

Bit Market Services

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Diffusione presunta

Oggetto : The BoD approves the consolidated
financial statements and the draft financial
statements as at 31/12/2015

Testo del comunicato

Vedi allegato.



Press Release

The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31 December 2015

Consolidated adjusted¹ EBITDA at replacement cost²: €350 million, €343 million in 2014
Group net result at replacement cost³: €96 million, €60 million in 2014
Proposed dividend per share of €1.0, including an extraordinary component of €0.50

Fourth quarter of 2015⁴

Consolidated adjusted¹ EBITDA at replacement cost²: €86 million, €80 million in 4Q 2014
Group net result at replacement cost³: €20 million, €6 million in 4Q 2014

Genoa, 23 March 2016 – The Board of Directors of ERG S.p.A., which met yesterday, approved the consolidated financial statements and the draft financial statements as at 31 December 2015⁵, the report on corporate governance and ownership and the remuneration report.

Consolidated financial results at replacement cost

| 4th Quarter | | | Performance highlights (million Euro) | Year | | |
|-------------|----------------|--------|---------------------------------------|------|----------------|--------|
| 2015 | 2014 Pro-forma | Var. % | | 2015 | 2014 Pro-forma | Var. % |
| 86 | 80 | +8 % | Adjusted EBITDA | 350 | 343 | +2% |
| 38 | 33 | +16 % | Adjusted EBIT | 179 | 175 | +3% |
| 20 | 6 | +246% | Group net result | 96 | 60 | +60% |

| | 31.12.15 | 31.12.14 Pro-forma | variation |
|---|----------|--------------------|-----------|
| Net financial debt (million Euro) | 1,448 | 330 | +1,118 |
| Leverage ⁶ | 46% | 16% | |
| Adjusted net financial debt ⁷ (million Euro) | 1,448 | 409 | +1,038 |
| Adjusted leverage ⁷ | 46% | 19% | |

Luca Bettonte, ERG's Chief Executive Officer, commented: "2015 was another fundamental year in the Group's industrial transformation, with the achievement of two objectives: technological diversification, thanks to the acquisition of the Terni hydroelectric hub, and further development in overseas wind power, via acquisitions and growth in France, Germany and Poland. EBITDA posted in 2015, at 350 million Euro, was in keeping with the forecasts provided in the Business Plan and exceeded 2014 results, also due to the technological complementarity of the various generation sources and a significant presence in wind power outside of Italy. These factors, together with the reduction in corporate costs, offset the negative effects deriving from the exceptionally poor wind conditions recorded in Italy during the last quarter. For 2016, we confirm the projections contained in the Business Plan, with a strong upward trend in EBITDA to around Euro 440 million. Given the conclusion of an essential phase in the strategic project to reposition the Group's business portfolio, we propose to the Shareholders' Meeting the payment of a dividend of Euro 1.0 per share, including an extraordinary component of Euro 0.50. Considering the acceleration in Plan investments with the construction of our first wind farm in the UK, by the end of the year we expect to see a net financial debt of around 1.73 billion Euro, including the distribution of dividends."

The Board of Directors therefore proposes to the Ordinary Shareholders' Meeting, to be convened on 3 May 2016 in first call, and, if required, on 4 May 2016 in second call, the distribution of a dividend per share of Euro 1.0, including an extraordinary component of Euro 0.50 per share, which will be available for payment starting from 25 May 2016 (payment date), with an ex-dividend date as of 23 May 2016 (ex date) and record date of 24 May 2016.

Preliminary remarks

New reference perimeter

- **Acquisition of French wind farms**

On 27 July 2015 ERG Renew completed the closing for the acquisition from Macquarie European Infrastructure Fund, managed by the Macquarie Group, of a 100% equity interest in four French companies. These companies directly or indirectly own six wind farms in France, for a total installed capacity of 63.4 MW, which entered into operation between 2005 and 2008.

These financial statements reflect the effects of consolidating the new French companies starting from 1 July 2015: the acquisition implied an increase of around 70 million Euro in net invested capital and a corresponding growth in net debt. The contribution to 2015 EBITDA was approximately Euro 4.6 million.

- **Acquisition of E.ON's 527 MW Italian hydroelectric power complex**

On 30 November 2015, through its subsidiary ERG Power Generation, ERG completed the closing for the acquisition of E.ON Produzione's entire hydroelectric business comprising a portfolio of assets located in the Italian regions of Umbria, Marche and Lazio, with an overall capacity of 527 MW. The price of the transaction amounted to approximately Euro 0.95 billion on a debt free and cash free basis. EBITDA for the hydroelectric business over the next few years is estimated at around Euro 110 million per year. The newly-acquired company, which has taken the name of ERG Hydro, was consolidated starting from 1 December 2015. For a better understanding of the financial data, we mention below the main effects of the transaction:

- the increase of about Euro 947.5 million in net financial debt reflecting the acquisition price;
- the assignment of Purchase Price Allocation values to Concessions (approximately Euro 460 million), with an expected maturity of 2029, and Goodwill (Euro 15 million). The valuation of these assets was carried out on a provisional basis using models prepared during the assessment of investment opportunities;
- the contribution to 2015 Group EBITDA amounting to approximately Euro 8 million.

- **LUKERG Renew Split**

The dissolution of joint venture LUKERG Renew GmbH (50% ERG Renew) was completed at the end of 2015 with assignment to ERG Renew of the Bulgarian wind farms and the Gebeleisis wind farm in Romania, whose financial positions were therefore fully consolidated starting from 31 December 2015. As the closing took place on 23 December 2015, the 2015 income statement still reflects the full contribution from the joint venture's economic results.

- **Organic development in Poland**

During the course of 2015 ERG Renew was engaged in the construction of three wind farms in Poland, whose overall installed capacity at the end of 2015 amounted to 82MW. More specifically, the first 42MW wind farm (Orneta) came on stream in July 2015 with a contribution of Euro 4 million in terms of EBITDA, while the remaining 40MW came on stream at the end of 2015 and will therefore contribute to the Group's economic results starting from 2016.

Moreover, it should be mentioned that wind power capacity installed at the end of 2015 totalled 2,513 MW compared to 2,720 MW envisaged in the 2015 – 2018 Business Plan presented in December 2015. The difference is due to the acquisition from Impax Asset Management of wind assets in France and Germany, initially scheduled to take place at year-end, which was instead completed on 2 February 2016. Consolidation of the assets will, therefore, take effect from 1

January 2016. For this reason, the debt at the end of 2015 is significantly below the Plan forecasts for 2015.

New name assigned to Energy Management business areas and activities

The Group has opted for a unitary management of its electricity portfolio, subdivided between:

- wind power generation, which is non scalable and is therefore defined as **Non Programmable**, coming under ERG Renew,
- thermoelectric and hydroelectric power generation, which are scalable by nature and are therefore defined as **Programmable**, coming under ERG Power Generation.

Energy Management, within ERG Power Generation, will manage the entire portfolio of electricity generated by the Group's plants, also using market trading in order to optimise the production profile.

Fourth quarter 2015

Consolidated financial results

In the fourth quarter of 2015 **adjusted revenues** came to Euro 231 million, which was generally in line with the pro-forma figure of Euro 233 million for the fourth quarter of 2014.

Adjusted EBITDA at replacement cost during the period was Euro 86 million, with an increase compared to pro-forma Euro 80 million for the fourth quarter of 2014. The variation reflects the following factors:

- **Non Programmable sources (wind power):** EBITDA, at Euro 52 million, showed a fall-off compared to Euro 66 million posted during the corresponding period of 2014 due to a downturn in the Italian wind farms' results owing to the significantly inferior wind conditions during the period, particularly in the months of November and December where all-time lows were recorded. The result was partly offset by the improved result of the overseas wind farms, mainly thanks to the contribution from the new wind farms in France and Poland;
- **Programmable sources (thermoelectric and hydroelectric power):** EBITDA, at Euro 37 million, showed a notable improvement compared to the fourth quarter a year earlier (Euro 19 million) following the results provided by the new hydroelectric business in December and the improved thermoelectric power results, due above all to the different and more favourable trend in the price of gas with respect to the Single National Price, enabling an increase in the unitary margins, despite the less profitable local market price scenario.

Adjusted consolidated EBIT at replacement cost was Euro 38 million, with an increase over Euro 33 million in the fourth quarter of 2014, after amortisation and depreciation totalling Euro 48 million (pro-forma Euro 47 million in the corresponding period of 2014).

The **Group net result at replacement cost** came to Euro 20 million, with a net growth compared to the pro-forma figure of Euro 6 million for the fourth quarter of 2014, due to the improvement in results as commented above, which further benefited from a reduction in tax rate also following the declared unconstitutionality of the additional Robin Tax; this 6.5% surcharge ceased to be applied starting from 1 January 2015.

FY2015

Consolidated financial results

FY2015 **adjusted revenues** came to Euro 944 million, with a downturn compared to the 2014 pro-forma figure of Euro 1,021 million, mainly as a result of the lower average selling prices for the Programmables sector (thermoelectric) in Sicily.

Adjusted EBITDA at replacement cost came to Euro 350 million, with an improvement over the 2014 pro-forma figure of Euro 343 million. The variation reflects the following factors:

- **Non Programmable sources (wind power):** EBITDA, at Euro 254 million, showed a downturn on the corresponding period a year earlier (Euro 267 million) for the same reasons explained with regard to the fourth quarter.
- **Programmable sources (thermoelectric and hydroelectric power):** EBITDA, at Euro 115 million, showed an increase compared to 2014 (Euro 100 million), following the different and more favourable trend in the price of gas with respect to the Single National Price, enabling an increase in the unitary margins, despite the less profitable local market price scenario. This improved result was also achieved thanks to the high efficiency of the plants and recovery of costs in accordance with the current regulations for Essential Power Plants as well as to the contribution from Energy Management activities and the results provided in December by the new hydroelectric business.

Adjusted EBIT at replacement cost came to Euro 179 million (pro-forma Euro 175 million in 2014) after amortisation and depreciation totalling Euro 171 million (pro-forma Euro 168 million in 2014).

The **Group net result at replacement cost** amounted to Euro 96 million, compared to the 2014 pro-forma figure of Euro 60 million. The upturn in the result significantly reflected the improved performance of the joint venture TotalErg as regards all business channels. The results further benefited from a reduction in tax rate also following the declared unconstitutionality of the additional Robin Tax; this 6.5% surcharge ceased to be applied starting from 1 January 2015.

Net financial debt, at Euro 1,448 million, showed an increase of Euro 1,038 million compared to the adjusted figure as at 31 December 2014 (including therefore the amount pertaining to LUKERG Renew) mainly following the acquisition of the hydroelectric assets and the French wind farms. Operating cash flow exceeded the flows relating to the investments associated with the development of wind farms in Poland, the payment of taxes and the distribution of dividends.

Adjusted investments *

| 4th Quarter | | Million Euro | Year | |
|-------------|----------------|-----------------------------------|------|----------------|
| 2015 | 2014 pro-forma | | 2015 | 2014 pro-forma |
| 33 | 9 | Non Programmable sources** | 95 | 38 |
| 33 | 9 | Wind power | 95 | 38 |
| 3 | 4 | Programmable sources | 9 | 13 |
| 3 | 4 | Thermoelectric power | 9 | 13 |
| - | - | Hydroelectric power | - | - |
| 1 | 1 | Corporate | 2 | 3 |
| 37 | 13 | TOTAL INVESTMENTS | 106 | 53 |

*excluding M&A investments amounting to Euro 1.1 million in 2015.

**Non Programmable adjusted investments include ERG's share of investments made by LUKERG Renew.

In 2015, adjusted investments carried out by the ERG Group totalled Euro 106 million (pro-forma Euro 53 million in 2014) of which Euro 101 million concerned tangible fixed assets (pro-forma Euro 45 million in 2014) and Euro 5 million concerned intangible fixed assets (pro-forma Euro 10 million in 2014). Overall, in the **fourth quarter of the same year**, adjusted investments carried out by the Group amounted to Euro 37 million (pro-forma Euro 13 million in the corresponding period of 2014).

Non Programmable Sources

Investments in 2015 mainly referred to the new wind farms in Poland (total capacity of 82MW), all constructed directly by ERG Renew. The contribution of these wind farms in terms of output and economic results, as regards 42MW, became effective from July 2015 and, as regards the remaining 40MW, will take effect from 2016. More specifically, the Radziejov wind farm, comprising 21 Vestas V90 2MW wind turbines, for a total installed capacity of 42MW, came on stream half-way through 2015; the Szydlowo wind farm, comprising seven Vestas V100 2MW wind turbines, for a total of 14MW, came on stream at the end of December 2015; and the Slupia wind farm, for which the project was increased during the year from 12 to 13 wind turbines following the extension of authorisations, equipped with Vestas V90 machines to give a total capacity of 26 MW, was completed at the end of 2015 and started up during the first few days of 2016. Moreover, scheduled interventions continued in the area of Health, Safety and the Environment. It should be noted that these figures do not include the major investment carried out in France via the acquisition - in July 2015 - of wind farms already in operation for a capacity of 63.4 MW, with assets worth around Euro 70 million, shown as a change in the scope of consolidation, or the value of the investment carried out in December 2015 in Bulgaria and Romania to obtain full ownership of wind farms with a total capacity of 124MW (+20MW with respect to the share previously held, amounting to 104MW) corresponding to Euro 27 million.

Programmable Sources

Investments in 2015 mainly concerned ERG Power (Euro 9 million), which continued its investment activities aimed at maintaining the plants' operational efficiency, flexibility and reliability. Moreover, the scheduled interventions continued in the area of Health, Safety and Environment. It should be noted that these figures do not include the major acquisition of hydroelectric assets amounting to Euro 0.95 billion.

Operational data

Electricity sales by the ERG Group, carried out in Italy through ERG Power Generation's Energy Management, refer to the electricity generated by its wind farms (ERG Renew), thermoelectric plants (ERG Power) and, starting from December 2015, hydroelectric plants (ERG Hydro), and to purchases on organised markets and via physical bilateral contracts. **During 2015, total electricity sales** came to 10.1 TWh (8.8 TWh in 2014, considering the same perimeter), against a total of 5.3 TWh produced by the Group's facilities, of which around 0.7 TWh abroad and 4.6 TWh in Italy, corresponding to approximately 1.7% of overall domestic demand (1.7% also in 2014, considering the same perimeter). **During the fourth quarter of 2015, total electricity sales** came to 2.7 TWh (2.3 TWh in the corresponding period of 2014, considering the same perimeter), against a total of 1.4 TWh produced by the Group's facilities, of which about 0.2 TWh abroad and 1.1 TWh in Italy, corresponding to approximately 1.8% of overall domestic demand (1.7% in the corresponding period of 2014, considering the same perimeter).

In 2015, **electricity generated by Non Programmable Sources (wind power)** amounted to 2,614 GWh, showing a growth compared to 2014 (2,580 GWh), with output down by around 7% in Italy (from 2,051 GWh to 1,910 GWh) and up by 33% abroad (from 529 GWh to 705 GWh). The falloff in Italian output (-141 GWh) was due to the generally poorer wind conditions with respect to those of 2014, particularly as regards the regions of Sicily, Campania and Puglia where ERG Renew has around 60% of its installed capacity. Outside of Italy, the increase of 175 GWh was ascribable to both the new wind farms in France and Poland and the general growth in output as regards all countries. **In the fourth quarter of 2015** electricity output amounted to 604 GWh, showing an overall slight falloff compared to 2014 (632 GWh), with output down by around 24% in

Italy (from 481 GWh to 368 GWh) and up by 56% abroad (from 151 GWh to 236 GWh). The falloff in Italian output (-113 GWh) reflected the generally poorer wind conditions compared to those of 2014, particularly as regards the regions of Sicily, Campania and Puglia where ERG Renew has around 60% of its installed capacity. Outside of Italy, the increase of 85 GWh was ascribable to the contribution from the new wind farms in France and Poland.

During 2015 net electricity output from Programmable Sources (thermoelectric and hydroelectric) amounted to 2,716 GWh, showing a growth compared to 2014 (2,622 GWh), thanks to the contribution, as of December 2015, from **ERG Hydro's** hydroelectric assets (84 GWh) and to the basic stability of **ERG Power's** net electricity output (over 2,600 TWh in both 2015 and 2014). In the **fourth quarter of 2015** net electricity output was 781 GWh, showing an increase, for the same reasons explained above, compared to 700 GWh for the corresponding period in 2014.

Main events in 2015

WIND POWER - OVERSEAS

On **23 January** ERG Renew signed an agreement with PAI (PAI Polish Alternative Investments RES) group to purchase a 100% equity interest in Hydro Inwestycje, a Polish company duly authorised to construct a wind farm in Poland, in the municipalities of Szydłowo and Stupsk, with a planned capacity of 14 MW and electricity production, when fully operational, estimated at over 36 GWh per year, corresponding to 2,600 equivalent hours and approximately 30 kt in avoided CO₂ emissions. The closing took place on 19 February 2015. ERG Renew completed construction works during the fourth quarter of 2015 and the wind farm came on stream at the end of December 2015.

On **12 March** ERG Renew acquired from PAI (PAI Polish Alternative Investments RES) group a 100% equity interest in a Polish SPV duly authorised to implement a wind farm project in Poland, in the municipality of Slupia, with a planned capacity of 26 MW and electricity output, when fully operational, estimated at more than 62 GWh per year, corresponding to 2,600 equivalent hours and approximately 52 kt in avoided CO₂ emissions. ERG Renew completed construction work at the end of 2015 and the wind farm came on stream during the first few days of 2016.

On **17 June** ERG Renew signed an agreement for the acquisition from the Macquarie European Infrastructure Fund, managed by the Macquarie group, of a 100% equity interest in four French companies. These companies directly or indirectly own six wind farms in France with a total installed capacity of 63.4 MW, which entered into operation between 2005 and 2008. The wind farms' annual average output is estimated at around 150 GWh, corresponding to more than 2,300 equivalent hours. The value of the acquisition, in terms of enterprise value, is approximately 72 million Euro. The closing took place on **27 July 2015**.

On **25 June** the two shareholders of LUKERG Renew, a 50-50 joint venture between ERG Renew and LUKOIL, created in 2011 with a view to investing in the wind sector in Bulgaria and Romania, mutually agreed to dissolve the joint venture, with consequent sharing of the assets pertaining to the same, following three years of strong growth. According to the agreement, ERG Renew will be assigned the Tcherga (40 MW) and Hrabrovo (14 MW) wind farms in Bulgaria and the Gebeleisis wind farm in Romania (70 MW), for a total capacity of 124 MW, while LUKOIL will retain ownership of just the Topolog (84 MW) wind farm. This enabled ERG Renew to increase its overall installed capacity by 20 MW, with respect to the share held through the joint venture (104 MW). The transaction's enterprise value amounts to approximately 27 million Euro, mainly represented by non-recourse project financing. The closing took place on **23 December 2015**.

The Radziejov wind farm in Poland came on stream during the month of **July**, with a capacity of 42 MW and electricity output, when fully operational, estimated at over 100 GWh per year, corresponding to around 2,400 equivalent hours.

On **15 October** ERG Renew signed an agreement for the acquisition from Impax Asset Management Group of eleven wind farms in France, with an installed capacity of 124 MW, and six in Germany, with an installed capacity of 82 MW, for an overall capacity of 206 MW. The transaction also includes two companies, CSO Energy Sarl and CSO Energy GmbH, which provide operational and commercial technical assistance to "captive" and third-party wind power operators in France, Germany and Poland, covering an overall 800 MW. The wind farms, which came on stream between 2009 and 2014 in France and between 2004 and 2014 in Germany, have an expected average annual output of around 410 GWh. The closing took place on **2 February 2016**.

On **4 November** a project financing agreement was signed by the company EW Orneto 2 (100% ERG Renew), owner of the wind farm located in the Polish municipality of Radziejow. The plant came on stream at the beginning of the third quarter 2015, with an installed capacity of 42 MW. The loan, for the total amount of 177.5 million Zloty (approximately 42 million Euro), has a duration of 14 years and has been underwritten by Mandated Lead Arrangers ING Bank, ING Bank Slaski and Bank Pekao (part of the UniCredit Group). ING Bank Slaski also acts as Agent Bank and Bank Pekao as Account Bank.

HYDROELECTRIC POWER

On **6 August**, through its subsidiary ERG Power Generation, ERG reached an agreement with E.ON Italia for the acquisition of E.ON Produzione's entire hydroelectric business comprising a portfolio of assets located in the Italian regions of Umbria, Marche and Lazio, with an overall capacity of 527 MW. The price of the transaction at closing amounted to approximately Euro 0.95 billion on a debt free and cash free basis. On **5 October 2015** the Italian Antitrust Authority published its authorisation provision giving the green light for ERG's acquisition of the Terni hydroelectric hub owned by E.On. The closing took place on 30 November 2015. Through this acquisition, more than 100 new people will join the ERG Group, including technicians specialised in plant operations management, energy management specialists and support staff. The acquisition by ERG Power Generation was financed by ERG through partial utilisation of liquid funds available and via recourse to a corporate acquisition loan of 700 million Euro signed with a pool of seven Italian and international mandated lead arrangers and bookrunners (Barclays Bank Plc, BNP Paribas S.A., Credit Agricole Corporate and Investment Bank S.A., ING Bank N.V., Banca IMI-Intesa Sanpaolo S.p.A., Natixis S.A. and UniCredit S.p.A.).

CORPORATE

On **24 April** the ERG S.p.A. Ordinary Shareholders' Meeting appointed, for the three-year period 2015-2017, the new Board of Directors, comprising 12 members, in the persons of Edoardo Garrone, Alessandro Garrone, Giovanni Mondini, Luca Bettonte, Massimo Belcredi, Mara Anna Rita Caverni, Alessandro Chieffi (drawn from the list presented by some Institutional Investors), Barbara Cominelli, Marco Costaguta, Luigi Ferraris, Paolo Francesco Lanzoni, Silvia Merlo and confirmed Edoardo Garrone as Chairman of the Company. ERG's Board of Directors, having met on conclusion of the Shareholders' Meeting, confirmed the powers assigned to the Chairman, confirmed Alessandro Garrone as executive Deputy Chairman, appointing the same as Director responsible for overseeing the internal control and risk management system, and also confirmed Giovanni Mondini as Deputy Chairman and Luca Bettonte as Chief Executive Officer.

The Shareholders' Meeting resolved to pay a dividend of Euro 0.50 per share, which was made available for payment starting from 20 May 2015 (payment date), with an ex-dividend date as of 18 May 2015 (ex date) and record date of 19 May 2015.

On the same date the Board of Directors, pursuant to Article 2505, paragraph 2 of the Italian Civil Code, approved the plan for merger by incorporation of ERG Supply & Trading S.p.A. into ERG S.p.A.

On **29 June 2015** ERG signed the deed of merger by incorporation of ERG Supply & Trading into

ERG, as filed on the same date with the Genoa Companies' Register. The real effects of the merger commenced from 1 July 2015; the effects of the merger for accounting and tax purposes commenced from 1 January 2015.

On **14 October 2015** the Board of Directors, pursuant to Article 2505, paragraph 2 of the Italian Civil Code, approved the plan for merger by incorporation of ISAB Energy into ERG.

On **15 December** ERG's Board of Directors approved the 2015-2018 Business Plan. On **16 December** the Plan was presented to the Financial Community.

On **17 December** ERG signed the deed of merger by incorporation of ISAB Energy into ERG, as filed on the same date with the Genoa Companies' Register. The real effects of the merger commenced from 18 December; the effects of the merger for accounting and tax purposes commenced from 1 January 2015.

TOTALERG

On **3 November** the ERG and TOTAL joint venture TotalErg signed a five year Euro loan agreement with a pool of leading Italian and foreign banks. The loan, comprising a Euro 200 million term credit facility and a Euro 500 million revolving credit facility, for the total amount of Euro 700 million, is senior and unsecured and without any recourse to the two shareholders. By way of this transaction, in view of its reduced financial requirements, TotalErg replaces the previous credit facility for the total amount of 900 million Euro, while the confidence of the financial market in the company's growth prospects is confirmed.

TotalErg Audit

With regard to the investigations into the alleged fiscal irregularities concerning TotalErg (51% ERG and 49% Total joint venture, created through the merger between Total Italia and ERG Petroli on 1 October 2010), we report that on **26 June 2015** ERG, as tax consolidator, and TotalErg (formerly ERG Petroli), as consolidated company, were served with a notice of assessment for *IRES* (corporate tax) purposes in respect of FY2007. For the same year, TotalErg was served directly with a notice of assessment for *IRAP* (regional production tax) and VAT purposes. Insofar as concerns the specific assessment concerning the alleged non-deductibility of purchase and services costs for FY2007 made in the report of findings dated 6 August 2014, amounting to approximately 68 million Euro, the notice of assessment notably reduces this figure to 125 thousand Euro. On 6 July 2015 the investee company TotalErg, as incorporating entity of Total Italia, again for the aforesaid motivations, was served with notices of assessment for *IRES*, *IRAP* and VAT purposes for the years 2007, 2008 and 2009. As regards the specific assessments made in the related Report of Findings again served on 6 August 2014 with respect to TotalErg, amounting to non-deductible costs of around 2,864 million Euro, also in this case the figure is significantly reduced to around 6 million Euro. ERG and the investee company TotalErg, considering that they have always operated in full observance of prevailing laws and regulations, have challenged the aforesaid notices of assessment, submitting tax appeals within the deadlines legally provided in order to obtain cancellation thereof. Insofar as concerns the matters described above, it should be mentioned that the joint venture agreement with Total provides for an adequate mutual system of guarantees. In view of the foregoing, no liabilities have been recognised in this connection.

At the date of publishing this document no notice of assessment has been issued with regard to the Company for FY2010. For the year in question, again in the aforesaid Report of Findings dated 6 August 2014, charges were notified that were similar in nature and content to those referred to above, which are mainly ascribable to the period prior to the creation of the joint venture and concern operations put in place primarily by Total Italia.

Significant events after the year-end

On **2 February 2016** ERG Renew finalised the agreement for the acquisition from a fund managed

by Impax Asset Management Group of eleven wind farms in France, with an installed capacity of 124 MW, and of six wind farms in Germany, with an installed capacity of 82 MW, representing an overall capacity of 206 MW. The wind farms, which came on stream between 2009 and 2014 in France and between 2004 and 2014 in Germany, have an expected average annual output of around 410 GWh. The transaction also includes two companies, one French and one German, which provide operational and commercial technical assistance, via a team of twenty-eight professionals, to "captive" and third-party wind power operators in France, Germany and Poland, covering an overall 800 MW (of which, 206 MW concerned with the acquisition and another 83 MW owned by ERG Renew in Germany). The transaction's enterprise value amounts to around 297 million Euro. The wind farms are already entirely funded through limited recourse project financing. EBITDA, in 2016, is forecast at around Euro 30 million.

On **29 February 2016** ERG Renew acquired from TCI Renewables ("TCI") a 100% equity interest in Brockaghboy Windfarm Ltd ("BWF"), an English company holding authorisations to build a wind farm in Northern Ireland, in the county of Londonderry, with a scheduled capacity of approximately 45 MW and electricity output, when fully operational, estimated at around 150 GWh per year, corresponding to about 3,300 equivalent hours and about 71 kt of avoided CO₂ emission. ERG Renew expects to commence construction of the wind farm during the second quarter of 2016 and to complete construction at the end of the first quarter of 2017. The overall investment for implementation of the wind farm is estimated at around 60 million Pounds (approximately 80 million Euro), which already includes the initial consideration paid to acquire the company. The project meets the conditions for accrediting under the current incentive mechanisms (NIRO) set forth in the draft bill being discussed by the UK parliament. This transaction allows ERG Renew to enter the UK wind power market as set forth in Erg's 2015-2018 Business Plan, via an innovative and flexible contractual structure, that offers the possibility to enhance the industrial skills developed by ERG Renew and optimise value creation.

Business outlook

Non Programmable Sources (wind power)

ERG Renew continues to pursue its international growth strategy, which already at the beginning of 2016 has led it to achieve an installed capacity of 0.6 GW outside of Italy, corresponding to 37% of the overall 1.7 GW installed, allowing the Group to position itself as ninth onshore operator in France and eighth at European level. The year 2016 will particularly benefit from the full contribution of the three new wind farms, construction of which has been completed in Poland with an overall installed capacity of 82 MW, as well as the acquisition of another six wind farms in France with installed capacity of 63 MW and the 20 MW increase in installed capacity in Bulgaria and Romania (following the dissolution at the end of 2015 of the LUKERG Renew joint venture and the consequent planned sharing of assets between the two shareholders ERG and LUKOIL). We should also mention the eleven wind farms acquired in France (124 MW) and six in Germany (82 MW) at the beginning of 2016, with a total installed capacity of 206 MW, as well as the acquisition of two companies specialised in asset management activities which will contribute towards both achieving synergies and expanding ERG's presence as industrial operator in the two countries. These assets will be consolidated starting from 1 January 2016. Lastly, activities are continuing to promote the company's growth, by evaluating new investment opportunities, particularly abroad.

The results for 2016, despite the significant downturn in energy prices compared to 2015, are expected to show a growth also due to the full contribution from the new wind farms constructed or acquired outside of Italy.

Programmable Sources (thermoelectric and hydroelectric power)

The ERG Group has completed an operation of enormous strategic importance for the Group, enabling it to diversify production sources by entering the hydroelectric sector with notable dimensions, consistent with its renewables growth strategy, through investments in high quality assets. Owing to this diversification, the 2016 results for programmable sources are expected to show an upturn with respect to 2015. The results respectively forecast are commented below:

- **Hydroelectric power:** following the transaction completed on 30 November 2015, ERG Power Generation acquired E.On Produzione's entire hydroelectric business, comprising a portfolio of facilities located in the regions of Umbria, Marche and Lazio, with an overall capacity of 527 MW; the contribution from the newly created ERG Hydro will allow a significant increase in economic results and cash generating capacity, while the notable expansion of the production portfolio will enable an improvement in results thanks also to the Energy Management business.
- **Thermoelectric power:** insofar as concerns the ERG Power plant, results are expected to show a downturn once the Sorgente-Rizziconi transmission line comes into operation, currently anticipated by Terna on or before 30 June 2016. However, until such date, results are expected to be satisfactory and consistent with 2015. Moreover, the flexibility and efficiency of ERG Power's CCGT plant, the long-term supply contracts and the generation margin hedging interventions will allow profitability to be maintained above the average recorded for this type of facility in Italy.

On the whole, 2016 EBITDA is expected to be around Euro 440 million, in keeping with the indications given to the financial community during the presentation of the 2015-2018 Business Plan (Euro 350 million in 2015).

Additional information

Appointment of the new Board of Statutory Auditors

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution regarding the appointment of members to the Board of Statutory Auditors and the Chairman and the fixing of their retribution on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Directors' fees

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution with regard to the fee to be allocated to each member of the Board of Directors, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2016, as well as the additional fee to be allocated to the Directors, other than Group employees, who do not hold offices within the Board and who are members of ERG's Control and Risk Committee and Nominations and Remuneration Committee, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2016, on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Purchase and sale of treasury shares

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to resolve on the authorisation of the Board of Directors for the purchase of treasury shares up to a revolving limit of 30,064,000 ordinary shares, corresponding to 20% of ERG's share capital (intending thereby the maximum quantity of treasury shares from time to time held in portfolio), in order to optimise the equity structure with a view to maximising value creation for shareholders, also in relation to the significant liquidity available. The authorisation will be valid for a period of twelve months with effect from the date of the resolution. The purchase must be conducted through the use of distributable profits and available reserves resulting from the last approved financial statements, in compliance with Article 132 of the Consolidated Finance Act and according to the procedures laid down in Article 144-bis, paragraph 1, letter b), of the Issuers' Regulations, at a unitary price, including additional purchase charges, to be no more than 30% lower in minimum and no more than 10% higher in maximum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual transaction. The Company holds 7,516,000 treasury shares, corresponding to 5% of share capital, with an average book value of Euro 6.9 per share. The Ordinary Shareholders' Meeting will be also called upon to resolve on the

authorisation of the Board of Directors for the sale of treasury shares, in one or more stages, for a period of twelve months starting from the date when the related resolution is adopted, in accordance with article 2357-ter of the Italian Civil Code, at a unitary price no more than 10% lower in minimum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual sale and in any case not below the unitary value per share included in the Company's shareholders' equity as from time to time appearing in the last approved financial statements. This is intended to optimise financial leverage and however in all other circumstances where the possibility to dispose of the shares appears, in the opinion of the administrative body, to be in keeping with the interests of the Company and the Shareholders.

Remuneration Report

The Ordinary Shareholders' Meeting will be required, *inter alia*, to pass resolution pursuant to Article 123-ter of the Consolidated Finance Act regarding the Remuneration Report, as approved by the Board of Directors in their meeting on 22 March last.

Amendment to the Articles of Association

Lastly, the Extraordinary Shareholders' Meeting will be called upon to pass resolution regarding the amendment to the Articles of Association proposed by the Board of Directors, as described in the Directors' Explanatory Report.

In reference to the estimates and forecasts contained in this press release, we point out that actual results may differ even significantly from the announced results due to a multitude of factors, including: future trends in prices, the operating performance of plants, the impact of regulations for the oil and energy industry and for the environment, other changes in business conditions and in the action of the competition.

The layout of the accounting statements corresponds to the format used in the Report on Operations. Appropriate explanatory notes illustrate the results at replacement cost and adjusted results at replacement cost.

Pursuant to Article 154-bis(2) of the Consolidated Finance Act, the manager responsible for preparing the company's financial reports, Paolo Luigi Merli, declares that the accounting information contained in this press release corresponds to the accounting documents, books and records.

The results for the fourth quarter and FY2015 will be illustrated to analysts and investors today at 11.30 a.m. (CET), during a conference call and simultaneous webcast, which may be viewed by visiting the Company's website (www.erg.eu); the presentation will be available on the said website, in the "Investor Relations/Presentations" section, at the offices of Borsa Italiana S.p.A. and on the Nis-Storage authorised storage mechanism (www.emarketstorage.com) 15 minutes before the conference call.

This press release, issued at 7.45 a.m. (CET) on 23 March 2016, has been prepared pursuant to the Issuers' Regulations. It is available to the public at the offices of Borsa Italiana S.p.A., on the Nis-Storage authorised storage mechanism (www.emarketstorage.com) and on the Company's website (www.erg.eu) in the section "Media/Press Releases".

The annual Financial Report, together with the reports of the Board of Statutory Auditors and of the Independent Auditors, and the Directors' Explanatory Report, as well as the additional documents prescribed, will be made available to the public within the deadlines and according to the procedures laid down in the current regulations at the Company's registered office at Via De Marini 1, Genoa, and on the Company website (www.erg.eu) in the section "Corporate Governance/2016 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the "Nis-Storage" authorised storage mechanism (www.emarketstorage.com).

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- ¹ Adjusted results at replacement cost also include the contribution, as regards ERG's share, of the results of LUKERG Renew. For the definition and reconciliation of the adjusted results at replacement cost, reference should be made to the content of the chapter "Alternative performance indicators" attached to this press release.
- ² Results at replacement cost **do not** include inventory gains (losses) and non-recurring items.
- ³ Group net result at replacement cost **does not** include inventory gains (losses), non-recurring items or applicable theoretical taxes and corresponds to the adjusted Group net result at replacement cost.
- ⁴ The figures for the fourth quarter are reported on a pro-forma basis and for the purpose of completeness and continuity of information.
- ⁵ The Consolidated Financial Statements as at 31 December 2015 were prepared in accordance with the valuation and measurement criteria laid down by the International Financial Reporting Standards (IFRS) and based on the relevant regulatory guidelines. The Financial Statements were audited according to the procedures set forth by CONSOB regulations. The documents of the Financial Statements, together with the reports prepared by the supervisory bodies, will be made public within the time limits required by current regulations.
- ⁶ The ratio of total net financial debt (including project financing) and net invested capital.
- ⁷ In 2014 this included, at adjusted level only, ERG's share of the net financial position pertaining to the LUKERG Renew joint venture.

Performance highlights

| 4th quarter | | (EUR million) | Year | |
|-----------------------------------|------------------|---|--------|------------------|
| 2015 | 2014 proforma | | 2015 | 2014 proforma |
| Main Income Statement data | | | | |
| 231 | 233 | Total adjusted revenues ⁽²⁾ | 944 | 1,021 |
| 84 | 76 | EBITDA at replacement cost ⁽¹⁾ | 338 | 329 |
| 86 | 80 | EBITDA at adjusted replacement cost ⁽²⁾ | 350 | 343 |
| 38 | 30 | EBIT at replacement cost ⁽¹⁾ | 175 | 169 |
| 38 | 33 | EBIT at adjusted replacement cost ⁽²⁾ | 179 | 175 |
| (45) | (61) | Net income | 24 | (16) |
| (45) | (61) | of which Group net income | 21 | (19) |
| 20 | 6 | Group net profit (loss) at adjusted replacement cost ⁽³⁾ | 96 | 60 |
| Main Financial data | | | | |
| 3,124 | 2,049 | Net invested capital | 3,124 | 2,049 |
| 1,676 | 1,719 | Shareholders' Equity | 1,676 | 1,719 |
| 1,448 | 330 | Total net financial indebtedness | 1,448 | 330 |
| 1,285 | 1,297 | of which non-recourse Project Financing ⁽⁴⁾ | 1,285 | 1,297 |
| 46% | 16% | Financial leverage | 46% | 16% |
| 1,448 | 409 | Total net adjusted financial indebtedness ⁽⁵⁾ | 1,448 | 409 |
| 37% | 34% | EBITDA Margin % | 37% | 34% |
| Operating data | | | | |
| 1,506 | 1,341 | Installed capacity at period end - wind farms | 1,506 | 1,341 |
| 604 | 632 | Electric power generation from wind farms | 2,614 | 2,580 |
| 480 | 480 | Installed capacity - thermoelectric plants | 480 | 480 |
| 698 | 700 | Electric power generation from thermoelectric plants | 2,632 | 2,622 |
| 527 | 0 | Installed capacity at period end - Hydroelectric plants | 527 | 0 |
| 84 | 0 | Electric power generation from hydroelectric plants | 84 | 0 |
| 2,673 | 2,259 | Total sales of electric power | 10,113 | 8,823 |
| 37 | 14 | Investments ⁽⁶⁾ | 106 | 53 |
| 666 | 604 | Employees at period end | 666 | 604 |
| Market indicators | | | | |
| 52.8 | 58.8 | Reference price of electricity ⁽⁷⁾ | 52.3 | 52.1 |
| 100.1 | 97.4 | Green Certificates sale price (renewable energies) | 100.1 | 97.4 |
| 56.4 | 82.4 | Sicity zone price | 57.5 | 80.9 |
| 147.3 | 155.0 | Average selling price per unit of ERG Wind energy in Italy | 147.8 | 146.4 |
| 96.2 | 96.7 | Feed In Tariff (Germany) ⁽⁸⁾ | 96.2 | 96.0 |
| 89.9 | 91.5 | Feed In Tariff (France) ⁽⁸⁾ | 90.4 | 91.1 |
| 25 | 91.1 | Feed In Tariff (Bulgaria) ⁽⁸⁾ | 80.3 | 94.9 |
| 38.6 | n.a. | Price of electricity - Poland | 37.1 | n.a. |
| 25.6 | n.a. | Price of GCs - Poland | 26.0 | n.a. |
| 29.7 | 25.0 | Price of electricity - Romania ⁽⁹⁾ | 29.7 | 25.0 |
| 29.5 | 29.3 | Price of GCs - Romania ⁽¹⁰⁾ | 29.5 | 29.3 |

For the definition and reconciliation of results to *adjusted* replacement cost, please refer to the section "Alternative performance indicators".

⁽¹⁾ not including non-recurring items.

⁽²⁾ adjusted values also include the contribution, attributable to ERG, of the results of LUKERG Renew (joint venture with the LUKOIL Group).

⁽³⁾ does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes. The values also match the adjusted ones.

⁽⁴⁾ including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates.

⁽⁵⁾ in 2014 it included the adjusted contribution attributable to ERG of the net financial position of the LUKERG Renew joint venture.

⁽⁶⁾ intangible and intangible fixed assets excluding M&A investments amounting to Euro 1.1 million in 2015.

⁽⁷⁾ Single National Price.

⁽⁸⁾ The overseas Feed-in Tariff values refer to the prices obtained by ERG Renew plants.

⁽⁹⁾ The price of electricity – Romania refers to the price set by the company via bilateral contracts in 2015 (for comparative purposes, in absence of similar bilateral contracts, the market price is shown).

⁽¹⁰⁾ Price refers to the unit value of green certificates.

Performance highlights by segment

| 4th quarter | | | Year | |
|---|------------------|---|--------------|------------------|
| 2015 | 2014 proforma | | 2015 | 2014 proforma |
| (EUR million) | | | | |
| Revenues from ordinary operations: | | | | |
| 75 | 87 | Non Programmable Sources | 345 | 349 |
| 75 | 87 | Wind power | 345 | 349 |
| 156 | 147 | Programmable Sources | 602 | 679 |
| 145 | 147 | Thermoelectric power ⁽¹⁾ | 592 | 679 |
| 11 | 0 | Hydroelectric power | 11 | 0 |
| 6 | 5 | Corporate | 22 | 21 |
| (6) | (7) | <i>Intra-segment revenues</i> | (25) | (28) |
| 231 | 233 | Total adjusted revenues⁽²⁾ | 944 | 1,021 |
| (5) | (6) | <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | (24) | (22) |
| 225 | 227 | Total revenues from ordinary operations | 920 | 999 |
| EBITDA: | | | | |
| 52 | 66 | Non Programmable Sources | 254 | 267 |
| 52 | 66 | Wind power | 254 | 267 |
| 37 | 19 | Programmable Sources | 115 | 100 |
| 29 | 19 | Thermoelectric power ⁽¹⁾ | 107 | 100 |
| 8 | 0 | Hydroelectric power | 8 | 0 |
| (3) | (6) | Corporate | (19) | (24) |
| 86 | 80 | EBITDA at adjusted replacement cost⁽³⁾ | 350 | 343 |
| (2) | (4) | <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | (12) | (14) |
| 84 | 76 | EBITDA at replacement cost⁽³⁾ | 338 | 329 |
| Amortisation, depreciation and write-downs | | | | |
| (35) | (39) | Non Programmable Sources | (134) | (137) |
| (35) | (39) | Wind power | (134) | (137) |
| (13) | (7) | Programmable Sources | (34) | (29) |
| (8) | (7) | Thermoelectric power ⁽¹⁾ | (30) | (29) |
| (5) | 0 | Hydroelectric power | (5) | 0 |
| (1) | (1) | Corporate | (3) | (2) |
| (48) | (47) | Amortisation and depreciation at adjusted replacement cost⁽³⁾ | (171) | (168) |
| 2 | 2 | <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | 8 | 8 |
| (46) | (45) | Amortisation and depreciation at replacement cost⁽³⁾ | (163) | (160) |
| EBIT: | | | | |
| 17 | 27 | Non Programmable Sources | 120 | 131 |
| 17 | 27 | Wind power | 120 | 131 |
| 24 | 12 | Programmable Sources | 81 | 71 |
| 21 | 12 | Thermoelectric power ⁽¹⁾ | 78 | 71 |
| 3 | 0 | Hydroelectric power | 3 | 0 |
| (3) | (6) | Corporate | (22) | (27) |
| 38 | 33 | EBIT at adjusted replacement cost⁽³⁾ | 179 | 175 |
| 0 | (2) | <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | (4) | (6) |
| 38 | 30 | EBIT at replacement cost⁽³⁾ | 175 | 169 |
| Investments on tangible and intangible fixed assets: | | | | |
| 33 | 9 | Non Programmable Sources | 95 | 38 |
| 33 | 9 | Wind power | 95 | 38 |
| 3 | 4 | Programmable Sources | 9 | 13 |
| 3 | 4 | Thermoelectric power ⁽¹⁾ | 9 | 13 |
| 0 | 0 | Hydroelectric power | 0 | 0 |
| 1 | 1 | Corporate | 2 | 3 |
| 37 | 13 | Total adjusted investments⁽⁴⁾ | 106 | 53 |
| 0 | 0 | <i>Investments of LUKERG Renew (50%)</i> | 0 | (2) |
| 37 | 14 | Total investments | 106 | 52 |

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative performance indicators".

⁽¹⁾ Energy Management contribution is included.

⁽²⁾ adjusted revenues take into account ERG's share of revenues generated by LUKERG Renew joint venture.

⁽³⁾ replacement cost values do not include non-recurring items. Adjusted values also include the contribution, attributable to ERG, of the results

of LUKERG Renew.
⁽⁴⁾ adjusted investments include ERG's share of investments made by LUKERG Renew.

Consolidated Income Statement

As already mentioned in the Introduction, in order to facilitate the understanding of performance during the two periods and considering the Group's new strategic and industrial organization, the comparative financial data for 2014 has been modified to take account of the change in the perimeter described above, thus enabling a comparison of financial values based on a constant perimeter.

| 4th quarter | | Reclassified Income Statement | Year | |
|---------------|------------------|--|--------------|------------------|
| 2015 | 2014 proforma | | 2015 | 2014 proforma |
| (EUR million) | | | | |
| 225.5 | 226.5 | Revenues from ordinary operations | 920.3 | 998.9 |
| 9.4 | 10.3 | Other revenues and income | 16.3 | 25.7 |
| 234.9 | 236.8 | TOTAL REVENUES | 936.6 | 1,024.6 |
| (100.2) | (111.5) | Costs for purchase and changes in inventory | (412.6) | (491.6) |
| (71.1) | (62.2) | Costs for services and other operating costs | (215.7) | (220.2) |
| 63.7 | 63.1 | EBITDA | 308.3 | 312.9 |
| (46.3) | (45.4) | Amortisation, depreciation and write-downs of fixed assets | (163.0) | (160.0) |
| 17.4 | 17.7 | EBIT | 145.2 | 152.8 |
| (14.4) | (15.2) | Net financial income (expenses) | (54.8) | (59.6) |
| (58.5) | (50.6) | Net income (loss) from equity investments | (54.2) | (65.0) |
| (55.5) | (48.1) | Profit before taxes | 36.2 | 28.2 |
| 10.2 | (12.6) | Income taxes | (12.6) | (44.1) |
| (45.3) | (60.7) | Profit for the period | 23.7 | (15.9) |
| 0.1 | 0.0 | Minority interests | (3.1) | (2.9) |
| (45.2) | (60.7) | Group's net profit (loss) | 20.6 | (18.7) |

2014 pro-forma economic and financial data

The comparison between the results for 2015 and those for the corresponding periods in 2014 significantly reflects the change that occurred in the Group's perimeter during the course of 2014 and, more particularly:

- the sale of the ISAB Energy and ISAB Energy Services business lines, comprising above all the IGCC production plant and the personnel concerned with its operation and maintenance, which was completed on 30 June 2014;
- the sale of ERG Oil Sicilia, which was completed on 29 December 2014;
- the discontinuation of crude oil and petroleum product trading activities pertaining to the subsidiary ERG Supply & Trading, which was merged by incorporation into ERG in the first half of 2015;

Therefore, for a better understanding of performance during the two periods and in view of the Group's new strategic and industrial organisation, the comparative data for 2014 has been modified to take account of the change in perimeter described above, thus enabling a comparison of the results based on a constant perimeter. In particular, the 2014 financial and economic data have been modified, excluding the contribution from ISAB Energy and ISAB Energy Services, ERG OIL Sicilia and ERG Supply & Trading.

Fourth quarter 2014 pro-forma data

| Reported income statement | 4th quarter 2014 | ERG OIL Sicilia | ISAB Energy ed ISAB Energy Services | ERG Supply&Trading | Intercompany | 4th quarter 2014 proforma |
|--|------------------|-----------------|-------------------------------------|--------------------|--------------|---------------------------|
| Revenues from ordinary operations | 254 | (26) | (6) | 0 | 4 | 227 |
| Other revenues and income | 11 | (0) | 1 | (3) | 1 | 10 |
| Total revenues | 265 | (26) | (5) | (3) | 5 | 237 |
| Costs for purchase | (78) | 20 | (0) | (52) | 0 | (111) |
| Changes in inventory | (69) | 2 | 0 | 66 | 0 | (1) |
| Costs for services and other operating costs | (59) | 5 | 1 | 6 | (5) | (52) |
| Personnel costs | (14) | 0 | 3 | 1 | 0 | (10) |
| EBITDA | 46 | 1 | (2) | 19 | 0 | 63 |
| Amortisation, depreciation and write-downs of fixed assets | (45) | 1 | (2) | 0 | 0 | (45) |
| EBIT | 1 | 2 | (4) | 19 | 0 | 18 |
| Net financial income (expenses) | (15) | (0) | (1) | 0 | 0 | (15) |
| Net income (loss) from equity investments | (51) | 0 | 0 | 0 | 0 | (51) |
| Profit before taxes | (65) | 2 | (5) | 19 | 0 | (48) |
| Income taxes | (9) | (1) | 2 | (5) | 0 | (13) |
| Profit for the period | (74) | 2 | (3) | 14 | 0 | (61) |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Group's net profit (loss) | (74) | 2 | (3) | 14 | 0 | (61) |

FY2014 pro-forma data

| Reported income statement | FY 2014 | ERG OIL Sicilia | ISAB Energy ed ISAB Energy Services | ERG Supply&Trading | Intercompany | FY 2014 proforma |
|--|--------------|-----------------|-------------------------------------|--------------------|--------------|------------------|
| Revenues from ordinary operations | 1,369 | (124) | (299) | 0 | 52 | 999 |
| Other revenues and income | 629 | (1) | (595) | (11) | 4 | 26 |
| Total revenues | 1,999 | (125) | (894) | (11) | 56 | 1,025 |
| Costs for purchase | (714) | 104 | 136 | (8) | (11) | (493) |
| Changes in inventory | (15) | 1 | (0) | 16 | 0 | 2 |
| Costs for services and other operating costs | (659) | 16 | 492 | 19 | (45) | (177) |
| Personnel costs | (64) | 1 | 17 | 3 | 0 | (43) |
| EBITDA | 547 | (2) | (250) | 18 | 0 | 313 |
| Amortisation, depreciation and write-downs of fixed assets | (188) | 4 | 23 | 0 | 0 | (160) |
| EBIT | 359 | 2 | (227) | 18 | 0 | 153 |
| Net financial income (expenses) | (66) | (0) | (1) | 8 | 0 | (60) |
| Net income (loss) from equity investments | (65) | 0 | 0 | 0 | 0 | (65) |
| Profit before taxes | 228 | 2 | (228) | 26 | 0 | 28 |
| Income taxes | (156) | (0) | 119 | (7) | 0 | (44) |
| Profit for the period | 73 | 1 | (109) | 19 | 0 | (16) |
| Minority interests | (25) | 0 | 22 | 0 | 0 | (3) |
| Group's net profit (loss) | 48 | 1 | (87) | 19 | 0 | (19) |

Consolidated Statement of Financial Position

| Reclassified Statement of Financial Position | 12/31/2015 | 12/31/2014 |
|--|----------------|----------------|
| (EUR million) | | |
| Fixed assets | 3,223.9 | 2,120.3 |
| Net working capital | 202.1 | 189.6 |
| Employees' severance indemnities | (5.5) | (4.7) |
| Other assets | 324.7 | 344.3 |
| Other liabilities | (621.1) | (600.5) |
| Net invested capital | 3,124.2 | 2,049.0 |
| Group Shareholders' Equity | 1,626.0 | 1,671.5 |
| Minority interests | 50.3 | 47.4 |
| Net financial indebtedness | 1,447.9 | 330.1 |
| Shareholders' equity and financial debt | 3,124.2 | 2,049.0 |

Cash flow

| 4th quarter | | | Year | |
|------------------|---------------|---|------------------|----------------|
| 2015 | 2014 | | 2015 | 2014 |
| | | CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| | | (EUR million) | | |
| 23.9 | 52.2 | Adjusted cash flow from current operations ⁽¹⁾ | 207.2 | 292.1 |
| (17.6) | (26.8) | Income tax paid | (125.5) | (52.1) |
| 59.8 | 0.2 | Change in working capital | 29.2 | 57.9 |
| 58.1 | 51.6 | Change in other operating assets and liabilities | 81.2 | 46.5 |
| 124.1 | 77.2 | TOTAL | 192.1 | 344.4 |
| | | CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (45.6) | (12.6) | Net investments on tangible and intangible fixed assets | (113.2) | (31.6) |
| (0.5) | 1.5 | Net investments in financial fixed assets | (1.4) | 13.8 |
| 0.0 | 0.0 | Adjustment for sale of ERG Oil Sicilia | (0.5) | 0.0 |
| 0.0 | 0.0 | Collection for termination of CIP6 agreement | 0.0 | 515.0 |
| (46.1) | (11.1) | Total | (115.1) | 497.3 |
| | | CASH FLOW FROM SHAREHOLDERS' EQUITY: | | |
| 0.0 | 0.0 | Distributed dividends | (71.4) | (164.9) |
| (3.7) | (13.5) | Other changes in equity | 5.2 | (202.5) |
| (3.7) | (13.5) | Total | (66.2) | (367.4) |
| (1,051.4) | 3.8 | CHANGES IN SCOPE OF CONSOLIDATION⁽²⁾ | (1,128.6) | 3.0 |
| (977.0) | 56.5 | CHANGE IN NET FINANCIAL INDEBTEDNESS | (1,117.8) | 477.4 |
| 470.9 | 386.6 | INITIAL NET FINANCIAL INDEBTEDNESS | 330.1 | 807.5 |
| 977.0 | (56.5) | CHANGE IN THE PERIOD | 1,117.8 | (477.4) |
| 1,447.9 | 330.1 | FINAL NET FINANCIAL INDEBTEDNESS | 1,447.9 | 330.1 |

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

⁽²⁾ The change in the scope of consolidation in 2015 refers to the full consolidation of Hydro Inwestycje SP.Z. O.O. and the company Blachy Pruszyński-Energia SP.Z O.O., to the acquisition of French wind farms, to the acquisition of ERG Hydro and to the joint venture with LUKOIL dissolution with the consequent acquisition of the equity investment share in former LUKERG Renew GmbH.

Alternative performance indicators

In order to enhance understandability of trends in the business segments, the financial results are also shown at **adjusted replacement cost**, excluding non-recurring items, and including the contribution, for the portion attributable to ERG, of the results at replacement cost of the joint venture LUKERG Renew.

The results at replacement cost and the results at adjusted 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 used 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.

Inventory gains (losses)¹ are equal to the difference between the replacement cost of products sold 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.

Non-recurring items include significant but unusual earnings.

The results also include the contribution of the joint venture **LUKERG Renew**, for the portion attributable to ERG. To enhance understandability of the business' performance, the results of the business are also shown at adjusted replacement cost that takes into account, for the portion attributable to ERG, the results at replacement cost LUKERG Renew whose contribution to the Income Statement not at adjusted replacement cost is reported in the value of the investment measured under the equity method of accounting. As the above mentioned joint venture dissolution, with the acquisition of Bulgaria's wind farms and Gebeleisis' wind farm in Romania, occurred at the end of 2015, the economic results of the full year still include LUKERG contribution, consolidated using the equity method.

It should be noted that, starting from the Interim Management Report at 31 March 2015, the *adjusted* operating results no longer include the contribution of the TotalErg joint venture, since the latter is no longer considered a core business within the Group's new strategic and industrial organisation. The investment will continue to be consolidated using the equity method.

¹ Inventory gains and losses refer exclusively to the item "income from investments" and concern the TotalErg joint venture.

Reconciliation with operating results at adjusted replacement cost

| 4th quarter | | EBITDA | Year | |
|---|------------------|---|----------------|------------------|
| 2015 | 2014 proforma | | 2015 | 2014 proforma |
| 63.7 | 63.1 | | 308.3 | 312.9 |
| <i>Exclusion of non-recurring items:</i> | | | | |
| Corporate | | | | |
| (0.2) | 0.3 | - Ancillary charges - extraordinary operations | 1.3 | 0.2 |
| 11.2 | 0.0 | - Ancillary charges transactions concerning ERG Hydro | 11.2 | 0.0 |
| 0.0 | (1.9) | - Ancillary charges transactions concerning Isab Energy and Isab energy Services | 0.0 | 6.4 |
| 0.0 | 0.0 | - Ancillary charges other transactions | 0.0 | 0.0 |
| 0.0 | 0.0 | - Write-down of environmental certificates | 2.6 | 0.0 |
| 0.0 | (2.6) | - Ancillary charges - previous years | 0.0 | (7.8) |
| 0.0 | 16.0 | - Charges for company reorganisation | 1.7 | 16.0 |
| Programmable Sources | | | | |
| 0.7 | 0.0 | -Corporate reorganisation expenses | 1.7 | 0.0 |
| 0.0 | 0.5 | - Ancillary charges - extraordinary operations | 0.0 | 0.5 |
| 5.2 | 0.0 | - Ancillary charges transactions concerning ERG Hydro | 5.2 | 0.0 |
| Non Programmable Sources | | | | |
| 3.7 | 0.4 | - Ancillary charges - extraordinary operations | 6.3 | 0.4 |
| 84.3 | 75.8 | EBITDA at replacement cost | 338.1 | 328.6 |
| 1.7 | 4.1 | LUKERG Renew 50% contribution at adjusted replacement cost | 11.9 | 14.0 |
| 86.0 | 79.9 | EBITDA at adjusted replacement cost | 350.0 | 342.6 |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | | | | |
| (46.3) | (45.4) | Amortisation and depreciation at replacement cost | (163.0) | (160.0) |
| (1.9) | (1.9) | LUKERG Renew 50% contribution at adjusted replacement cost | (7.8) | (7.9) |
| (48.2) | (47.3) | Amortisation and depreciation at adjusted replacement cost | (170.9) | (167.9) |
| EBIT | | | | |
| 38.0 | 30.4 | EBIT at replacement cost | 175.1 | 168.6 |
| (0.2) | 2.2 | LUKERG Renew 50% contribution at adjusted replacement cost | 4.1 | 6.1 |
| 37.8 | 32.5 | EBIT at adjusted replacement cost | 179.1 | 174.7 |
| GROUP'S NET PROFIT (LOSS) | | | | |
| (45.2) | (60.7) | Group net result | 20.6 | (18.7) |
| 0.0 | 0.0 | Exclusion of contribution from "Discontinued operations" | 0.0 | 0.0 |
| (45.2) | (60.7) | Group net result pertaining to continuing operations | 20.6 | (18.7) |
| 14.7 | 38.2 | Exclusion of inventory gains / losses | 21.9 | 45.5 |
| <i>Exclusion of non-recurring items:</i> | | | | |
| 0.0 | (0.6) | Exclusion for capital gain on sale of ERG Oil Sicilia | 0.5 | (0.6) |
| 0.0 | 5.0 | Exclusion of write-off resulting from Robin Tax on deferred tax assets and liabilities | (2.9) | 5.0 |
| 13.1 | 0.0 | Exclusion of ancillary charges transactions concerning ERG Hydro | 13.1 | 0.0 |
| 0.0 | 0.0 | Exclusion of write-down of environmental certificates | 1.9 | 0.0 |
| 3.1 | 14.4 | Exclusion of TotalErg non-recurring items | 1.6 | 14.6 |
| 0.0 | (2.0) | Exclusion for contribution of proceeds and charges pertaining to prior years | 0.0 | (2.0) |
| 0.0 | 0.0 | Exclusion of ERG S.p.A. contribution under Law 488 | 0.0 | (3.5) |
| 0.0 | 0.3 | Exclusion of exchange rate differences pertaining to former Refining & Marketing Division | 0.0 | 2.9 |
| (8.4) | 0.0 | Exclusion of tax rate change's effects | (8.4) | 0.0 |
| 3.6 | (0.4) | Exclusion of ancillary charges - extraordinary operations | 6.4 | 5.4 |
| 0.5 | 11.6 | Exclusion of charges for company reorganisation | 2.5 | 11.6 |
| 0.3 | 0.0 | Exclusion of extraordinary gain Asset split LukErg | 0.3 | 0.0 |
| 0.9 | 0.0 | Exclusion of provision for equity investment risks | 0.9 | 0.0 |
| 38.0 | 0.0 | Exclusion of financial charges on minorities option | 38.0 | 0.0 |
| 20.5 | 5.9 | Group net profit (loss) at replacement cost ⁽¹⁾ | 96.3 | 60.3 |

⁽¹⁾ also corresponds to Group net profit (loss) at adjusted replacement cost.

It should be noted that the non-recurring items pertaining to TotalErg mainly concern

extraordinary income associated with the sale of a business line and the write-off of non-payable debts relating to prior periods.

Reconciliation with adjusted net financial indebtedness

| | 12/31/2015 | 12/31/2014 proforma |
|---|----------------|------------------------|
| Net financial indebtedness | 1,447.9 | 330.1 |
| <i>Net financial position of LUKERG Renew</i> | <i>0.0</i> | <i>79.3</i> |
| Adjusted net financial indebtedness | 1,447.9 | 409.5 |

In 2014 the adjusted figures for net financial indebtedness take into consideration the portion attributable to ERG of the net financial position of the joint venture LUKERG Renew, net of the related intra-group items.

Reconciliation of pro-forma adjusted figures for the fourth quarter of 2014

| | 4th quarter 2014 | Excluding the 4th quarter 2014 contribution from: | | | | | 4th quarter 2014 proforma |
|---|---------------------|---|---|-----------------------|--------------|--------------|---------------------------------|
| | | ERG Oil Sicilia | ISAB Energy and ISAB Energy Services | ERG Supply&Trading | TotalErg | Intercompany | |
| <i>(EUR million)</i> | | | | | | | |
| Revenues from ordinary operations: | | | | | | | |
| Wind power | 87 | 0 | 0 | 0 | 0 | 0 | 87 |
| Thermoelectric power | 216 | 0 | (6) | 0 | 0 | (63) | 147 |
| Integrated Downstream | 708 | (26) | 0 | 0 | (683) | 0 | 0 |
| Corporate | 7 | 0 | 0 | 0 | 0 | (2) | 5 |
| Intra-segment revenues | (80) | 0 | 0 | 0 | 0 | 73 | (7) |
| Total adjusted revenues | 939 | (26) | (6) | 0 | (683) | 8 | 233 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(679)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>683</i> | <i>(4)</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(6)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(6)</i> |
| Total revenues from ordinary operations | 254 | (26) | (6) | 0 | 0 | 4 | 227 |
| EBITDA: | | | | | | | |
| Wind power | 66 | 0 | 0 | 0 | 0 | 0 | 66 |
| Thermoelectric power | 22 | 0 | (2) | 0 | 0 | 0 | 19 |
| Integrated Downstream | 9 | (0) | 0 | 9 | (18) | 0 | 0 |
| Corporate | (6) | 0 | 0 | 0 | 0 | 0 | (6) |
| EBITDA at adjusted replacement cost | 91 | (0) | (2) | 9 | (18) | 0 | 80 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(18)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>18</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(4)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(4)</i> |
| EBITDA at replacement cost | 70 | (0) | (2) | 9 | 0 | 0 | 76 |
| <i>Inventory gains (losses)</i> | <i>0</i> | <i>(0)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(0)</i> |
| <i>Non-recurring items</i> | <i>(24)</i> | <i>2</i> | <i>(0)</i> | <i>10</i> | <i>0</i> | <i>0</i> | <i>(13)</i> |
| EBITDA | 46 | 1 | (2) | 19 | 0 | 0 | 63 |
| Amortisation, depreciation and write-downs | | | | | | | |
| Wind power | (39) | 0 | 0 | 0 | 0 | 0 | (39) |
| Thermoelectric power | (7) | 0 | 0 | 0 | 0 | 0 | (7) |
| Integrated Downstream | (13) | 1 | 0 | 0 | 11 | 0 | (0) |
| Corporate | (1) | 0 | 0 | 0 | 0 | 0 | (1) |
| Amortisation and depreciation at adjusted replacement cost | (60) | 1 | 0 | 0 | 11 | 0 | (47) |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>11</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(11)</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>2</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>2</i> |
| Amortisation and depreciation at replacement cost | (47) | 1 | 0 | 0 | 0 | 0 | (45) |
| EBIT: | | | | | | | |
| Wind power | 27 | 0 | 0 | 0 | 0 | 0 | 27 |
| Thermoelectric power | 14 | 0 | (2) | 0 | 0 | 0 | 12 |
| Integrated Downstream | (4) | 1 | 0 | 9 | (6) | 0 | (0) |
| Corporate | (6) | 0 | 0 | 0 | 0 | 0 | (6) |
| EBIT at adjusted replacement cost | 31 | 1 | (2) | 9 | (6) | 0 | 33 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(6)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>6</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(2)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(2)</i> |
| EBIT at replacement cost | 23 | 1 | (2) | 9 | 0 | 0 | 30 |
| Net Income | | | | | | | |
| Net income | (74) | 2 | (3) | 14 | 0 | 0 | (61) |
| of which Group net income | (74) | 2 | (3) | 14 | 0 | 0 | (61) |
| of which Minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Group net profit at replacement cost | 1 | 1 | (2) | 7 | 0 | 0 | 6 |
| Investments on tangible and intangible fixed assets: | | | | | | | |
| Wind power | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| Thermoelectric power | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Integrated Downstream | 11 | (0) | 0 | (0) | (11) | 0 | (0) |
| Corporate | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Total adjusted investments | 25 | (0) | 0 | (0) | (11) | 0 | 13 |
| <i>Investments of TotalErg (51%)</i> | <i>(11)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>11</i> | <i>0</i> | <i>(0)</i> |
| <i>Investments of LUKERG Renew (50%)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> |
| Total investments | 14 | (0) | 0 | (0) | 0 | 0 | 14 |
| Net debt | | | | | | | |
| Net adjusted financial indebtedness | 538 | | | | (129) | | 409 |

Reconciliation of pro-forma adjusted figures for FY2014

| (EUR million) | FY 2014 | Excluding FY 2014 contribution from: | | | | | FY 2014 proforma |
|---|----------------|--------------------------------------|----------------------|--------------------|----------------|--------------|------------------|
| | | ERG Oil Sicilia | ISAB Energy Services | ERG Supply&Trading | TotalErg | Intercompany | |
| Revenues from ordinary operations: | | | | | | | |
| Wind power | 349 | 0 | 0 | 0 | 0 | 0 | 349 |
| Thermoelectric power | 1,164 | 0 | (299) | 0 | 0 | (185) | 679 |
| Integrated Downstream | 3,098 | (124) | 0 | 0 | (2,974) | 0 | 0 |
| Corporate | 30 | 0 | 0 | 0 | 0 | (9) | 21 |
| Intra-segment revenues | (291) | 0 | 0 | 0 | 0 | 263 | (28) |
| Total adjusted revenues | 4,350 | (124) | (299) | 0 | (2,974) | 68 | 1,021 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(2,958)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>2,974</i> | <i>(16)</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(22)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(22)</i> |
| Total revenues from ordinary operations | 1,369 | (124) | (299) | 0 | 0 | 52 | 999 |
| EBITDA: | | | | | | | |
| Wind power | 267 | 0 | 0 | 0 | 0 | 0 | 267 |
| Thermoelectric power | 204 | 0 | (104) | 0 | 0 | 0 | 100 |
| Integrated Downstream | 44 | (5) | 0 | 8 | (47) | 0 | 0 |
| Corporate | (24) | 0 | 0 | 0 | 0 | 0 | (24) |
| EBITDA at adjusted replacement cost | 491 | (5) | (104) | 8 | (47) | 0 | 343 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(47)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>47</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(14)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(14)</i> |
| EBITDA at replacement cost | 429 | (5) | (104) | 8 | 0 | 0 | 329 |
| <i>Inventory gains (losses)</i> | <i>(0)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(0)</i> |
| <i>Non-recurring items</i> | <i>118</i> | <i>2</i> | <i>(146)</i> | <i>10</i> | <i>0</i> | <i>0</i> | <i>(16)</i> |
| EBITDA | 547 | (2) | (250) | 18 | 0 | 0 | 313 |
| Amortisation, depreciation and write-downs | | | | | | | |
| Wind power | (137) | 0 | 0 | 0 | 0 | 0 | (137) |
| Thermoelectric power | (54) | 0 | 25 | 0 | 0 | 0 | (29) |
| Integrated Downstream | (48) | 4 | 0 | 0 | 44 | 0 | (0) |
| Corporate | (2) | 0 | 0 | 0 | 0 | 0 | (2) |
| Amortisation and depreciation at adjusted replacement cost | (241) | 4 | 25 | 0 | 44 | 0 | (168) |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>44</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(44)</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>8</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>8</i> |
| Amortisation and depreciation at replacement cost | (189) | 4 | 25 | 0 | 0 | 0 | (160) |
| EBIT: | | | | | | | |
| Wind power | 131 | 0 | 0 | 0 | 0 | 0 | 131 |
| Thermoelectric power | 150 | 0 | (79) | 0 | 0 | 0 | 71 |
| Integrated Downstream | (5) | (1) | 0 | 8 | (3) | 0 | (0) |
| Corporate | (27) | 0 | 0 | 0 | 0 | 0 | (27) |
| EBIT at adjusted replacement cost | 249 | (1) | (79) | 8 | (3) | 0 | 175 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(3)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>3</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(6)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(6)</i> |
| EBIT at replacement cost | 240 | (1) | (79) | 8 | 0 | 0 | 169 |
| Net Income | | | | | | | |
| Net income | 73 | 1 | (109) | 19 | 0 | 0 | (16) |
| of which Group net income | 48 | 1 | (87) | 19 | 0 | 0 | (19) |
| of which Minority interests | 25 | 0 | (22) | 0 | 0 | 0 | 3 |
| Group net profit at replacement cost | 76 | (1) | (27) | 12 | 0 | 0 | 60 |
| Investments on tangible and intangible fixed assets: | | | | | | | |
| Wind power | 38 | 0 | 0 | 0 | 0 | 0 | 38 |
| Thermoelectric power | 14 | 0 | (1) | 0 | 0 | 0 | 13 |
| Integrated Downstream | 34 | (0) | 0 | (0) | (34) | 0 | (0) |
| Corporate | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Total adjusted investments | 89 | (0) | (1) | (0) | (34) | 0 | 53 |
| <i>Investments of TotalErg (51%)</i> | <i>(34)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>34</i> | <i>0</i> | <i>0</i> |
| <i>Investments of LUKERG Renew (50%)</i> | <i>(2)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(2)</i> |
| Total investments | 54 | (0) | (1) | (0) | 0 | 0 | 52 |
| Net debt | | | | | | | |
| Net adjusted financial indebtedness | 538 | | | | (129) | | 409 |



MANAGEMENT REPORT
AS AT 31 DECEMBER 2015

Introduction

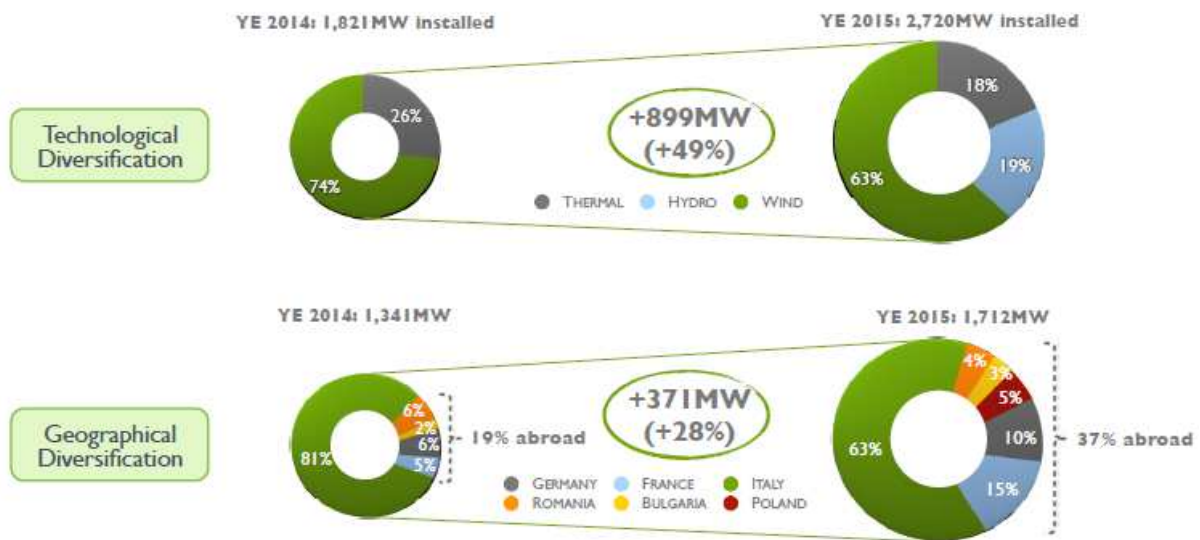
This document is an annex supporting the press release of 23 March 2016 to provide further details and to comment the 2015 results of the ERG Group.

The comments provided are an excerpt from the Report on Operations which, together with the Notes to the Financial Statements, will be published within the times prescribed by current regulations.

The transformation of ERG in 2015 and the Industrial Plan 2015-2018

On the 16th of December 2015 the Industrial Plan 2015-2018 was presented to the financial community. It is the first ERG Plan since the company's complete transformation from industrial operator active in the field of petroleum refining to primary independent producer of electricity mainly from renewable resources. In fact, in 2015 ERG concluded an important industrial transformation started in 2008, reaching two main objectives: technological diversification through the acquisition of the Terni hydroelectric plant (527MW) that was completed on the 30th of November 2015 and geographical diversification in the wind sector, both through growth of the company in Poland (82MW) and important acquisitions in France and Germany.

ERG Group Diversification¹



The Group will aim, in the near future, on the one hand to consolidate recent acquisitions, optimising operational management, and on the other hand to continue to grow internationally in the wind sector, at the same time optimising and developing energy management activities, with a larger, more diversified and balanced portfolio.

The main targets of the 2015-2018 Plan are the following:

- in 2018, the installed capacity of the Group will reach 2,950 MW, of which 1,950 relative to the wind sector (850 MW abroad),
- in 2018 EBITDA will be about EUR 450 million,
- total investments during the period covered by the Plan are EUR 1.9 billion, of which 1.5 billion for acquisitions and investments, which have already been concluded (including the acquisitions already made in France and Germany completed on the 2nd of February 2016), and a further 400 million for development of the Group. The debt at the end of the period is expected to be about EUR 1.3 billion.

¹ The installed capacity at the end of 2015 was 2,513 MW compared with 2,720 MW foreseen in the Plan. The difference is linked to the acquisition of wind assets in France and Germany from Impax Asset Management, initially foreseen for the end of the year, and that upon obtaining the consent of all the banks, was completed on the 2nd of February 2016. Consolidation of the assets will take effect from the 1st of January 2016. The financial contribution is expected to be in line with the forecasts of the Plan. The debt at the end of 2015 was significantly less compared to the estimate in the 2015 Plan and reflects the above.

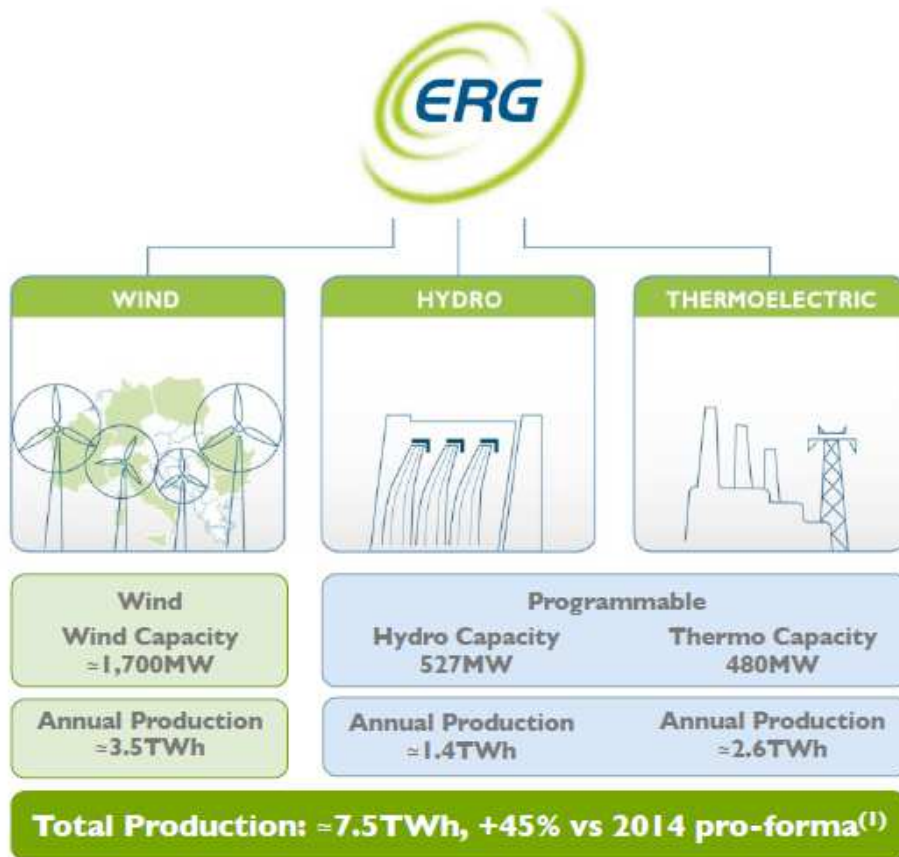
New designation of business areas and energy management activities

The Group has opted for separate management of the electricity portfolio divided as follows:

- production of non-modular and, therefore, **non-programmable** wind energy, reporting to ERG Renew S.p.A.,
- production of thermoelectric energy and hydropower, by nature modular and, therefore, **programmable**, reporting to ERG Power Generation S.p.A.

Energy Management, allocated to ERG Power Generation S.p.A., will manage the entire portfolio of electricity produced by the Group's plants, including selling on the market in order to optimise the production profile.

THE NEW INTEGRATED ELECTRICITY PORTFOLIO



New reference perimeter

- **Acquisition of French wind parks**

On the **27th of July 2015** ERG Renew completed the acquisition, from Macquarie European Infrastructure Fund managed by the Macquarie Group, of 100% of the capital of the four French registered companies, the owners, directly and indirectly, of **six wind farms in France**, with a total installed capacity of 63.4 MW, which began operating between 2005 and 2008. The parks have an expected average annual production of about 150 GWh, the equivalent of more than 2,300 hours.

These Financial Statements reflect the impact of the consolidation of the new French companies as of the 1st of July 2015. The takeover resulted in an increase of net capital invested of about EUR 70 million and an increase in indebtedness of an equivalent amount. EBITDA in 2015 was about EUR 4.6 million.

- **Acquisition of E.ON, the combined 527 MW hydroelectric plant in Italy**

On the **30th of November 2015** ERG, through its subsidiary ERG Power Generation, completed the acquisition of all the E.ON Produzione hydroelectric operations, composed of a portfolio of plants in Umbria, the Marche and Lazio, with a total capacity of 527 MW.

The value of the transaction is about EUR 0.95 billion, debt-free and cash-free.

EBITDA expected for the **hydroelectric operations** in the coming years is approximately EUR 110 million per annum. The asset portfolio is composed of 16 power stations, 7 dams, 3 tanks and a pumping station. The total average yearly output is estimated at about 1.4 TWh (1.8 TWh in 2014 and 1.3 TWh in 2015), of which approximately 40% is subsidised by the green certificates system. Expiry of the concessions relating to the portfolio of acquired assets is fixed for 2029.

With this transaction more than 100 people joined the ERG Group, including technicians specialised in the operational management of plants, specialists in energy management and dedicated staff.

The acquisition by ERG Power Generation was financed by ERG S.p.A. through the partial use of available liquidity and a corporate acquisition loan of EUR 700 million signed with a pool of seven Italian and international mandated lead arrangers and bookrunners (Barclays Bank Plc, BNP Paribas S.A., Credit Agricole Corporate & Investment Bank S.A., ING Bank N.V., Banca IMI-Intesa Sanpaolo S.p.A., Natixis S.A. and UniCredit S.p.A.).

The acquired company, renamed ERG Hydro S.r.l., was consolidated on the 1st of December 2015.

For a better understanding of the data presented in this report, the following are the main impacts of the operation:

- the increase in the net financial debt by about EUR 947.5 million, related to the consideration for the purchase;
- the allocation of the Purchase Price Allocation to loans (about 460 million), maturing in about 2029, and Goodwill (15 million). The evaluation of these activities was undertaken on a provisional basis with the support of models made provided in the evaluation phase of the investment;
- EBITDA for the Group in 2015 is about EUR 8 million.

- **Split LUKERG Renew.**

At the end of 2015 the **dissolution** of the LUKERG Renew **joint venture** GmbH (50% ERG Renew) was completed with the acquisition by ERG Renew S.p.A. of wind farms in Bulgaria and the Gebeleisis park (part of the subsidiary Corni Eolian) in Romania, whose financial positions were fully consolidated on the 31st of December 2015.

Completion took place on the 23rd of December 2015, therefore, the 2015 adjusted income statement still reflects the full contribution of the operating results of the LUKERG Renew joint venture.

- **Expansion in Poland**

During 2015 ERG Renew **constructed three wind parks in Poland** for a total installed capacity at the end of 2015 of 82 MW. In particular, the first 42MW park (Orneta) started operating in July 2015 with a contribution in terms of EBITDA of EUR 4 million, while the remaining 40 MW began operations at the end of 2015 and, therefore, will contribute to the operating results of the Group as of 2016.

Results at adjusted replacement cost

To facilitate comprehension of management performance, operating results are shown at adjusted replacement cost with the exclusion of non-recurring items⁽¹⁾ and inclusive of the contribution attributable to ERG. The operating results are shown at replacement cost of the LUKERG Renew GmbH (50%) joint venture for non-programmable resources, whose contribution to the income statement at non-adjusted replacement cost are represented by the value of the equity of the same contribution until the 31st of December 2015.

In this respect it should be noted that at the end of 2015 the dissolution of the above-mentioned joint venture was completed with the acquisition by ERG Renew S.p.A. of wind farms in Bulgaria and the Gebeleisis park in Romania, whose financial positions were fully consolidated on 31 December 2015.

It should be noted that in the Interim Management Report as at 31 March 2015, the adjusted values no longer include the contribution of the Totalerg joint venture, as it is no longer considered to be a core activity of the Group's new strategic and business structure. As such the comparative pro forma 2014 data do not take into account the contribution of TotalErg.

The contribution continues to be consolidated using the equity method.

¹ non-recurring items include significant but unusual earnings.

2014 pro forma economic data

The comparison of the 2015 results with those of the corresponding period in 2014 was significantly impacted by the change in the scope of the Group which took place in 2014, and in particular:

- of the sale of branches of ISAB Energy S.r.l. and ISAB Energy Services S.r.l., consisting mainly of the IGCC production plant and of the personnel for its operation and maintenance, completed on the 30th of June 2014;
- the sale of ERG Oil Sicilia, completed on the 29th of December 2014;
- the ceasing of purchase and sale activities of crude and petroleum products relating to the subsidiary ERG Supply & Trading S.p.A., which was merged with ERG S.p.A. on the 1st of July 2015.
- the exclusion of the contribution of TotalErg for the reasons set out above.

Therefore, to better comprehend progress in the two periods and in consideration of the new strategic and business structure of the Group, the comparative data for 2014 has been modified to take into account the

change in the above-mentioned scope, thereby making it possible to compare the results on a like for like basis. In particular, the equity values of 2014 were changed, also on a quarterly basis, excluding the contribution of ISAB Energy and ISAB Energy Services, ERG OIL Sicilia and ERG Supply & Trading. It should be noted that the results of the TotalErg joint venture continue to be consolidated with the equity method and shown on the "Income (charges) from net investments" line.

| | FY 2014 | Excluding FY 2014 contribution from: | | | | | FY 2014 proforma |
|---|--------------|--------------------------------------|--------------------------------------|----------------------|----------------|--------------|------------------|
| | | ERG Oil Sicilia | ISAB Energy and ISAB Energy Services | ERG Supply & Trading | TotalErg | Intercompany | |
| <i>(million Euro)</i> | | | | | | | |
| Revenues from ordinary operations: | | | | | | | |
| Wind power | 349 | - | - | - | - | - | 349 |
| Thermoelectric power | 1,164 | - | (299) | - | - | (185) | 679 |
| Integrated Downstream | 3,098 | (124) | - | - | (2,974) | - | 0 |
| Corporate | 30 | - | - | - | - | (9) | 21 |
| Intra-segment revenues | (291) | - | - | - | - | 263 | (28) |
| Total adjusted revenues | 4,350 | (124) | (299) | - | (2,974) | 68 | 1,021 |
| EBITDA | | | | | | | |
| Wind power | 267 | 0 | 0 | 0 | 0 | 0 | 267 |
| Thermoelectric power | 204 | 0 | (104) | 0 | 0 | 0 | 100 |
| Integrated Downstream | 44 | (5) | 0 | 8 | (47) | 0 | 0 |
| Corporate | (24) | 0 | 0 | 0 | 0 | 0 | (24) |
| Adjusted EBITDA at replacement cost | 491 | (5) | (104) | 8 | (47) | | 343 |
| Net result | | | | | | | |
| Net result | 73 | 1 | (109) | 19 | | | (16) |
| of which Group net result | 48 | 1 | (87) | 19 | | | (19) |
| of which Minority interests | 25 | 0 | (22) | 0 | | | 3 |
| Group net result at replacement cost | 76 | (1) | (27) | 12 | | | 60 |
| Net debt | | | | | | | |
| Adjusted net financial debt | 538 | | | | (129) | | 409 |

Group Business Description

The ERG Group has completed an important transformation process, from private primary Italian oil operator to independent operator producing electricity from renewable sources, differentiated between non-programmable (wind) and programmable (thermoelectric and hydroelectric) resources, as well as in terms of geographic location (with a growing presence on the wind market abroad, in particular in France and Germany).

Today the Group is a market leader in wind in Italy and is one of the top operators in Europe. Moreover, it is among the top operators active in the production of hydroelectricity in Italy and is also active in high-efficiency and low environmental impact thermal electricity production, with a highly modular high-yield cogenerative CCGT plant, as well as in energy markets through energy management activities.

The ERG Group, through its subsidiaries, operates in the electricity production field with:

- **Non-programmable resources**

Through ERG Renew (93% subsidiary), ERG operates in the sector of electricity production from wind, with 1,501 MW of installed power as at the 31st of December 2015. ERG Renew is the biggest producer of wind power in Italy and one of the top ten in Europe.

The wind parks are mainly concentrated in Italy (1,087 MW), but with a significant and growing presence abroad (420 MW at the end of 2015), in particular in France (128 MW), Germany (86 MW), Poland (82 MW entirely developed by ERG in 2015), as well as Romania and Bulgaria (70 MW and 54 MW after the dissolution of the joint venture). These data do not yet include the additional power derived from recent acquisitions, completed at the beginning of 2016, for a further 124 MW in France and 82 MW in Germany.

Through ERG Renew O&M the company has largely completed the internalisation of management and maintenance activities of all the wind parks in Italy.

- **Programmable resources**

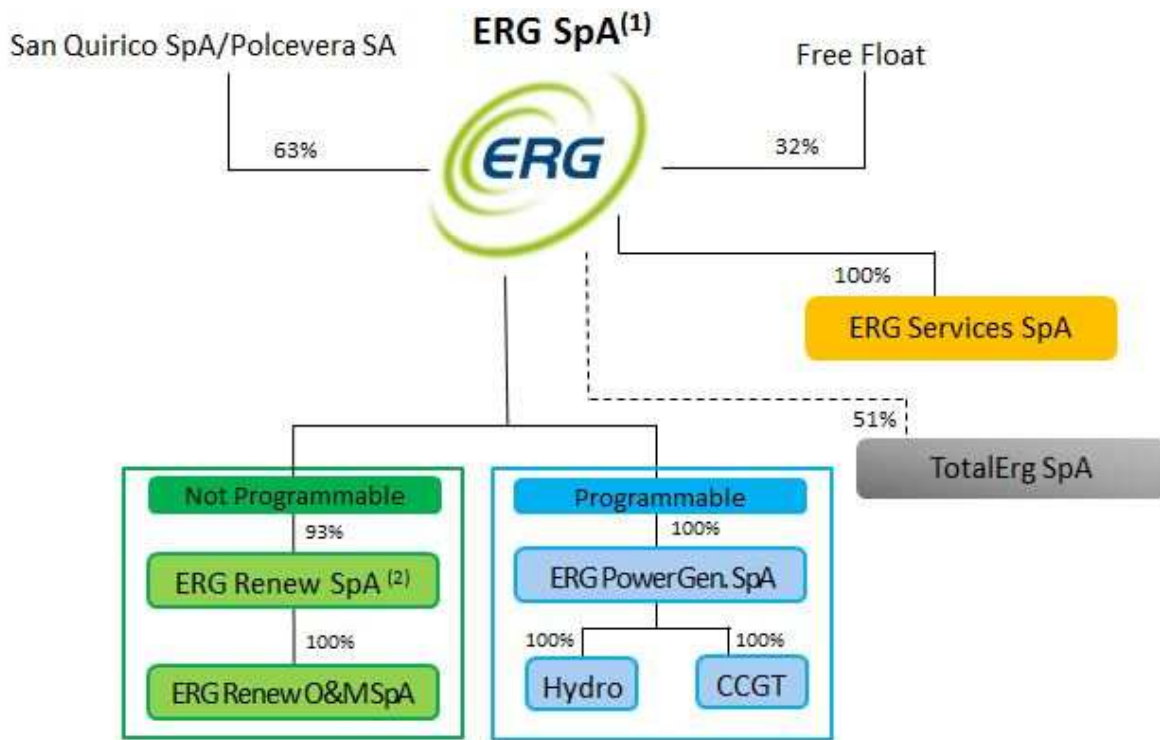
The Group is active in the production and marketing of electricity and utilities through:

- ERG Power S.r.l.: the company that owns the so-called "Centrale Nord" (480 MW) plant located on the Priolo Gargallo (SR) in Sicily, which operated in 2015 as an Essential Unit in accordance with the Mucchetti Amendment². It is a high-yield cogenerative plant, based on the latest combined-cycle technology fuelled with natural gas, which began commercial operations in April 2010, and other ancillary installations for the production of steam and other utilities;
- ERG Hydro S.r.l.: a newly constituted company which took over the hydroelectric operations acquired from E.ON Produzione in late 2015. ERG Hydro's integrated portfolio of assets is composed of 16 power stations, 7 dams, 3 tanks and a pumping station, located in Umbria, the Marche and Lazio, with 527 MW efficient capacity;
- ERG Power Generation S.p.A.: the company that provides energy management services to the ERG Group and which from the 1st of January 2015, pursuant to the merger by incorporation of ISAB Energy Services S.r.l. into the company, directly performs O&M services for the ERG Power S.r.l. plant.
ERG Power Generation owns 100% of ERG Power S.r.l. and ERG Hydro S.r.l.

The ERG Group holds a 51% quota in TotalErg.

1. Conversion law of the Legislative Decree 91/14 ("Competition Decree"). For further details see the Thermoelectric paragraph.

THE STRUCTURE OF THE GROUP AS AT 31/12/2015



- (1) ERG holds 5% of its own shares
- (2) Unicredit owns 7.18% of ERG Renew

Strategy

ERG has radically changed its business portfolio by anticipating long-term energy scenarios, and becoming a leader in the renewables sector both in Italy and in Europe.

Thanks to the operations completed in 2015 and at the beginning of 2016 the Group has reached an installed capacity of more than 2,700 MW (about 1,700 in the wind sector, 527 in the hydroelectric sector and 480 in the thermoelectric sector). The Group has a portfolio of technologically diversified assets, thanks to the acquisition of the Terni hydroelectric plant, and a significant presence in the wind energy sector abroad.

The Group's strategy is on the one hand to consolidate recent acquisitions, optimising operational management, thanks also to the ERG across-the-board services, and on the other hand to continue to grow internationally in the wind sector, at the same time optimising and developing energy management activities, with a larger, more diversified and balanced portfolio. As regards the participation in TotalERG, the goal is to make the most of it by focusing on the optimisation of the network, within a context characterised by a complex scenario.

- **Non-programmable resources**

The strategy of ERG is to continue the path of growth in the production of electricity from **wind** via its subsidiary ERG Renew with the objective of consolidating its position as the leading operator on the domestic market thanks to constantly seeking maximum operational efficiency through the direct management of O&M activities and technical services and accelerating the geographical diversification of its portfolio, with the growth of capacity abroad expected to be 37% at the beginning of 2016 and 44% in 2018. ERG Renew's growth strategy will progress from a growth model based mainly on M&A operations to a model of organisational growth with over 200MW of new installations in France, Germany, Poland and the UK.

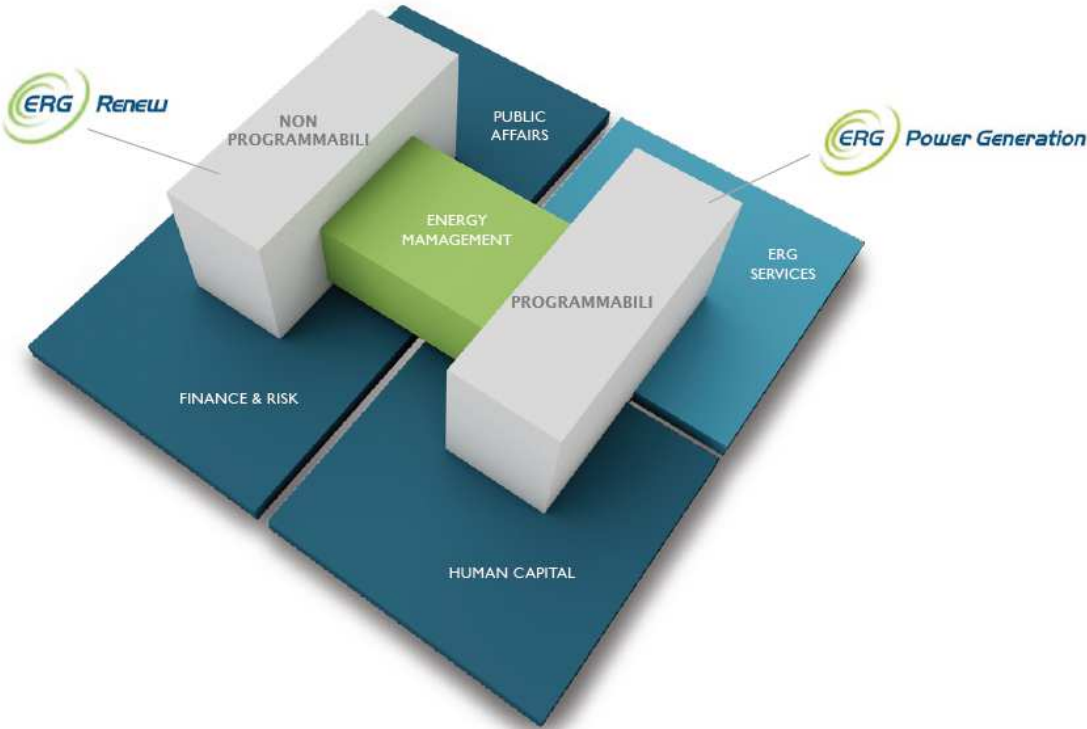
- **Programmable resources:**

- **Thermoelectric:** ERG will continue its activities to improve the quality and efficiency of the ERG Power combined cycle plant in order to maximise the contribution to the economic results of the Group. The plant continues to have a significant role in the electricity production portfolio, in that it is a flexible and efficient asset for energy management activities, as well as being high efficiency and cogenerative.
- **Hydroelectric:** The Terni plant, recently acquired from E.ON, is a highly modular asset in that it is an integrated plant composed of 16 stations, 7 dams, 3 tanks and a pumping station. Within the period of the Plan, all the necessary activities to promote the better integration of people and assets in order to maximise the value of the operation will be continued.

THE ERG BUSINESS MODEL

The ERG Group's business model is based on the production of electricity from predominantly renewable resources: programmable (hydroelectric and thermoelectric) and non-programmable (wind), the sale of which is entrusted to a sole Energy Management unit.

The distinguishing factors of the ERG business model are the centrality and excellence in the management of processes with high added-value (Finance&Risk, Corporate Affairs and Human Capital), in addition to effective and efficient across-the-board management of Group services, through ERG Services.



Performance highlights

| (EUR million) | Year | | |
|--|-----------------|----------------|--------------|
| | 2015 | 2014 pro forma | |
| Main Income Statement data | | | |
| Adjusted revenues ⁽²⁾ | 944 | 1,021 | |
| EBITDA at replacement cost ⁽¹⁾ | 338 | 329 | |
| EBITDA at adjusted replacement cost ⁽²⁾ | 350 | 343 | |
| EBIT at replacement cost ⁽¹⁾ | 175 | 169 | |
| EBIT at adjusted replacement cost ⁽²⁾ | 179 | 175 | |
| Net income | 24 | (16) | |
| of which Group net income | 21 | (19) | |
| Group net profit (loss) at adjusted replacement cost ⁽³⁾ | 96 | 60 | |
| Main financial data | | | |
| Net invested capital | 3,124 | 2,049 | |
| Net worth | 1,676 | 1,719 | |
| Total net financial indebtedness | 1,448 | 330 | |
| of which non-recourse Project Financing ⁽⁴⁾ | 1,285 | 1,297 | |
| Financial leverage | 46% | 16% | |
| Total net adjusted financial indebtedness ⁽⁵⁾ | 1,448 | 409 | |
| EBITDA % | 37% | 34% | |
| Operating data | | | |
| Wind farm installed capacity at the end of the period | MW | 1,506 | 1,341 |
| Electric power output from wind farms | millions of KWh | 2,614 | 2,580 |
| Installed capacity at thermoelectric plants | MW | 480 | 480 |
| Electric power output from thermoelectric plants | millions of KWh | 2,632 | 2,622 |
| Hydroelectric power installed capacity at the end of the period | MW | 527 | 0 |
| Electric power output from hydroelectric plants | millions of KWh | 84 | 0 |
| Total sales of electric power | millions of KWh | 10,113 | 8,823 |
| Capital expenditures ⁽⁶⁾ | EUR million | 106 | 53 |
| Employees at the end of the period | Units | 666 | 604 |
| Market indicators | | | |
| Reference price of electricity ⁽⁷⁾ | EUR/MWh | 52.3 | 52.1 |
| Green certificate sale price (renewable energies) | EUR/MWh | 100.1 | 97.4 |
| Sicity zone price | EUR/MWh | 57.5 | 80.9 |
| Average unit value of ERG wind energy sold in Italy | EUR/MWh | 147.8 | 146.4 |
| Feed-in tariff (Germany) ⁽⁸⁾ | EUR/MWh | 96.2 | 96.0 |
| Feed-in tariff (France) ⁽⁸⁾ | EUR/MWh | 90.4 | 91.1 |
| Feed-in tariff (Bulgaria) ⁽⁸⁾ | EUR/MWh | 80.3 | 94.9 |
| EE price Poland | EUR/MWh | 37.1 | n.a. |
| CO price Poland | EUR/MWh | 26.0 | n.a. |
| EE price Romania ⁽⁹⁾ | EUR/MWh | 29.7 | 25.0 |
| GC price Romania ⁽¹⁰⁾ | EUR/MWh | 29.5 | 29.3 |

For the definition and reconciliation of adjusted replacement cost results, please refer to the section "Alternative performance indicators".

⁽¹⁾ does not include non-recurring items

⁽²⁾ include the contribution, attributable to ERG, of LUKERG Renew (joint venture with the LUKOIL Group).

⁽³⁾ does not include TotalErg inventory earnings (losses), non-recurring items and related applicable taxes. Values correspond to the adjusted values.

⁽⁴⁾ including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates

⁽⁵⁾ in 2014 it included the adjusted contribution attributable to ERG of the net financial position of the LUKERG Renew joint venture

⁽⁶⁾ in tangible and intangible fixed assets. M&A investments of EUR 1.1 million in 2015 are not included

⁽⁷⁾ Single National Price

⁽⁸⁾ value of the feed-in tariffs abroad refer to the prices obtained by ERG Renew plants

⁽⁹⁾ EE Romania price refers to the price fixed by the company with bilateral contracts in 2015 (for comparative purposes, in the absence of similar bilateral contracts the market price is shown)

⁽¹⁰⁾ price refers to the unit value of the green certificate

Performance highlights by sector

| (EUR million) | 2015 | Year 2014 pro forma |
|---|--------------|---------------------------|
| Revenues from ordinary operations: | | |
| Non-programmable resources | 345 | 349 |
| Wind | 345 | 349 |
| Programmable resources | 602 | 679 |
| Thermoelectric ⁽¹⁾ | 592 | 679 |
| Hydroelectric | 11 | 0 |
| Corporate | 22 | 21 |
| <i>Intra-sector revenues</i> | <i>(25)</i> | <i>(28)</i> |
| Total adjusted revenues⁽²⁾ | 944 | 1,021 |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>(24)</i> | <i>(22)</i> |
| Total revenues from ordinary operations | 920 | 999 |
| EBITDA: | | |
| Non-programmable resources | 254 | 267 |
| Wind | 254 | 267 |
| Programmable resources | 115 | 100 |
| Thermoelectric ⁽¹⁾ | 107 | 100 |
| Hydroelectric | 8 | 0 |
| Corporate | (19) | (24) |
| EBITDA at adjusted replacement cost⁽³⁾ | 350 | 343 |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>(12)</i> | <i>(14)</i> |
| EBITDA at replacement cost⁽³⁾ | 338 | 329 |
| Amortisation, depreciation and write-downs | | |
| Non-programmable resources | (134) | (137) |
| Wind | (134) | (137) |
| Programmable resources | (34) | (29) |
| Thermoelectric | (30) | (29) |
| Hydroelectric | (5) | 0 |
| Corporate | (3) | (2) |
| Amortisation and depreciation at adjusted replacement cost⁽³⁾ | (171) | (168) |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>8</i> | <i>8</i> |
| Amortisation and depreciation at replacement cost⁽³⁾ | (163) | (160) |
| EBIT: | | |
| Non-programmable resources | 120 | 131 |
| Wind | 120 | 131 |
| Programmable resources | 81 | 71 |
| Thermoelectric ⁽¹⁾ | 78 | 71 |
| Hydroelectric | 3 | 0 |
| Corporate | (22) | (27) |
| EBIT at adjusted replacement cost⁽³⁾ | 179 | 175 |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>(4)</i> | <i>(6)</i> |
| EBIT at replacement cost⁽³⁾ | 175 | 169 |
| Capital expenditures on tangible and intangible fixed assets: | | |
| Non-programmable resources | 95 | 38 |
| Wind | 95 | 38 |
| Programmable resources | 9 | 13 |
| Thermoelectric | 9 | 13 |
| Hydroelectric | 0 | 0 |
| Corporate | 2 | 3 |
| Total adjusted capital expenditures⁽⁴⁾ | 106 | 53 |
| <i>Capital expenditures of LUKERG Renew (50%)</i> | <i>0</i> | <i>(2)</i> |
| Total capital expenditures | 106 | 52 |

For the definition and reconciliation of adjusted replacement cost results, please refer to the section "Alternative performance indicators".

⁽¹⁾ includes Energy Management contribution

⁽²⁾ adjusted revenues take into account ERG's share of the revenues generated by the LUKERG Renew joint venture.

⁽³⁾ the results at replacement cost do not include the non-recurring items. Adjusted values include the contribution, attributable to ERG, of the results of LUKERG Renew.

⁽⁴⁾ take into account ERG's share of the capital expenditures carried out by LUKERG Renew.

Sales

Energy

Electricity sales made by the ERG Group in Italy, primarily through Energy Management of ERG Power Generation S.p.A., refer to the electricity produced by its plants, wind (ERG Renew), thermoelectric (ERG Power) and, starting from December 2015, hydroelectric (ERG Hydro), as well as purchases on organised markets and through bilateral physical contracts.

During 2015, the total sales of electricity were 10.1 TWh (8.8 TWh in 2014 on a like-for-like basis), compared to the total value of production of the Group's plants of about 5.3 TWh, of which about 0.7 TWh abroad and 4.6 TWh in Italy. The latter value corresponds to approximately 1.7% of demand for electricity in Italy (1.7% in 2014, on a like-for-like basis).

The distribution of the volumes of electricity sales and the relative resources are shown in the table¹ below:

| Sources of electricity (GWh) | | |
|-------------------------------------|---------------|----------------|
| | 2015 | 2014 pro forma |
| ERG Renew Italia - output | 1,910 | 2,051 |
| ERG Renew Abroad - output | 705 | 529 |
| ERG Power Generation - CCGT output | 2,632 | 2,622 |
| ERG Power Generation - HYDRO output | 84 | 0 |
| ERG Power Generation - purchases | 4,782 | 3,621 |
| Total | 10,113 | 8,823 |
| Uses of electricity (GWh) | | |
| | 2015 | 2014 pro forma |
| EE sold to Priolo plant customers | 535 | 532 |
| EE sold to IREN | 2,015 | 2,015 |
| EE sold wholesale | 7,563 | 6,276 |
| Total | 10,113 | 8,823 |

In 2015 sales of steam amounted to 802 thousand tonnes (838 thousand tonnes in 2014), while gas sales ceased in the third quarter of 2014 (320 million Sm³ in 2014).

Electricity sold wholesale includes sales on the IPEX electricity market, both on the Market of the Day Before, the Intraday Market and the Dispatching Services Market, as well as sales to the sector's main operators on the Over the Counter platform. The latter are carried out by Energy Management within the context of fixed-term contracts to hedge the price of production, in line with ERG Group policies.

¹ The electricity resources refer to the production of the Group's plants and the purchases made on wholesale markets; the uses include sales made on the basis of physical bilateral contracts and on spot and forward markets. The 2014 comparative values, which in previous reports showed the net balance of the energy bought and sold on wholesale markets, have been appropriately reclassified.

² Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

Comments on the performance of the FY

In 2015 adjusted revenues were 944 million, down compared to 1,021 million in 2014 on a pro forma basis, due mainly to lower than average prices in the programmable sector in Sicily.

EBITDA at adjusted replacement cost amounted to EUR 350 million, up compared with EUR 343 million in 2014 on a pro forma basis. The change is a result of the following factors:

Non-programmable resources: EBITDA is 254 million, lower compared to the same period of the previous year (267 million) due to a decrease in the results recorded by Italian wind parks with significantly inferior anemological conditions in the period, and in particular as a result the historical lows in November and December in Italy, partly offset by the higher results of parks abroad, mainly thanks to the contribution made by the new parks in France and Poland.

Programmable resources: EBITDA is 115 million, higher than the previous year (100 million) as a result of the different and more favourable price of gas compared to the SNP, which allowed for better unit margins despite the local market being less profitable. This improved result was reached also thanks to constant efficiencies of the plants and recovery of costs in accordance with the Essential Units regulations in force, as well as to the contribution of the Energy Management activities and of the December results from the new hydroelectric power operations.

EDIT adjusted to current values was equal to 179 million (175 million in 2014 pro forma) after depreciation for 171 million (168 million in 2014 on a pro forma basis).

Group net profit at current values was equal to 96 million, compared to a net profit of 60 million in 2014 on a pro forma basis. Improvement in profits was influenced significantly by the better performance of the TotalErg joint venture in all business sectors. The results have also benefited from a lower tax rate due to the declared unconstitutionality of the additional 6.5% "robin tax", which is no longer applied as of the 1st of January 2015.

Group net profit was 21 million (-19 million compared to 2014 pro forma) and it shows, with respect to the Group net profit at current values, mainly in the losses in the value of the TotalErg stock due to the effect of the heavy reductions in the price of crude oil and petroleum products and non-recurring items.

Adjusted Group investments in 2015 were 106 million (53 million in 2014 pro forma) of which 90% in the non-programmable field (70%), 8% in the programmable field (24%). Please note that this value does not include M&A investments of 1.1 million in 2015.

Net financial debt is 1,448 million, an increase of 1,038 million compared to the adjusted value of 31st of December 2014 (thus included in the quota due to LUKERG Renew) mainly for the acquisition of ERG Hydro S.r.l., and the French wind parks. Operational cash flow was higher than the movements regarding investments related to the development of the wind parks in Poland, the payment of taxes and the distribution of dividends,.

Significant events of the financial year

Wind farms abroad

On the **23rd of January** ERG Renew reached an agreement for the acquisition by the PAI Group (Polish Alternative Investments RES) of 100% of Hydro Inwestycje capital, a Polish registered company, holder of permissions to realise a wind farm in Poland, in the municipalities of Szydłowo and Stupsk, with a planned capacity of 14 MW and an electricity production, once fully functioning, estimated at over 36 GWh per year, approximately 2,600 equivalent hours, and a saving of approximately 30 kt of CO₂ emissions. Completion took place on the 19th of February 2015. ERG Renew completed the development works in the fourth quarter of 2015 and the wind farm became operational at the end of December 2015.

On the **12th of March** ERG Renew reached an agreement for the acquisition from the PAI Group (Polish Alternative Investments RES), of 100% of the Hydro Inwestycje capital, a Polish registered company, owner of permissions to realise a wind farm in Poland, in the municipalities of Szydłowo and Stupsk, and with a planned capacity of 26 MW and an electricity production, once fully functioning, estimated at over 62 GWh per year, approximately 2,600 equivalent hours, and a saving of approximately 52 kt of CO₂ emissions. ERG Renew completed construction at the end of 2015 and the wind farm became operational in the first few days of 2016.

On the **17th of June** ERG Renew completed the acquisition from the Macquarie European Infrastructure Fund, managed by the Macquarie Group, of 100% of the capital of the four French registered companies, owners, directly and indirectly, of six wind farms in France, with a total installed capacity of 63.4 MW, which began operating between 2005 and 2008. The parks have an expected average annual production of about 150 GWh, the equivalent of more than 2,300 hours. The value of the acquisition was approximately 72 million in terms of enterprise value. Completion took place on the **27th of July 2015**.

On the **25th of June** the two LUKERG Renew shareholders, an equal joint venture between ERG Renew and LUKOIL created in 2011 in order to invest in the wind sector in Bulgaria and Romania, decided, in full agreement, to dissolve the joint venture with the consequent asset breakdown of the same, at the end of a three-year period of strong growth. In accordance with the agreement ERG Renew purchased Tcherga (40 MW) and Hrabrovo (14 MW) parks in Bulgaria and the Gebeleisis park in Romania (70 MW) for a total of 124 MW, while LUKOIL will take only the Topolog park (84 MW). This allowed ERG Renew to increase total installed power by 20 MW with respect to its share under the joint venture (104 MW). The value of the operation, in terms of enterprise value, is approximately EUR 27 million, mainly represented by non-recourse project financing.

Completion was on the **23rd of December 2015**, with the acquisition by ERG Renew S.p.A. of 50% of the shares of the shareholder OOO LUKOIL – Ecoenergo, held by LUKERG Renew GmbH. On the same date the sale, by LUKERG Renew GmbH and LUKERG Bulgaria GmbH, was completed of the quota held in Land Power S.A., a company registered in Romania, and of the acquisition by LUKERG Bulgaria GmbH of a minority share in Corni Eolian S.A., also a Romanian registered company. Therefore, ERG Renew S.p.A. is the sole shareholder of LUKERG Renew GmbH (which in turn controls LUKERG Bulgaria GmbH and its Bulgarian subsidiaries as well as Corni Eolian S.A. entirely). On the same date LUKERG Renew GmbH changed its name to ERG Wind GmbH and LUKERG Bulgaria GmbH changed its name to ERG Wind Bulgaria GmbH (registered with the relevant Austrian Register of Companies on the 20th and 21st of January 2016 respectively).

In **July** the Radziejov wind park in Poland became fully operational, with a capacity of 42 MW and an output of electricity, once fully functioning, estimated at more than 100 GWh per year, approximately 2,400 equivalent hours.

On the **15th of October** ERG Renew signed an agreement for the acquisition from a fund managed by Impax Asset Management Group of eleven wind parks in France, with an installed capacity of 124 MW, and six in Germany, with an installed capacity of 82 MW, for a total of 206 MW, and two companies – CSO Energy Sarl and CSO Energy GmbH – that provide technical, operational and sales support to wind operators in France, Germany and Poland, both captive and third-party, for a total of

approximately 800 MW. The wind parks, which began operations between 2009 and 2014 in France and between 2004 and 2014 in Germany, have an expected average annual production of about 410 GWh. Completion took place on the **2nd of February 2016** (see, Significant Events that Occurred after the Closure of the FY).

On the **4th of November** the company EW Orneta 2 (100% ERG Renew), owner of the wind farm located in the municipality of Radziejow in Poland, signed a project financing contract. The plant began production at the beginning of the third quarter of 2015, with an installed capacity of 42 MW. The financing, for a total amount of PLN 177.5 million (approximately EUR 42 million) and a duration of 14 years, was signed by the Mandated Lead Arrangers ING Bank, ING Bank Slaski and Bank Pekao (part of the UniCredit Group). ING Bank Slaski also acts as the agent bank and Bank Pekao as the account bank.

Hydroelectric

On the **6th of August** ERG, through its subsidiary ERG Power Generation, reached agreement for the acquisition of all the E.ON Produzione hydroelectric operations, composed of a portfolio of plants in Umbria, the Marche and Lazio, with a total capacity of 527 MW.

The value of the operation upon completion was about EUR 0.95 billion, debt-free and cash-free. The EBITDA expected for the hydroelectric business in the coming years is approximately EUR 110 million per annum.

The asset portfolio is composed of 16 power stations, 7 dams, 3 tanks and a pumping station. The total average yearly production is estimated at about 1.4 TWh (1.8 TWh in 2014 and 1.3 TWh in 2015), of which approximately 40% was subsidised by the green certificates system. Expiry of the concessions relating to the portfolio of acquired assets is fixed for 2029.

On the **5th of October 2015** the Antitrust Authority's provision for authorisation was published, with which the go-ahead for ERG to acquire the Terni hydroelectric plant owned by E.ON was given.

Completion took place on the **30th of November 2015**.

With this transaction more than 100 people joined the ERG Group, including technicians specialised in the operational management of plants, specialists in energy management and dedicated staff.

The acquisition by ERG Power Generation was financed by ERG S.p.A. through the partial use of available liquidity and a corporate acquisition loan of EUR 700 million signed with a pool of seven Italian and international mandated lead arrangers and bookrunners (Barclays Bank Plc, BNP Paribas S.A., Credit Agricole Corporate & Investment Bank S.A., ING Bank N.V., Intesa Sanpaolo S.p.A., Natixis S.A. and UniCredit S.p.A.).

Corporate

On the **24th of April** the Ordinary Shareholders Meeting of ERG S.p.A. appointed for the three-year period 2015-2017, the new Board of Directors composed of 12 members, represented by Edoardo Garrone, Alessandro Garrone, Giovanni Mondini, Luca Bettonte, Massimo Belcredi, Mara Anna Rita Caverni and Alessandro Chieffi (from the list presented by some of the institutional investors) Barbara Cominelli, Marco Costaguta, Luigi Ferraris, Paolo Francesco Lanzoni, Silvia Merlo and confirmed Edoardo Garrone as President of the company.

The Board of Directors of ERG, which met upon closure of the meeting, confirmed the powers of the President, Alessandro Garrone as Executive Vice President also appointing him administrator-in-charge of the internal auditing and risk management system, and confirmed Giovanni Mondini as Vice President and Luca Bettonte as CEO.

The CEO, as with the previous mandate, was entrusted with the powers necessary to carry out all actions pertaining to company activities, except for those reserved for the Board of Directors (by law or statute) or delegated to other members of the board.

The Board of Directors also positively assessed the independence of Massimo Belcredi and Paolo Francesco Lanzoni, members of the Board, with reference to that foreseen by article 148, third paragraph of the Financial Services Act and the independence of Directors Mara Anna Rita Caverni, Barbara Cominelli, Luigi Ferraris, Silvia Merlo and Alessandro Chieffi both with reference to what is foreseen by article 148, third paragraph of the Financial Services Act and the content of the Self-regulatory Code of Borsa Italiana S.p.A.

The Board of Directors confirmed the membership of Director Massimo Belcredi as a member of the Audit Committee and appointed as additional members to the same committee Directors Mara Anna Rita Caverni and Barbara Cominelli. It confirmed the appointment of Director Paolo Francesco Lanzoni to the Nominations and Remuneration Committee, appointing as additional members Directors Mara Anna Rita Caverni and Silvia Merlo, and appointed as members of the Strategy Committee Directors Alessandro Garrone (Chairman) Giovanni Mondini, Luca Bettonte and Marco Costaguta, with Director Luigi Ferraris as an additional member.

The Meeting approved the payment of a dividend of EUR 0.50 per share that was payable from the 20th of May 2015 (payment date), payment of the coupon from the 18th of May 2015 (ex-date) and the record date as the 19th of May 2015.

The meeting authorised the Board of Directors, pursuant to article 2357 of the Italian Civil Code, for a period of 12 months from the 24th of April 2015, to purchase shares up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirtymillionsixtyfourthousand) ordinary ERG shares with a nominal value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction. This in order to optimize the structure of the capital with a view to maximizing the creation of value for shareholders, also in relation to the significant liquidity available.

On the same date the Board of Directors approved, pursuant to article 2505, paragraph 2 of the Italian Civil Code, the project for the merger by incorporation of ERG Supply & Trading S.p.A. into ERG S.p.A.

On the **29th of June 2015** ERG signed the deed of merger by incorporation of ERG Supply & Trading S.p.A. into ERG S.p.A., registered on the same date on the Genoa Register of Companies. The merger was effective as of the 1st of July 2015, the accounting and tax aspects of the merger were effective as of the 1st of January 2015.

On the **14th of October 2015** the Board of Directors approved, pursuant to article 2505, paragraph 2 of the Italian Civil Code, the merger by incorporation of ISAB Energy S.r.l. into ERG S.p.A.

On the **15th of December** the Board of Directors of ERG S.p.A. approved the 2015-2018 Industrial Plan, the contents of which are presented at the beginning of this document.

On the 16th of December the Plan was presented to the financial community.

On the **17th of December** ERG signed the deed of merger by incorporation of ISAB Energy S.r.l. into ERG S.p.A., registered on the same date on the Genoa Register of Companies. The merger was effective as of the 18th of December, the accounting and tax aspects of the merger were recognised as of the 1st of January 2015.

TotalErg

On the **3rd of November** TotalErg, joint venture between ERG and TOTAL, signed a financing contract denominated in EUR for a period of five years with a group of leading Italian and foreign banks.

The financing, consisting of a credit line of EUR 200 million and a revolving credit line of EUR 500 million, for a total of EUR 700 million, is a senior loan and is not supported by real guarantees or by guarantees from the two shareholders.

With this operation TotalErg, in light of the reduction in its financial needs, replaces the previous credit line worth a total of EUR 900 million, with the confidence of the financial system in its growth prospects confirmed.

TotalErg Audit

With reference to the investigations relating to alleged fiscal irregularities TotalErg (joint venture, 51% ERG and 49% Total, founded with the merger of Total Italia and ERG Petroli on the 1st of October 2010), it should be noted that on the **26th of June 2015** ERG was notified, in its role as tax consolidation parent, and TotalErg, as a subsidiary (ex ERG Petroli), of the assessment notice for IRES (Corporate Income Tax) purposes for the taxation year 2007. For the same year TotalErg was notified directly of the assessment notice for the purposes of IRAP (Regional Income Tax) and VAT.

In the light of specific findings regarding the alleged non-deductible costs for purchasing and the services of the financial year 2007, included in the formal notice of assessment (Report of Findings) of the 6th of August 2014 of approximately EUR 68 million, the assessment notice considerably reduces this amount to EUR 125 thousand.

On the **6th of July 2015** the subsidiary TotalErg was notified, as acquirer of Total Italia, for the reasons already given, of notices of assessment for IRES, IRAP and VAT for 2007, 2008 and 2009. In light of the specific findings in the Report of Findings, notified on the 6th of August 2014, regarding approximately EUR 2,864 million in non-deductible costs to be borne by TotalErg, the tax assessment notice reduces, in this case, considerably, the amount to approximately EUR 6 million.

ERG and the subsidiary TotalErg, in believing that they have always operated in full respect of the law and regulations in force, have challenged the aforementioned notices of assessment by presenting tax appeals in order to have them cancelled, within the legal time limits.

In relation to the issues described above it should be noted that the joint venture agreement with Total foresees an adequate mutual apparatus of guarantees.

In consideration of the above no liabilities have been found.

On the date of publication of this document no notices of assessment had been issued regarding the companies for 2010, the year for which the cited Report of Findings of the 6th of August 2014 contained objections of a similar nature and content to those mentioned above, mainly related to the period prior to the creation of the joint venture and referable to activities carried out mainly by Total Italia.

Relevant regulatory framework

The most important measures that have characterized the energy sector in the course of 2015 are:

GENERAL

In February 2015 the European Commission published its “**Energy Union Strategy**”, which aims to guarantee Europe and its citizens safe, sustainable energy at affordable prices. Specific measures relate to five key areas including energy security, energy efficiency and decarbonisation. The “package” is divided into three sections:

- a framework strategy for energy union, which specifies the objectives of energy union and concrete measures that will be adopted to achieve it,
- a document outlining the vision of the EU for the Paris new global agreement on climate,
- a document describing the measures necessary to achieve the objective of interconnection of at least 10% of installed electricity by 2020.

At the beginning of November 2015, the Commission published the first Interim Report on the progress achieved by the EU toward full implementation of this initiative.

Climate-Energy package – ETS reform

In October 2015 the process of the joint decision to adopt the **Market Stability Reserve** (MSR) was concluded. This reform of the ERS market, aimed at accelerating the exit from the conditions of over supply in which the system found itself was strongly desired by the Commission and was one of the main initiatives of the so-called structural reforms of the ETS.

The Reserve operates as an independent, capable mechanism, on the basis of predefined limits and in a semi-automatic manner, receiving or issuing predetermined numbers of shares, calculated on the basis of demand.

In accordance with the agreement reached with the Board and Parliament the MSR will be constituted in 2018, but will be operational and begin to receive shares on the 1st of January 2019.

Legislative Calendar of the Commission

In October the Commission announced its ambitious calendar of legislative initiatives for the climate/energy sector for 2016. The size and breadth of the intervention will make 2016 one of the crucial years in the over all reform of the energy market, and in particular the European electricity market. There are four Packages that will be made up of 10 main legislative tools, with about 15 measures to be implemented.

February

- Security of Gas Supply
- Heating and Cooling Strategy

April:

- Guidelines for regionalisation

May/June:

- Non ETS, Effort Sharing with Land use, Land-use change and Forestry

July:

- Transport Decarbonisation Strategy

September:

- Energy Efficiency, Energy Performance of Buildings, EcoLabeling and EcoDesign

November/December:

- Market Design, Renewables **Directive**, Governance of Renewables 2030.

Paris Agreement on Climate Change

On the 12th of December 195 representatives from as many countries formally adopted the text of the Paris Agreement on climate change. Even if within the context of a process still firmly based on the will of individual parties and in the absence of a true instrument of control and sanction, the Agreement establishes the following principles:

- that it affects each signatory country, making the overall objectives the responsibility of all the parties to the agreement, contrary to what was established in Kyoto,
- that it institutionalises a process of revision of the data and the national objectives every 5 years,
- that it recognises the need to keep the average increase of the temperature of the earth “well below” 2 degrees, making all efforts to keep it at 1.5 degrees,
- that it anticipates the need for further efforts to limit global warming within these values, recognizing that the voluntary national programmes signed by the parties to the United Nations Conference are not sufficient

At follow up negotiation meetings the refinement of the agreement reached will be discussed, starting with the definition of the modalities for the provision of loans for developing countries for emission reduction projects and mitigation of environmental risk, the recognition of “loss and damages” of the countries most exposed to the consequences of climate change, and the role of the markets in the global strategy of decarbonisation.

Environmental Issues - Efficiency - Safety

In May 2015 the MSE website published the “Clarifications on energy audits in companies within the meaning of article 8 of Legislative Decree no. 102 of 2014”, necessary for the implementation by the 5th of December 2015 of the diagnosis of large companies and companies with a high energy consumption.

At the end of May 2015 **Law n. 68 of the 22nd of May 2015 on the so-called environmental crimes** was published, which introduces four new offences to the criminal code: environmental pollution, environmental disaster, traffic and abandonment of highly radioactive material and the obstruction of controls.

Among the other provisions of the measure the doubling of the terms of prescription for environmental crimes should be noted, with the intention of limiting impunity due to expiry of time limits, provision for confiscation of property and the restoration to the state of places, as well as the reduction of the penalty by two thirds in the event of active repentance.

WIND

Italy

The renewable energies sector has been the subject of targeted as well as implied measures and interdisciplinary measures already mentioned in the previous paragraph.

Ministerial Decree GSE tariffs

With reference to the aforementioned “Ministerial Decree GSE tariffs”, in May 2015 GSE (Electricity Services Operator) published “**Modes of operation for the approval of tariffs to cover the costs incurred by GSE in supporting renewable energy resources and energy efficiency**”.

ERG Renew presented an extraordinary appeal to the Head of State for the annulment of the above-mentioned Decree.

The 22/2015 Resolution on the withdrawal price of the 2014 green certificates

With **Resolution 22/2015**, the Regulatory Authority for Electricity, Gas and Water determined that the average value of the price of sale for electricity in 2014 was 55.10 EUR/MWh. Following this update, GSE announced the withdrawal price of green certificates released for 2014 production of EUR 97.42.

Within the new “**Application procedure for the issuing, management and withdrawal of GSE green certificates**”, the algorithm for the calculation of the **extension of the incentive period** was published, relative to the periods of total or partial inactivity of the wind power plant decided by the operator of the national grid (Terna) within the meaning of article 11, sub-paragraph 8 of the Ministerial Decree of 18/12/2008.

Again with regard to green certificates, at the end of October 2015, GSE released the **time periods for the issuing of incentives for plants that have green certificates**, which from 2016 will be **converted into incentive rates (FIP)**. From the 1st of January 2016, incentives for the conversion of green certificates will be determined on a monthly basis and **will be issued by GSE on a quarterly basis** by the second quarter following the relevant quarter, in line with current timings for the **withdrawal** of green certificates.

GSE will make available to the operators the **monthly certification of production incentives**, the relative economic counter value of the incentive and the date of issue by GSE.

France

The French National Assembly promulgated the "Law for energy transition" on 17 August 2015. The law defines the objectives for energy transition towards decarbonisation and, among the qualifying points, foresees the commitment to reduce greenhouse gas emissions by 40% by 2030 compared to 1990, a 30% reduction in the consumption of fossil fuels by 2030 compared to 2012, an increase of the share of renewable energies as a proportion of energy consumed to 32% by 2030 (40% as regards the production of electricity), the reduction of energy consumed by 50% compared to 2012, the reduction of the nuclear share of electricity production to 50% by 2025 (compared to the current 75%).

Germany

In October 2015, the German parliament began discussing the new law for the relaunch and reform of the German electricity market. The law proposes to not institute any remuneration mechanisms for capacity (neither Capacity Payments nor Capacity Markets) convinced of their intrinsic incompatibility with the so-called energy only markets. The most interesting aspect of the reform and the one that will certainly have the most repercussions on the evolution of the electricity mix in Europe is the decision to institute a Capacity Reserve composed of two elements:

- a Capacity Riserva open to all types of technology and production,
- an Environmental Reserve, dedicated to national coal (2,7 GW).

The plan of the Federal Republic, which must respect more demanding and ambitious decarbonisation targets than those foreseen by EU legislation, is to close the plants on the Environmental Reserve within four years of establishing it.

Bulgaria

On the 2nd of March 2015 an amendment to the legislation in force was approved, preventing access to the system of incentives for new plants. This measure, which has no retroactive impacts, is justified by having achieved the objectives for 2020 already in 2013.

In July 2015 the Bulgarian Parliament approved a series of amendments to energy and renewables laws. Two the most significant revisions concern the introduction of:

- maximum thresholds for incentives in terms of hours of operation per year, beyond which the energy is purchased without a premium,
- A fee of 5% of the revenues relating to plants fuelled by renewable resources to finance the development and the adaptation of the national grid.

Poland

On the 11th of March 2015 the Polish President signed the law on the promotion of renewable sources of energy, which came into force 30 days after publication (with the exception of measures relating to the new system of incentives, which will come into force on the 1st of January 2016).

The text amends the current system of certificates of origin and introduces a system of incentives of an auction-based Contracts for Difference (CFD) type for new entrants (from 2016).

A voluntary transition to a system of incentives of a CFD type is foreseen for existing plants, awarded through specific auctions.

The new regulation complies with the European Community Guidelines on State Aid adopted in April 2014.

Romania

On the 4th of May 2015 the DG Competition of the European Commission **approved** the amendments to the law on renewables adopted by the Romanian Parliament in 2014.

The Commission underlined how the Romanian green certificates scheme involves state aid, judged, however, to be compatible with existing legislation and in particular with the European Community Guidelines on State Aid adopted in April 2014.

THERMOELECTRIC POWER

The “Mucchetti” amendment for production units in Sicily – Update on completion of the “Sorgente – Rizziconi” works

The law converting Legislative Decree 91/14 (“Competitiveness Decree”) promulgated last year, containing the provision known as the “Mucchetti amendment”, has deemed essential for the purposes of safety of the electricity system – starting from the 1st of January 2015 and until the entry into operation of the 380 kV “Sorgente-Rizziconi” power line between Sicily and the continent – all electricity production units exceeding 50 MW present on the island, with the exclusion of non-programmable resources. The completion of the aforementioned power line, which put an end to this continuity regime, was originally envisaged for June 2015.

As a result of a judicial sequestration of part of the works, resolved in part in 2015, the entry into operation of the new power line has been formally postponed until **June 2016**, with the consequent continuation of the continuity regime in 2016.

In this respect, the Regulatory Authority for Electricity and Gas and Water has issued **Resolutions 496/2015 and 574/2015** in order to adapt the existing regulations to the new deadline. In particular, the operating parameters proposed by ERG Power Generation were approved and it will be possible to request an advance for 2016 if the new power line enters into service between the 30th of April and the 31st of August 2016. In 2015 the Regulatory Authority for Electricity issued **Resolution 615/2015** with which provision was made for the payment of consideration to ERG Power Generation for the first half of the year. The payment was made on 31/12/2015.

For the producers of electricity covered by the **CIP6** convention the Regulatory Authority for Electricity and Gas and Water issued **Resolution 538/2015** with which the operators subject to obligation are recognised the reimbursed the costs of the purchase of the **2014** CO2 shares.

Similarly, with **Resolution 594/2015** the CIP6 convention producers are recognized the reimbursement of costs for the purchase of green certificates to fulfil **2014** obligations.

Both the reimbursements were made in the last period of the 2015.

For operators who have “closed distribution systems”, including the “**Internal Utility Networks**” (**RIU**), the Regulatory Authority for Electricity and Gas and Water published **Resolution RIU – 539/2015**, which governs the management of these internal networks from 2017, introducing, among other things, the need to adopt functional separation between the distribution and the sale of electricity within the RIU.

ERG Power Generation, as manager of the Priolo RIU, has appealed to the Administrative Court of Lombardy for the partial annulment of the resolution.

HYDROELECTRIC POWER

With regard to green certificates, at the end of October 2015, the GSE released the **timings of the issuing of incentives for plants that have green certificates**, which from 2016 will be **converted into incentive tariffs (FIP)**. From the 1st of January 2016, incentives for the conversion of green certificates will be determined on a monthly basis and **will be issued by GSE on a quarterly basis** by the second quarter following the relevant quarter, in line with current timings for the **withdrawal** of green certificates.

GSE will make available to the operators the **monthly certification of production incentives**, the relative economic counter value of the incentive and the date of issue by GSE.

On the subject of **electricity consumption subject to incentives** and regulated by Resolution 595/2014/R/EEL, GSE has established some criteria on the location and requirements of power meters, to be adopted from January 2016 in production plants with medium and high voltage with power exceeding 20 kW.

For operators with **renewables plant** incentives conventions, GSE has updated the “**Request for transfer of Ownership** User Manual”, which outlines the procedures to obtain the transfer of ownership of incentives.

Compared to previous versions, a clause has been inserted that provides for, from 2016, the suspension of the procedure for the transfer of ownership and **recognition of incentives** if the request for change of ownership is accompanied by a Single European Authorisation petition for change of ownership submitted to the relevant authority rather than a simple change of ownership.

At the end of December 2015 the Official Journal published Law no. 208/2015, "Stability 2016", for the hydroelectric sector, providing for an allocation of funds for operators of large hydroelectric plants. It provides for the full implementation of verdicts of illegality by the Constitutional Court, relating to additional fees provided for in the Finance Act 2006 (in view of the extension of the concessions).

As regards regional regulations, the Umbria Region published in October 2015 Resolution no. 1067/2015 which foresees an increase, as of the 1st of January 2016, in tariffs from 15.6 to about 31 EUR/kW. ERG Hydro S.r.l. has appealed against this provision to the Tribunale Superiore delle Acque Pubbliche (Nautical High Court).

Impacts on the Group

As regards the impact of these measures on the ERG Group in 2015, please see the following chapters dedicated to the different activities.

BUSINESS SEGMENTS

NON-PROGRAMMABLE RESOURCES

The ERG Group operates in the wind sector through its subsidiary ERG Renew.

Wind parks consist of nacelles capable of transforming the kinetic energy of wind into mechanical energy, which in turn is used for the production of electricity. Given plant availability, the results expected from each wind park are obviously influenced by the wind conditions of the site of the park. Operating results are also influenced by the price of sale of electricity which can vary depending on the area where the plants are installed, on the value of the green certificates, and in general on incentive systems for renewable energy resources, which differ from country to country.

Reference market ⁽¹⁾

| | Year | |
|---|--------|---------|
| | 2015 | 2014 |
| Italian Renewable Energies Market (GWh) ⁽²⁾ | | |
| Output from renewable resources ⁽³⁾ | 89,832 | 102,068 |
| <i>of which:</i> | | |
| Hydroelectric | 44,751 | 59,575 |
| Geothermal | 5,816 | 5,566 |
| Wind | 14,589 | 15,089 |
| Photovoltaic | 24,676 | 21,838 |
| Sale prices (EUR/MWh) | | |
| SNP (Italy) ⁽⁴⁾ | 52.3 | 52.1 |
| Green certificates | 100.1 | 97.4 |
| EE price central-southern area | 50.9 | 48.9 |
| EE price southern area | 49.4 | 47.4 |
| EE price Sicily | 57.5 | 80.9 |
| EE price Sardinia | 51.1 | 52.2 |
| Average unit price for the sale of ERG energy in Italy ⁽⁵⁾ | 147.8 | 146.4 |
| Feed-in tariff (Germany) ⁽⁶⁾ | 96.2 | 96.0 |
| Feed-in tariff (France) ⁽⁶⁾ | 90.4 | 91.1 |
| Feed-in tariff (Bulgaria) ⁽⁶⁾ | 80.3 | 94.9 |
| EE price Poland | 37.1 | n.a. |
| CO price Poland | 26.0 | n.a. |
| EE price Romania ⁽⁷⁾ | 29.7 | 25.0 |
| GC price Romania ⁽⁸⁾ | 29.5 | 29.3 |

⁽¹⁾ estimated output for December

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

⁽³⁾ resources considered: hydroelectric, geothermal, wind and photovoltaic

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

⁽⁵⁾ The average value in Italy does not take into consideration the feed-in tariff of 123.8 EUR/MWh paid to the Palazzo S. Gervasio plant.

⁽⁶⁾ The value of the feed-in tariffs abroad refer to the prices obtained by ERG Renew plants

⁽⁷⁾ EE Romania price refers to the price fixed by the company with bilateral contracts in 2015 (for comparative purposes, in the absence of similar bilateral contracts the market price is shown)

⁽⁸⁾ The price of the unit value of the green certificate (the number of GCs recognized and time periods are described in the Romanian scenario section)

Market scenario in Italy

In 2015 33% of net national electricity production was covered by renewable resources, down compared to 38% in 2014, primarily as a result of reduced availability of water; in particular, 17% of electricity is produced from hydroelectric power, 9% photovoltaic, 5% wind and 2% geothermal. Compared with the previous year there has been growth in photovoltaic (+13%) and geothermal (+4%), while hydroelectric production has recorded a net decrease (-25%), and wind power production (-3%).

Tariff scenario

Italy

The system of incentives in Italy provides for on-shore wind power plants in operation before the end of 2012³, the continuation of the green certificates system until 2015 and subsequent conversion for the remaining period of entitlement, a feed-in tariff premium calculated with a similar formula and issued on a quarterly basis before the end of the last working day of the second quarter following the quarter in question. GSE established that payment of the incentive that replaces the green certificates will be effective for the first quarter of 2016 by the 30th of September 2016 and for the second quarter of 2016 by the 31st of December 2016.

As regards the green certificates for energy produced in 2015, withdrawal occurs on a quarterly basis according to the following dates: by the 30th of September 2015 with payment on the 31st of October for energy produced in the first quarter of 2015, the 31st of December 2015 with payment by the 31st of January 2016 for the second quarter of 2015, the 31st of March 2016 with payment by the 30th of April 2016 for the third quarter 2015, and for the last quarter of 2015, the 30th of June 2016 with payment by the 31st of July 2016.

With regard to the value of the withdrawal price of 2015 green certificates and 2016 incentives, for purposes of definition, the Regulatory Authority has notified with Resolution 29/2016/R/EFR of the 28th of January 2016 that the average annual value recorded in 2015 of the sale price of electricity for the purposes of the incentive is 51.69 EUR/MWh. Therefore, the withdrawal price of 2015 green certificates and 2016 incentives is 78% of the difference between 180 EUR/MWh and the average annual value of the sale price of electricity of the year before⁴, that is, 100.08 EUR/MWh⁵.

Wind power plants with a capacity of more than 5 MW realised since 2013 (entered into operation after April 2013) qualify for incentives through discount bidding⁶. The first auction saw, for on-shore wind power, the assignment of 442 MW (the quota for 2013 was 500 MW), while at the second auction that closed on the 10th of June 2013, the entire quota available for 2014 was assigned, 399.9 MW compared to the required capacity of 1,085 MW⁷. At the third auction, for the 2015 quota that closed on the 26th of June 2014, the full quota available for on-shore wind power, approximately 356 MW was once again assigned (required capacity significantly in excess of the quota, approximately 1,261 MW). To date the Ministerial Decree which will govern access to the new incentives has not yet been published.

Furthermore, since 2013, for all subjects that make use of incentives for the production of electricity in renewables plants (with the exception of photovoltaic and plants included in the CIP 6/92 provision), a contribution of EUR 0.5 per MWh of subsidised power is to be paid to GSE.

- **Dispatching charges**

With regard to the revision of the remunerations of imbalance of electricity for production units fuelled by non-programmable renewable resources, following the Council of State verdict no. 2936 of 9/06/2014 they were partially cancelled with regard to 2013 and 2014⁸. Terna provided for any balances due before the 31st of December 2014.

After the DCO 302/2014, the Regulatory Authority for Electricity, Gas and Water issued Resolution 522/2014/R/EEL, which reintroduces as of 2015 imbalance payments, completely eliminating the exemptions provided for by annulled Resolution 281/12/R/EEL and providing for new mechanisms for technology differentiated calculations. The same ruling has established for the past, in particular for the period January 2013 – December 2014, due to the effect of the annulment of Resolution 281/2012 by the Council of State, the restoration of the regulations prior to the annulled resolution (i.e. restoration of article 40, paragraphs 40.4 and 40.5 of Resolution 111/06 to the previous version of Resolution 281/2012). Therefore, GSE proceeded to pay all wind power plants with DD in 2013: (i) imbalance payments imputable to the imbalances due to activities on the Intraday Market carried out by GSE in the period 01/01/2013–08/02/2013 (in that GSE operated within certain limits in this period); (ii) the consideration of participation in the Intraday Market, which is the difference between the

³ A period of transitional is foreseen until the 30th of April 2013, for plants authorised by the 11th of July 2012.

⁴ The electricity sale price is defined by the Regulatory Authority for Electricity and Gas in implementing article 13, paragraph 3 of Legislative Decree no. 387 of the 29th of December 2003.

⁵ Please note that for green certificates of the first and second quarter of 2015, 96.00 EUR/GC was the price used as an advance payment, without adjustments in relation to the determination of the withdrawal price.

⁶ Base price of 127 EUR/MWh.

⁷ As a result of the Lombardy Regional Administrative Court verdict of the 14th of February 2014, 66 MW previously excluded from the second auction (after closure of the period for submission of bids) were reinstated because they belonged to the transition period. Consequently, this capacity was subtracted from the 2015 quota.

⁸ Years for which resolution 111/2006 continues to be in effect.

Market of the Day Before area time prices and the Intraday Market for the volume of electricity are traded by GSE on the Intraday Market.

In April the Regulatory Authority published a consultation document (DCO 163/2015) on a possible revision of the mechanism for calculating the price of imbalance in the context of the provision of ancillary services. To date the mechanism for calculating the price of imbalance has not yet been changed.

- **Decree for spreading incentives**

Please note that in October 2014 the decree for spreading incentives was approved (in implementing the “Destination Italy” Law no. 9 of the 21st of February 2014), for producers of electricity from renewable resources excluding photovoltaic, owners of plants that benefit from incentives in the form of green certificates, premium tariffs. Adherence is voluntary and foresees, if the incentive is reduced, an extension of the incentive period for a further seven years. For plants that do not adhere to the change the possibility of benefiting from the incentives is precluded in the case of an intervention of any type for a period of ten years from the end of the incentive period. The option could be exercised within 90 days from the publication of the decree in the Official Journal. Please note that in this regard ERG, in the absence of a clear regulatory framework on the level and conditions of access to the new incentives, has decided not to opt for an extension of the incentive period.

- **Law of Stability no. 208/2015**

With the approval of the Law of Stability no. 208/2015, a new framework for the determination of the Land Registry income of real estate units used for production was implemented, with effect from the 1st of January 2016. Specifically, the Law of Stability 2016 in article 1, paragraphs 21–24, foresees that electricity production plants are no longer subject to wind turbine (rotors and nacelles) estimates.

In the same Law of Stability, article 1, paragraph 91, an important tax concession intended to encourage productive investment is provided for, thanks to an increase in the depreciable cost. This is the 140% so-called super depreciation or maxi amortisation that applies to all goods (with some exceptions) purchased between the 15th of October 2015 and the 31st of December 2016.

Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type. On the basis of the new EEG⁹ 2014 (which confirms the desire to grow in the future), the tariff for the new on-shore wind power plants is equal to 89 EUR/MWh for 20 years (constant)¹⁰. This value is reduced by 0.4 % for each quarter following the 1st of January 2016. Existing plants, also have the possibility to choose a system of alternative incentives of the feed-in type premium (mandatory for new plants). By choosing this option, the electricity is sold directly on the market and the operator receives, on a monthly basis, a premium equal to the difference between the basic value of the feed-in tariff and the average monthly market price of electricity, to which a “management premium” is added (4 EUR/MWh for 2015 – including a remote control bonus), decreasing over the years, which represents an approximation of costs related to the management of the sale of electricity on the market.

The 2009 version of the law introduced a System Service Bonus of 7 EUR/MWh for interventions made by 2010, recognized if technological works are carried out on the plant (to improve performance relative to adjustment of voltage and frequency), for the first 5 years after the works are carried out.

The tariffs for the ERG Wind parks vary between 87 and 89 EUR/MWh (constant in nominal terms). The Sallgast and Brunsbüttel parks moved to the direct market system in the course of 2014, while the remaining 3 parks continued to use the fixed-fee system. All of the German ERG Wind parks (with the exception of Gembeck, 4 WTG) benefited from this bonus (SDL) of 7 EUR/MWh in 2015.

For new plants realised from 2017 a feed-in type premium incentive is foreseen (through contracts for difference – CFD), awarded through competitive discount bidding.

⁹ Erneuerbare Energien Gesetz, reform of German law on renewable resources

¹⁰ The incentive period is, in fact, divided into two stages: the first 5 years, the second 15 years. The rate of the first 5 years is confirmed for the remaining 15 years where production does not exceed 80% of the reference production and the incentive is gradually reduced with the increase in production.

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 is updated annually on the basis of a formula linked to the index of labour costs per hour and the industrial producer price index¹¹. For the first ten years of operations it is the initial tariff, depending on the year in which the contract is stipulated, to be updated on an annual basis, while for the following 5 years the value to index decreases if the operating hours per annum are more than 2,400. For 2006 the value of the initial tariff was 82 EUR/MWh. To define the starting value for the new plants in subsequent years, this tariff is reduced by 2% compared to the previous year, from 2008 onwards, and is updated to take account of the evolution of the indices cited. The value thus determined for each plant, is then updated annually, according to the mechanism described above. As a result of the appeal to the Council of State against the 2008 decree for alleged incompatibility with European Community regulations on state aid, the same 2008 decree was cancelled on the 28th of May 2014 (by virtue of the failure to inform the European Commission before its implementation), and a new decree was issued on the 17th of June 2014, which confirms the same incentive system (for existing plants too). This decree was previously definitively approved by the Directorate General for Competition of the European Commission, which ruled that the text was compatible with the existing legislation on state aid.

The law for energy transition

Regarding guidelines for the future, the Law for Energy Transition was promulgated on the 17th of August 2015. The law defines the objectives for energy transition and, among the qualifying points, foresees the commitment to reduce greenhouse gas emissions by 40% by 2030 compared to 1990, a 30% reduction in the consumption of fossil fuels in 2030 compared to 2012, an increase of the share of renewable energies as a proportion of energy consumed to 32% by 2030 (40% as regards the production of electricity), the reduction of energy consumed by 50% compared to 2012, the reduction of the nuclear share of electricity production to 50% by 2025 (compared to the current 75%).

Bulgaria

The current regulatory framework provides for on-shore wind farms, a tariff (feed-in tariff – FIT) in steps, on the basis of hours of operation, constant in nominal terms. In particular, in the case of Tchergera, a park that has been in existence since the 3rd of May 2011, the incentive is recognized for the first 15 years of operations and the value of the tariff is 188.29 BGN/MWh (about 96.3 EUR/MWh) for fewer than 2,250 hours of operation per year and 172.95 BGN/MWh (about 88.4 EUR/MWh) for more than 2,250 hours of operation per year. In the case of Hrabrovo, a park that began operations after this date and before June 2012, the incentive is recognized for the first 12 years of operations and the value of the tariff is 191 BGN/MWh (about 97.7 EUR/MWh) for fewer than 2,250 hours of operation per year and 173.1 BGN/MWh (about 88.5 EUR/MWh) for more than 2,250 hours of operation per year¹².

With regard to the tariffs initially foreseen, in July 2015 annual operational thresholds were introduced, above which the energy produced is purchased at a price significantly lower, rather than at the FIT.

On the 2nd of March 2015 an amendment to the legislation in force was approved that prevents access to the system of incentives for new plants. This measure, which has no retroactive impacts, is justified by having achieved the objectives for 2020 already in 2013.

- **Access to the transmission and distribution grids and charges on revenues**

In September 2012 the local Regulatory Authority introduced, for producers of power from renewable sources in operation since March 2010, a charge for access to transmission and distribution networks. The charge is based on a detailed analysis of the actual costs of managing networks, applicable from the 13th of March 2014, equal to approximately 1.3 EUR/MWh until July 2015 and then increased to about 3.7 EUR/MWh. A fee of 5% of the revenue of plants fuelled by renewable resources was introduced starting from July 2015.

- **Trading of electricity**

From June 2014 responsibility for balancing, even for non-programmable renewable energies, was introduced.

¹¹ The indexes considered are the ICHTrevTS (“index du coût horaire du travail (tous salariés) dans les industries Mécaniques et électriques”) and the FM0ABE0000 (“index de prix de production de l'industrie française pour l'ensemble de l'Industrie”).

¹² In addition, a further threshold of hours of operation per year was introduced, the value of which depends on the annual production of the plant, above which the average market price of electricity is recognized instead of the tariff. However, this provision is not applicable to all the plants. In the case of LUKERG Renew, it applies only to the Hrabrovo plant (14MW).

Romania

Renewable energy in Romania is encouraged through green certificates for the first 15 years of operations. There is an obligation to transfer a certain annual quantity of green energy to the grid (or buy an equal amount of green certificates) based on the consumption of electricity. For wind parks that began operations before 2014, two green certificates are foreseen for every MWh produced until 2017 and one green certificate from 2018 and the unit price of the green certificates varies between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in the 2010 currency), defined in EUR, and inflation indexed on an annual basis. Green certificates have annual validity and, on the basis of the legislation currently in force, are recognized at the lower value of the expected energy production and that actually produced. Law 23/2014, which amends and transposes the previous emergency ordinance of March 2013, was after some vicissitudes ratified by the President of Romania in March 2014¹³. The law was approved by the European Commission – DG Competition in May 2015.

The Law has introduced some amendments to the system of incentives and in particular provides for the withholding of one green certificate during the period from the 1st of July 2013 to the 31st of March 2017 for wind plants in existence. The green certificates withheld will be gradually “unlocked” starting from the 1st of January 2018 and in any case no later than the 31st of December 2020. The conditions are still to be defined. In the meantime the government, under instruction from ANRE (the local regulatory authority), has taken the annual maximum quota for production of electricity from renewable resources that can be subsidised for 2015 from 16%, foreseen by the previous regulations, to 11.9%. In fact, on the basis of the changes introduced by the new law ANRE has the task of defining this obligatory quota on an annual basis.

Wind power plants in operation after the 1st of January 2014 are subjected to a reduction in the number of GCs (so-called overcompensation) as provided for by the government's decision, which welcomes the decision of the Regulator (ANRE). As a result of the latter, the plants in question access 1.5 GCs for every MWh produced until 2017 and 0.75 GCs per MWh produced from 2018.

Relative to the parks owned by LUKERG Renew in Romania, it should be noted that the Gebeleisis park (70 MW, 35 MW ERG quota) accesses the incentives that provide for the recognition of two GCs up until 2017, of which one has been withdrawn until the 31st March 2017, while the Topolog park (84 MW fully operational, 42 MW ERG quota), which began commercial operations in 2014, is subjected to an overcompensation regime which includes the recognition of 1.5 GCs up until 2017, and subsequently 0.75 GCs per MWh produced.

In October 2014 the Directorate General for Competition of the European Commission approved the exemption scheme for intensive electro industries to be legally obligated to acquire green certificates. The relevant decree has been in force since January 2015.

As a result of regulatory changes (negative for wind), in particular with regard to the lowering of the quotas of obligation, the GCs market is in a situation of oversupply and consequently the price fell to the floor (approximately 29.4 EUR/MWh) and the liquidity of the spot market has been drastically reduced.

Poland

The system of incentives in Poland for plants in operation before June 2016 is based on Certificates of Origin (CO) for the first 15 years of activity. Annual requirement quotas are foreseen and the new law on the subsidy of renewable resources of energy, signed on the 11th of May 2015 by the President of Poland (amended subsequently in December 2015), introduced a number of measures to reduce the current oversupply of COs (which do not expire). In particular, starting from 2016 the subsidies for “non-dedicated” co-combustion plants will be halved and the incentives for hydroelectric plants with a capacity exceeding 5 MW will be eliminated. The share of the annual requirement is 14% and 15% for 2015 and 2016 respectively (as per the previous law). Starting from 2017 this value will be increased to 20%, and it will be possible for the Ministry to downwardly revise on an annual basis. The so-called Substitution Fee, the alternative to purchasing Certificates of Origin for obliged parties, which, in fact, constitute a cap on the price of COs, was set at 300.03 PLN/MWh and will remain constant in nominal terms for the near future. The new law also introduces a discount bidding system, with quotas on production, for the award of incentives in the form of Contracts for Difference (CFD) for 15 years (value inflated on an annual basis). This system is optional for plants that have had access to COs (for the remaining period of entitlement to incentives), while it is mandatory for plants that will come into operation starting from July 2016 (initially the law foresaw this incentive

¹³ Decree 270/2014 approves Law 23/2014, that approves the Emergency Ordinance 57/2013, that amends and integrates Law 220/2008 for the green certificates incentive system.

system from January 2016, but the amendments of December 2015 have delayed adoption for six months).

The auction system coming into force with CFD depends on the approval of the scheme by DG Competition of the European Commission.

Summary of the results at adjusted current values of the period

In order to facilitate understanding of the progress of management of the non-programmables sector the business results are shown at current adjusted values which take account of the ERG quota of eligibility (50%) of the consolidated results of the LUKERG Renew joint venture in 2015. As a result of the dissolution of the joint venture, the financial data include the contribution of activities in Romania and Bulgaria fully consolidated as at the 31st of December 2015.

| | Year | |
|--|--------------|--------------|
| | 2015 | 2014 |
| Operating results | | |
| Revenue from ordinary operations | 345 | 349 |
| EBITDA at replacement cost ⁽¹⁾ | 254 | 267 |
| Amortisation, depreciation and write-downs ⁽¹⁾ | (134) | (137) |
| EBIT at replacement cost ⁽¹⁾ | 120 | 131 |
| Capital expenditures on tangible and intangible fixed assets | 95 | 38 |
| Main financial data ⁽²⁾ | | |
| Net invested capital | 1,827 | 1,701 |
| Net worth | 679 | 636 |
| Total net financial indebtedness | 1,148 | 1,065 |
| of which non-recourse Project Financing ⁽³⁾ | 1,135 | 1,120 |
| EBITDA % ⁽⁴⁾ | 74% | 76% |

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

⁽²⁾ data relating to the consolidated ERG Renew (including the 100% contribution of ERG Wind GMBH, which the activities in Romania and Bulgaria report to)

⁽³⁾ including cash and cash equivalents

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

The breakdown of EBITDA at replacement cost among the various geographic areas of the wind energy business was as follows:

| EBITDA at replacement cost | 2015 | 2014 |
|-----------------------------------|-------------|-------------|
| Italy | 213 | 233 |
| <i>Germany</i> | 12 | 12 |
| <i>France</i> | 13 | 8 |
| <i>Bulgaria (50%)</i> | 4 | 4 |
| <i>Romania (50%)</i> | 8 | 10 |
| <i>Poland</i> | 4 | 0 |
| Abroad | 41 | 34 |
| Total | 254 | 267 |

Consolidated revenues recorded in **2015** are slightly lower than those of the same period of 2014, mainly as a result of the production of the new wind farms in France (63 MW from July 2015) and Poland (42 MW from July 2015, while the additional 40 MW have no impact in so far as they relate to the end of December 2015), which have partly offset the lower revenues in Italy due to lower production (-7%) sold at a price slightly higher (+1%).

As regards the increase in sales prices, for ERG Renew in Italy the electricity sales price was on average 47.7 EUR/MWh, down 3% with respect to the value of 49.0 EUR/MWh recorded in 2014; this value is lower than the single national price (52.3 EUR/MWh) as a result of the specific geographical breakdown of ERG plants, concentrated in the South of Italy and of the hourly production profile. Overall, the ERG Renew average revenue per unit of production in Italy, considering the sales price of

energy and of green certificates, was equal to 147.8 EUR/MWh, up compared to 146.4 EUR/MWh in 2014.

This increase is linked to the value of the green certificates at 100.1 EUR/MW, up compared to EUR 97.4/MWh in 2014.

The average income per unit of parks abroad in 2015 was approximately 84.2 EUR/MWh, down compared 87.5 EUR/MWh recorded in the previous year, mainly as a result of the above-mentioned change in tariffs and in the market in Bulgaria and Romania.

EBITDA at 2015 adjusted current values is 254 million over all, down with respect to the values recorded in the same period of the previous year. In more detail, the decrease in profits recorded by the wind parks in Italy, as a result of lower production and the presence in 2014 of positive corrections regarding previous imbalance charges, was partly offset by higher profits in parks abroad with respect to 2014, mainly thanks to the contribution made by the new parks in France and Poland.

EBITDA was equal to 74%, down slightly compared to 76% for the first quarter of 2014. Please note that this margins indicator in 2014 was positively impacted by the verdict of the Council of State on imbalance charges, whereas in 2015, while guaranteeing a high absolute value, was impacted by the increase in production abroad, with sales prices and margins lower on average than those recorded in Italy.

| Installed power (MW) | Year | |
|---|--------------|--------------|
| | 2015 | 2014 |
| - Italy | 1,087 | 1,087 |
| of which: | | |
| <i>Campania</i> | 239 | 239 |
| <i>Calabria</i> | 120 | 120 |
| <i>Puglia</i> | 249 | 249 |
| <i>Molise</i> | 79 | 79 |
| <i>Basilicata</i> | 89 | 89 |
| <i>Sicily</i> | 198 | 198 |
| <i>Sardinia</i> | 111 | 111 |
| <i>Others</i> | 2 | 2 |
| - Abroad | 420 | 254 |
| of which: | | |
| <i>Germany</i> | 86 | 86 |
| <i>France</i> | 128 | 64 |
| <i>Poland</i> | 82 | <i>n.a.</i> |
| <i>Bulgaria</i> | 54 | 27 |
| <i>Romania</i> | 70 | 77 |
| Total installed power at period end ⁽¹⁾ | 1,506 | 1,341 |

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

Installed power as at the 31st of December is 1,501 MW, up 165 MW compared with the 31st of December 2014, following the acquisition of six wind parks for an additional 63 MW in France and an increase of 42 MW in Poland due to the completion of the Radziejov wind park (which made its contribution in terms of production and operating results from the third quarter of 2015), and of the further increase of 40 MW in Poland at the end of the year following the completion of the Szydlowo park (14MW) and the Slupia park (26MW) and of the variations that occurred starting from the end of December 2015 in Bulgaria (+27MW) and Romania (-7MW) simultaneously with the operation that led to the dissolution of the joint venture with LUKOIL.

Annex to the press release of 23 March 2016

| Output (GWh) | Year | |
|-------------------------------|--------------|--------------|
| | 2015 | 2014 |
| - Italy | 1,910 | 2,051 |
| of which: | | |
| <i>Campania</i> | 414 | 453 |
| <i>Calabria</i> | 240 | 249 |
| <i>Puglia</i> | 472 | 502 |
| <i>Molise</i> | 155 | 163 |
| <i>Basilicata</i> | 164 | 173 |
| <i>Sicily</i> | 274 | 313 |
| <i>Sardinia</i> | 192 | 198 |
| <i>Others</i> | 0 | 0 |
| - Abroad | 705 | 529 |
| of which: | | |
| <i>Germany</i> | 156 | 144 |
| <i>France</i> | 206 | 122 |
| <i>Poland</i> | 68 | n.a. |
| <i>Bulgaria (50%)</i> | 74 | 67 |
| <i>Romania (50%)</i> | 201 | 196 |
| Total wind farm output | 2,614 | 2,580 |

In 2015 ERG Renew's production of electricity was 2.614 GWh, up compared to 2014 (2,580 GWh), with production down about 7% in Italy (from 2,051 GWh to 1,910 GWh) and up 33% abroad (529 GWh to 705 GWh).

The decrease in production in Italy (-141 GWh) is linked to wind conditions, generally not as good as those of 2014, in particular in Sicily, Campania and Puglia where ERG Renew has about 60% of its installed capacity.

As regards foreign countries, the increase of 175 GWh is attributable both to the contribution of new parks in France and Poland, and to over all growth in production in all countries.

The load factors of wind power plants for the main geographical areas are shown in the following table. This data, which is estimated taking into account the commissioning date of the parks of the individual businesses, provides a measure of the level of production of the various parks in relative terms, and is impacted by the features of the parks and the anemologiche conditions during the period considered. It is also impacted by the availability of the plants and any restrictions on the energy grids.

| Load Factor % | Year | |
|-----------------------------------|------------|------------|
| | 2015 | 2014 |
| - Italy | 20% | 22% |
| of which: | | |
| <i>Campania</i> | 20% | 22% |
| <i>Calabria</i> | 23% | 24% |
| <i>Puglia</i> | 22% | 23% |
| <i>Molise</i> | 22% | 23% |
| <i>Basilicata</i> | 21% | 22% |
| <i>Sicily</i> | 16% | 18% |
| <i>Sardinia</i> | 20% | 20% |
| <i>Others</i> | n.a. | n.a. |
| - Abroad | 26% | 24% |
| of which: | | |
| <i>Germany</i> | 21% | 19% |
| <i>France</i> | 24% | 22% |
| <i>Poland</i> | 37% | n.a. |
| <i>Bulgaria (50%)</i> | 31% | 28% |
| <i>Romania (50%)</i> | 30% | 29% |
| Load factor ⁽¹⁾ | 21% | 22% |

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

In **2015** the over all load factor, 21%, was actually slightly lower than that of 2014, following a reduction in load factor from 22% to 20% in Italy, partly mitigated by the increase from 24% to 26% abroad, thanks in particular to the excellent results in all countries, and in particular in Poland and Bulgaria.

LUKERG Renew

In 2015 ERG Renew was present in Bulgaria and Romania via LUKERG Renew, a joint venture between ERG Renew and LUKOIL-Ecoenergo founded in 2011 to work together on the renewables market in Romania, Bulgaria, Ukraine and Russia. In the last three years LUKERG Renew has invested around EUR 300 million, realising 208 MW of which:

- 54 MW in Bulgaria: Tcherga (40MW) and Hrabrovo (14 MW)
- 154 MW in Romania: Gebeleisis (70MW) and Topolog (84 MW)

As regards Bulgaria, the Tcherga wind park (40 MW) has been fully operational since December 2009 in the Dobrich region. The Hrabrovo wind park (14 MW) is also in the Dobrich region and has been fully operational since March 2012.

In Romania, the Gebeleisis wind park (70 MW), located in the Galati region, has been fully operational since February 2013 and as regards the Topolog wind park (84 MW) located in the Tulcea region, construction was completed at the end of 2013 and it has been fully operational since December 2013.

With these acquisitions and with the commissioning of Topolog, LUKERG Renew thus reached an installed power of over 200 MW, becoming one of the foremost players on both the markets where it is active.

It should be noted that on the 25th of June 2015 the two shareholders, at the end of three years of strong growth, announced the decision to dissolve the joint venture with the consequent asset breakdown of the same.

In accordance with the agreement, which was completed on the 23rd of December, Topolog park (84 MW) was transferred to LUKOIL while ERG Renew acquired the remaining parks for a total of 124 MW (thus increasing the installed power by 20 MW with respect to the current 104 MW), broken down as follows:

- 54 MW in Bulgaria: Tcherga (40MW) and Hrabrovo (14 MW)
- 70 MW in Romania: Gebeleisis (70MW)

Given that the dissolution of the joint venture, with the simultaneous acquisition of wind farms in Bulgaria and Romania (Gebeleisis), was completed in the last few days of 2015, the operating results of 2015 reflect the full contribution for the entire year of the set up before dissolution of the joint venture.

The following figures refer 100% to the consolidated financial statements of the joint venture (pre joint venture).

| | Year | |
|--|-----------|-----------|
| | 2015 | 2014 |
| EBITDA at replacement cost | 24 | 28 |
| Depreciation and write-downs | (16) | (16) |
| EBIT at replacement cost | 8 | 12 |
| Capital expenditures on tangible and intangible fixed assets | 0 | 4 |
| Installed power: | | |
| Bulgaria | 54 | 54 |
| Romania | 154 | 154 |

2015 EBITDA was equal to about 24 million, lower than the values recorded in 2014 (28 million). The lower selling prices recorded in Bulgaria and Romania as a result of the changed tariff and market context, were only partly offset by increased production.

PROGRAMMABLE RESOURCES

Reference market

| Italian electricity market (GWh) ⁽¹⁾ | Year | |
|---|---------|---------|
| | 2015 | 2014 |
| Demand | 315,234 | 310,535 |
| Pumping consumption | 1,850 | 2,329 |
| Import/Export | 46,381 | 43,716 |
| Internal output ⁽²⁾ | 270,703 | 269,148 |
| of which: | | |
| Thermoelectric | 180,871 | 167,080 |
| Hydroelectric | 44,751 | 59,575 |
| Other renewable energies | 45,081 | 42,493 |
| Sale prices (EUR/MWh) | | |
| SNP ⁽³⁾ | 52.3 | 52.1 |

⁽¹⁾ Source: Terna S.p.A. monthly report on the electricity system. Estimated data, subject to correction

⁽²⁾ Output net of consumption for auxiliary services

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

The demand for electricity¹⁴ of the Italian electricity system in 2015 was equal to 315.2 TWh, an increase (+1,5%) with respect to 2014 figures. As regards Sicily, a region in which ERG is present with its CCGT plant, in 2015 there was a demand of approximately 19.6 TWh, a slight decrease (-1.0%) compared to 2014, while in the Abruzzo-Lazio-Marche-Molise-Umbria regions, in which ERG has been active since the end of 2015 with its hydroelectric plants, demand for electricity was 44.8 TWh (+2.3%).

In the same period, the net internal production of electricity amounted to 270.7 TWh, an increase of 0.6% compared to the previous year, while the net total of exchanges with abroad recorded net imports of 46.4 TWh (+6.1% compared to 2014). 67% of (net) domestic electricity output was obtained from thermoelectric plants and the remaining 33% from renewable resources. Compared to the same period of the previous FY there was an increase in output from thermoelectric resources (+8%) and a lower contribution from renewable resources (-12%). This decrease is due to a drop in hydroelectric production (-26%) and wind (-3%), which was partially offset by increases from other resources, in particular photovoltaic (+13%) and geothermal (+4%).

The average value of the SNP (Single National Price) in 2015 was 52.3 EUR/MWh, an increase of 0.4% compared with 2014 (52.1 EUR/MWh).

Evolution of the relevant regulatory framework: the Mucchetti amendment

Article 23, paragraph 3 bis of the Italian Legislative Decree no. 91 of 24 June 2014, converted from Law no. 116 of 11 August 2014, establishes that from the 1st of January 2015, when the doubling of the "Sorgente-Rizziconi" power line between Sicily and the mainland became operative: (i) electricity generating units in Sicily with more than 50 MW of power, excluding non-programmable renewable units, will be deemed essential resources for the security of the electricity system; (ii) the Regulatory Authority shall define the procedures for offering and remunerating the aforesaid units no later than ninety days from the date of entry into force of the law converting Decree Law no. 91/14, following the criterion of punctual recognition, for the individual generating unit, of the variable and fixed costs of an operating nature and of fair remuneration of the residual invested capital attributable to said units, in order to assure reduced costs for the electricity system.

In execution of the provisions of the aforementioned Decree Law, on 24 October 2014 the Regulatory Authority published Resolution 521/2014/R/EEL, relative to provisions on essential plants in Sicily,

¹⁴ Including the network losses and net of the consumption of electricity for pumping systems.

which aims to regulate, among other things, supply and remuneration criteria of the units defined as essential pursuant to the Legislative Decree.

In October 2014 the Regulatory Authority published Resolution 500/2014/R/EEL, which, though referring to essential units under an ordinary system, clarifies and updates certain parameters of the variable costs payable that impact the essential units pursuant to Legislative Decree 91/2014.

Lastly, with Resolution 667/2014/R/EEL, AEEGSI (Regulatory Authority for Electricity, Gas and Water) approved certain significant parameters for the calculation of costs of production by the essential units pursuant to Legislative Decree 91/2014.

The regulatory framework described above has had a significant impact on ERG's selling prices and in particular on the spot energy markets in the area where it operates (Sicily). In fact, the constraint bid on these markets at a price not higher than its variable cost recognized for production units identified as essential within the meaning of the Legislative Decree invoked, 91/2014, has significantly reduced the price differential between the Region of Sicily and the SNP, resulting in a marked reduction in 2015 with respect to the values recorded in the same period in 2014.

It should be noted, however, that the fall in revenues on spot markets (Market of the Day Before, Intraday Market and Dispatching Services Market) for the reasons described above was mitigated by the amount paid to the essential units pursuant to Legislative Decree 91/2014 to reintegrate the variable costs of production, operations and investments, including the equitable remuneration of capital invested.

The period of application of the discipline of the essential units on the basis of Legislative Decree 91/2014, i.e. the entry into operation of the mentioned doubling of the Rizziconi-Sorgente power line, from the notes published by Terna SpA within the meaning of paragraph 4.7 of the AEEGSI Resolution no. 521/2014/R/EEL is now foreseen for the first half of 2016.

It should also be noted that on the 31st of December 2015 the advance payment of the consideration for the restocking of ERG Power Generation's eligible production costs relative to the first half of 2015 was made, in application of AEEGSI's Resolution 521/2014.

Introduction to the main results of the period

Starting from the end of 2015 the ERG Group has been present in a diversified manner in the **programmable resources** field, managed by Power Generation business unit. In particular the ERG Group works:

- in the **hydroelectric** power field: through the participation in the newly established company, Erg Hydro S.r.l., owner of the Terni hydroelectric plant (527MW), including a system of programmable and flexible plants located in central Italy;
- in **thermoelectric** power: through participation in ERG Power S.r.l., owner of the cogenerative, high-yield, high-efficiency, low-emissions, highly modular and flexible CCGT plant (480 MW).

The ERG Group, within the framework of the ERG Power Generation business unit, has concluded an important process of industrial evolution, completing the transformation of the pre-existing portfolio of thermoelectric assets in Sicily (including the 528 MW IGCC plant sold in 2014 to LUKOIL within the context of the early completion of the CIP6 convention) in an asset portfolio differentiated by technology and geographic area, and distinguished by high flexibility, thanks to the purchase at the end of 2015 of the above-mentioned 527 MW Terni Hydroelectric plant, for which the concessions expire in 2029.

Period performance highlights of the renewables sector

In the tables that follow the results and the sources and uses of programmable resources are shown, while in the subsequent paragraphs the results for thermoelectric and hydroelectric power are commented on separately (for which please note that the results are compared with pro forma 2014 data, without including the contribution of the IGCC plant, sold on the 30th of June 2014).

| (EUR million) | Year | |
|--|------------|----------------------|
| | 2015 | 2014 pro forma |
| Revenue from ordinary operations | 602 | 679 |
| EBITDA at replacement cost ⁽¹⁾ | 115 | 100 |
| Amortisation, depreciation and write-downs ⁽¹⁾ | (34) | (29) |
| EBIT at replacement cost ⁽¹⁾ | 81 | 71 |
| Capital expenditures on tangible and intangible fixed assets | 9 | 13 |
| EBITDA % | 19% | 15% |

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

Thermoelectric

During 2015, ERG Power's net electricity output amounted to 2,632 GWh, in line with the previous year (2,622 GWh).

The net supply of approximately 802 thousand tonnes of steam, less than the 838 thousand tonnes of 2014, to the Priolo Gargallo petrochemical site's captive customers. About a quarter of the energy production of ERG Power was intended to cover the needs of the Priolo industrial site, including the net supplies of steam.

EBITDA at current 2015 values is attributable to 104 million to ERG Power/ERG Power Generation (an increase of approximately 5 million compared to that recorded in the same period of 2014), and for 3 million in significant refunds relative to liabilities inherited from ISAB Energy, a company merged by incorporation into ERG S.p.A. in 2015.

As reported in the section relating to the evolution of the regulatory framework of reference, the contraction of prices on the spot market in Sicily as a result of the application of Legislative Decree no. 91/2014, has led to a reduction of the margins in the energy markets (Market of the Day Before and Intraday Market) and on the Dispatching Services Market, mitigated by the refund of eligible production costs of the ERG Power production units, defined as the Essential Resources for the Safety of the Electricity System within the meaning of the aforesaid Legislative Decree no. 91/2014. The maintenance of positive results can also be ascribed to the improved performance of the ERG Power CCGT plant and to industrial efficiency steps taken in the period. In fact, in 2015, the plant continued to benefit from high levels of reliability and efficiency, pursued through targeted investment as well as through the first general maintenance programme carried out between March and April 2015 on one of the two modules of the ERG Power plant CCGT.

The positive results also reflect the effectiveness of energy management with the adoption of effective coverage of the production margin. These policies contemplate, among other things, 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 to the customers of the Priolo Gargallo petrochemical site through long-term agreements.

The increase in volumes purchased by ERG Power Generation relates mainly to Over the Counter transactions made by Energy Management in the context of development of wholesaling through fixed-term contracts.

⁽¹⁾ that is the supply of steam to the Priolo Gargallo industrial site excluding pipeline losses, net of steam withdrawn from the same customers

Hydroelectric

| | 2015 (Dec) |
|--|---------------|
| (EUR million) | |
| Revenue from ordinary operations | 11 |
| EBITDA at replacement cost ⁽¹⁾ | 8 |
| Amortisation, depreciation and write-downs ⁽¹⁾ | (5) |
| EBIT at replacement cost ⁽¹⁾ | 3 |
| Capital expenditures on tangible and intangible fixed assets | 0 |
| EBITDA % | 73% |
| Overall production hydro plants | 84 |

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

December 2015 EBITDA was EUR 8 million.

Revenues, amounting to 11 million, are related to sales of electricity of 5 million, to revenues from green certificates and incentives of 5 million and to revenues from the Dispatching Services Market and other revenues of about 1 million.

The costs, 3 million over all, are mainly referable to concession fees, personnel costs, insurance fees and service costs.

The average selling prices reflect the selling price of electricity, applied to the entire production, and the green certificates are recognised for a share of the production.

In detail:

- the selling price of electricity, applied to the production of 84 GWh was, on average, 63.2 EUR/MWh, higher than the single national price (52.3 EUR/MWh), thanks to modifications in the plants.
- the value of green certificates, recognised for a production of 40 GWh, was 100 EUR/MWh.,

The overall production of ERG Hydro (84 GWh) has, therefore, benefited from an average revenue per unit, considering that the value of the energy sold and the value of the green certificates, amounts to a total of about 111 EUR/Mwh.

EBITDA was generally equal to 73%, guaranteeing particularly high values.

The total efficient capacity of the plants at the Terni complex is equal to 526.5 MW, of which 512.4 MW relates to large sources and 14.1 MW elates to small sources.

The level of the Lake Turano, Salto and Corbara reservoirs at the end of the period was respectively 524, 523 and 127 metres, corresponding in total to 210 GWh.

The consumption load factor in the period was 21% and affected by the reduced reference period, limited only to the month of December and characterised by low water availability.

Investments

In 2015, the ERG Group made total adjusted investments of 106 million (53 million in 2014 proforma) of which 101 million on fixed assets (45 million in 2014) and 5 million in intangible assets (10 million in 2014 proforma).

The breakdown of adjusted investments by sector of activity is shown in the following table:

| (millions of euros) | Year | |
|--|------------|------------------|
| | 2015 | 2014 proforma |
| Non-Programmable Sources ⁽¹⁾ | 95 | 38 |
| Wind | 95 | 38 |
| Programmable Sources | 9 | 13 |
| Thermoelectric | 9 | 13 |
| Hydroelectric | 0 | 0 |
| Corporate | 2 | 3 |
| Total | 106 | 53 |

⁽¹⁾ adjusted investments from Non-Programmable Sources include the ERG share in investments made by LUKERG Renew.

Non-Programmable Sources

The investments in 2015 refer chiefly to the new windfarms in Poland for a total of 82 MW, all made directly by ERG Renew, whose contribution in terms of output and financial performance per 42 MW began in July 2015 and will be 40 MW from 2016.

In particular, the Radziejow Windfarm, consisting of 21 Vestas V90-2.0MW wind turbines, with a total installed capacity of 42 MW came into operation in mid-2015.

In addition the Szydlovo Windfarm, consisting of 7 Vestas V100-2.0MW wind turbines, with a total installed capacity of 14 MW came into operation at the end of December 2015 and the Slupia Windfarm, whose planned installation increased during the year from 12 to 13 wind turbines following an extension of the permit, equipped with Vestas V90 turbines with a total power of 26 MW, was completed at the end of 2015 and started up in early 2016.

The projects envisaged in the field of health, safety and environment were also continued.

It should be noted that the data does not include two investments shown as variations in the scope of consolidation: the major investment in France through the acquisition in July 2015 of existing windfarms of 63.4 MW, for a price of some 70 million euros, nor the investment value in December 2015 in Bulgaria and Romania to obtain full ownership of windfarms with a total of 124 MW (+20 MW compared with the previous attributable share totalling 104 MW), corresponding to 27 million euros.

Programmable Sources

The investments in 2015 refer chiefly to ERG Power (9 million) which continued with initiatives focused on investments aimed at preserving the operational efficiency, flexibility and reliability of plants. The projects planned in the field of health, safety and environment were also continued.

Please note that this data does not include the important acquisition of ERG Hydro S.r.l., corresponding to 947.5 million euros.

TOTALERG

ERG S.p.A. holds a 51% share in the joint venture TotalErg S.p.A., formed in 2010 by the merger by incorporation of Total Italia S.p.A in ERG Petroli S.p.A.

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

As indicated above in the Introduction, it should be explained that based on the Interim Management Report at 31 March 2015, the adjusted values of the Group no longer include the contribution of the TotalErg joint venture, as it can no longer be considered a core activity of the new strategic and industrial base of the Group.

The participation will continue to be consolidated by the net asset method.

Given the significance of the participation and further to the information contained in the previous financial reports, this section provides a summary of the economic and financial indicators and the business performance for the period.

Summary of the principal results of TotalErg

The following data refer to 100% of the consolidated balance sheet of the company, effective from 1 October 2010.

| Economic results (millions of euros) | Year | |
|---|------------|-------------|
| | 2015 | 2014 |
| Gross operating margin at current values⁽¹⁾ | 144 | 93 |
| Amortisation and impairments | (82) | (87) |
| Net operating result at current values⁽¹⁾ | 61 | 6 |
| Net result at current values⁽²⁾ | 24 | (10) |
| Investments in tangible and intangible fixed assets | 65 | 66 |
| Principal financial data | | |
| Net capital invested | 530 | 532 |
| Net assets | 236 | 252 |
| Total net financial indebtedness | 294 | 252 |

⁽¹⁾ The data presented here do not include profits (losses) on stock of some -61 million in 2015 (-135 million in 2014), and also do not include non-recurring items of +4.4 million in 2015 (+8.4 million in 2014)

⁽²⁾ The data presented here do not include profits (losses) on stock and non-recurring items, commented in note (1), net of the related tax effect

TotalErg operates in the marketing sector through its Italian retail network, consisting of 2,608 installations (1,675 company and 933 contracted), compared with 2,701 at 31 December 2014. It is recalled that at the end of 2012, the network consisted of 3,248 installations and that the reduction in sales outlets is due to the restructuring of the fuel network implemented in those years, which led to the closure of unprofitable sales outlets, modernisation/automation of the more profitable outlets owned by the company and the termination of contracts with third parties relating to unprofitable outlets.

TotalErg also operates in the wholesale market, selling petroleum products mainly to companies which re-sell them to end users in their local markets and directly for consumption through the subsidiary company Restinai ed Eridis, and in the specialist market, through marketing of lubricants, bitumens and LPG.

TotalErg also operates in refining and logistics through the Sarpom di Trecate Refinery, situated in one of the areas of the country with the greatest concentration of consumers, with a total annual capacity of balanced distillation, for the TotalErg share, of 1.6 million tonnes (some 30,000 barrels/day).

The Sarpom Refinery is equipped with catalytic conversion, mainly directed to production of light distillates and works primarily with low sulphur crude.

The gross operating margin in 2015 was some 144 million, a strong rise compared with the same period for the previous year (93 million).

With regard to the marketing sector, the results, although against a background of a globally adverse market, offset by slightly increased demand compared with 2014 but reduced market margins, were higher than the comparable period in the previous year, thanks to efficiency and cost-saving measures achieved in the company and the restructuring of the fuel network.

In the wholesale sector, the economic result for the period was down, while in the specialist sector, the result was a significant rise compared with last year.

With regard to refining and logistics, the results benefited from the strong recovery in refining margins as a result of the significant fall in oil prices, with overall profits much higher than those recorded in the previous year, a year that suffered from the general shutdown of the refinery with some 45 days of lost production.

Finally, it should be noted that TotalErg's net financial position as at 31 December 2015 is equal to 294 million, an increase compared to the 252 million at 31 December 2014, mainly due to time-specific phenomena linked to circulating capital dynamics, even if growth is nevertheless detectable in current economic results and investments are in line with the previous year.

Margins and production

| | Year | |
|---|--------------|--------------|
| | 2015 | 2014 |
| Unit contribution margins and current values⁽¹⁾ Internal refinery | | |
| TotalErg | | |
| \$/barrel | 3.91 | 0.56 |
| Euro/barrel | 3.53 | 0.42 |
| Euro/tonne ⁽²⁾ | 26.5 | 3.2 |
| Production volumes (000s tonnes)⁽³⁾ | 1,609 | 1,275 |

⁽¹⁾ The unit contribution margins at current values, stated net of variable production costs (mainly utilities costs) do not include profits (losses) on stock and non-recurrent items.

⁽²⁾ Barrel/tonne conversion factor of 7.505 in 2015 (7.486 in 2014).

⁽³⁾ Volumes produced in the Sarpom Refinery (Trecate)

The unit contribution margins in 2015 were markedly higher than the very depressed margins recorded in 2014, consistent with a favourable environment also linked to the strong fall in prices of crude.

Production in 2015 rose to 1,609,000 tonnes, an increase over the 1,275,000 tonnes produced in the previous year, the latter suffering from the general shutdown of the Refinery lasting some 45 days.

With regard to the conversion of the Rome refinery, the activities envisaged for its transformation into a logistics hub have been completed in full and according to schedule, in particular the adaptation of the fuel storage area and the maritime terminals. The achievement of the target configuration now allows optimization of reception of products by sea, and storage and distribution of finished products.

In addition, the greater flexibility and efficiency of the logistics hub configured in this way allows us to seize new business opportunities, with the movement of the terminal, which in 2015 resulted in growth of 18% over the previous year ("standardized" data to eliminate the effect of the exceptional bad weather which occurred in early 2014).

Lastly, it is pointed out that on 3 November 2015, TotalErg signed a financing agreement denominated in euros for a term of five years with a group of Italian and foreign primary financial institutions. The financing, consisting of a term loan of 200 million and a revolving credit facility of 500 million, making a total of 700 million, is senior and not secured by any guarantee, real or otherwise, by the two shareholders. The financing replaces the "Term Loan and Multicurrency Revolving Credit Facility Agreement" of 900 million, which was due to expire on 4 August 2016, and allows TotalErg to be financially independent in operational management and on-going development activities.

TotalErg Investments

In 2015, TotalErg made investments of some 65 million, in line with 2014 (66 million).

The majority of these investments (some 60%) concerned the network, mainly development activities (reconstruction, new service/supply contracts, strengthening and automation of existing sales outlets, etc.) and activities related to optimization and strengthening of the Rome logistics hub. A significant part was also dedicated to investments in maintenance and improvement of aspects of health, safety and environment.

FINANCIAL STATEMENTS

Scope of consolidation and business segments

The table below shows the scope of consolidation at 31 December 2015.

With respect to 31 December 2014, the following is noted:

- the merger of ISAB Energy Services S.r.l. into parent company ERG Power Generation S.p.A. effective on 1 January 2015,
- purchase of the companies Hydro Inwestycje SP.Z. O.O. (19 February 2015) and Blachy Pruszyński-Energia SP.Z.O.O. (12 March 2015),
- the merger of ERG Supply & Trading S.p.A. in ERG S.p.A. on 1 July 2015
- the consolidation of eight French companies that own six wind farms in France, purchased by the Macquarie group in the month of July 2015
- purchase of the Hydro Terni S.r.l. company renamed ERG Hydro S.r.l. on 30 November 2015
- the merger of ISAB Energy S.r.l. into parent company ERG S.p.A. on 18 December 2015
- dissolution of the joint venture with LUKOIL for the development of Wind Farms in Eastern Europe, with the purchase by ERG Renew S.p.A. of the ownership of 50% of the shares from shareholder OOO LUKOIL – Ecoenergo held in the company LUKERG Renew GmbH. ERG Renew is, therefore, sole shareholder of the company renamed ERG Wind GmbH that controls 100% of Corni Eolian S.A. (Romanian company that was entirely purchased) and ERG Wind Bulgaria GmbH.



Financial Statements

It is also specified that the financial statements still reflect the contribution of LUKERG consolidated with the method of net equity since the dissolution operation of the *joint venture* took place in the final days of 2015.

The equity situation at 31 December 2015 also reflects the values of the assets and liabilities in Bulgaria and Romania entirely consolidated at the period ending date.

Income statement

As already mentioned in the Foreword, to better comprehend the progress in the two periods and in consideration of the new strategic and business structure of the Group, the comparative economic data for 2014 has been modified to take into account the change in the above mentioned perimeter, thereby making it possible to compare the economic values on a like for like basis.

It is hereby noted that the economic-equity results indicated below include the non recurring items and the changes in inventory.

See the "Alternative performance indicators" section for the analysis of the results net of these taxes and including the contribution, for the portion attributable to ERG, of LUKERG Renew which better represent the operational performance of the group.

| Reclassified Income Statement | Year | |
|--|--------------|------------------|
| | 2015 | 2014 proforma |
| (EUR million) | | |
| Revenues from ordinary operations | 920.3 | 998.9 |
| Other revenues and income | 16.3 | 25.7 |
| TOTAL REVENUES | 936.6 | 1,024.6 |
| Costs for purchase and changes in inventory | (412.6) | (491.6) |
| Costs for services and other operating costs | (215.7) | (220.2) |
| EBITDA | 308.3 | 312.9 |
| Amortisation, depreciation and write-downs of fixed assets | (163.0) | (160.0) |
| EBIT | 145.2 | 152.8 |
| Net financial income (expenses) | (54.8) | (59.6) |
| Net income (loss) from equity investments | (54.2) | (65.0) |
| Profit before taxes | 36.2 | 28.2 |
| Income taxes | (12.6) | (44.1) |
| Profit for the period | 23.7 | (15.9) |
| Minority interests | (3.1) | (2.9) |
| Group's net profit (loss) | 20.6 | (18.7) |

Revenues from ordinary operations

In 2015, revenues amounted to EUR 920 million, versus EUR 999 million in 2014 *proforma*. The change is a result of the following factors:

- a fall in the **Wind sector** revenues connected primarily to the lower production of the Italian wind farms is partly compensated by the contribution of the new wind farm production in France and Poland;
- a fall in revenues **from the Thermoelectric sector** primarily as a result of lower sale prices;

Other revenues and income

These consist mainly of rental income, insurance indemnification, gains on disposals, indemnities and expense recoveries.

Costs for purchases and changes in inventory

The costs for purchases include the costs for the purchase of gas, utilities and steam used to fuel the ERG Power S.r.l. CCGT plant and the electricity costs for its resale on the market as part of the energy management operations.

In 2015 they amounted to EUR 413 million, versus EUR 492 million in 2014.

The item shows a drop (-79 million) primarily following lower costs for gas purchases. The change in inventories connected to spare parts warehouses for the period was not significant.

Costs for services and other operating costs

Costs for services include maintenance costs, commercial expenses (including product transport and electricity costs), costs for utilities, for consulting services (ordinary and connected with extraordinary transactions), insurance, and for services rendered by third parties.

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

Depreciation and write-downs

Amortisations refer to the wind farms and the CCGT system and they are slightly higher with respect to those in 2014 *proforma* due to the impact of the new purchases in the Non Programmable Renewable Energies business (3 million) and the purchase of ERG Hydro Srl (5 million), partially compensated by the end of useful life of electronic components related to wind farms.

Net financial income (expenses)

The net financial expenses of 2015 amounted to EUR 55 million, slightly lower than those reported on the 2014 *proforma*.

In detail, the item includes net short-term financial income of approximately EUR 10 million (EUR 9 million in the third quarter of 2014) deriving mainly from cash management, and medium-long term financial expenses of approximately EUR 64 million (EUR 72 million in the third quarter of 2014); the medium and long term amounts reflect the effects of the derivatives hedging against the risk of interest rate fluctuations.

Net income (loss) from equity investments

The item in 2015 reflects the results of the joint venture TotalErg S.p.A. (-11 million) and LUKERG Renew GmbH (-3 million) assessed with the net equity method, the allocation to the risks fund (1 million on ERG Petroleos) and the negative adjustment due to the transfer of the ERG Oil Sicilia equity investment (-0.5 million). Compared to the previous year, a significant improvement is reported for the TotalErg S.p.A operating result which, in any case, at the end of the period, felt the impact of the devaluation of the OIL stock following the drop in raw material prices (-65 million in 2014).

It is hereby reported that in 2015 the item also includes the financial charges stemming from assessment at fair value of the liability related to an ERG Renew S.p.A. minorities transfer option, transferred to Unicredit in the area of the capital increase operation of 16 January 2014.

Income taxes

In 2015, income taxes amounted to EUR 13 million (44 million in the same period of 2014 *proforma*).

The tax rate obtained from the ratio between income taxes and pre-tax profit amounted to 19% (156% in 2014 *proforma*).

The tax rate at adjusted replacement cost, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 23% (42% in 2014).

The lower tax rate is primarily connected to the declaration of the unconstitutionality of the Robin Tax (6.5%) which is no longer applied from 1 January 2015, the positive impact of the ACE (Aiuto Crescita Economica - Economic Growth Assistance) in the amount of 11 million and the IRAP tax credit pursuant to Law 190/2014 (about 1 million)

Proforma economic data of 2014

The comparison of the results for 2015 with those of 2014 has been significantly affected by the change in the perimeter of the Group and in particular:

- of the business units of ISAB Energy S.r.l. and ISAB Energy Services S.r.l., consisting mainly of the IGCC generating plant and to personnel for its operation and maintenance, finalised on 30 June 2014;
- the sale of ERG Oil Sicilia finalised on 29 December 2014;
- the lack of purchase and sale of crude and petroleum products related to the subsidiary ERG Supply&Trading that was merged into ERG S.p.A. in the first half of 2015.

Therefore, to better comprehend the progress in the two periods and in consideration of the new strategic and business structure of the Group, the comparative economic data for 2014 has been modified to take into account the change in the above mentioned perimeter, thereby making it possible to compare the results on a like for like basis. In particular, the 2014 economic values were changed, excluding the contribution of ISAB Energy and ISAB Energy Services, ERG OIL Sicilia and ERG Supply&Trading.

It is hereby noted that these changes are consistent with the reclassifications made in application of IFRS 5 on the financial statements and related details indicated on the Annual Consolidated Financial Statement.

Year 2014 proforma

| Reported income statement | FY 2014 | ERG OIL Sicilia | ISAB Energy ed ISAB Energy Services | ERG Supply&Trading | Intercompany | FY 2014 proforma |
|--|--------------|-----------------|-------------------------------------|--------------------|--------------|------------------|
| Revenues from ordinary operations | 1,369 | (124) | (299) | 0 | 52 | 999 |
| Other revenues and income | 629 | (1) | (595) | (11) | 4 | 26 |
| Total revenues | 1,999 | (125) | (894) | (11) | 56 | 1,025 |
| Costs for purchase | (714) | 104 | 136 | (8) | (11) | (493) |
| Changes in inventory | (15) | 1 | (0) | 16 | 0 | 2 |
| Costs for services and other operating costs | (659) | 16 | 492 | 19 | (45) | (177) |
| Personnel costs | (64) | 1 | 17 | 3 | 0 | (43) |
| EBITDA | 547 | (2) | (250) | 18 | 0 | 313 |
| Amortisation, depreciation and write-downs of fixed assets | (188) | 4 | 23 | 0 | 0 | (160) |
| EBIT | 359 | 2 | (227) | 18 | 0 | 153 |
| Net financial income (expenses) | (66) | (0) | (1) | 8 | 0 | (60) |
| Net income (loss) from equity investments | (65) | 0 | 0 | 0 | 0 | (65) |
| Profit before taxes | 228 | 2 | (228) | 26 | 0 | 28 |
| Income taxes | (156) | (0) | 119 | (7) | 0 | (44) |
| Profit for the period | 73 | 1 | (109) | 19 | 0 | (16) |
| Minority interests | (25) | 0 | 22 | 0 | 0 | (3) |
| Group's net profit (loss) | 48 | 1 | (87) | 19 | 0 | (19) |

Statement of Financial Position

| Reclassified Statement of Financial Position | 12/31/2015 | 12/31/2014 |
|--|----------------|----------------|
| (EUR million) | | |
| Fixed assets | 3,223.9 | 2,120.3 |
| Net working capital | 202.1 | 189.6 |
| Employees' severance indemnities | (5.5) | (4.7) |
| Other assets | 324.7 | 344.3 |
| Other liabilities | (621.1) | (600.5) |
| Net invested capital | 3,124.2 | 2,049.0 |
| Group Shareholders' Equity | 1,626.0 | 1,671.5 |
| Minority interests | 50.3 | 47.4 |
| Net financial indebtedness | 1,447.9 | 330.1 |
| Shareholders' equity and financial debt | 3,124.2 | 2,049.0 |

As of 31 December 2015 net invested capital amounted to approximately EUR 3,124 million, up from 31 December 2014.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 46% (16% at 31 December 2014). The increase in financial leverage also reflects the effects of the purchase of ERG Hydro S.r.l., French wind farms and the entire consolidation of the companies in Bulgaria and Romania, following the dissolution of the LUKERG *joint venture*, as well as the already mentioned development investments in Poland.

Fixed assets

This item includes tangible, intangible and financial fixed assets. The increase can be attributed primarily to the acquisition of ERG Hydro S.r.l., to the acquisitions of the French wind farms and to the new Wind Business investments in Poland, partially compensated by the amortisation and depreciation for the period.

Net working capital

It includes spare parts inventories, credits primarily for carbon credits, for electricity sales, for reintegration of costs connected to the discipline of the ERG Power Generation Essential Units (Muchetti Decree) and the business debts primarily concerning the purchase of electricity, maintenance, development of ERG Renew parks in Poland and other business debts.

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 leases, fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, and VAT payables.

Net financial indebtedness

| Summary of net financial indebtedness | 31/12/2015 | 31/12/2014 |
|---|----------------|--------------|
| <i>Eur million</i> | | |
| Medium / long term financial indebtedness | 1,987.8 | 1,313.9 |
| Short-term financial indebtedness (Cash and cash equivalents) | (540.0) | (983.8) |
| TOTAL | 1,447.9 | 330.1 |

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

| Medium / long term financial indebtedness | 31/12/2015 | 31/12/2014 |
|---|----------------|----------------|
| <i>Eur million</i> | | |
| Medium / long term bank borrowings | 694.6 | 13.6 |
| Current portion of mortgages and loans | 0.0 | (13.6) |
| Medium/Long term financial payables | 153.4 | 181.1 |
| Total | 848.0 | 181.1 |
| Medium/Long term financial payables Project Financing | 1,284.6 | 1,297.3 |
| Current portion of Project Financing | (144.7) | (164.5) |
| Project Financing a medio-lungo termine | 1,139.9 | 1,132.8 |
| TOTAL | 1,987.8 | 1,313.9 |

Medium-long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 153 million (EUR 181 million as at 31 December 2014).

Medium-long-term bank loans are related to the bank financing distributed to ERG S.p.A., functional to the purchase of ERG Hydro S.r.l, underwritten with a pool of seven Italian and international *mandated lead arrangers and bookrunners*. At 31 December 2015, financing was 695 million.

The payables for “medium-long-term Project Financing” are for:

- loans of EUR 1,135 million granted to companies in the Non Programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 559 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 98 million;
- EUR 150 million in loans granted to ERG Power S.r.l. for the construction of the CCGT plant.

In compliance with IAS 39, the accessory 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 using the amortized 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) | 31/12/2015 | 31/12/2014 |
|--|-------------------|-------------------|
| Eur million | | |
| Short term bank borrowings | 110.0 | 60.3 |
| Current portion of mortgages and loans | 0.0 | 13.6 |
| Other short-term financial debts | 68.7 | 6.0 |
| Short term financial liabilities | 178.7 | 79.8 |
| Cash and cash equivalents | (627.0) | (1,047.3) |
| Securities and other short-term financial receivables | (92.9) | (58.8) |
| Short term financial assets | (719.8) | (1,106.1) |
| Current portion of Project Financing | 144.7 | 164.5 |
| Cash and cash equivalents | (143.6) | (122.0) |
| Project Financing | 1.1 | 42.5 |
| TOTAL | (540.0) | (983.8) |

The other financial payables primarily include liabilities connected to the fair value of the derivatives and to payables for share purchases.

The amount of cash and cash equivalents consists mainly of the liquidity arising from the collection of the consideration for the early termination of the CIP6 convention of ISAB Energy, from the collection deriving from the sale of ISAB S.r.l., and from the restricted bank accounts pursuant to the conditions set out in the Project Financing agreements.

“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:

| | Year | |
|---|------------------|----------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| (EUR million) | | |
| Adjusted cash flow from current operations ⁽¹⁾ | 207.2 | 292.1 |
| Income tax paid | (125.5) | (52.1) |
| Change in working capital | 29.2 | 57.9 |
| Change in other operating assets and liabilities | 81.2 | 46.5 |
| TOTAL | 192.1 | 344.4 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net investments on tangible and intangible fixed assets | (113.2) | (31.6) |
| Net investments in financial fixed assets | (1.4) | 13.8 |
| Adjustment for sale of ERG Oil Sicilia | (0.5) | 0.0 |
| Collection for termination of CIP6 agreement | 0.0 | 515.0 |
| Total | (115.1) | 497.3 |
| CASH FLOW FROM SHAREHOLDERS' EQUITY: | | |
| Distributed dividends | (71.4) | (164.9) |
| Other changes in equity | 5.2 | (202.5) |
| Total | (66.2) | (367.4) |
| CHANGES IN SCOPE OF CONSOLIDATION⁽²⁾ | (1,128.6) | 3.0 |
| CHANGE IN NET FINANCIAL INDEBTEDNESS | (1,117.8) | 477.4 |
| INITIAL NET FINANCIAL INDEBTEDNESS | 330.1 | 807.5 |
| CHANGE IN THE PERIOD | 1,117.8 | (477.4) |
| FINAL NET FINANCIAL INDEBTEDNESS | 1,447.9 | 330.1 |

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

⁽²⁾ variation of the area of consolidation in 2015 refers to the entire consolidation of Hydro Inwestycje SP.Z. O.O. and the companies Blachy Pruszyński-Energia SP.Z O.O., to the purchase of French wind farms, to the purchase of ERG Hydro Srl and to the dissolution of the joint venture with LUKOIL with the consequent purchase of the ex LUKERG Renew GmbH portion of equity investment.

The **net financial indebtedness** is 1,448 million, up 1,118 million compared to what was reported on 31 December 2014 (therefore not including the amount attributable to LUKERG Renew) primarily due to the purchase of ERG Hydro S.r.l. and French wind farms. The operating cash flow was greater than the flows related to the investments connected to the development of wind farms in Poland, to the payment of taxes and to distribution of the dividends.

A detailed analysis of capital expenditures effected may be found in the specific section.

Alternative performance indicators

In order to enhance understandability of trends in the business segments, the financial results are also shown at **adjusted replacement cost** excluding non-recurring items, and including the contribution, for the portion attributable to ERG, of the results at replacement cost of the *joint venture* LUKERG Renew.

The results at replacement cost and the results at adjusted 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 used 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.

The **inventory gains (losses)**¹⁵ 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 **non-recurring items** include significant but unusual earnings.

The performance also includes ERG's share of the contribution of the **LUKERG Renew** joint venture.

To enhance understandability of the business performance, the results of the business are also shown at adjusted replacement cost that takes into account ERG's share of the results at replacement cost of LUKERG Renew whose contribution to the Income Statement not at adjusted replacement cost is reported in the measurement of the investment at equity.

It is hereby noted that the dissolution of the aforementioned joint venture, with the purchase by ERG Renew S.p.A. of wind farms in Bulgaria and the first Gebeleisis wind farm in Romania, took place at the end of 2015 and therefore the economic results of the entire year still reflect the contribution of LUKERG consolidated with the net equity method.

It is hereby noted that beginning with the intermediate Report on operations at 31 March 2015, the *adjusted* operating result does not include the contribution from the TotalErg *joint venture*, as it will no longer be considered a core activity of the Group's new strategic and business structure. The equity investment continues to be consolidated using the equity method.

¹⁵ The inventory gains and losses refer exclusively to the "net income from investments item" from the joint venture TotalErg

Reconciliation with operating results at adjusted replacement cost

The non recurring items are primarily connected to the important process of Group structure transformation substantially defined in 2015 and they refer in particular to the accessory charges to M&A operations.

| EBITDA | Year | |
|--|--------------|------------------|
| | 2015 | 2014 proforma |
| EBITDA | 308.3 | 312.9 |
| <i>Exclusion of non-recurring items:</i> | | |
| Corporate | | |
| - Ancillary charges - extraordinary operations | 1.3 | 0.2 |
| - Ancillary charges transactions concerning ERG Hydro | 11.2 | 0.0 |
| - Ancillary charges transactions concerning Isab Energy and Isab energy Services | 0.0 | 6.4 |
| - Ancillary charges other transactions | 0.0 | 0.0 |
| - Write-down of environmental certificates | 2.6 | 0.0 |
| - Ancillary charges - previous years | 0.0 | (7.8) |
| - Charges for company reorganisation | 1.7 | 16.0 |
| Programmable Sources | | |
| -Corporate reorganisation expenses | 1.7 | 0.0 |
| - Ancillary charges - extraordinary operations | 0.0 | 0.5 |
| - Ancillary charges transactions concerning ERG Hydro | 5.2 | 0.0 |
| Non Programmable Sources | | |
| - Ancillary charges - extraordinary operations | 6.3 | 0.4 |
| EBITDA at replacement cost | 338.1 | 328.6 |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>11.9</i> | <i>14.0</i> |
| EBITDA at adjusted replacement cost | 350.0 | 342.6 |

| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | Year | |
|---|----------------|------------------|
| | 2015 | 2014 proforma |
| Amortisation and depreciation at replacement cost | (163.0) | (160.0) |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(7.8)</i> | <i>(7.9)</i> |
| Amortisation and depreciation at adjusted replacement cost | (170.9) | (167.9) |

| EBIT | Year | |
|---|--------------|------------------|
| | 2015 | 2014 proforma |
| EBIT at replacement cost | 175.1 | 168.6 |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>4.1</i> | <i>6.1</i> |
| EBIT at adjusted replacement cost | 179.1 | 174.7 |

| GROUP'S NET PROFIT (LOSS) | Note | Year | |
|--|------|-------------|------------------|
| | | 2015 | 2014 proforma |
| Group net result pertaining to continuing operations | | 20.6 | (18.7) |
| <i>Exclusion of inventory gains / losses</i> | | 21.9 | 45.5 |
| <i>Exclusion of non-recurring items:</i> | | | |
| <i>Exclusion for capital gain on sale of ERG Oil Sicilia</i> | | 0.5 | (0.6) |
| <i>Exclusion of write-off resulting from Robin Tax on deferred tax assets and liabilities</i> | | (2.9) | 5.0 |
| <i>Exclusion of ancillary charges transactions concerning ERG Hydro</i> | 1 | 13.1 | 0.0 |
| <i>Exclusion of write-down of environmental certificates</i> | | 1.9 | 0.0 |
| <i>Exclusion of ancillary charges - extraordinary operations</i> | 2 | 6.4 | 5.4 |
| <i>Exclusion of TotalErg non-recurring items</i> | | 1.6 | 14.6 |
| <i>Exclusion for contribution of proceeds and charges pertaining to prior years</i> | | 0.0 | (2.0) |
| <i>Exclusion of ERG S.p.A. contribution under Law 488</i> | | 0.0 | (3.5) |
| <i>Exclusion of exchange rate differences pertaining to former Refining & Marketing Division</i> | | 0.0 | 2.9 |
| <i>Exclusion of tax rate change's effects</i> | 3 | (8.4) | 0.0 |
| <i>Exclusion of charges for company reorganisation</i> | 4 | 2.5 | 11.6 |
| <i>Exclusion of extraordinary gain Asset split LukErg</i> | | 0.3 | 0.0 |
| <i>Exclusion of provision for equity investment risks</i> | | 0.9 | 0.0 |
| <i>Exclusion of financial charges on minorities option</i> | 5 | 38.0 | 0.0 |
| Group net profit (loss) at replacement cost ⁽¹⁾ | | 96.3 | 60.3 |

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

Note:

1. the accessory charges for the Purchase of ERG Hydro include: 11 million for bonuses to directors and employees and 5 million for consulting and advising. 13 million net of the tax effect.
2. Accessory charges related to other non recurring operations and charges capitalised on equity investments handled as accessory charges on the Group Consolidation
3. Removal of the impact of the IRES portion on deferred taxes (24% beginning from 2017) and removal of deferred taxes on reserves that can be distributed related to ISAB Energy Srl, merged into ERG S.p.A. effective retroactively to 1 January 2015
4. Costs related to the personnel mobility procedure continued in 2015
5. Valuation of financial charges stemming from assessment at fair value of the liability related to an ERG Renew S.p.A. minorities transfer option.

It is hereby pointed out that the non-recurring TotalErg items refer primarily to extraordinary income connected to the transfer of a corporate branch and the removal of non due previous debts.

Reconciliation with adjusted net financial indebtedness

| | 12/31/2015 | 12/31/2014 proforma |
|---|----------------|------------------------|
| Net financial indebtedness | 1,447.9 | 330.1 |
| <i>Net financial position of LUKERG Renew</i> | <i>0.0</i> | <i>79.3</i> |
| Adjusted net financial indebtedness | 1,447.9 | 409.5 |

In 2014 it included, only on the adjusted level, the contribution attributable to ERG of the net financial position of the LUKERG Renew joint venture

In the table below the reconciliation of the 2015 Income Statement at adjusted replacement cost is indicated.

| (EUR million) | Reported | Non-recurring items | LUKERG | adjusted at replacement cost |
|--|--------------|---------------------|-------------|------------------------------|
| Revenues from ordinary operations | 920.3 | 0.0 | 23.8 | 944.1 |
| Other revenues and income | 16.3 | 0.0 | 0.3 | 16.6 |
| TOTAL REVENUES | 936.6 | 0.0 | 24.1 | 960.7 |
| Costs for purchase | -415.4 | 0.0 | -0.0 | -415.4 |
| Changes in inventory | 2.8 | 0.0 | 0.0 | 2.8 |
| Costs for services and other operating costs | -157.5 | 21.3 | -11.8 | -148.1 |
| Personnel costs | -58.2 | 8.5 | -0.3 | -50.0 |
| EBITDA | 308.3 | 29.8 | 11.9 | 350.0 |
| Amortisation, depreciation and write-downs of fixed assets | -163.0 | 0.0 | -7.8 | -170.9 |
| EBIT | 145.2 | 29.8 | 4.1 | 179.1 |
| Net financial income (expenses) | -54.8 | 0.0 | -8.0 | -62.8 |
| Net income (loss) from equity investments | -54.2 | 63.2 | 3.6 | 12.6 |
| Profit before taxes | 36.2 | 93.0 | -0.3 | 129.0 |
| Income taxes | -12.6 | -17.3 | 0.3 | -29.5 |
| Profit for the period | 23.7 | 75.8 | 0.0 | 99.5 |
| Minority interests | -3.1 | -0.1 | 0.0 | -3.2 |
| Group's net profit (loss) | 20.6 | 75.7 | 0.0 | 96.3 |

Adjusted reconciliation of results proforma Year 2014

| (EUR million) | FY 2014 | Excluding FY 2014 contribution from: | | | | | FY 2014 proforma |
|---|----------------|--------------------------------------|----------------------|--------------------|----------------|--------------|------------------|
| | | ERG Oil Sicilia | ISAB Energy Services | ERG Supply&Trading | TotalErg | Intercompany | |
| Revenues from ordinary operations: | | | | | | | |
| Wind power | 349 | 0 | 0 | 0 | 0 | 0 | 349 |
| Thermoelectric power | 1,164 | 0 | (299) | 0 | 0 | (185) | 679 |
| Integrated Downstream | 3,098 | (124) | 0 | 0 | (2,974) | 0 | 0 |
| Corporate | 30 | 0 | 0 | 0 | 0 | (9) | 21 |
| Intra-segment revenues | (291) | 0 | 0 | 0 | 0 | 263 | (28) |
| Total adjusted revenues | 4,350 | (124) | (299) | 0 | (2,974) | 68 | 1,021 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(2,958)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>2,974</i> | <i>(16)</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(22)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(22)</i> |
| Total revenues from ordinary operations | 1,369 | (124) | (299) | 0 | 0 | 52 | 999 |
| EBITDA: | | | | | | | |
| Wind power | 267 | 0 | 0 | 0 | 0 | 0 | 267 |
| Thermoelectric power | 204 | 0 | (104) | 0 | 0 | 0 | 100 |
| Integrated Downstream | 44 | (5) | 0 | 8 | (47) | 0 | 0 |
| Corporate | (24) | 0 | 0 | 0 | 0 | 0 | (24) |
| EBITDA at adjusted replacement cost | 491 | (5) | (104) | 8 | (47) | 0 | 343 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(47)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>47</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(14)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(14)</i> |
| EBITDA at replacement cost | 429 | (5) | (104) | 8 | 0 | 0 | 329 |
| <i>Inventory gains (losses)</i> | <i>(0)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(0)</i> |
| <i>Non-recurring items</i> | <i>118</i> | <i>2</i> | <i>(146)</i> | <i>10</i> | <i>0</i> | <i>0</i> | <i>(16)</i> |
| EBITDA | 547 | (2) | (250) | 18 | 0 | 0 | 313 |
| Amortisation, depreciation and write-downs | | | | | | | |
| Wind power | (137) | 0 | 0 | 0 | 0 | 0 | (137) |
| Thermoelectric power | (54) | 0 | 25 | 0 | 0 | 0 | (29) |
| Integrated Downstream | (48) | 4 | 0 | 0 | 44 | 0 | (0) |
| Corporate | (2) | 0 | 0 | 0 | 0 | 0 | (2) |
| Amortisation and depreciation at adjusted replacement cost | (241) | 4 | 25 | 0 | 44 | 0 | (168) |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>44</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(44)</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>8</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>8</i> |
| Amortisation and depreciation at replacement cost | (189) | 4 | 25 | 0 | 0 | 0 | (160) |
| EBIT: | | | | | | | |
| Wind power | 131 | 0 | 0 | 0 | 0 | 0 | 131 |
| Thermoelectric power | 150 | 0 | (79) | 0 | 0 | 0 | 71 |
| Integrated Downstream | (5) | (1) | 0 | 8 | (3) | 0 | (0) |
| Corporate | (27) | 0 | 0 | 0 | 0 | 0 | (27) |
| EBIT at adjusted replacement cost | 249 | (1) | (79) | 8 | (3) | 0 | 175 |
| <i>TotalErg 51% contribution at adjusted replacement cost</i> | <i>(3)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>3</i> | <i>0</i> | <i>0</i> |
| <i>LUKERG Renew 50% contribution at adjusted replacement cost</i> | <i>(6)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(6)</i> |
| EBIT at replacement cost | 240 | (1) | (79) | 8 | 0 | 0 | 169 |
| Net Income | | | | | | | |
| Net income | 73 | 1 | (109) | 19 | 0 | 0 | (16) |
| of which Group net income | 48 | 1 | (87) | 19 | 0 | 0 | (19) |
| of which Minority interests | 25 | 0 | (22) | 0 | 0 | 0 | 3 |
| Group net profit at replacement cost | 76 | (1) | (27) | 12 | 0 | 0 | 60 |
| Investments on tangible and intangible fixed assets: | | | | | | | |
| Wind power | 38 | 0 | 0 | 0 | 0 | 0 | 38 |
| Thermoelectric power | 14 | 0 | (1) | 0 | 0 | 0 | 13 |
| Integrated Downstream | 34 | (0) | 0 | (0) | (34) | 0 | (0) |
| Corporate | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Total adjusted investments | 89 | (0) | (1) | (0) | (34) | 0 | 53 |
| <i>Investments of TotalErg (51%)</i> | <i>(34)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>34</i> | <i>0</i> | <i>0</i> |
| <i>Investments of LUKERG Renew (50%)</i> | <i>(2)</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>(2)</i> |
| Total investments | 54 | (0) | (1) | (0) | 0 | 0 | 52 |
| Net debt | | | | | | | |
| Net adjusted financial indebtedness | 538 | | | | (129) | | 409 |

Approving the financial statements

The Shareholder's Meeting for approving the financial statements, as provided under art. 11 of the Articles of Association of ERG S.p.A., shall be called within 180 days from closure of the corporate financial year. The use of such term respect to the ordinary term of 120 days from closure of the corporate financial year, granted under art. 2364, paragraph 2, of the civil code, is grounded by the circumstance that the Company, bound to drawing up the consolidated financial statements, on 30 November 2015 acquired, by means of the subsidiary, ERG Power Generation, the entire hydroelectric business of E.ON Produzione, formed of a portfolio of plants present in Umbria, Marche and Lazio, with a total power of 527 MW.

Significant events occurring after closure of the financial year

On 2 February 2016 ERG Renew completed an agreement for the acquisition of a fund managed by the Impax Asset Management Group of eleven wind farms in France, with an installed capacity of 124 MW and six in Germany, with an installed capacity of 82 MW, for a total of 206 MW. The wind farms which became operational between 2009 and 2014 in France and between 2004 and 2014 in Germany, present an estimated average annual production of approximately 410 GWh.

Within the context of the transaction there are also two companies, one under French law and one under German law, which supply technical, operational and commercial assistance by means of a team formed of twenty-eight professionals, to wind turbine operators in France, Germany and Poland, both "captive" and third parties, for a total of approximately 800 MW (206 MW subject matter of the acquisition and another 83 MW owned by ERG Renew in Germany).

The value of the acquisition is approximately 297 million Euros in terms of enterprise value, equal to a multiple of approximately 1.4 million Euros per MW. The farms have already been fully funded by means of limited recourse project financing. In 2016 the predicted Gross Operating Margin shall be approximately 30 million Euros. Closing took place on 2 February 2016 and the comprehensive consideration of the equity is equal to 128 million Euros.

On 29 February 2016 ERG Renew acquired 100% of the share capital of Brockaghboy Windfarm Ltd ("BWF"), a company under British law, from TCI Renewables ("TCI"), the company holds the authorisations needed for realising a wind farm in Northern Ireland, in the county of Londonderry, with an envisaged capacity of approximately 45 MW and a production of electricity, under full working order, estimated as approximately 150 GWh per year, equal to approximately 3,300 equivalent hours and approximately 71 kt of avoided CO₂ emission.

ERG Renew expects to start the works for realising the wind farm in the second quarter of 2016 and complete construction at the end of the first quarter 2017.

The total estimated investment for realising the farm is approximately 60 million pounds (about 80 million Euros) inclusive of the initial consideration paid for acquiring the company.

The project satisfies the conditions for accreditation to the mechanisms of incentivisation in force (NIRO) provided by the bill under examination by the Parliament of the United Kingdom.

Based on agreements at the end of building and having obtained accreditation of the incentives (NIRO), there is a possibility that BWF could be sold to third parties. ERG Renew will have the right to present a supplementary offer to TCI in order to definitively maintain ownership. In the event that such offer is not accepted and only in the case in which higher offers are received and accepted by third parties, we shall proceed with the sale of BWF and subsequent calculation and division of the capital gain based on agreed contractual mechanisms.

By this transaction, ERG Renew enters into the wind power market of the United Kingdom as envisaged by the ERG Strategic Plan 2015-18 by means of an innovative and flexible contractual structure which allows industrial competences matured by ERG Renew to be valorised, as well as optimising the creation of value.

Business outlook

The foreseeable outlook for the main indicators regarding scenario and performance in 2016 is described below:

Non Programmable Sources

ERG Renew continues its strategy of international development thanks to which, as early as the start of 2016, it reached 0.6 GW of installed power overseas, equal to 37% of the total 1.7 GW installed, allowing the Group to become the ninth onshore wind power operator in France and the eighth in Europe.

2016 will particularly benefit from the full contribution of three new wind farms of which building in Poland is complete, with total installed power of 82 MW (the realisation of which was progressively completed by ERG during 2015), as well as the acquisition of another six farms in France having the installed power of 63 MW (which allowed the installed power in the country to be doubled since July 2015 from 64 MW to 128 MW) and the increase in installed power of 20 MW in Bulgaria and Rumania (following the dissolution of late 2015 of the joint venture LUKERG Renew and consequent division of the assets envisaged between the two shareholders ERG and LUKOIL).

Reminder is also given of the acquisition which took place at the start of 2016 of eleven wind farms in France (124 MW) and six in Germany (82 MW) with total installed power of 206 MW; this will allow our presence in these countries which consider renewables as essential to their energy policy to increase further, as well as the acquisition of two companies specialised in asset management which shall contribute both to obtaining synergies and the development of the presence of ERG as an industrial operator in the two countries. Such assets shall be consolidated starting from 1 January 2016.

Lastly, the activities with a view to further corporate growth continue by means of evaluating new opportunities of investment, especially overseas.

The results for 2016, albeit in the presence of energy prices which are decreasing significantly compared to 2015, are expected to grow, also thanks to the full contribution of the new farms realised or acquired overseas.

Programmable Sources:

ERG Group completed a transaction of great strategic relevance for the Group which allows the sources of production to be diversified by entrance into the sector of hydroelectric power entailing a significant dimension, in accordance with the strategy of growth in renewables by means of investments in high quality assets.

Thanks to this diversification, the results regarding programmable sources for 2016 are comprehensively expected to grow compared to 2015. The results respectively awaited are commented below:

- **Hydroelectric:** following the transaction completed on 30 November 2015, ERG Power Generation acquired the entire hydroelectric business of E.On Produzione, formed of a portfolio of plants present in Umbria, Marche and Lazio, with a total power of 527 MW; the contribution of the newly established ERG Hydro will allow profits to increase significantly, as well as cash generation, whereas the considerable increase of the generation portfolio will allow result to improve, also thanks to energy management.
- **Thermoelectric:** as regards the ERG Power plant, reduced results are expected as from the entrance in operation of the Sorgente-Rizziconi quarry, currently envisaged as by 30 June 2016 by Terna).

Nonetheless, until such date satisfying results are expected, in line with 2015. Furthermore, the flexibility and efficiency of the CCGT plant of ERG Power, long-term supply contracts and actions for covering the margin of generation will allow a higher profitability than that registered on average for the same type of plants in Italy to be maintained.

As a whole, for financial year 2016 a gross operating margin of approximately 440 million Euros is expected, in line with the indications given by the Financial Community at the time of Presentation of the Plan 2015-2018 (350 million in 2015).

Risks and uncertainties related to business outlook

With reference to the estimates and predictions contained in this section, we stress that the effective results may differ to a possibly significant extent respect to those announced due to multiple factors, amongst which: future developments in prices, operational performance of the plants, the impact of regulations in the energy sector, distribution of fuel and environmental matters, as well as other changes in business conditions and competitors' actions.

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