	Group's net profit (loss)	92.0	65.9
(0.4)	19.1	Exclusion of inventory gains / losses	(6.4)	7.3
		Exclusion of non-recurring items:		
-	-	Exclusion of capital gain from sale of ERG Oil Sicilia	-	0.5
-	-	Exclusion of derecognition of Robin Tax effect on prepaid and deferred taxes	-	(2.9)
-	-	Exclusion of ancillary charges on ERG Hydro acquisition	-	-
-	-	Exclusion of write-down of environmental certificates	-	1.9
(0.0)	2.1	Exclusion of ancillary charges on non-recurring transactions	0.8	2.7
0.5	1.1	Exclusion of TotalErg non-recurring items	0.8	(1.5)
-	-	Exclusion of contributions and other income (expenses) from previous years	-	-
-	(0.4)	Exclusion of ancillary charges on other transactions	-	-
-	-	Exclusion of loan prepayment effect	5.9	-
-	-	Exclusion of tax adjustment effect	-	-
-	1.3	Exclusion of costs for company reorganisation	0.8	2.0
-	-	Exclusion of extraordinary gains - LUKERG joint venture dissolution	-	-
-	-	Exclusion of provision for equity investment risks	-	-
(11.0)	-	Exclusion of financial expenses / income on minorities option	(11.0)	-
8.6	19.0	Group net profit (loss) at replacement cost ⁽¹⁾	82.9	75.8

(1) in 2015 it also corresponds to Group net profit (loss) at adjusted replacement cost

SIGNIFICANT EVENTS AFTER THE QUARTER

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October
2016

ERG S.p.A. executed an agreement with UniCredit, whereby all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital. The ratio at which the exchange was agreed is approximately 0.78 ordinary ERG shares for each ERG Renew share, on the basis of a value of EUR 12.8 attributed to each ordinary ERG share.

The ratio was calculated on the basis of the Fair Value attributed to the ERG shares and to the ERG Renew equity investment, already owned by UniCredit, determined through the Discounted Cash Flow method, also supported by the appraisals carried out by an independent expert.

As a result of the operation, ERG holds 1,503,000 ordinary ERG treasury shares, equal to 1% of its share capital.

On the same day, the Board of Directors of ERG approved the transaction and in particular the disposal of the aforesaid ordinary ERG treasury shares within the scope of the authorisation granted by ERG's Shareholders' Meeting held on 3 May 2016.

Within the transaction, UniCredit assumed a 180-day lock-up commitment with ERG, whereby UniCredit may not sell the ERG shares acquired by effect of the exchange

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October
2016

During the presentation of the CDP Climate Leadership Awards, in Milan, ERG received the Award as Best Newcomer Italy assigned by the Carbon Disclosure Project (CDP), in collaboration with Borsa Italiana, with an entry rating of B (in a scale that ranges from A to D).

This was an important recognition of the actions and of the strategies contrasting climate change adopted by the company, as well as recognition of communication transparency. This result also confirms the continuous effort towards a sustainable development model that couples economic performance with the reduction of CO₂ emissions.

Positioning itself as a green company, leading in the generation of electricity from renewable sources, enables ERG to actively contribute to the progressive decarbonisation of the economy. This commitment is in line with the results of COP 21, stipulated in the Paris Agreement, which sees the development of renewable energies as a fundamental element in contrasting climate changes.

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2016 is as follows:

Non-programmable Sources

ERG Renew continues with its international development strategy, thanks to which already at the beginning of 2016 it achieved 626 MW of installed power abroad, equal to 37% of the 1,720 MW installed in total, enabling the Group to become the eighth onshore wind operator in Europe.

The year 2016 will benefit in particular from the full contribution of the three new wind farms in Poland, whose construction was completed for a total installed capacity of 82 MW, from the acquisition in July 2015 of another six farms in France for a capacity of 63 MW, of the increase in installed capacity by 20 MW in Bulgaria and Romania following the winding up at the end of 2015 of the LUKERG Renew joint venture, and of the acquisition, in early 2016, of eleven wind farms in France (124 MW) and six in Germany (82 MW) with total installed capacity of 206 MW. Lastly, within the scope of the aforesaid transaction, two specialised asset management companies were acquired, which will contribute both to obtain synergies and to develop ERG's presence as an industrial operator in the two countries. Lastly, activities aimed at further growth of the company continue, through the assessment of new investment opportunities, particularly abroad and which in 2016 will see the company involved in the construction of a new plant, of approximately 47.5 MW, in Northern Ireland (UK).

The results of 2016, in terms of EBITDA, are thus expected to grow significantly thanks to the contribution of the new plants, in spite of the impact of significantly declining energy price compared to 2015. This impact, in 2016, will also be affected by the new mechanism for valuing the incentive in Italy, which ties the latter to the final PUN values recorded in the previous year (2015).

Programmable Sources

The ERG Group has finalised a transaction of great strategic importance, which makes it possible to diversify the sources of production entering into the hydroelectric sector with a significant dimension, consistently with the growth strategy in the renewables sector by means of investments in high quality assets.

Thanks to this diversification, the 2016 results of the programmable sources are expected to rise overall when compared with 2015.

- **Hydroelectric:** as a result of the transaction finalised on 30 November 2015, ERG Power Generation acquired the entire hydroelectric business of E.ON Produzione, consisting of a portfolio of plants present in Umbria, Marche and Lazio, with total power of 527 MW; the contribution of the newly established ERG Hydro will allow significantly to in-

crease the operating results and the generation of cash, while the considerable increase of the generation portfolio will allow to improve the results also thanks to the additional Energy Management activity.

- **Thermoelectric:** with regard to the ERG Power plant, results are expected to decrease as a result of the start of operations of the Sorgente-Rizziconi cable, which took place starting on 28 May 2016. However, until that date, the results were satisfactory and in line with 2015. Moreover, the flexibility and efficiency of the CCGT plant of ERG Power, the long-term supply contracts and the actions to hedge the generation margin will allow to maintain a higher level of profitability than the average of the same type of plants in Italy.

Overall in 2016, an EBITDA of approximately EUR 440 million is expected, in line with the indications provided to the Financial Community at the time of Presentation of the 2015-2018 Plan (EUR 350 million in 2015), thanks to the greater contribution compared to the budget, deriving from the performance of the plants, from Energy Management and from control over central costs. These effects will enable to offset the negative impact deriving from electricity prices that were sharply lower than the projections of the Plan.

Risks and uncertainties facing the business outlook

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

Genoa, 9 November 2016

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





STATEMENT BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 154-BIS, PARAGRAPH 2 OF ITALIAN LEGISLATIVE DECREE 58/1998 (ITALIAN CONSOLIDATED FINANCE ACT)

The Manager responsible for preparing the financial reports of ERG S.p.A., Paolo Luigi Merli, declares in accordance with paragraph 2 of Article 154-bis of the Italian Consolidated Finance Act that the accounting information contained in this Interim Report matches the documental evidence, the accounting books and records.

Genoa, 9 November 2016

The Manager Responsible for preparing
the company's financial reports



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