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Diffusione presunta

Oggetto : The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31/12/16

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 2016

Consolidated EBITDA at replacement cost¹: €455 million, €350 million in 2015
Group net result at replacement cost²: €107 million, €96 million in 2015
Proposed dividend per share of Euro 0.50

Fourth quarter of 2016

Consolidated EBITDA at replacement cost: €104 million, €86 million in 4Q 2015
Group net result at replacement cost: €24 million, €20 million in 4Q 2015

Genoa, 10 March 2017 – 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 2016, the report on corporate governance and ownership and the remuneration report. ERG S.p.A.'s Board of Directors also approved the draft financial statements as at 31 December 2016 of the merged company ERG Services S.p.A..

Consolidated financial results at replacement cost

4th Quarter			Performance highlights (million Euro)	Year		
2016	2015	Var. %		2016	2015	Var. %
104	86	+22 %	EBITDA	455	350	+30 %
44	38	+17 %	EBIT	202	179	+13 %
24	20	+19 %	Group net result	107	96	+11 %

	31.12.16	31.12.15	Variation
Net financial debt (million Euro)	1,557	1,448	+ 109
Leverage ³	47%	46%	

Luca Bettonte, ERG's Chief Executive Officer, commented: "Thanks to the new business structure, technologically and geographically diversified, it was possible to achieve a strong upturn in results compared to 2015 and to exceed the guidance figures given to the market at the beginning of the year, notwithstanding the weak energy scenarios. Net financial debt at year-end was below the indications provided to the market, due to the increase in operational cash generation together with the earlier and higher than anticipated inflow from receivables carried forward in connection with the recently acquired hydroelectric complex.

During 2016 we focused on operational consolidation of the new assets and the implementation of a new organisational and ownership structure more in keeping with the development of our business model, at the same time continuing to pursue our growth path, with 48 MW under construction in Northern Ireland (scheduled for completion by the end of this year) and the acquisition of another 48 MW of operational wind farm capacity in Germany.

For 2017 we forecast EBITDA of Euro 430 million, reflecting the expiry of wind power incentives for approximately 200 MW and the change in regulatory and competitive scenario as regards the thermoelectric business in Sicily, already envisaged in the Plan and partially mitigated by the contribution from the new wind farms and the predicted growth in results for the hydroelectric complex.

There is expected to be a reduction in net financial debt to Euro 1,450 million, after anticipated investments totalling Euro 140 million, which take into account the recent acquisition in Germany, and the proposed dividend per share of € 0.50."

¹ Results at replacement cost **do not** include inventory gains (losses) and non-recurring items.

² Group net result at replacement cost **does not** include inventory gains (losses), non-recurring items or applicable theoretical taxes.

³ The ratio of total net financial debt (including project financing) and net invested capital.

The Board of Directors therefore proposes to the Ordinary Shareholders' Meeting, to be convened on 20 April 2017 in first call and, if required, on 21 April 2017 in second call, the distribution of a dividend per share of 0,50 Euro which will be available for payment starting from 24 May 2017 (payment date), with an ex-dividend date as of 22 May 2017 (ex-date) and record date of 23 May 2017.

Preliminary remarks

Change in business perimeter

It should be noted that the comparison with 2015 results significantly reflects the change in the Group's perimeter particularly during the second half of 2015, and more specifically:

- **the acquisition of six French wind farms (63 MW)** from the Macquarie Group during the month of July 2015, fully consolidated starting from 1 July 2015;
- **the coming on stream of the EW Orneta 2 wind farm (42 MW)** in July 2015;
- **the acquisition from E.ON of the Terni Integrated Hydroelectric Complex (527 MW)** on 30 November 2015, fully consolidated since 1 December 2015;
- **the dissolution of the LUKERG Renew GmbH joint venture (50%)**, with the acquisition by ERG Renew S.p.A. of the Bulgarian wind farms and the Gebeleisis wind farm in Romania (overall 20 MW), as at 31 December 2015;
- **the coming on stream of the Polish Hydro Inwestycje and Blachy Pruszyński wind farms (40 MW)** at the beginning of 2016;
- **the acquisition of eleven wind farms in France (124 MW)** and six in Germany (82 MW) from Impax Asset Management Group during the first quarter of 2016, fully consolidated from 1 January 2016.

Fourth quarter 2016

Consolidated financial results

In the fourth quarter of 2016 **revenues from ordinary operations** totalled Euro 268 million, with a growth compared to Euro 231 million in the fourth quarter of 2015.

EBITDA at replacement cost during the period came to Euro 104 million, with an increase over Euro 86 million in the fourth quarter of 2015. The variation reflects the following factors:

- **Non Programmable sources (wind power):** EBITDA, at Euro 78 million, showed an upturn compared to Euro 52 million recorded during the corresponding period of 2015 owing to the growth in results posted by the Italian wind farms following the significant improvement in wind conditions during the period, particularly in the months of November and December, after the all-time low recorded in 2015. The result also reflected the higher contribution from the overseas wind farms, mainly thanks to the contribution from the new wind farms in France, Germany and Poland;
- **Programmable sources (thermoelectric and hydroelectric power):** EBITDA, at Euro 32 million, showed a slight fall-off with respect to the fourth quarter a year earlier (Euro 37 million); the contribution from hydroelectric power for the full quarter in 2016 (Euro 25 million in the fourth quarter of 2016 compared to Euro 8 million for just the month of December 2015) almost entirely compensated the poorer results recorded by the thermoelectric power business given the less profitable local market price scenario following the coming into operation of the power line connecting Sicily to the Italian mainland and consequent discontinuation of the cost reintegration period under the electricity system essential units regulations.

EBIT at replacement cost was Euro 44 million, showing an upturn with respect to Euro 38 million for the fourth quarter of 2015, after amortisation and depreciation totalling Euro 60 million (Euro 48 million in the corresponding period of 2015).

Group net result at replacement cost was Euro 24 million, with an increase compared to Euro 20 million for the fourth quarter of 2015, reflecting the improved results commented above.

Consolidated financial results

In 2016 **revenues** came to Euro 1,025 million, compared to Euro 944 million in 2015, due to the significant rise in wind and thermoelectric power output in Italy and the contribution from both the additional wind power capacity operating in France, Germany and Poland and the newly acquired hydroelectric complex. The higher output, which showed an overall increase of 42%, more than offset the average drop in energy prices.

EBITDA at replacement cost came to Euro 455 million, exceeding the figure of Euro 350 million recorded in 2015. The variation reflects the following factors:

- **Non Programmable sources (wind power):** EBITDA, at Euro 308 million, showed a notable upturn compared to the previous year (Euro 254 million), both in Italy and abroad. As regards Italy, this was attributable to the increase in windiness and output which more than offset the decidedly less favourable trend in prices. Outside of Italy, there was a significant growth in output, reflecting the contribution from the new wind farms in France, Germany and Poland, here again within a less profitable price scenario.
- **Programmable sources (thermoelectric and hydroelectric power):** EBITDA, at Euro 161 million, showed an increase compared to the previous year (Euro 115 million) following the contribution of Euro 84 million from the newly-acquired hydroelectric complex, despite the scarce availability of water recorded during the period. The result of Euro 77 million posted by thermoelectric power remains high, albeit with a downturn compared to a year earlier (Euro 107 million), due to the change in scenario, partly offset by the efficiency of the plants, the increase in spark spreads and the results of the Energy Management business both covering the generation margin and with regard to Dispatching Services.

We mention that since 28 May 2016 the ERG Power CCGT plant is no longer subject to the current Essential Units regulations for the safety of the electricity system and as of such date no longer benefits by the related “reintegration payments” recognised in respect of the restrictions imposed on the plant’s modulation (in force throughout FY2015); moreover, the plant’s marginality has been affected by the doubling of the Sicily-mainland power line and the consequent substantial alignment of Sicilian zonal prices to the historically and tendentially lower prices of the South.

EBIT at replacement cost was Euro 202 million (Euro 179 million in 2015) after amortisation and depreciation totalling Euro 254 million (Euro 171 million in 2015).

Net group result at replacement cost was Euro 107 million, with an increase compared to Euro 96 million in 2015, due above all to the reasons already described in the comment on the operating results and despite the higher amortisation and financial charges during the period following the major acquisitions carried out in December 2015 and in the early months of 2016.

The **Group net result**⁴ came to Euro 122 million (Euro 21 million in 2015). We mention that the 2015 result, with respect to the Group net result at replacement cost, reflected above all the non-recurring items and inventory losses pertaining to TotalErg as a result of the significant reduction in the price of crude oil and oil products.

Net financial debt, at Euro 1,557 million, was up by Euro 109 million compared to 31 December 2015 mostly due to the acquisition from the Impax group of the French and German wind farms (Euro 292 million), the entry to the United Kingdom (Euro 14 million), the distribution of dividends (Euro 143 million), together with investments during the period (Euro 60 million) and the payment of taxes (Euro 14 million). The period’s high net cash flow from operating activities, amounting to over Euro 400 million, largely compensated these effects; we report that during the period around Euro 40 million was paid in respect of receivables carried forward relating to green certificates and amounts due for water subtendering in connection with the Terni hydroelectric complex, which was not taken to the income statement but recorded as PPA adjustment of Euro 25 million, within the scope of the related acquisition.

⁴ This includes inventory gains (losses) of Euro 16 million (Euro -22 million in 2015) and non-recurring items of Euro -1 million (Euro -54 million in 2015). Amounts are shown net of the related tax effects. Greater detail is provided in the section “Alternative performance indicators”.

Investments

4th Quarter		Million Euro	Year	
2016	2015		2016	2015
23	33	Non Programmable Sources	44	95
23	33	Wind power	44	95
5	3	Programmable Sources	13	9
4	3	Thermoelectric power	10	9
1	0	Hydroelectric power	4	0
2	1	Corporate	3	2
29	37	TOTAL INVESTMENTS	60	106

In 2016 the ERG Group carried out investments in tangible and intangible fixed assets for a total amount of Euro 60 million (Euro 106 million in 2015), of which Euro 56 million concerned tangible fixed assets (Euro 101 million in 2015) and Euro 4 million concerned intangible fixed assets (Euro 5 million in 2015). During the **fourth quarter** of the said year the investments carried out by the Group amounted to Euro 29 million (Euro 37 million in the corresponding period of 2015).

Non Programmable sources (wind power)

Investments during 2016 (Euro 44 million) mainly refer to the payments made by ERG Renew in connection with the works for the construction of the Brockaghboy wind farm in Northern Ireland (around Euro 36 million). More specifically, the said wind farm will comprise nineteen Nordex N90 2.5 MW wind turbines (overall 47.5 MW). Construction is scheduled for completion, in keeping with the timing for connection to the distribution network, by the end of the third quarter 2017.

During the period payments were also made in connection with the completion of the new wind farms in Poland (overall 40 MW), all constructed directly by ERG Renew. In particular, the Szydłowo wind farm comprising seven Vestas V100 2MW wind turbines (total capacity 14 MW) 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 for 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.

Programmable sources (thermoelectric and hydroelectric power)

Investments during 2016, totalling Euro 13 million, concern ERG Power (Euro 9 million) and ERG Hydro (about Euro 4 million), which continued their investment initiatives aimed at maintaining the plants' operational efficiency, flexibility and reliability, including activities to unify the control centre and the information systems. Moreover, the scheduled interventions continued in the area of Health, Safety and the Environment.

Operational data

Electricity sales by the ERG Group, carried out in Italy through ERG Power Generation S.p.A.'s Energy Management business, 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 2016, total electricity sales came to 12.3 TWh (10.1 TWh in 2015), against a total of around 7.6 TWh produced by the Group's facilities (5.3 TWh in 2015), of which about 1.3 TWh abroad and 6.3 TWh in Italy. The latter figure corresponds to approximately 2.0% of overall electricity demand in Italy (1.5% in 2015).

During the fourth quarter of 2016, total electricity sales came to 3.2 TWh (2.7 TWh in the corresponding period of 2015), against a total of around 1.9 TWh produced by the Group's facilities, of which approximately 0.4 TWh abroad and 1.5 TWh in Italy. The latter figure corresponds to around 1.9% of overall domestic demand (1.5% in 2015).

In 2016 **electricity generated by Non Programmable sources (wind power)** amounted to 3,501 GWh, showing a growth compared to 2015 (2,614 GWh), with output up by around 16% in Italy (from 1,910 GWh to 2,220 GWh) and 82% abroad (from 705 GWh to 1,281 GWh).

The rise in Italian output (+311 GWh) is associated with the overall improvement in wind conditions compared to 2015, particularly as regards the regions of Campania, Puglia, Sicily and Sardinia.

Moreover, we mention that almost all the wind power output in Italy during 2016 and 2015 benefited from the incentive tariff (former Green Certificate).

Outside of Italy, the overall increase of 576 GWh is mainly attributable to the contribution from the new wind farms in France, Poland and Germany, which more than offset the lower output by the already operational wind farms. **In the fourth quarter of 2016** electricity output totalled 870 GWh, showing a sharp growth over 2015 (604 GWh), with production up by 38% in Italy (from 368 GWh to 509 GWh) and 53% abroad (from 236 GWh to 361 GWh). The rise in Italian output (+142 GWh) reflects the generally improved wind conditions compared to those recorded in 2015, particularly as regards the regions of Sicily, Campania and Puglia, where ERG Renew is present with approximately 60% of its installed capacity. Outside of Italy, the increase of 125 GWh is ascribable to the contribution from the new wind farms in France, Germany and Poland.

During 2016 net electricity generated by Programmable sources (thermoelectric and hydroelectric power) amounted to 4,051 GWh, with a growth over 2015 (2,716 GWh), thanks to the full year contribution from **ERG Hydro's** hydroelectric assets (1,358 GWh in 2016 compared to 84 GWh just for December 2015) and to the net electricity output by **ERG Power** (up from 2,632 GWh to 2,693 GWh). In the **fourth quarter of 2016** net electricity generated came to 990 GWh, showing an increase for the same reasons described above with respect to 781 GWh in 2015.

Main events in 2016

WIND POWER

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 six wind farms in Germany, with an installed capacity of 82 MW, representing an overall capacity of 206 MW. The wind farms came on stream between 2009 and 2014 in France and between 2004 and 2014 in Germany.

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" (including 206 MW concerned with the acquisition and another 83 MW owned by ERG Renew in Germany) and third-party wind power operators in France, Germany and Poland, covering an overall 800 MW.

The transaction's enterprise value is Euro 290 million, corresponding to a multiple of around Euro 1.4 million per MW. The wind farms are already entirely financed through limited recourse project financing. The total equity consideration amounts to Euro 135 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 47.5 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 emissions.

ERG Renew commenced building work on the wind farm during the second quarter of 2016 and construction will be completed by the third 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.

Based on the agreements, upon completion of construction and once crediting for the incentives (NIRO) has been obtained, there is a provision for BWF's potential sale to a third party. ERG Renew will be entitled to submit to TCI a supplementary proposal in order to maintain ownership of the facility on a permanent basis. If TCI should fail to accept this proposal and only in the case of higher offers from third parties, BWF will be sold and the capital gain calculated and shared according to the agreed contractual mechanisms.

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.

On **13 April 2016**, for the price of Euro 7.4 million, ERG Renew S.p.A. exercised its call option on the remaining 20% equity interest in ERG Wind Investments Ltd (an 80% stake in the company, formerly called IP Maestrale Investments Ltd, having been acquired from International Power Consolidated Holdings), as set forth by the agreements signed with International Power Consolidated Holdings Ltd in 2012.

On **13 July 2016** Massimo Derchi, Managing Director of ERG Renew S.p.A. and Executive with strategic responsibilities, tendered his resignation from all offices held in order to pursue new professional opportunities outside the ERG Group.

The Board of Directors of ERG Renew S.p.A., which met on the same date, therefore appointed as Managing Director Luca Bettonte, already since 2008 a director of ERG Renew S.p.A. and currently Chief Executive Officer of ERG S.p.A., and co-opted as Director of ERG Renew S.p.A. Pietro Tittoni, Executive

with Strategic Responsibilities, who has been assigned to the position of General Manager.

On **3 August 2016** ERG Wind France 1 SAS, a French company wholly owned by ERG Renew S.p.A., signed a facility agreement on a non-recourse portfolio project finance basis for six wind farms located in France (total installed capacity 63.4 MW) belonging to its subsidiaries. The wind farms entered into operation between 2005 and 2008 and were acquired by ERG Renew from Macquarie European Infrastructure Fund on 27 July 2015.

The financing, for an amount of Euro 42 million and a tenor of 9.5 years was signed by UniCredit Bank AG as lender and Mandated Lead Arranger (MLA).

On **9 November 2016** the Plan for merger by incorporation of ERG Renew S.p.A. and ERG Renew Operation & Maintenance S.r.l. into ERG Power Generation S.p.A. was deposited and filed with the Genoa Companies' Register and subsequently approved by the respective Shareholders' Meetings on **18 November 2016**. The deed of merger was drawn up on **21 December 2016** and the effects of the merger commenced from **1 January 2017**.

CORPORATE

On **6 April 2016** ERG S.p.A. sold to Unicredit S.p.A. its entire investment in I-Faber S.p.A. (23%), a company consolidated using the equity method, for the amount of Euro 4.2 million, in line with the carrying value recognised in ERG S.p.A.'s financial statements.

On **12 October 2016** ERG signed and finalised an agreement with UniCredit providing for the exchange of the total stake formerly held by UniCredit in ERG Renew, corresponding to 7,692,308 shares and representing an equity interest of 7.14%, for 6,012,800 ERG ordinary treasury shares representing 4% of ERG's entire share capital. The swap ratio agreed for the exchange amounts to approximately 0.78 ERG ordinary shares for each ERG Renew share, considering a value of €12.8 per ERG ordinary share.

The swap ratio was calculated based on the Fair Value assigned to the ERG shares and to the ERG Renew stake formerly held by UniCredit determined using Discounted Cash Flow methodology, also supported by the appraisals specifically prepared by an independent expert.

Following the transaction, ERG holds 1,503,200 ordinary treasury shares, corresponding to 1% of its share capital.

On the same date, ERG's Board of Directors approved the transaction and in particular the sale of the aforesaid ERG ordinary treasury shares, which had an average carrying value of € 6.88 per share, under the authorisation granted by the ERG Shareholders' Meeting held on 3 May 2016.

As part of the transaction, UniCredit undertook to observe a 180 day lock-up commitment vis-à-vis ERG, according to which UniCredit may not sell the ERG shares purchased by way of the exchange.

On **26 October 2016** during the presentation in Milan of the CDP Climate Leadership Awards, ERG received the Award for Best Newcomer Italy assigned by the Carbon Disclosure Project (CDP), in collaboration with Borsa Italiana, with a newcomer evaluation of B (out of a scale from A to D).

A significant award recognising the company's actions and strategies for combating climate change, together with disclosure transparency. This result also confirms the constant commitment towards a sustainable growth model that combines economic performance with a reduction in CO2 emissions.

Its positioning as a green business, a leader in the generation of electricity from renewable sources, enables ERG to actively contribute to the economy's progressive decarbonisation. An undertaking in keeping with the outcomes from COP 21, endorsed by the Paris Agreement, which view the development of renewable energy as a fundamental element in the fight against climate change.

On **10 November 2016** the Plan for merger by incorporation of ERG Services S.p.A into ERG S.p.A. was deposited and filed with the Genoa Companies' Register and subsequently approved by ERG's Board of Directors on **14 December 2016**. The deed of merger was drawn up on **21 December 2016** and the effects of the merger commenced from **1 January 2017**.

On **29 November 2016** ERG was awarded the 2016 Financial Report Oscar for the "Companies and Large Enterprises" category. The award, promoted by *FERPI* (the Italian Federation of Public Relations), was presented to the Chairman Edoardo Garrone during the award ceremony held in Milan at the offices of Borsa Italiana, under the High Patronage of the President of the Republic.

The motivations allowing ERG to obtain this prestigious recognition included the following: the report on operations comprehensively illustrates the transformation from industrial operator in the energy sector to independent producer of electricity generated above all using renewable energy sources. Significant events that occurred during the year are clearly described, alongside a chapter dedicated to risks. There is a clear explanation of the current Group structure. The Sustainability Report provides an in-depth account not only of economic responsibility but also environmental and social responsibility, also calling attention to appropriate performance data and indicators, including those envisaged by GRI G4 guidelines.

The award represents further confirmation for the Group of the effectiveness of the reporting model adopted in recent years as regards both the Annual Financial Report and the Sustainability Report, and reflects the commitment to consolidation of integrated risk management, ensuring successful business effectiveness.

On **12 December 2016** ERG announced that, starting from **19 December 2016**, its ICB (Industry Classification Benchmark) classification would change from «Oil & Gas» to «Utilities»; more specifically, it will come under the «Alternative Electricity» subsector, consequently moving from the «Oil & Gas» to the «Utilities» FTSE Italia all-share index.

Significant events after the year-end

As part of the “ONE Company” Project, with effect from **1 January 2017**, ERG Power Generation S.p.A. absorbed ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A., entirely replacing the incorporated companies in all their active and passive legal relationships.

On **12 January 2017**, ERG Power Generation S.p.A.’s Shareholders’ Meeting appointed a new Board of Directors – chaired by Vittorio Garrone – which, on the same date, confirmed Pietro Tittoni as Managing Director.

On **8 March 2017** ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH, a 100% equity interest in six German companies, owners of six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW, have an expected average output of around 84 GWh per year, corresponding to about 66,000 t of avoided CO₂ emissions; the farms came on stream during 2007 and have an average incentive expiry date of 2027.

The price paid in terms of equity value amounts to 14,4 million Euro, corresponding to an enterprise value of approximately 40 million Euro, with average annual EBITDA forecast at around 5 million Euro.

The closing is expected to take place during the second quarter of 2017, subject to obtainment of authorisation from the antitrust authority in Germany.

Business outlook

Set out below is the foreseeable trend in the main scenario and performance indicators during 2017:

Non Programmable sources (wind power)

ERG continues to pursue its international growth strategy in the wind power sector, thanks to which, by 2016, it achieved 626 MW of installed power capacity abroad, corresponding to 37% of the total 1,720 MW installed. This allowed the Group to position itself as eighth onshore wind power operator at European level. The year 2017 will benefit by the contribution from the new overseas wind farms, with the coming on stream during the latter part of the year of the approximately 48 MW facility constructed in Northern Ireland (UK), as well as the new wind farms acquired in Germany (49 MW), whereby ERG consolidated its position to around 216 MW, becoming one of the country’s leading wind power operators. The overseas operating results are therefore expected to show a growth due to the contribution from the new wind farms, partly offset by the expected poorer wind conditions, as already reflected in the trends seen at the beginning of the year, particularly as regards France and Germany.

Regarding Italy, EBITDA is expected to show a downturn as a result of approximately 214 MW gradually leaving the incentive system during the year and the lack of wind recorded at the beginning of the year. These effects will be partially compensated by the higher incentive levels, the value of which is calculated based on the average electricity price recorded in 2016, by a partial recovery of the price scenario based on the trend documented during the first few months of the year, and by recognition of the value of restrictions on output imposed by the TSO during previous years in reference to the MW leaving the incentive system.

Generally speaking, overall EBITDA as regards the wind power business is therefore expected to show a slight downward trend.

Programmable sources (thermoelectric and hydroelectric power)

During 2017 ERG will continue interventions to consolidate the Terni hydroelectric complex and improve the operational efficiency of ERG Power’s CCGT plant.

- Hydroelectric complex: an upturn in results is expected thanks to the higher incentive levels benefiting approximately 40% of output, participation in the dispatching services market and the

continuous interventions aimed at improving efficiency.

- Thermoelectric power: a downturn in results is anticipated following the discontinuation of Essential Units regulations and the related contribution covering fixed costs, associated with the fully operational status of the Sorgente-Rizziconi power line from 28 May 2016, which tends to curb profitability, a phenomenon to some extent mitigated by participation in the dispatching services market, maximisation of high yield cogeneration, recovery of operational efficiency and the Energy Management business.

Overall 2017 EBITDA is forecast at around Euro 430 million, despite the decreasing incentive perimeter in the Italian wind power sector and discontinuation of the essential units cost reintegration system as regards thermoelectric power; these effects are partly offset by the development of new overseas wind power production capacity, maximisation of Energy Management activities on all markets and a continuous search for business and central operating cost efficiencies.

ERG's cash generation will enable a reduction in debt of around Euro 100 million taking it to 1,450 million (Euro 1,557 in 2016), despite new investments scheduled for around Euro 140 million, the distribution of an ordinary dividend of € 0.50 per share and the payment of financial charges.

Additional information

Purchase and sale of treasury shares, subject to prior revocation of the previous authorisation approved by the Shareholders' Meeting on 3 May 2016

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 and in any case for any and all other purposes permitted by the current applicable legislative and regulatory provisions.

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 1,503,200 treasury shares, for an amount corresponding to 1% of share capital, with an average carrying 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. 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 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 9 March last.

Fees

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution with regard to the fixing of fees payable for the year 2017 to members of the Board of Directors, the Control and Risk Committee and the Nominations and Remuneration Committee, on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

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.

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 FY2016 will be illustrated to analysts and investors on 10 March 2017 at 11.00 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 eMarket Storage authorised storage mechanism (www.emarketstorage.com) 15 minutes before the conference call.

This press release, issued on 10 March 2017 at 7.45 a.m. (CET), is available to the public at the offices of Borsa Italiana S.p.A., on the eMarket 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/2017 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com)

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Performance highlights

4th quarter		(EUR million)	Year	
2016	2015		2016	2015
Main Income Statement data				
268	231	Revenues from ordinary operations	1,025	944
104	86	EBITDA at replacement cost	455	350
44	38	EBIT at replacement cost	202	179
30	(45)	Net income	125	24
30	(45)	of which Group net income	122	21
24	20	Group net profit (loss) at replacement cost ⁽¹⁾	107	96
Main Financial data				
3,286	3,124	Net invested capital	3,286	3,124
1,729	1,676	Shareholders' Equity	1,729	1,676
1,557	1,448	Total net financial indebtedness	1,557	1,448
1,276	1,285	of which non-recourse Project Financing ⁽²⁾	1,276	1,285
47%	46%	Financial leverage	47%	46%
39%	37%	EBITDA Margin %	44%	37%
Operating data				
1,720	1,506	Installed capacity at period end - wind farms	MW	1,720
870	604	Electric power generation from wind farms	millions of KWh	3,501
480	480	Installed capacity - thermoelectric plants	MW	480
661	698	Electric power generation from thermoelectric plants	millions of KWh	2,693
527	527	Installed capacity at period end - Hydroelectric plants	MW	527
329	84	Electric power generation from hydroelectric plants	millions of KWh	1,358
3,163	2,674	Total sales of electric power	millions of KWh	12,303
29	37	Investments ⁽³⁾	EUR million	60
715	666	Employees at period end	Units	715
Market indicators				
55.9	52.8	Reference price of electricity - Italy (baseload) ⁽⁴⁾	EUR/MWh	42.8
100.1	100.1	Feed In premium (former Green Certificates) - Italy	EUR/MWh	100.1
52.3	56.4	Sicily zone price (baseload)	EUR/MWh	47.6
65.3	63.1	North - Center zone price (peak)	EUR/MWh	47.6
148.5	147.3	Average selling price per unit of ERG Wind energy in Italy	EUR/MWh	139.0
89.9	96.2	Feed In Tariff (Germany) ⁽⁵⁾	EUR/MWh	92.6
88.4	89.9	Feed In Tariff (France) ⁽⁵⁾	EUR/MWh	88.7
56.1	25.0	Feed In Tariff (Bulgaria) ⁽⁵⁾	EUR/MWh	84.01
34.7	38.6	Price of electricity - Poland	EUR/MWh	33.4
8.1	25.6	Price of Green Certificates - Poland	EUR/MWh	10.8
26.9	29.7	Price of electricity - Romania ⁽⁶⁾	EUR/MWh	27.3
22.6	29.5	Price of Green Certificates - Romania ⁽⁷⁾	EUR/MWh	29.5

In order to enhance the understandability of trends in the business segments, revenues and financial results are shown at replacement cost, excluding non-recurring items.

At the end of 2015, dissolution of the LUKERG Renew GmbH joint venture (50%) was completed, with the acquisition by ERG Renew S.p.A. of the Bulgarian wind farms and the Gebeleisis (Romania) wind farm, whose results are fully consolidated from 1st January 2016.

Considering the mentioned change in the scope of consolidation and in order to facilitate understanding of the comparison periods, the comparative data reflect the 2015 adjusted values, which included ERG's share (50%) of revenues and financial results at replacement cost pertaining to the joint venture LUKERG Renew GmbH.

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

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

⁽³⁾ intangible and intangible fixed assets excluding M&A investments amounting to Euro 306 million in 2016 and to Euro 1.1 billion in 2015

⁽⁴⁾ Single National Price

⁽⁵⁾ the overseas Feed-in Tariff values refer to the prices obtained by ERG Renew plants

⁽⁶⁾ the price of electricity – Romania refers to the price set by the company via bilateral contracts

⁽⁷⁾ price refers to the unit value of green certificates

Performance highlights by segment

4th quarter			Year	
2016	2015		2016	2015
		(EUR million)		
		Revenues from ordinary operations:		
107	75	Non Programmable Sources	423	345
107	75	Wind power	423	345
161	156	Programmable Sources	601	602
126	145	Thermoelectric power ⁽¹⁾	479	592
35	11	Hydroelectric power	122	11
8	6	Corporate	32	22
(8)	(6)	<i>Intra-segment revenues</i>	(31)	(25)
268	231	Total revenues	1,025	944
		EBITDA:		
78	52	Non Programmable Sources	308	254
78	52	Wind power	308	254
32	37	Programmable Sources	161	115
7	29	Thermoelectric power ⁽¹⁾	77	107
25	8	Hydroelectric power	84	8
(5)	(3)	Corporate	(13)	(19)
104	86	EBITDA at replacement cost	455	350
		Amortisation, depreciation and write-downs		
(38)	(35)	Non Programmable Sources	(163)	(134)
(38)	(35)	Wind power	(163)	(134)
(22)	(13)	Programmable Sources	(88)	(34)
(8)	(8)	Thermoelectric power	(30)	(30)
(14)	(5)	Hydroelectric power	(58)	(5)
(1)	(1)	Corporate	(3)	(3)
(60)	(48)	Amortisation and depreciation at replacement cost	(254)	(171)
		EBIT:		
39	17	Non Programmable Sources	145	120
39	17	Wind power	145	120
10	24	Programmable Sources	73	81
(1)	21	Thermoelectric power ⁽¹⁾	47	78
11	3	Hydroelectric power	26	3
(6)	(3)	Corporate	(16)	(22)
44	38	EBIT at replacement cost	202	179
		Investments on tangible and intangible fixed assets:		
23	33	Non Programmable Sources	44	95
23	33	Wind power	44	95
5	3	Programmable Sources	13	9
4	3	Thermoelectric power	10	9
1	0	Hydroelectric power	4	0
2	1	Corporate	3	2
29	37	Total investments	60	106

⁽¹⁾ Energy Management contribution is included

Reclassified Income Statement

Income Statement and Balance Sheet results include non - recurring items

4th quarter		Reclassified Income Statement	Year	
2016	2015		2016	2015
		(EUR million)		
268.5	225.5	Revenues from ordinary operations	1,025.5	920.3
4.7	9.4	Other revenues and income	16.3	16.3
273.1	234.9	TOTAL REVENUES	1,041.8	936.6
(108.5)	(100.2)	Costs for purchase and changes in inventory	(330.2)	(412.6)
(43.3)	(51.8)	Costs for services and other operating costs	(196.0)	(157.5)
(16.8)	(19.3)	Cost of labor	(62.3)	(58.2)
104.5	63.7	EBITDA	453.3	308.3
(60.4)	(46.3)	Amortisation, depreciation and write-downs of fixed assets	(253.7)	(163.0)
44.1	17.4	EBIT	199.6	145.2
(19.9)	(14.4)	Net financial income (expenses)	(83.9)	(54.8)
9.7	(58.5)	Net income (loss) from equity investments	37.7	(54.2)
33.9	(55.5)	Profit before taxes	153.5	36.2
(3.4)	10.2	Income taxes	(28.7)	(12.6)
30.5	(45.3)	Profit for the period	124.9	23.7
0.0	0.1	Minority interests	(2.4)	(3.1)
30.5	(45.2)	Group's net profit (loss)	122.5	20.6

Reclassified Statement of Financial Position

Reclassified Statement of Financial Position	12/31/2016	12/31/2015
(EUR million)		
Fixed assets	3,372.2	3,223.9
Net working capital	160.2	202.1
Employees' severance indemnities	(6.7)	(5.5)
Other assets	310.1	324.7
Other liabilities	(549.5)	(621.1)
Net invested capital	3,286.3	3,124.2
Group Shareholders' Equity	1,729.1	1,626.0
Minority interests	0.0	50.3
Net financial indebtedness	1,557.2	1,447.9
Shareholders' equity and financial debt	3,286.3	3,124.2

Cash flow

4th quarter			Year	
2016	2015		2016	2015
		CASH FLOWS FROM OPERATING ACTIVITIES:		
		(EUR million)		
79.3	23.9	Adjusted cash flow from current operations ⁽¹⁾	381.3	207.2
(5.5)	(17.6)	Income tax paid	(14.2)	(125.5)
71.9	59.8	Change in working capital	69.5	29.2
(2.2)	58.1	Change in other operating assets and liabilities	(34.3)	81.2
143.4	124.1	TOTAL	402.3	192.1
		CASH FLOWS FROM INVESTING ACTIVITIES:		
(27.9)	(45.6)	Net investments on tangible and intangible fixed assets	(55.9)	(113.2)
(5.5)	(0.5)	Net investments in financial fixed assets	(0.1)	(1.4)
0.0	0.0	Adjustment for sale of ERG Oil Sicilia	0.0	(0.5)
(33.5)	(46.1)	Total	(56.1)	(115.1)
		CASH FLOW FROM SHAREHOLDERS' EQUITY:		
(0.0)	0.0	Distributed dividends	(142.8)	(71.4)
10.1	(3.7)	Other changes in equity ⁽³⁾	(6.2)	5.2
10.1	(3.7)	Total	(149.0)	(66.2)
(0.3)	(1,051.4)	CHANGES IN SCOPE OF CONSOLIDATION⁽²⁾	(306.5)	(1,128.6)
119.8	(977.0)	CHANGE IN NET FINANCIAL INDEBTEDNESS	(109.3)	(1,117.8)
1,677.0	470.9	INITIAL NET FINANCIAL INDEBTEDNESS	1,447.9	330.1
(119.8)	977.0	CHANGE IN THE PERIOD	109.3	1,117.8
1,557.2	1,447.9	FINAL NET FINANCIAL INDEBTEDNESS	1,557.2	1,447.9

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

⁽²⁾ the change in the scope of consolidation in 2016 reflects above all the full consolidation of the newly-acquired Impax Asset Management companies

⁽³⁾ the other changes in equity basically refer to the movements in cash flow hedge reserve connected with derivative financial instruments

Alternative performance indicators

In order to enhance the understandability of trends in the business segments, the financial results are also shown at replacement cost, excluding non-recurring items.

The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting.

Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method 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.

Non-recurring items include significant but unusual earnings.

Inventory gains (losses)⁵ 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.

The contribution of the TotalErg joint venture is consolidated using the equity method

At the end of 2015 dissolution of the LUKERG Renew GmbH joint venture (50%) was completed, with the acquisition by ERG Renew S.p.A. of the Bulgarian wind farms and the Gebeleisis (Romania) wind farm, whose results are fully consolidated from 1st January 2016.

Considering the mentioned change in the scope of consolidation and in order to facilitate understanding of the comparison periods, the comparative data reflect the 2015 adjusted values, which included ERG's share (50%) of the financial results at replacement cost pertaining to the joint venture LUKERG Renew GmbH.

⁵ Inventory gains and losses refer exclusively to the item "income from equity investments" and concern the TotalErg joint venture.

Reconciliation with operating results at adjusted replacement cost

4th quarter		EBITDA	Year	
2016	2015		2016	2015
104.5	63.7	EBITDA	453.3	308.3
<i>Exclusion of non-recurring items:</i>				
Corporate				
0.0	(0.2)	- Ancillary charges - extraordinary operations	0.0	1.3
0.0	11.2	- Ancillary charges concerning ERG Hydro acquisition	0.0	11.2
0.0	0.0	- Write-down of environmental certificates	0.0	2.6
0.0	0.0	- Charges for company reorganisation	0.0	1.7
Programmable Sources				
0.0	0.7	- Corporate reorganisation expenses	0.3	1.7
0.0	5.2	- Ancillary charges transactions concerning ERG Hydro	0.0	5.2
Non Programmable Sources				
0.0	0.0	- Charges for company reorganisation	0.9	0.0
0.0	3.7	- Ancillary charges - extraordinary operations	0.9	6.3
104.5	84.3	EBITDA at replacement cost	455.4	338.1
0.0	1.7	LUKERG Renew 50% contribution at adjusted replacement cost	0.0	11.9
104.5	86.0	EBITDA at adjusted replacement cost	455.4	350.0
AMORTISATION, DEPRECIATION AND WRITE-DOWNS				
(60.4)	(46.3)	Amortisation and depreciation at replacement cost	(253.7)	(163.0)
0.0	(1.9)	LUKERG Renew 50% contribution at adjusted replacement cost	0.0	(7.8)
(60.4)	(48.2)	Amortisation and depreciation at adjusted replacement cost	(253.7)	(170.9)
EBIT				
44.1	38.0	EBIT at replacement cost	201.7	175.1
0.0	(0.4)	LUKERG Renew 50% contribution at adjusted replacement cost	0.0	4.1
44.1	37.6	EBIT at adjusted replacement cost	201.7	179.1
4th quarter		GROUP'S NET PROFIT (LOSS)	Year	
2016	2015		2016	2015
30.5	(45.2)	Group net result	122.5	20.6
(9.4)	14.7	<i>Exclusion of inventory gains / losses</i>	(15.7)	21.9
<i>Exclusion of non-recurring items:</i>				
0.0	0.0	<i>Exclusion for capital gain on sale of ERG Oil Sicilia</i>	0.0	0.5
0.0	0.0	<i>Exclusion of write-off resulting from Robin Tax on deferred tax assets and liabilities</i>	0.0	(2.9)
0.0	13.1	<i>Exclusion of ancillary charges - ERG Hydro acquisition</i>	0.0	13.1
0.0	0.0	<i>Exclusion of write-down of environmental certificates</i>	0.0	1.9
0.0	3.6	<i>Exclusion of ancillary charges - extraordinary operations</i>	0.8	6.4
3.3	3.1	<i>Exclusion of TotalErg non-recurring items</i>	4.1	1.6
0.0	0.0	<i>Exclusion of loan prepayment effects</i>	5.9	0.0
0.0	(8.4)	<i>Exclusion of tax adjustment effects</i>	0.0	(8.4)
0.0	0.5	<i>Exclusion of charges for company reorganisation</i>	0.8	2.5
0.0	0.3	<i>Exclusion of extraordinary gains - LUKERG joint venture dissolution</i>	0.0	0.3
0.0	0.9	<i>Exclusion of provision for equity investment risks</i>	0.0	0.9
0.0	38.0	<i>Exclusion of financial gains / charges on minorities option</i>	(11.0)	38.0
24.4	20.5	Group net profit (loss) at replacement cost ⁽¹⁾	107.3	96.3

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



MANAGEMENT REPORT
AS AT 31 DECEMBER 2016

Introduction

This document is an annex supporting the press release of 10 March 2017 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.

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

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

Results at replacement cost

To enhance understandability of business performance, the operating results are also shown at replacement cost, excluding non-recurring items¹ and inventory gains (losses)².

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

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

Change in the business scope

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

- acquisition of six wind farms (63 MW) in France from the Macquarie group in July 2015, consolidated on a line-by-line basis starting on 1 July 2015;
- start-up of the wind farm of EW Ornetà 2 (42 MW) in July 2015. The company has been consolidated since December 2014;
- acquisition of the integrated hydroelectric complex in Terni (527 MW) from E.ON on 30 November 2015, consolidated on a line-by-line basis since 1 December 2015;
- dissolution of the LUKERG Renew GmbH (50%) joint venture, with the acquisition, by ERG Renew S.p.A., of the wind farms in Bulgaria and of the Gebeleisis wind farm in Romania (totalling 20 MW), at 31 December 2015;
- start up of the Hydro Inwestycje and Blachy Pruszyński wind farms in Poland (40 MW) at the beginning of 2016, consolidated on a line-by-line basis since 1 January 2015;
- acquisition of eleven wind farms in France (124 MW) and six in Germany (82 MW) from Impax Asset Management Group in the first quarter of 2016, consolidated on a line-by-line basis since 1 January 2016.

¹ Non-recurring items include significant but unusual earnings.

² TotalErg's equity contribution is reported net of inventory gains (losses) and non-recurring items

Group Business Description

In 2016 the ERG Group completed a profound transformation process from leading Italian private oil operator to leading independent operator in the generation of energy from renewable sources, both non-programmable sources (wind) and programmable sources (thermoelectric and hydroelectric), also expanding abroad with a rising presence, specifically on the French and German wind market.

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

In 2016, the ERG Group, via its subsidiaries, operated in the Electric power generation sectors using:

• Non-programmable sources

Through ERG Renew (100% owned at 31 December 2016), ERG operated in the generation of electricity from wind sources with 1,720 MW of installed power at 31 December 2016. ERG is the leading wind power operator in Italy and one of the first ten in Europe.

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

ERG, through the company ERG Renew O&M, also performed Operation & Maintenance activities on its own Italian wind farms and on some of the farms in France and Germany. Through the CSO Energy companies it provided technical and administrative assistance to Group companies and third parties.

• Programmable sources

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

- ERG Power S.r.l.: a company which owns the so-called “Centrale Nord” (480 MW) located in the industrial estate in Priolo Gargallo (SR) in Sicily, which operated up to 27 May 2016 as an Essential Unit on the basis of the Mucchetti Amendment³. This is a high-output co-generation plant (C.A.R.), based on latest generation combined cycle technology using natural gas, which came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, other utilities;
- ERG Hydro S.r.l.: a newly-formed company in which the hydroelectric business segment acquired from E.ON Produzione S.p.A. at the end of 2015 was transferred. The integrated assets portfolio of ERG Hydro is made up of 16 plants, 7 dams, 3 reservoirs and a pumping station, located geographically throughout Umbria, the Marches and Lazio, with a capacity of 527 MW;
- ERG Power Generation S.p.A. (wholly-owned): a company which carries out Energy Management activities for the entire ERG Group, as well as the O&M activities for the ERG Power S.r.l. plant.

ERG Power Generation holds 100% of ERG Power S.r.l. and ERG Hydro S.r.l.

In 2016 the services transversal to the Group were centralised in ERG Services S.p.A., 100%-owned by ERG S.p.A. and a company delegated with achieving operational excellence in the supply of services based on logics of a shared services centre.

The ERG Group also has an equity investment of 51% in TotalErg, a joint venture in the integrated downstream sector, which is not considered part of the core business of the Group and whose results are included using the equity method. At the end of 2016 a process was launched to identify possible parties potentially interested in acquiring the equity investment in TotalErg S.p.A.

³ Law converting Decree Law No. 91/14 (“Competition Decree”). For additional details, please see the section Thermoelectric Power



During 2016, as a result of the drive provided by the challenging targets of the 2015-2018 Business Plan, it was necessary to change the current Group Organisational Model, Fast Steering, announced at the end of 2013 and fully implemented in 2014.

If, on one hand, in the last three years, the flexibility and scalability of that model made it possible to extremely quickly, efficiently and effectively support the implementation of a total business turnaround, which entailed the acquisition and sale of important industrial operations and their related assets and employees, on the other, the focus and organisational separation by generation technology began to appear anti-ethical, inefficient and ineffective in relation to the outlook and potential of the new business structure.

The new business structure implemented through the recent business transformation of the Group, which is now a Green Independent Power Producer with a single Energy Management as an entry point into the electricity market. A completely different entity from the multi-business operator of just a few years before, it must leverage its new, particular characteristics to continue generating value for shareholders, its people and the community.

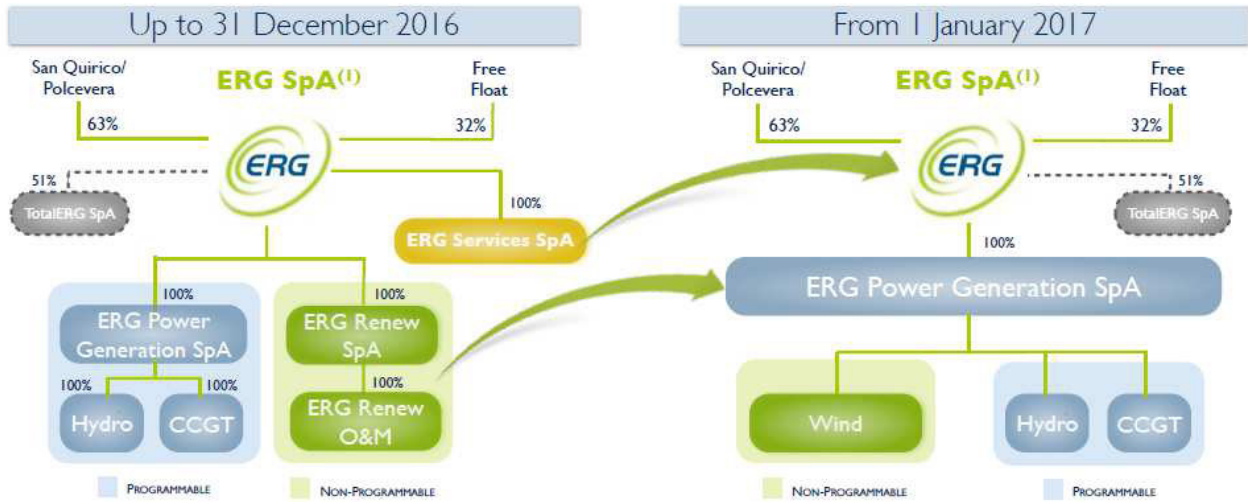
Therefore, in mid-2016 an internal project was launched, directed and implemented by the members of the Human Capital Committee, which led to the development of a new organisational structure featuring a strong focus on process logic, aiming for the utmost organisational simplification, by creating specific areas of competency, for the ultimate purpose of concentrating the entire organisation towards a single, integrated view of the business. This is the reason for the choice of the name: ONE COMPANY.

The new structure features the definition of two macro-roles:

- ERG S.p.A. – corporate – which guarantees strategic guidance, is directly responsible for business development processes and ensures the management of all the business support processes. The company is organised into the following 5 areas:
 - Business Development, with the mission of ensuring business development in various geographical, technological and market areas
 - Administration, Finance, Planning and Control, Risk Management, M&A, IR and Purchasing;
 - Human Capital, ICT and General Services;
 - Institutional Relations and Communication;
 - Legal and Corporate Affairs.
- ERG Power Generation S.p.A., which is assigned the responsibility for the Group's industrial and commercial processes. It is organised into:
 - Wind, Thermo and Hydro generation technologies, which in turn are organised into production units on a geographical basis;
 - Energy Management, as the single entry point into organised markets;
 - a commercial structure dedicated to Key Accounts;
 - a centre of technological excellence in charge of the Engineering & Construction processes;
 - a hub of specialised skills in regulatory, planning and performance control matters, transversal to all business processes;
 - a structure dedicated to managing issues of health, safety and environmental protection for the entire Group.

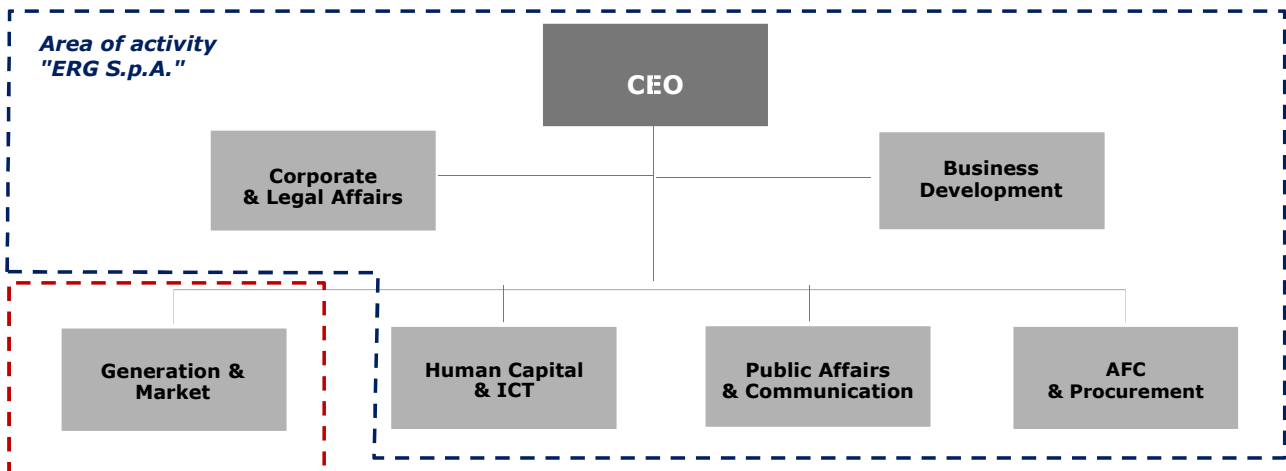
Implementation of the new Group organisational model was partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A. It was planned to take full effect on 1 January 2017, specifically through:

- the incorporation of ERG Services S.p.A. into ERG S.p.A.;
- the incorporation of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. into ERG Power Generation S.p.A.



(1) ERG owns 1% of treasury shares.

The new organisational/corporate model can be illustrated as follows:



Business area "ERG Power Generation S.p.A."

Performance highlights

(EUR million)	Year		
	2016	2015	
Main Income Statement data			
Revenues from ordinary operations	1,025	944	
EBITDA at replacement cost	455	350	
EBIT at replacement cost	202	179	
Net income	125	24	
of which Group net income	122	21	
Group net profit (loss) at replacement cost ⁽¹⁾	107	96	
Main Financial data			
Net invested capital	3,286	3,124	
Shareholders' equity	1,729	1,676	
Total net financial indebtedness	1,557	1,448	
of which non-recourse Project Financing ⁽²⁾	1,276	1,285	
Financial leverage	47%	46%	
% EBITDA Margin	44%	37%	
Operating data			
Installed capacity at period end – wind farms	<i>MW</i>	1,720	1,506
Electric power generation from wind farms	<i>millions of KWh</i>	3,501	2,614
Installed capacity at period end – thermoelectric plants	<i>MW</i>	480	480
Electric power generation from thermoelectric plants	<i>millions of KWh</i>	2,693	2,632
Installed capacity at period end – hydroelectric plants	<i>MW</i>	527	527
Electric power generation from hydroelectric plants	<i>millions of KWh</i>	1,358	84
Total sales of electric power	<i>millions of KWh</i>	12,303	10,113
Capital expenditure ⁽³⁾	<i>EUR million</i>	60	106
Employees at the period end	<i>Units</i>	715	666
Market indicators			
Reference price of electricity - Italy (baseload) ⁽⁴⁾	<i>EUR/MWh</i>	42.8	52.3
Feed-In Premium (former Green Certificates) - Italy	<i>EUR/MWh</i>	100.1	100.1
Sicily zone price (baseload)	<i>EUR/MWh</i>	47.6	57.5
Centre North zone price (peak)	<i>EUR/MWh</i>	47.6	57.9
Average unit value of sale of ERG wind energy - in Italy	<i>EUR/MWh</i>	139.0	147.8
Feed-In Tariff - Germany ⁽⁵⁾	<i>EUR/MWh</i>	92.6	96.2
Feed-In Tariff - France ⁽⁵⁾	<i>EUR/MWh</i>	88.7	90.4
Feed-In Tariff - Bulgaria ⁽⁵⁾	<i>EUR/MWh</i>	84.0	80.3
Electricity price - Poland	<i>EUR/MWh</i>	33.4	37.1
Certificate of origin price - Poland	<i>EUR/MWh</i>	10.8	26.0
Electricity price - Romania ⁽⁶⁾	<i>EUR/MWh</i>	27.3	29.7
Green certificate price - Romania ⁽⁷⁾	<i>EUR/MWh</i>	29.5	29.5

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

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

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

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

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

⁽³⁾ in tangible and intangible fixed assets. Do not include the M&A investments amounting to EUR 306 million in 2016 and EUR 1.1 billion in 2015.

⁽⁴⁾ Single National Price

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

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

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

Performance highlights by segment

(EUR million)	Year	
	2016	2015
Revenues from ordinary operations:		
Non-programmable sources	423	345
Wind power	423	345
Programmable sources	601	602
Thermoelectric power ⁽¹⁾	479	592
Hydroelectric power	122	11
Corporate	32	22
<i>Intra-segment revenues</i>	<i>(31)</i>	<i>(25)</i>
Total revenues from ordinary operations	1,025	944
EBITDA:		
Non-programmable sources	308	254
Wind power	308	254
Programmable sources	161	115
Thermoelectric power ⁽¹⁾	77	107
Hydroelectric power	84	8
Corporate	(13)	(19)
EBITDA at replacement cost	455	350
Amortisation, depreciation and write-downs:		
Non-programmable sources	(163)	(134)
Wind power	(163)	(134)
Programmable sources	(88)	(34)
Thermoelectric power	(30)	(30)
Hydroelectric power	(58)	(5)
Corporate	(3)	(3)
Amortisation and depreciation at replacement cost	(254)	(171)
EBIT:		
Non-programmable sources	145	120
Wind power	145	120
Programmable sources	73	81
Thermoelectric power ⁽¹⁾	47	78
Hydroelectric power	26	3
Corporate	(16)	(22)
EBIT at replacement cost	202	179
Capital expenditure on tangible and intangible fixed assets:		
Non-programmable sources	44	95
Wind power	44	95
Programmable sources	13	9
Thermoelectric power	10	9
Hydroelectric power	4	0
Corporate	3	2
Total capital expenditure	60	106

⁽¹⁾ includes Energy Management contribution

Sales

Power

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

During 2016, total sales of electricity came to 12.3 TWh (10.1 TWh in 2015), in the presence of an overall value of production for the Group plants of around 7.6 TWh (5.3 TWh in 2015), of which roughly 1.3 TWh abroad and 6.3 TWh in Italy. The latter balance corresponds to around 2.0% of electricity demand in Italy (1.5% in 2015).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table¹:

Sources of electric power (GWh)	Year		Sales of electric power (GWh)	Year	
	2016	2015		2016	2015
ERG Renew - wind power generation in Italy	2,220	1,910	Electric power sold to captive customers	542	535
ERG Renew - wind power generation Abroad	1,281	705			
			Electric power sold to IREN	2,020	2,015
ERG Power Generation - thermoelectric generation	2,693	2,632	Electric power sold wholesale - of which Italy - of which Abroad		
ERG Power Generation - hydroelectric generation	1,358	84		9,741	7,563
ERG Power Generation - purchases	4,751	4,782		8,460	6,858
				1,281	705
Total	12,303	10,113	Total	12,303	10,113

In 2016, moreover, steam sales² amounted to 752 thousand tons (802 thousand in 2015).

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

¹ Electric power sources refer to the output of the Group's plants and to the purchases made on wholesale markets; uses include sales made through physical bilateral agreements and on the spot and forward markets.

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

Comments on the year's performance

In 2016, **revenues from ordinary operations** amounted to EUR 1,025 million, up with respect to the EUR 944 million in 2015, as a result of significantly increased generation in Italy, both wind and thermoelectric, of the contribution from the newly operational wind capacity in France, Germany and Poland, as well as of the contribution from the newly acquired hydroelectric complex. The additional output, which grew by 42% overall, more than offset the average decrease in the prices of energy.

The **EBITDA at replacement cost** amounted to EUR 455 million, up on EUR 350 million in 2015. The change is a result of the following factors:

Non-programmable sources: EBITDA of EUR 308 million, up sharply on the previous year (EUR 254 million), both in Italy and abroad. In Italy, this was result of better wind conditions and greater production, which more than offset a decidedly lower trend in prices. Abroad, this was thanks to the significant increase in production, in light of the contribution of the new wind farms in France, Germany and Poland, in a less profitable price scenario also in this case.

Almost all wind power generation in Italy in 2016 and 2015 benefited from the feed-in premium (former Green Certificates), for an unchanged unit amount as a result of the new regulatory framework⁴.

Programmable sources: EBITDA of EUR 161 million, higher than in the previous year (EUR 115 million) as a result of the contribution provided by the newly acquired hydroelectric complex equal to EUR 84 million, in spite of the reduced rainfall observed in the period. The thermoelectric result, amounting to EUR 77 million, remained at high levels, albeit decreasing compared to last year's EUR 107 million thanks to the high efficiency of the plants, to the increased spark spreads and to the results of the Energy Management activities both hedging the generation margin and in the area of Dispatching Services.

Since 28 May 2016, ERG Power's CCGT plant has no longer been subject to the current regulations pertaining to Essential Units for the security of the electrical system, and, since that date, has no longer benefitted from the "reintegration consideration" granted in exchange for restrictions imposed on plant modulation (which instead had been in force for the entire year 2015). Moreover, the plant's margins were affected by the doubling of the Sicily-continent underground power line and the resulting substantial alignment of the Sicily zone price with the historically and tendentially lower price in the South.

EBIT at replacement cost was EUR 202 million (EUR 179 million in 2015) after amortisation and depreciation of EUR 254 million (EUR 171 million in 2015).

The **Group net profit (loss) at replacement cost** amounted to EUR 107 million, higher than the result of EUR 96 million in 2015, mainly because of the reasons already explained when commenting the operating results, in spite of the higher depreciation and amortisation and financial expenses of the period as a result of the significant acquisitions made in December 2015 and the initial months of 2016.

Group net profit⁵ was EUR 122 million (EUR 21 million in 2015). Note that the 2015 net profit was affected, with respect to the Group net profit (loss) at replacement cost, by non-recurring costs and losses on the value of the inventory of TotalErg as a result of the sharp declines in the prices of crude oil and petroleum products.

In 2016, **Group capital expenditure** totalled EUR 60 million (EUR 106 million in 2015), of which 73% in the Non-programmable sector (90% in 2015) and 22% in the Programmable sector (8% in 2015). This balance does not include the value of the investments and acquisitions in wind amounting to EUR 306 million in 2016.

Net financial indebtedness was EUR 1,557 million, up by EUR 109 million compared to 31 December 2015 mainly as a result of the acquisition of the French and German wind farms from the Impax group (EUR 292 million), of the entry into the United Kingdom (EUR 14 million), of the distribution of dividends (EUR 143 million) as well as of the capital expenditure of the period (60 million) and the payment of taxes (14 million). The high net operating cash flow of the period of over EUR 400 million, significantly offset those effects. In the period, approximately EUR 40 million in prior receivables pertaining to Green Certificates and fees for diversion of water relating to the hydroelectric complex in Terni was collected. This was not recognised in the income statement, but as a Purchase Price Allocation of EUR 25 million as part of the related acquisition.

⁴ Refer to the comments on the paragraph concerning regulations in Italy, shown in the in "Non-programmable Sources" business segment.

⁵Includes inventory gains (losses) of EUR 16 million (EUR -22 million in 2015) and non characteristic items of EUR -1 million (EUR -54 million in 2015). The values are net of tax effects. Additional details are provided in the chapter "Alternative performance indicators".

Significant events during the year

WIND POWER

On **2 February 2016** ERG Renew finalised an agreement to purchase eleven wind farms in France from a fund managed by Impax Asset Management Group, with an installed capacity of 124 MW, along with 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 2004 and 2014 in Germany, have an estimated average annual output of approximately 410 GWh.

The scope of the transaction also includes two companies, one French and one German, which provide technical, operational and commercial assistance, via a team comprising twenty-eight professionals, to wind farm operators in France, Germany and Poland, both captive and third parties, for a total of around 800 MW (of which 206 MW subject to purchase and another 83 MW belonging to ERG Renew in Germany).

The value of the acquisition comes to around EUR 290 million in terms of enterprise value, equal to a multiple of approximately EUR 1.4 million per MW. The farms are already entirely financed with limited recourse Project Financing. The overall consideration for the equity comes to EUR 135 million.

On **29 February 2016** ERG Renew acquired 100% of the share capital of Brockaghboy Windfarm Ltd (“BWF”) from TCI Renewables (“TCI”), a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland, in the region of Londonderry, with planned capacity of 47.5 MW and energy output estimated at over 150 GWh when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO₂ emissions.

ERG Renew started work for the construction of the wind farm in the second quarter of 2016, and construction will be completed by the end of the third quarter of 2017.

The total estimated investment for construction of the farm is approximately GBP 60 million (roughly EUR 80 million), already including the initial consideration paid for the purchase of the company.

The project meets the conditions for accreditation in line with the current incentive mechanisms (NIRO) envisaged by the bill being examined by the UK parliament.

On the basis of the agreements, on conclusion of the construction and having obtained the accreditation in line with the incentives (NIRO), the possibility of BWF being transferred to third parties is envisaged. ERG Renew will have the right to present a supplementary offer to TCI so as to maintain the ownership definitively. If this offer is not accepted and only if higher offers have been received and accepted from third parties, steps will be taken to transfer BWF and subsequently calculate and divide up the capital gain on the basis of the agreed contractual mechanisms.

By means of this transaction, ERG Renew will enter the UK wind market as envisaged in the ERG 2015-18 Strategic Plan by means of an innovative and flexible contractual structure which makes it possible to develop the industrial expertise gained and to optimise the creation of value.

On **13 April 2016** ERG Renew S.p.A. exercised the call option on the remaining 20% of the share capital of ERG Wind Investments Ltd for a value of EUR 7.4 million (company formerly known as IP Maestrato Investments Ltd acquired from International Power Consolidated Holdings for 80%), as envisaged by the agreements entered into with International Power Consolidated Holdings Ltd in 2012.

On **13 July 2016** Massimo Derchi, Chief Executive Officer of ERG Renew S.p.A. and Key Manager, resigned from all offices held, in order to pursue new professional opportunities outside the ERG Group.

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

On **3 August 2016** ERG Wind France 1 SAS, a French subsidiary of ERG Renew S.p.A., executed a loan agreement in the form of non-recourse portfolio project finance for six wind farms situated in France, with a total installed capacity of 63.4 MW, owned by its subsidiaries. The farms, which started operations between 2005 and 2008, were acquired by ERG Renew on 27 July 2015 from Macquarie European Infrastructure Fund.

The loan, amounting to EUR 42 million with a duration of 9.5 years, was subscribed by UniCredit Bank AG as lender and Mandated Lead Arranger (MLA).

On **9 November 2016** the plan for merger by incorporation of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. into ERG Power Generation S.p.A. was filed with and recorded in the Genoa Business Register, subsequently approved by their respective Shareholders' Meetings on **18 November 2016**. The merger deed was entered into on **21 December 2016** and the merger took effect on **1 January 2017**.

CORPORATE

On **6 April 2016** ERG S.p.A. sold the entire equity investment held in I-Faber S.p.A. (23%), a company consolidated using the equity method, to Unicredit S.p.A. for an equivalent value of EUR 4.2 million, in line with the book value in ERG S.p.A.'s financial statements.

On **12 October 2016**, ERG S.p.A. executed an agreement with UniCredit, which regards the exchange of all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital. The ratio at which the exchange was agreed is approximately 0.78 ordinary ERG shares for each ERG Renew share, on the basis of a value of EUR 12.8 attributed to each ordinary ERG share.

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

As a result of the operation, ERG holds 1,503,200 ordinary ERG treasury shares, equal to 1% of its share capital.

On the same day, the Board of Directors of ERG approved the transaction and in particular the disposal of the aforesaid ordinary ERG treasury shares, which had an average carrying value of EUR 6.88 per share, within the scope of the authorisation granted by ERG's Shareholders' Meeting held on 3 May 2016.

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

On **26 October 2016**, during the presentation of the CDP Climate Leadership Awards, in Milan, ERG received the Award as Best Newcomer Italy assigned by the Carbon Disclosure Project (CDP), in collaboration with Borsa Italiana, with an entry rating of B (in a scale that ranges from A to D).

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

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

On **10 November 2016** the plan for merger by incorporation of ERG Services S.p.A. into ERG S.p.A. was filed with and recorded in the Genoa Business Register, subsequently approved by the ERG Board of Directors on **14 December 2016**. The merger deed was entered into on **21 December 2016** and the merger took effect on **1 January 2017**.

On **29 November 2016** ERG won the 2016 Financial Report Oscar for the "Companies and Large Enterprises" category. The award, promoted by FERPI (the Italian Federation of Public Relations), was presented to the Chairman Edoardo Garrone during the award ceremony held on the same date at the offices of Borsa Italiana in Milan, under the High Patronage of the President of the Republic.

The motivations that enabled ERG to attain this prestigious award include, as stated, "the report on operations comprehensively illustrates the transformation from industrial operator in the energy sector to independent producer of electricity generated above all using renewable energy sources. Significant events that occurred during the year are clearly described, alongside a chapter dedicated to risks. There is a clear explanation of current Group structure. The Sustainability Report provides an in-depth account not only of economic responsibility but also environmental and social responsibility, also calling attention to appropriate performance data and indicators, including those envisaged by GRI G4 guidelines."

The award represents further confirmation for the Group of the effectiveness of the reporting model adopted in recent years as regards both the Annual Financial Report and the Sustainability Report, and reflects the commitment to consolidating integrated risk management to ensure successful business effectiveness.

On **12 December 2016** ERG announced that, starting on **19 December 2016**, its ICB classification (Industry Classification Benchmark) would change from "Oil & Gas" to "Utilities"; more specifically, it entered the "Alternative Electricity" subsector, consequently moving from the "Oil & Gas" to the "Utilities" FTSE Italia All-Share index.

TotalErg Investigation

With regard to the investigation on the alleged tax irregularities involving TotalErg (a joint venture 51%-

owned by ERG and 49%-owned by Total, resulting from the merger of Total Italia and ERG Petroli on 1 October 2010), on 26 June 2015 ERG, in its capacity as the tax consolidating entity, and TotalErg, in its capacity as the consolidated entity (formerly ERG Petroli), were served with an assessment notice for IRES for tax year 2007. TotalErg was served an assessment notice for IRAP and VAT for the same year.

Compared to the specific comment regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the official tax audit report dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

On 6 July 2015, assessment notices for IRAP, IRES and VAT referring to 2007, 2008 and 2009 were served to TotalErg, in its capacity as the incorporating entity of Total Italia. On 29 November 2016, ERG was served, in its capacity as the tax consolidating entity, and on 24 November 2016, TotalErg was served, in its capacity as the consolidated entity, an assessment notice for IRES for tax year 2010. TotalErg S.p.A was served an assessment notice for the IRES rate surcharge, IRAP and VAT for the same year. Compared to the specific comments made in the official tax audit report of 6 August 2014 served to TotalErg which amounted to EUR 3,797 million of non-deductible costs, the assessment notices considerably reduce the amount in this case as well, to approximately EUR 7.5 million.

In their belief that they had always operated in full respect of the laws and applicable regulations, ERG and its investee TotalErg appealed the aforementioned assessment notices within the deadlines set by the lot in order to secure cancellation thereof.

In this regard, we reiterate that the joint venture agreement with Total provides for an adequate mutual system of guarantees.

In consideration of the above, no liabilities were recognized.

REGULATORY FRAMEWORK: MAIN CHANGES

The most significant regulatory changes that characterised the energy industry in 2016 are described below.

GENERAL

Paris Agreement on Climate Change

On 4 October 2016, the European Parliament approved the ratification of the Paris Agreement in the presence of European Commission President Jean-Claude Juncker, the United Nations Secretary General Ban Ki-Moon and the President of COP 21 Ségolène Royal.

On 5 October 2016, as 94.41% of countries had already signed the agreement (including the EU), this triggered the deadline of 30 days set out in the regulations, which formally enforced the Agreement from 4 November 2016.

Italy ratified the agreement on 27 October 2016. The law was published in the Official Journal of Italy on 10 November 2016.

United Kingdom Referendum on membership in the European Union

On 23 June, voters in the UK voted in favour of the United Kingdom leaving the European Union, the first case of a member state and signing party to the Treaty of Maastricht leaving the Union.

Once the negotiations with London for the effective implementation of the United Kingdom's exit from the European Union, the entire legal framework of the Union must be adapted to the new situation of 27 member states.

European Commission Regulatory Calendar – Winter Package

On 30 November 2016 the European Commission announced that by the end of 2016 it would publish a package of regulatory measures on EU climate-energy policy for the period following 2020.

The main measures concern the revision and issue of directives and regulations on renewable energies and the electric system, to enable the EU to achieve the climate-energy targets for 2030 adopted in October 2014 and presented to the COP 21 of December 2015.

The approved documents even include the Commission's guidance for member states to draw up action plans.

The approval process for the final measure, which should be completed by the end of 2018, involves a joint decision process by the European Parliament and the Council of the EU for the Directives, while for the regulations the Parliament only provides an opinion. All measures should enter into force in 2021.

Environment – Efficiency – Safety Matters

In January 2016, Law 221/2015 was published to promote green economy measures and reduce the use of natural resources, known as the "environmental connection" previously approved by the parliament on 22 December 2015.

The main rules set out in the law include the reform of the ENEA (Entity for New Technology, Energy and the Environment), several amendments to the rules on using soil and rocks from digs, support for sustainable mobility and the revision of the incentive for the generation of electricity from biomass.

The regulations on damage to and restoration of national priority sites have also been amended, providing the possibility to operators involved to propose a settlement. Lastly, the District Water Basin Authorities are established for each hydrographic district, which will replace the current Inter-regional, Regional and National Priority Water Basic Authorities.

In March 2016 the Ministry of the Environment approved the Water and Flood Risk Management Plans for six out of the eight hydrographic districts in the country, including the Central Apennine district.

In July 2016 "European Law 2015-2016" was published, which includes provisions on the classification, labelling and packaging of substances and mixtures. This measure extends the administrative fine set out for breaches of the provisions of European regulation on dangerous substances and mixtures, applied to anyone who uses packaging containing a dangerous substance or mixture that fails to comply with the prescriptions of the pertinent European Regulation.

"Annual Extensions Act" Law Decree

Law Decree no. 244 of 30 December 2016 pertaining to the extension and definition of the terms prescribed by law (known as the "Annual Extensions Act") was published in the Italian Official Journal, General Series no. 304 of 30 December 2016.

As regards the issues of interest, it is important to note the extension up to 31 December 2017 of the reduced taxation of fuels used in cogeneration plants such as the CCGT of Priolo was confirmed. Therefore, the rates identified by the Authority for Energy, reduced to 12%, shall continue to be applied. The entry into force of the reform of general system charges for non-domestic consumers was postponed to 1 January

2018, while the variable portions of general system charges will be applied to electricity withdrawn from public grids with the obligation to connect third parties starting on 1 January 2017.

WIND POWER

ITALY

The wind power sector has already been the subject of focused measures, in addition to the inter-disciplinary measures already discussed in the previous paragraph.

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

With **Resolution 29/2016**, the Italian Regulatory Authority for Energy and Gas established that the average value of the sales price of electricity for 2015 amounted to 51.69 EUR/MWh. As a result, the GSE (Italian National Grid Operator) announced the withdrawal price for “green certificates” issued for 2015 output, equal to EUR 100.08 per certificate.

In the resolution, it is specified that the sale price of electricity for 2015 is also used to determine the **value of the incentives which will replace green certificates from 2016**.

Also with regard to “green certificates”, at the end of October 2015, the GSE announced the **timeline for the disbursement of the incentives for plants holding “green certificates”**, which from 2016 will be **converted into Feed-In Premiums (FIP)**. Starting on 1 January 2016, these incentives are now determined on a monthly basis, and **disbursed by the GSE every quarter** by the second quarter following the reference quarter, in line with the current timelines for **withdrawing** green certificates.

At the end of April 2016, the GSE provided operators with the **scheme of the agreement** it intends to use to settle payment of the feed-in premium (FIP) to entitled green operators.

Most operators, including ERG, submitted an appeal against the GSE for forcing operators to sign a deed that was not envisaged under the regulations in force.

A procedure for applying for an **extension of the incentive period** in the event of total or partial shutdown of wind farms required by the national transmission network operator (Terna), which estimates the reimbursement of the Green certificates lost as a result of the limitations, optionally using an algorithm identified by the GSE or using the final data for Lost Wind Power Output (MPE), was inserted as part of the new **“Application procedure for the issue, management and withdrawal of ‘green certificates’ by the GSE,”** published at the end of March 2016.

Resolution 333/2016/R/eel – measurement of imbalances for 2012, 2013 and 2014

On 28 June 2016 the Authority published Resolution 333/2016/R/eel for the *ex post* definition of the measurement of the imbalances for the years 2012, 2013 and 2014, as a result of the rulings on the matter by the Regional Administrative Court of Lombardy and the Council of State.

For the recalculation of the imbalance payments in the period July 2012 - September 2014 dispatching users may choose whether to use the standard regulations set out in the resolutions subsequently cancelled by the Regional Administrative Court of Lombardy or an alternative solution.

The Resolution also requires that Terna make the adjustments to the imbalance payments by **1 November 2016** for users that chose the standard solution. For those who used the alternative regulations, the deadline is set for 30 days after the Authority’s decision, on the outcome of suitable verifications on a sample basis.

Resolutions 444/2016/R/eel and 800/2016/R/eel - actions on the measurement of actual imbalances

As a result of the significant increase in dispatching costs in the second quarter of 2016 and Regulation 342/2016/R/eel described hereinafter, on 29 July 2016, the Authority published Resolution 444/2016, which amended the criteria for measurement of imbalances of electricity injected or withdrawn and those planned.

This regulation was amended further through Resolution 800/2016, published by the Authority on 30 December 2016, concerning 2017.

The main provisions of the new measure regard the move from the calculation method of the aggregated imbalance sign per zone in force up to 2009 to the method based on acquiring the measures of actual withdrawals and injections. This move will take place in May 2017.

To at least partially remedy the delay of at least two months relating to this calculation method of the imbalance sign, gradually coming into line with the EU regulations on transparency, the Authority assigned

Terna to announce a preliminary estimate of the imbalance sign to be published no later than the day following the delivery date.

For non-authorized production units fuelled by authorized and non-authorized non-programmable renewable energies, the current single pricing system will be applied for all of 2017.

For non-authorized programmable consumption units and production units, the application of the single-dual pricing mixed system has been confirmed, maintaining the standard range of +/-15% up to April 2017. Starting in May 2017, based on the actual entry into force of the calculation method of the imbalance sign using the actual measures, the standard range will be raised to +/-30% for consumption units and non-authorized programmable generation units will be fully exempt from the application of the single-dual pricing mixed system.

As the dispatching user with regard to all generation plants owned by the ERG Group (save for limited exceptions) ERG Power Generation S.p.A. submitted an appeal to the Regional Administrative Court of Lombardy for the partial repealment of said resolutions.

Italian Ministerial Decree 23 June 2016 – Incentives for Electric Renewable Energy Plants other than photovoltaic plants, 2016.

Italian Official Journal of 29 June 2016 published the Decree of **23 June 2016 of the Ministry of Economic Development**, jointly with the Ministry of the Environment and the Ministry of Agricultural Policies.

With this Decree, which entered into force on 30 June 2016, the Ministry of Economic Development defines the incentives and the procedures for accessing them, for the pursuit of the objectives of the National Energy Strategy, in line with the European Commission Guidelines on State Aid for environmental protection and energy.

Building on the previous Ministerial Decree of 6 July 2012, the measure sets out the application of competitive mechanisms (auctions) for large plants fuelled by renewable sources, while smaller units must enrol in specific registers and direct access.

The notices of the auctions shall be carried out at one time and were published at the end of August 2016. For the wind power sector, auction amounts of 800 MW are envisaged for new plants and 40 MW for renovations, while 60 MW is reserved for the registers.

The minimum price for wind power is equal to 110 EUR/MWh and the winning price will be paid for 20 years (steady in nominal terms).

For large hydroelectric plants, only renovation works are envisaged, for an amount of power of a 30 MW.

The Ministerial Decree also governs maintenance works on operating plants.

On 25 November 2016 the standings of the amounts recorded were published. On 22 December 2016 the outcome of the auction was published, showing that all of the 800 MW of the auction amount set out for on-shore wind power was assigned at the floor price (40% of the basic feed-in premium of 110 EUR/MWh, or 66 EUR/MWh).

FRANCE

To ensure achievement of the European target for renewables in 2020 and the domestic target in 2030 (40% of renewables in the energy mix, of which 20% from wind power), at the end of October 2016 the French Government published the Long-Term Energy Plan, which defines the new interim targets for installed power for 2016-2018 and 2019-2023. In addition to providing an indicative schedule of the auctions structured by technology, the document proposes the goal of raising onshore installed wind power capacity to 15 GW by 2018 (from around 10 GW at the end of 2015) and between 22 and 26 GW in 2023.

On 13 December 2016 the decree governing the move from the FIT to the FIP was published, based on a remuneration supplementing system plus a premium, for wind farms that finalised the application to purchase electricity generation in 2016. The total value of the new premium is in line with the FIT pursuant to the Decree dated 17 June 2014.

Wind farms that receive the incentive pursuant to the Decree dated 17 June 2014 will continue to receive a feed-in tariff (FIT) for 15 years, whose value is defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products.

Starting in 2017, France will introduce an auction-based incentive system, however, the implementing decree is still being examined by the European Commission.

The impossibility of putting an end to the need for onshore development of wind power and that of preserving the functionality and security of military radar and installations (translating into a limit to where new wind farms can be located) has limited the growth of wind power, blocking development of 3.5 GW of projects, according to estimates by the industry.

GERMANY

The “Renewable Energy Sources Act” 2016 (EEG 2017), adopted on 8 July and approved on 20 December by the European Commission as compliant with EU rules on State aid, marks a move from the FIT/FIP incentive system to an auction scheme for all Electric Renewable Energy Plants > 750 KW, broken down by source, operating from 1 January 2017. The annual auction amounts for new onshore wind power capacity amount to 2.8 GW per year up to 2020 and 2.9 GW in the following years. The first auction will be held on 1 May 2017, at a starting price of 70 EUR/MWh.

From 2018, multi-technological “pilot” auctions must be planned for wind and photovoltaic technologies.

Offshore wind power was recognised a “flexible” cap, applied from 2021 to 2030, defined annually to ensure that the new target of 15 GW over the next 15 years is reached (from the 25 GW set out for the 2012 target).

Consultation is currently under way on the introduction of temporary capacity caps for on-shore wind plants in the areas that are the most affected by congestion on the electricity transmission grid. The draft survey of the most affected areas was published in October 2016, while the final measure should be approved by March 2017, with impacts even on the auctions planned for May 2017. New on-shore wind projects in the areas subject to congestion on the electricity transmission grid will be limited to 58% of average incremental capacity of the period 2013-15. These limits may be reassessed every two years starting on 1 January 2020. The caps are applied only at regional level and do not influence the general target of new capacity of 2.8 GW per year in 2017-19, and 2.9 GW in 2020.

The upcoming federal elections, scheduled for next autumn, should not change the approach of the two main political groups in favour of renewable energy sources.

POLAND

In May and June 2016 the Polish Parliament, on an initiative by the Ministry of Energy, approved a set of amendments to both the Wind Turbine Investments Act (WTI Act) and the Renewable Energy Sources Act approved in 2015 (RES Act).

The amendments, promoted by the current conservative, anti-European government, have a negative impact on the profitability of existing plants and risk compromising further development of onshore wind power in the country.

In particular:

1. a prohibition from installing new turbines within set distances from buildings, forests or protected areas is introduced;
2. taxation on real estate and similar is increased from 2017;
3. the new rules on minimum distances are not applicable to plants that have already obtained a construction permit that are not subject to changes. Otherwise, plants that are not yet in operation must comply with the new regulations;
4. less strict requirements are set out for the definition of dedicated co-combustion, possibly reducing the effectiveness of the rule which halved the number of Certificates of Origin recognised to “non-dedicated” co-combustion;
5. the principal of technological neutrality of the auctions, which was featured in the first version of the Law, is eliminated in favour of an approach based on technology baskets;
6. higher priority is granted to renewable technologies with high load factors and waste-to-energy plants;
7. onshore wind and photovoltaic power are located in the residual basket of “other technologies”;
8. the obligation that distributors (DSO) purchase renewable energy produced at a price equivalent to the average of prices of the previous quarters is abolished.

The law on renewable energy sources approved by the government is currently being discussed by the European Commission - DG Competition. Its opinion is expected in the first half of 2017.

The first pilot multi-technology auctions (for new installations with capacity of less than 1 MW) that involve the move from an incentive system to competitive procedures for assigning contracts for differences - CfD - were held on 30 December 2016. The outcome of the auctions was impacted by problems in connecting to the dedicated online platform, which prevented the participation of a large number of offerors.

Of the 152 projects, 84 projects participated in the multi-technology auctions (76 PV projects for a total of approximately 70 MW and 8 wind power projects for a total of approximately 8 MW) were awarded with prices in the range of 253.5 PLN/MWh to 408.8 PLN/MWh (58 EUR/MWh – 93 EUR/MWh), with an average price of 350 PLN/MWh (80 EUR/MWh).

UNITED KINGDOM

The procedure for the United Kingdom's exit from the European Union will probably be the priority of the May government, leaving the issue of incentives for on-shore wind power through contracts for differences (CfD) on the back burner. The current conservative government, though favourable to the climate policy as confirmed by its ratification of the Paris agreement, has been quite resistant to on-shore wind power plants. The government is reviewing the energy policy to close the gap between the installed power generation capacity and the peak demand in the next few years, caused by the plan to close coal and nuclear plants.

In May 2016 the Parliament amended the Energy Bill, introducing several changes to the renewables incentive system and, specifically, the current system of Green Certificates known as ROC (Renewable Obligation Certificates). Currently, no incentives are planned for plants post-ROC, i.e. authorised after June 2015.

As compared to the original deadline of 31 March 2017, following the decisions of the Tories, the end of the current support mechanism was moved up to 13 May 2016 for Great Britain and to 31 March 2016 for Northern Ireland.

However, several grace periods are envisaged, which extend access to the afore-mentioned system for plants authorised and built by 31 March 2017 or afterwards, if the delays in construction are not attributable to the producer.

The time extensions are granted to plants which have obtained the following by set dates: (i) planning consent, (ii) approved connection contracts (with connection date by 31/3/2017) and (iii) proof of land rights. The set dates are established as 18 June 2015 for Great Britain and 30 September 2015 (for plants not connected to clusters) or 30 October 2015 (for plants connected to clusters) for Northern Ireland.

The incentive system for renewable energy plants realised subsequently is based on Contracts for Differences, assigned following a competitive Dutch auction. However, there are still uncertainties regarding the possibility for onshore wind farms to access new incentive systems, as well as the schedule of auctions and the financial resources available.

ROMANIA

At the end of December 2016 the government approved the mandatory quota for purchase and cancellation of Green Certificates for producers and for large consumers of electricity. That quota, at 12.15% in 2016, was reduced to 8.3% for 2017.

The Emergency Ordinance proposed by the technical government was substantially confirmed by the new government recently instated and judged in line with the guidelines on State aid issued by the European Commission - DG Competition.

The ordinance proposes (i) extension of the expiry of Green Certificates from the current 12 months to a fixed expiry for all of them at 31/12/2031, (ii) a reduction of the penalty for missing certificates and (iii) the creation of an "anonymous" market for certificates to avoid their sale at discounted prices.

THERMOELECTRIC POWER

Essential Units pursuant to Law Decree 91/2014

On **25 May 2016** news was published on the TERNA website declaring the entry into operation at **00:00 a.m. of 28 May 2016** of the Sorgente-Rizziconi connection and the ancillary works defined by resolution 521/2014.

That communication sanctioned **the end of the essentiality regime** envisaged by Law Decree no. 91 of 24 June 2014 for the electricity generation units located in Sicily, as governed by the afore-mentioned Resolution 521/14.

The AEEGSI then confirmed that situation termination by way of resolution **274/2016/R/eel**, published on 27/05/2016.

On 13 December 2016 the Authority issued Resolution 741/2016/R/eel which quantified the second advance for the consideration to restore costs in relation to essential plants subject to the 91/14 regime, for 2015, granting a mandate to TERNA to settle the amounts.

For ERG Power Generation, whose CCGT plant in Priolo was subject to the regulation of essential plants envisaged by Law Decree 91/2014 up to 27 May 2016, the advance on the consideration approved with the measure amounted to approximately 68% of the balance requested. The remaining compensation balance should be settled within the first half of 2017.

The AEEGSI then notified Resolution no. 761/2016/R/eel of 15 December 2016, which confirmed and

quantified the advance relating to the year of operation 2016.
Both considerations were settled by TERNA by the deadline set (31/12/2016).

Essential Units pursuant to Resolution 111/2006

On 28 October 2016 Resolution 610/2016 was published, which includes a section of the CCGT plant in Priolo amounting to 120 MW on the list of essential units pursuant to Resolution 111/2006 for 2017 (based on a scheme that is substantially different from the scheme pursuant to Law Decree 91/2014 set out in the previous paragraph). The company opted for the alternative scheme pursuant to Article 65-bis of Resolution 111/06 which entails the remuneration of the tertiary reserve increasing through an option contract, releasing the plant from the essentiality regime on the energy markets (day before market - MGP/intraday market - MI).

Internal user networks

For operators that own “closed distribution systems”, which include “**internal user networks**” (RIU) the Authority for Electricity, Gas and Water published **Resolution RIU – 539/2015**, which governs the management of said internal networks starting from 2017, also introducing the need to adopt accounting and functional separation of distribution activities from those of sale of electricity within RIU.

ERG Power Generation, as operator of the RIU of Priolo, and ERG Power, as owner, presented an appeal to the Administrative Court of Lombardy for the partial repealment of the resolution.

On 1 August 2016 the AEEGSI published Resolution 442/2016/R/eel which specifies the methods for updating the registers of closed distribution systems (SDC), including internal user networks (RIU), setting the related deadlines (30 September 2016).

On 23 December 2016 the AEEGSI published Resolution 788/2016, completing the regulations on closed distribution systems. Through this new measure, which introduces a new type of SEESEU (Existing System Equivalent to Efficient Systems for Users), SEESEU-D, which features a single producer and a single end customer, the Authority published the new RIU register required by the previous 442/2016. In the same resolution, the AEEGSI also envisaged the subsequent publication, through individual measures, of the resolutions that will approve the geographical scope of the RIU. The resolution also postpones the entry into force of Resolution 539/2015: the new regulations shall enter into force on 1 October 2017

Increase in electricity dispatching service costs: Resolution 342/2016 and subsequent measures

In the second quarter of 2016 there were significant increases in dispatching service costs for end customers (with specific regard to the uplift fee). These occurrences were studied and investigated by the government and consumer associations, with the suspicion that several of the leading electricity operators had engaged in illegal conduct on the energy and dispatching services markets.

On 27 June 2016 the Authority published Resolution 342/2016/E/eel, through which it launched a process for the timely adoption of prescriptive measures and/or asymmetric regulation measures and the assessment of potential abuse on the electricity market, pursuant to Regulation (EU) no. 1227/2011 (REMIT), potentially committed in the recent past by several electricity market operators (including ERG Power Generation S.p.A. and, with regard to the period 1 January 2016-30 June 2016, ERG Hydro S.r.l.).

According to the intentions of the AEEGSI, the measures aim to combat conduct which could constitute market abuse.

The AEEGSI deems that the planning and supply strategies of several users, owners of consumption or generation units fuelled by non-programmable renewable sources cannot be considered consistent with the principles of diligence, prudence, expertise and forecasting set out in the regulations in force on electricity dispatching.

The list of parties involved was then extended in August 2016 through the publication of Resolution 459/2016/R/eel. Through this resolution, the Authority also extended the time available to conclude the entire proceeding. Following the investigation by the AEEGSI, in September 2016 communications were sent to the parties involved – including ERG Hydro S.r.l. and ERG Power Generation S.r.l. –, via certified electronic mail, containing the results of the assessments and the potential illegal activity detected by the Authority.

ERG Power Generation S.p.A. and ERG Hydro S.r.l. presented an appeal to the Administrative Court of Lombardy for the partial repealment of the deeds indicated above, deeming that there were absolutely no grounds for the issue thereof.

On 7 October 2016 the Authority published Resolution 477/2016/E/eel through which the initial actions were taken as part of those proceedings against dispatching users authorised to access the dispatching services market, also involving the Competition Authority for the measures under its responsibility concerning competition law (Law 287/90). The companies in the ERG Group are not involved in the above proceedings.

In addition, pursuant to the European Regulation on wholesale market integrity and transparency (REMIT), the Authority also informed the European Commission and ACER of said potential breaches of competition law on the national electricity markets.

On 19 October the Authority published Resolution 575/2016/R/eel, which sets out the automatic redistribution to end customers of the amounts that will be recovered by TERN by virtue of the prescriptive ordinances and the measures of asymmetric regulation adopted as a result of the above proceedings.

Changes to electricity market settlement

On 16 September, after providing a positive opinion to the Ministry of Economic Development, the AEEGSI, published Resolution 501/2016 with which it approved the amendments to the electricity market regulations proposed by GME on settlement, taking effect on 1 December 2016.

The amendments, which are necessary for the gradual harmonisation of market rules due to the European coupling project, move up the payment terms on the day before market (MGP) and the intraday market (MI), bringing the settlement stage from its current monthly frequency (M+2) to a weekly frequency (W+1).

HYDROELECTRIC POWER

On the issue of “Green Certificates”, refer to the comments set out in the chapter **Wind Power – Italy**.

At the level of regional regulations, in October 2015 the Umbria Region published Resolution no. 1067/2015 which determined the increase in the value of state property rentals from 15.6 to approximately 31 EUR/kW, starting on 1 January 2016. ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways against that measure.

Impacts on the Group

With regard to possible impacts of these measures on the ERG Group for the year 2016, please refer to the following chapters dedicated to the individual activities managed.

BUSINESS SEGMENTS

NON-PROGRAMMABLE SOURCES

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

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

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

Reference market ⁽¹⁾

Italian Renewable Energy Sources Market (GWh) ⁽²⁾	Year	
	2016	2015
Generation from renewable sources ⁽³⁾	88,188	89,567
<i>of which:</i>		
<i>Hydroelectric</i>	42,323	46,451
<i>Geothermal</i>	5,865	5,824
<i>Wind</i>	17,455	14,705
<i>Photovoltaic</i>	22,545	22,587
Sale prices (EUR/MWh)		
Reference price of electricity - Italy (baseload) ⁽⁴⁾	42.8	52.3
Feed-In Premium (former Green Certificates) - Italy	100.1	100.1
Electricity price - Central-South zone	41.6	50.9
Electricity price - South zone	40.4	49.4
Electricity price - Sicily	47.6	57.5
Electricity price - Sardinia	41.6	51.1
Average unit value of sale of ERG energy - in Italy ⁽⁵⁾	139.0	147.8
Feed-In Tariff - Germany ⁽⁶⁾	92.6	96.2
Feed-In Tariff - France ⁽⁶⁾	88.7	90.4
Feed-In Tariff - Bulgaria ⁽⁶⁾	84.0	80.3
Electricity price - Poland	33.4	37.1
Certificate of origin price - Poland	10.8	26.0
Electricity price - Romania ⁽⁷⁾	27.3	29.7
Green Certificate price - Romania ⁽⁸⁾	29.5	29.5

⁽¹⁾ Estimated output for December

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

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

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

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

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

⁽⁷⁾ The Electricity price Romania refers to the price fixed by the company via bilateral agreements

⁽⁸⁾ Price referred to the unit value of the Green Certificate (the number of Green Certificates recognised and the timeline are discussed in the section describing the scenario in Romania)

Market scenario in Italy

In 2016, 32% of (net) domestic electricity output of 275,649 GWh (+1.2%) was covered by renewable sources. In particular, 15% of the output derives from hydroelectric power, 8% from photovoltaic plants, 6% from wind farms and 2% from geothermal sources.

With respect to 2015, wind (+19%) and geothermal (+1%) were up, while hydroelectric generation reported a net decrease (-9%). Photovoltaic generation was in line with the previous year.

Regulatory scenario

Italy

The incentive system in Italy prescribes, for on-shore wind farms in operation before the end of 2012⁶, the continuation of the Green Certificates system until 2015 and the conversion from 2016, for the residual period of entitlement to incentives, to a feed-in premium calculated using a similar formula and paid on a quarterly basis no later than the last business day of the second quarter after that of accrual. In detail, the GSE established that the payment of the incentive which replaces the Green Certificates must take place for the first quarter of 2016 by 30 September 2016 while for the second quarter of 2016 by 31 December 2016. Collection of the incentive relating to the third quarter 2016 will take place by 31 March 2017 and relating to the fourth quarter of 2016 by 30 June 2017.

With regard to the value of the 2015 Green Certificates withdrawal price and the 2016 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 29/2016/R/EFR dated 28 January 2016, the average annual value registered in 2015 for the electricity sale prices for incentive purposes, amounting to EUR 51.69/MWh. Therefore, the withdrawal price of the 2015 green certificates and 2016 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year⁷, amounts to 100.08 EUR/MWh⁸.

In accordance with the Ministerial Decree of 6 July 2012, wind farms with more than 5 MW capacity built from 2013 onwards (starting operations after April 2013) instead shall gain access to the incentives by participating in a Dutch auction⁹. As a result of the first auction, 442 MW was assigned for on-shore wind power (the total amount allocated for 2013 was 500 MW), whilst the second auction, completed on 10 June 2013, led to the assignment of the entire amount available for 2014, i.e. 399.9 MW versus a capacity demand of 1,086 MW¹⁰. With the third auction, relating to the amount for 2015, which was completed on 26 June 2014, the entire amount available for on-shore wind power, i.e. approximately 356 MW, was assigned once again (capacity demand greatly exceeded the available amount, at approximately 1,261 MW).

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

As regards the new incentives for Renewable Energy Plants other than photovoltaic plants, please see the comments concerning the new Ministerial Decree of 23 June 2016¹¹ in the chapter "Reference Regulatory Framework": Main changes", in the paragraph "Italian Ministerial Decree 23 June 2016 – Incentives for Electric Renewable Energy Plants other than photovoltaic plants, 2016" included in the Report on Operations referred to.

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

Italian stability law no. 208/2015

By means of the approval of Italian Stability Law no. 208/2015, new regulations were launched, as from 1 January 2016, for the determination of the cadastral income of the real estate property units used for generation purposes. Specifically, in Article 1, Paragraphs 21-24 the 2016 Stability Law prescribes that for electricity generation plants, the components of the wind turbine generators are no longer subject to taxation with a consequent positive impact in terms of lower tax costs.

More recently (June 2016), the Agency specified that in its opinion, the exemption should not be extended to the wind turbine support towers, as these are complex parts often equipped with vertical connection structures (stairways, lifts). However, all operators and their trade associations consider the exclusion of the wind turbine towers to be correct in form and substance, as it complies with the new criteria introduced by

⁶ There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.

⁷ Electricity sales price defined by the Italian Authority for Electricity and Gas implementing Article 13, Paragraph 3, of Italian Legislative Decree No. 387 of 29 December 2003.

⁸ It is hereby noted that with regard to the Green Certificates for the first and second quarters of 2015, the price of 96.00 EUR/GC was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.

⁹ Starting price 127 EUR/MWh.

¹⁰ As a result of the decision by the Regional Administrative Court of Lombardy dated 14 February 2014, 66 MW was reinstated, after it had been excluded from the second auction (after the end of the period for submitting auction bids) because it belonged to the transitional period. Consequently, said capacity was subtracted from the 2015 amount.

¹¹ In accordance with the first paragraph of Article 26 of Ministerial Decree of 23 June 2016, on 20 August 2016 the GSE published the calls pertaining to the records and to the auctions for accessing the new incentives for the generation of electricity from non-photovoltaic Renewable Sources. The auctions and the records were open on 30 August 2016 and will be closed on 27 November 2016.

the 2016 Stability Law, and, thus, that the “functional” classification prevails over the specific production process of those components which, due to their specific technical-physical characteristics, are generally integrated plant parts, functional to the wind farm and certainly cannot be considered building parts.

Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type, based on the plant's entry into operation:

- plants that entered into operation by July 2014 access FIT tariffs and, on an optional basis, FIP tariffs plus a management premium (EEG 2012)
- plants that entered into force from August 2014 to December 2016 may benefit exclusively from an FIP tariff pursuant to EEG 2014
- plants that entered into operation from 2017 onwards access FIP incentives through Dutch auctions pursuant to EEG 2017.

The latter are regulated by the “Renewable Energy Sources Act” 2016 (EEG 2017), adopted on 8 July 2016, which marks a move to an auction scheme for all Electric Renewable Energy Plants > 750 KW, operating from 1 January 2017.

For wind power plants authorised by the end of 2016 and in operation by 2018, a transition period is provided for, in which it is possible to continue to benefit from the tariffs set out in the EEG 2014.

The tariff in force at 1 January 2017 for plants that fall under the transitional arrangement amounts to 83.8 EUR/MWh for the first 5 years of operation, and 46.6 EUR/MWh for the following 15 years, if the yield of the plant exceeds 80% of the yield of the benchmark plant (otherwise, the plant benefits from the maximum tariff for the entire 20 years of the incentive). Starting in March 2017, the tariff will be reduced based on a set schedule¹²: - from March 2017 to August 2017, a monthly reduction of 1.05% will be applied; from October 2017 to October 2018 the reduction comes to 0.4% on a quarterly basis; from October 2017 onwards, additional changes will be applied to the tariff based on whether 2,500 MW of installed wind power is exceeded.

For plants that access the auction system, the 20-year incentive is equal to the FIP awarded, corrected by applying an adjustment factor specific to the plant, based on the actual wind strength of the site (Reference Revenue Model), which can be revised every 5 years based on the plant's actual yield in the previous 5 years of operation. The starting bid price for wind power auctions for 2017 is 70 EUR/MWh. From 2018 it will amount to the average of the three highest tariffs awarded in the three previous auctions, increased by 8%. Three auctions will be held in 2017 (1 May, 1 August and 1 November), four auctions in 2018 (1 February, 1 May, 1 August and 1 October) and three sessions in 2020 (1 February, 1 June and 1 October). The amounts of power made available for the wind auctions come to: 2,800 MW/year for 2017, 2018 and 2019 and 2,900 MW/year from 2020 onwards, with the objective of reaching a proportion of renewables of 40-45% by 2025, 55-60% by 2035, minimum 80% by 2050. Three wind auctions are scheduled in 2017 (the first one in May 2017) and four in 2018. In addition, between 2018 and 2020, 400 MW of annual installed capacity shall be assigned through joint on-shore wind and photovoltaic tenders. The respective assigned portion by technology will be discounted from the respective annual amount.

France

The incentive system for on-shore wind power is of the feed-in tariff (FIT) type, governed by Decree dated 17 June 2014, for plants that stipulated the application to purchase electricity generation by December 2015, and of the FIP type plus a premium (with a total value in line with the FIT pursuant to Decree dated 17 June 2014), for plants that finalised the application to purchase electricity generation in 2016, pursuant to Decree dated 13 December 2016.

The feed-in tariff (FIT) pursuant to Decree dated 17 June 2014 is disbursed for 15 years, and is defined based on the year the application to purchase electricity production was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products. For 2006, the initial tariff was set at a value of 82 EUR/MWh. For wind power plants with applications to purchase submitted from 2008 onwards, the value of the tariff is decreased by 2% per year, and thus, subsequently updated annually in accordance with the mechanism illustrated above. After 10 years of operation, the tariff, determined based on the year the application was made, will be reduced for the subsequent 5 years of the incentive based on the plant's actual load factor if the annual number of hours of operation exceed 2,400 (otherwise, the initial tariff will also be confirmed for the subsequent 5 years of operation).

¹² The incentive period is in reality divided up into two stages: the first of 5 years, the second of 15. The tariff for the first 5 years is confirmed for the remaining 15 if generation does not exceed 80% of the reference generation and the higher duration of the period of recognition of the incentive drops in line with the increase in generation.

The FIP plus premium system introduced with Decree dated 13 December 2016 (which applies to plants with purchase applications stipulated in 2016) is comprised of two components: the incentive component (*complément de rémunération*), calculated as the difference between the FIT in force (equal to approximately 81 EUR/MWh) and the average monthly price of energy weighted on national wind power, plus the management premium of 2.8 EUR/MWh, to cover the costs of managing energy sales. The total value of that incentive is in line with the FIT pursuant to the Decree dated 17 June 2014.

Starting in 2017, France will introduce an auction-based incentive system. The implementing decree is still being examined by the European Commission. The draft decree excludes from the auction-based system plants with a maximum of 6 installed turbines.

Approval by the European Commission and the final publication of the decree are expected by April 2017, i.e., prior to the new presidential elections in France. The government's goal is to increase the efficiency of the incentive system, facilitating the integration of renewable sources in the market.

As regards the climate objectives, the energy transition law of July 2015 set ambitious targets for the reduction of emissions (-40% by 2030 compared with 1990), reduction of fossil fuel consumption (-30% by 2030 compared with 2012), reduction of energy consumption (-30% by 2030 and -50% by 2050, compared with 2012), reduction of nuclear energy generation (-50% by 2025) and increase in renewable energies, which were then confirmed in October 2016. The targets for growth in on-shore wind power are as follows: 15 GW by 2018 and between 22 to 26 GW by 2023 (from the current 11 GW of installed wind power). Offshore wind power should reach 3,000 MW by 2023, while photovoltaic power should rise from 6,200 MW to 18,200 MW or 20,200 MW, again by 2023. Based on these growth targets, France thus aims to reach 2030 with a total installed capacity of power from renewable sources of 175 GW.

Bulgaria

For on-shore wind farms, current regulations prescribe a feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years (Hrabrovo plant) or 15 years (Tcherga plant). In particular, below the first bracket (on average equal to approximately 2200 equivalent hours of operation annually), the FIT recognised amounts to approximately 97 EUR/MWh, while the changes to legislation significantly reduced revenues for higher production levels. These legislative amendments are currently the subject of an appeal by renewable source producers.

On 2 March 2015, an amendment to the legislation was approved which does not permit access to the incentive system for the new plants. This measure, which did not have retroactive impacts, is justified by the achievement of the 2020 objectives already in 2013.

The charges for accessing transmission and distribution networks (introduced in September 2012 for renewable source producers in operation since March 2010) were increased by about 3.7 EUR/MWh starting in July 2015.

A fee was introduced as from July 2015, equal to 5% of the revenues relating to the plants fuelled by renewable sources.

As from June 2014, the responsibility for balancing also for non-programmable renewable sources was introduced, which resulted in a significant charge for plants.

Romania

Incentives for renewable energy in Romania are provided through Green Certificates for the first 15 years of operation. The obligation to place a certain yearly quantity of green energy on the grid (or to purchase an equal quantity of green certificates) is on the final consumption of electricity. For wind farms commissioned before 2014, 2 green certificates are provided for each MWh generated until 2017 and 1 green certificate from 2018 onwards, and the unit price of the green certificates ranges between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed to inflation on an annual basis. The green certificates have an annual validity and, on the basis of the legislation currently in force, they are recognised on the minimum value between the envisaged energy and that effectively generated. Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in March 2014¹³ and approved by the European Commission – DG Competition in May 2015.

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

¹³Decree No. 270/2014 approving Law 23/2014, which approves the Emergency Ordinance No. 57/2013, amending and supplementing Law No. 220/2008 for the Green Certificate incentive system.

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

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

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

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

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

In that regard, a measure (known as an Emergency Ordinance) was issued, published on 18 November 2016 and subsequently amended. The measure, *inter alia*, defines a floor (of 29.4 EUR/MWh) and a cap (at 35 EUR/MWh) for the price of Green Certificates.

The validity of GC issued from the month after the measure enters into force and of those banked has been extended to 31 March 2032 (previously, the GC were valid for one year).

Banked GC will be re-introduced to the market in the period 1 January 2018 - 31 December 2025 (previously, the window ran from 1 January 2018 to 31 December 2020).

Said emergency ordinance, which the European Commission deemed in line with the guidelines on state aid, has not yet entered into force, as it has not been approved by all the competent Romanian authorities (including the Ministry of European Funds, the Ministry of Finance and the Ministry of Justice).

Poland

The incentive system in Poland for the plants running by June 2016 is based on the Certificates of Origin (CO) for the first 15 years of operation, with mandatory quotas of consumption of electricity (with the exception of energy-intensive entities). The mandatory quotas are 16% for 2016 and 17% for 2017. Currently, no quotas have been set for the years following 2017. The law on providing incentive for renewable sources, approved in March 2015 (and amended in December 2015) introduced a number of measures aimed at reducing the current CO supply excess (which, what is more, do not have an expiry). In detail, as from 2016 the incentive for co-combustion “non-dedicated” plants has been halved and the incentive for hydroelectric plants with output greater than 5 MW has been written off. Nonetheless, at the end of June 2016, the new version of the law on providing incentives for renewable sources was approved which, *inter alia* sets out less strict requirements to define dedicated “co-combustion”. Thus, this could possibly reduce the effectiveness of the rule that halved the number of CO awarded to “non-dedicated” co-combustion. It is currently premature to forecast the impacts that the rule could have on the balance of demand/supply of CO. However, the uncertainty linked to the regulatory framework contributed to a sharp drop in the price of CO traded on the market.

A discount auction system was also introduced, with contingents on generation, for the awarding of feed-in premiums under the form of Contracts for Difference (CfD) for 15 years (value inflated on annual basis). This system is mandatory for plants that enter into operation from July 2016. The version of the law approved in June¹⁴ also made changes to that system, changing the rules for carrying out the auctions, introducing separate technological baskets and effectively delaying the start thereof. The new version of the law has to be approved in the framework of the notification to the Competition DG activated for the previous version of the law, which has not yet been concluded by the Commission.

The European Union has already informally noted significant doubts concerning the compliance of the regime with EU competition regulations, but no official announcements have been made.

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

¹⁴Additional details are provided in the chapter “Regulatory Scenario”.

The Polish government has declared that it could revise the severity of several rules (including those on the calculation of the minimum distance and on property tax).

United Kingdom

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

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

Highlights of performance items at replacement cost

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

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

	Year	
	2016	2015
Operating results		
Revenues from ordinary operations	423	345
EBITDA at replacement cost ⁽¹⁾	308	254
Amortisation, depreciation and write-downs ⁽¹⁾	(163)	(134)
EBIT at replacement cost ⁽¹⁾	145	120
Capital expenditure on tangible and intangible fixed assets	44	95
Main Financial data ⁽²⁾		
Net invested capital	2,002	1,827
Shareholders' equity	724	679
Total net financial indebtedness	1,279	1,148
of which non-recourse Project Financing ⁽³⁾	1,154	1,135
% EBITDA Margin ⁽⁴⁾	73%	74%

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

⁽²⁾ figures from the ERG Renew Consolidated Financial Statements. In 2015, the adjusted values were stated which also include the contribution, for the portion attributable to ERG, of LUKERG Renew (joint venture with the Lukoil Group).

⁽³⁾ including cash and cash equivalents

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

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

EBITDA at replacement cost	Year	
	2016	2015
Italy	235	213
Abroad	72	41
of which		
<i>Germany</i>	<i>18</i>	<i>12</i>
<i>France</i>	<i>32</i>	<i>13</i>
<i>Bulgaria</i>	<i>8</i>	<i>4</i>
<i>Romania</i>	<i>8</i>	<i>8</i>
<i>Poland</i>	<i>6</i>	<i>4</i>
Total	308	254

The consolidated revenues reported in 2016 were higher than those in 2015, thanks to the sharp increase in output abroad as a result of the full contribution of the new wind farms in France (124 MW), Germany (82 MW) and Poland (82 MW). With regard to revenues from wind farms in Italy, the higher output in the period (+16%) more than offset the significant reduction in total sale prices in the country (-6%).

As regards the decrease in the sales price in 2016, for ERG Renew in Italy, the sales price of electricity amounted on average to 38.9 EUR/MWh, down by 18.5% with respect to the figure of 47.7 EUR/MWh recorded in 2015. This value corresponds to the sales price to Energy Management of the ERG group, which reflects the formation of the price on the spot market (IPEX). Overall, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and that of the incentives (former green certificates), was 139.0 EUR/MWh, down from the value of 147.8 EUR/MWh of 2015.

This decrease is linked to the sharp drop in sales prices of energy observed in the various geographic areas, while the value of the incentives (former green certificates), i.e. 100.1 EUR/MWh, is unchanged. In fact, starting from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of the energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) in the prices of the incentive acknowledged in the year, but will have an impact on the value of the incentive for the subsequent year.

Sales by foreign farms were specifically concentrated in France and Germany, whose average unit revenues were 88.7 EUR/MWh and 92.6 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution of foreign wind farms to generation was approximately 1,281 GWh, of which over 660 GWh deriving from the higher installed capacity compared to 2015.

EBITDA at replacement cost for 2016 amounted in total to EUR 308 million, up with respect to the figures of the same period of last year (EUR 254 million), for the reasons indicated above.

The EBITDA margin amounted in total to 73%, standing at a high absolute value, though slightly decreasing on 2015 (74%). Specifically, in relation to continuing high profitability in Italy, the indicator decreased due to the increase in the percentage of generation abroad, characterised by sales prices and margins lower on average.

Installed power (MW)	Year	
	2016	2015
- Italy	1,094	1,087
of which		
<i>Campania</i>	247	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>Other</i>	2	2
- Abroad	626	420
of which		
<i>Germany</i>	168	86
<i>France</i>	252	128
<i>Poland</i>	82	82
<i>Bulgaria</i>	54	54
<i>Romania</i>	70	70
Total installed power at period end⁽¹⁾	1,720	1,506

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

The installed power at 31 December 2016 amounted to 1,720 MW, up by 214 MW with respect to the figure at 31 December 2015, as a result of the acquisition of 11 wind farms in France for an additional 124 MW and 6 wind farms in Germany for 82 MW, and the increase in installed capacity in Campania for 8 MW.

Generation (GWh)	Year	
	2016	2015
- Italy	2,220	1,910
of which		
<i>Campania</i>	502	414
<i>Calabria</i>	256	240
<i>Puglia</i>	529	472
<i>Molise</i>	167	155
<i>Basilicata</i>	190	164
<i>Sicily</i>	342	274
<i>Sardinia</i>	233	192
Abroad	1,281	705
of which		
<i>Germany</i>	240	156
<i>France</i>	499	206
<i>Poland</i>	213	68
<i>Bulgaria</i>	148	74
<i>Romania</i>	181	201
Total wind farm output	3,501	2,614

In 2016, ERG Renew's electricity output amounted to 3,501 GWh, higher than in 2015 (2,614 GWh), with output in Italy increasing by around 16% (from 1,910 GWh to 2,220 GWh) and growth of 82% abroad (from 705 GWh to 1,281 GWh).

The increase in output in Italy (+311 GWh) is tied to the better overall wind conditions compared to 2015, in particular in Campania, Puglia, Sicily and Sardinia.

Almost all wind power generation in Italy in 2016 and 2015 benefited from the feed-in premium (former Green Certificates).

With regard to generation abroad, the total increase by 576 GWh was mainly due to the contribution of the new wind farms in France, Poland and Germany, which more than offset the lower production of wind farms already in operation.

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

% Load Factor	Year	
	2016	2015
- Italy	23%	20%
of which		
<i>Campania</i>	23%	20%
<i>Calabria</i>	24%	23%
<i>Puglia</i>	24%	22%
<i>Molise</i>	24%	22%
<i>Basilicata</i>	24%	21%
<i>Sicily</i>	20%	16%
<i>Sardinia</i>	24%	20%
Abroad	23%	26%
of which		
<i>Germany</i>	16%	21%
<i>France</i>	23%	24%
<i>Poland</i>	30%	37%
<i>Bulgaria</i>	31%	31%
<i>Romania</i>	29%	30%
Load factor ⁽¹⁾	23%	21%

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

In 2016 the overall load factor, at 23%, was higher than in 2015, increasing from 20% to 23% in Italy and with a decrease from 26% to 23% abroad, mainly due to a worse result in Germany and France.

PROGRAMMABLE SOURCES

Reference market

	Year	
	2016	2015
Italian electricity market (GWh) ⁽¹⁾		
Demand	310,251	316,897
Pumping consumption	2,424	1,909
Import/Export	37,026	46,378
Internal generation ⁽²⁾	275,649	272,428
of which		
<i>Thermoelectric</i>	187,461	182,861
<i>Hydroelectric</i>	42,323	46,451
<i>Other renewable energy sources</i>	45,865	43,116
Sale prices (EUR/MWh)		
PUN ⁽³⁾	42.8	52.3
Sicily zone price (baseload)	47.6	57.5
Centre North zone price (peak)	47.6	57.9

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

⁽²⁾ output net of consumption for auxiliary services

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

Market scenario in Italy

The demand for electricity of the Italian electric system in 2016 amounted to 310.3 TWh, in decline (-2.1%) compared with the values recorded in the same period of 2015. With regard to Sicily, region in which ERG is present with its CCGT plant, in 2016 a requirement of around 18.7 TWh was registered, down (-4.5%) with respect to the same period in 2015, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the request for electricity came to 43.6 TWh (-2.3%).

In the same period, net internal electricity generation amounted to 275.6 TWh, up by 1.2% compared with 2015, whilst the net balance of trading with foreign countries recorded net imports of 37.0 TWh (-20.2% compared with 2015). 68% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 32% from renewable sources. Compared with the previous year, there was greater output from thermoelectric sources (+3%) and a drop in hydroelectric output (-9%), against greater output from other renewable sources (+6%), particularly due to greater wind power output (+19%) and the substantial stability of geothermal and photovoltaic output.

The average value of the PUN (Single National Price) in 2016 was 42.8 EUR/MWh, down by 18.2% compared with the value of 2015 (52.3 EUR/MWh).

Evolution of the regulatory scenario:

- **Thermoelectric: the Mucchetti amendment**

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

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

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

The regulatory framework described above had a significant impact on the sales prices of ERG and in particular on the spot energy markets in the market area in which it operates (Sicily). In fact, the supply restriction on these markets at prices no higher than the related variable cost acknowledged to the generation units identified UESSE in accordance with the afore-mentioned Italian Decree Law no. 91/2014, significantly reduced the price differential between the Sicily area and the PUN with a marked decrease in 2015 and up to 28 May 2016 with respect to the values reported in previous years.

It is necessary to emphasise, nevertheless, that the contraction of the revenues on the spot markets (MGP, MI and MSD) for the reasons described above, was mitigated by the consideration acknowledged to the UESSE as per Italian Decree Law no. 91/2014 to reintegrate the variable generation, operating and investment costs, including the fair remuneration of the invested capital.

The period for application of the discipline to the units which are essential pursuant to Law Decree 91/2014 and the resolution 521/2014 as subsequently amended and supplemented, ended on 28 May 2016 following the commissioning of the aforementioned doubling of the Rizziconi-Sorgente power line. In the month of July, the balance of the 2015 reintegration was thus requested in accordance with Article 65.28 of the 111/06 resolution and in September the advance payment of the reintegration price of the year 2016 for the first quarter was requested, in accordance with Article 3.1, Letter aa.2) of Resolution no. 521/2014, as amended by Resolution no. 496/2015.

On 30 December 2016 approximately EUR 28 million was collected as an additional advance on 2015 (EUR 13 million still to be collected) and approximately EUR 18 million as an advance on 2016 (approximately EUR 13 million still to be collected).

- **Hydroelectric: concession fees**

The Regional Council of the Umbria Regional Authority by means of resolution no. 1067 dated 22 September 2015 took steps to re-calculate the concession fees for the large water offtakes for hydroelectric purposes. The new unit tariff of EUR 31.02/kW per module, which applies as from 1 January 2016, comes to double that in force until 31 December 2015. In December 2015, ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways in Rome, to request the repealment of the afore-mentioned resolution. The results for the period prudently reflect the afore-mentioned increase.

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

By means of the approval of Italian Stability Law no. 208/2015, new regulations were launched, as from 1 January 2016, for the determination of the cadastral income of the real estate property units used for generation purposes. Specifically, in Article 1, Paragraphs 21-24, the 2016 Stability Law prescribes that for electricity generation plants, system components are no longer subject to taxation with a consequent positive impact in terms of lower tax costs.

Remarks on the period performance highlights

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

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

The ERG group has therefore concluded an important industrial development process, completing the transformation of the pre-existing portfolio of thermoelectric assets in Sicily (which also included the 528 MW IGCC plant sold off in 2014 to Lukoil at the same time as the early termination of the “CIP6” agreement), in a portfolio of assets differentiated by technology, geographic area and featuring high flexibility, thanks to the purchase at the end of 2015 of the Terni Hydroelectric Complex, whose concessions expire in 2029.

Summary of the period performance highlights

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

	Year	
	2016	2015
Operating results		
<i>(EUR million)</i>		
Revenues from ordinary operations	601	602
EBITDA at replacement cost ⁽¹⁾	161	115
Amortisation, depreciation and write-downs ⁽¹⁾	(88)	(34)
EBIT at replacement cost ⁽¹⁾	73	81
Capital expenditure on tangible and intangible fixed assets	13	9
% EBITDA Margin	27%	19%

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

Thermoelectric power ⁽¹⁾

Operating results	Year	
	2016	2015
<i>(EUR million)</i>		
Revenues from ordinary operations	479	592
EBITDA at replacement cost ⁽²⁾	77	107
Amortisation, depreciation and write-downs ⁽²⁾	(30)	(30)
EBIT at replacement cost ⁽²⁾	47	78
Capital expenditure on tangible and intangible fixed assets	10	9
% EBITDA Margin	16%	18%

⁽¹⁾ includes Energy Management contribution

⁽²⁾ the figures shown here do not include the non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

During 2016 ERG Power's net electricity generation amounted to 2,693 GWh, up with respect to 2015 (2,632 GWh) also due to the shorter duration of the shutdown for scheduled general maintenance of module 2 carried out in 2016 in relation to the scheduled general maintenance of module 1 of the CCGT plant in the 1st half of 2015. The revenues decreased further to the general reduction in the sales prices of electricity. That decrease was partially mitigated by the increase in overall quantities sold.

In addition, the "reintegration consideration" due as long as the Essential Units scheme was in place terminated on 27 May 2016 and resulted in the recognition of revenues for approximately EUR 31 million, while in 2015 it was due for the entire year, for an amount of approximately EUR 78 million.

The net supply of steam to captive customers of the petrochemical site of Priolo Gargallo involving around 752 thousand tons, decreased with respect to the 802 thousand tons in 2015 as a result of the shut-down of the ISAB plants. Approximately one-fourth of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, including the net supply of steam.

The EBITDA at replacement cost in 2016 amounted to EUR 77 million (down compared to EUR 107 million in 2015) in view of the decline in the sale prices, offset by the significant contraction of the price of gas and by the consequent increase in the margin (Spark spread), in addition to the shorter period for which the reintegration costs pursuant to Essential Units were due.

The achievement of results in line with expectations, but lower than 2015's, is substantially due to the shorter period of validity of the reintegration consideration pursuant to the UESSE scheme, in addition to the commissioning of the aforementioned Sorgente-Rizziconi power line from late May 2016 onwards, with a partial mitigation due to the reduction in the price of gas, to the improvement of the performance of ERG Power's CCGT plant and to the initiatives to boost industrial efficiency, carried out during the period. Again in 2016, the plant continued to benefit from great reliability and efficiency, pursued by means of targeted investment measures, as well as via the first scheduled general maintenance carried out between March and April 2015 on module 1 of the ERG Power CCGT plant.

The positive results also reflect the energy sales on markets by Group Energy Management (in relation to generation in Italy of thermoelectric and wind power and, starting on 1 July 2016, hydroelectric power), in addition to the adoption of effective coverage of the generation margin. These policies contemplate, *inter alia*, the multi-year forward sale of electricity to IREN Mercato, the use of instruments for hedging the price risk and the sale of steam and electricity, through multi-year agreements, to the customers of the petrochemical site in Priolo Gargallo.

Hydroelectric power

The contribution of ERG Hydro S.r.l. to the results of programmable sources is shown below, considering that in July 2016 ERG Power Generation S.p.A. became a market operator and user of dispatching of the company's main plants.

The comparative figure for 2015 refers only to December (the month in which ERG purchased the hydroelectric complex in Terni)

Operating results	Year	
	2016	2015
(EUR million)		
Revenues from ordinary operations	122	11
EBITDA at replacement cost ⁽¹⁾	84	8
Amortisation, depreciation and write-downs ⁽¹⁾	(58)	(5)
EBIT at replacement cost ⁽¹⁾	26	3
Capital expenditure on tangible and intangible fixed assets	4	0
% EBITDA Margin	68%	74%
Total output by hydroelectric plants (GWh)	1,358	84

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

Of the revenues of 2016, amounting to EUR 122 million, sales of electricity amounted to EUR 62 million, revenues from feed-in premium (former green certificates) amounted to EUR 51 million, revenues from MSD were EUR 6 million (relating to generation in the 1st half of 2016, while the contribution of an additional EUR 5 million in the second half of the year is represented in the thermoelectric section, which includes the contribution from Group Energy Management) and other revenues were approximately EUR 3 million. The costs, amounting in total to EUR 38 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services. The EBITDA for 2016 was EUR 84 million.

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

ERG Hydro's overall generation (1,358 GWh) therefore benefited from an average unit revenue, considering the sales price of the energy and that of the replacement incentives, equal in total to around EUR 90/MWh.

The EBITDA margin came in total to 68% in 2016, reaching particular high values.

The final load factor in the period came to 29% and was affected by the scarce water availability in the period (generation of 1,358 GWh compared to a 10-year historical average of 1,478 GWh).

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

The level of the reservoirs of lakes Turano, Salto and Corbara were respectively approximately 524, 524 and 127 metres above sea level, slightly lower than the historical average.

During the period, approximately EUR 26 million in receivables for Green Certificates relating to previous years were collected. These certificates were assessed by the competent authorities on finalisation of the acquisition of the complex in Terni, and were not recorded in the income statement but allocated to the value of the acquisition, as part of the Purchase Price Allocation.

Capital expenditure

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

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

Capital expenditure in tangible and intangible fixed assets by the ERG Group in 2016 came to EUR 60 million (EUR 106 million in 2015), including EUR 56 million for tangible fixed assets (EUR 101 million in 2015) and EUR 4 million for intangible fixed assets (EUR 5 million in 2015).

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

(EUR million)	Year	
	2016	2015
Non-programmable sources ⁽¹⁾	44	95
Wind power	44	95
Programmable sources	13	9
Thermoelectric power	10	9
Hydroelectric power	4	0
Corporate	3	2
Total	60	106

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

Non-programmable sources

The capital expenditure in 2016 (EUR 44 million) refers mainly to the outlays made by ERG Renew following the works for the construction of the aforementioned wind farm in Northern Ireland for approximately EUR 36 million. In greater detail, the Brockaghboy wind farm will consist of nineteen 2.5 MW Nordex N90 wind turbine generators, totalling 47.5 MW whose construction is expected to be completed, consistently with the timing of the connection to the distribution grid, by the third quarter of 2017.

During the period, a number of outlays were also incurred linked to the completion of the new wind farms in Poland for a total of 40 MW, all realised directly by ERG Renew. In particular, the Szydłowo farm, comprising seven 2MW Vestas V100 wind turbine generators, for a total of 14 MW, came onto stream at the end of December 2015 and the Slupia farm, whose project passed during the year from 12 to 13 wind turbine generators further to the extension of the authorisations, equipped with Vestas V90 machines for an overall output of 26 MW, was completed at the end of 2015 and started up during the first few days of 2016.

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

Programmable sources

The investments in 2016 (EUR 13 million) refer to ERG Power (EUR 9 million) and ERG Hydro (approximately EUR 4 million), which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants, including the unification of the control centre and IT systems. Progress was also made on the planned Health, Safety and Environment projects.

TOTALERG

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

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

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

The investment will continue to be consolidated using the equity method.

Given the importance of the investments and in continuity with the disclosure indicated in the previous financial reports, this section contains a summary of the economic and financial indicators and the operating performance for the period.

Highlights of TotalErg performance

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

Operating results (EUR million)	Year	
	2016	2015
EBITDA at replacement cost ⁽¹⁾	135	144
Amortisation, depreciation and write-downs	(75)	(82)
EBIT at replacement cost ⁽¹⁾	60	61
Net profit at replacement cost ⁽²⁾	28	24
Capital expenditure on tangible and intangible fixed assets	60	65
Main Financial data		
Net invested capital	532	530
Shareholders' equity	287	236
Total net financial indebtedness	244	294

⁽¹⁾ the figures shown do not include the inventory gains (losses) of around EUR +45 million in 2016, (EUR -61 million in 2015) or non-recurring items amounting to around EUR -11 million in 2016 (+4.4 in 2015).

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

TotalErg operates in the marketing sector via its Italy Network, comprising 2,585 stations (of which 1,660 are owned by the Group and 925 are leased), compared with 2,608 stations at 31 December 2015. You are hereby reminded that at the end of 2012, the network comprised 3,248 stations and that the decrease in sales outlets is due to the process for restructuring of the fuel network continued over the last few years, which led to the closure of outlets which have a low fuel turnover, the modernisation / automation of those owned which have a higher fuel turnover and the termination of contracts for third party stations which are not very profitable.

TotalErg also operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the subsidiaries Restiani and Eridis, as well as on the Specialities market, via the marketing of Lubricants, Bitumen and LPG. TotalErg also operates in the refining and logistics sector, by means of the Sarpom Refinery in Trecate, located in one of the areas featuring the greatest intensity of consumption, with a total annual balanced distillation capacity, as far as TotalErg's share is concerned, of 1.6 million tons (approximately 30 thousand barrels/day).

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

EBITDA at replacement cost in 2016 amounted to approximately EUR 135 million, down with respect to 2015 (EUR 144 million).

With regard to the marketing sector, the results were affected by a scenario that is distinguished by substantially stable demand with respect to 2015 but with lower market margins due to the competitive

environment that is also characterised by a significant and progressive rise in commodity prices with respect to the minimum at the beginning of the year, which further compressed margins. These effects have only been partly mitigated by the cost containment and efficiency-boosting actions implemented by the company and by the process for the restructuring of the fuel network.

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

With regard to refining and logistics, the results of 2016 were slightly higher than those of the previous year despite a contraction in the refining margins and with the EMC indicator that declined from 3.6 \$/barrel to 2.3 \$/barrel, due to the improved logistics margins and positive inventory effects.

In 2016, 1,627 thousand tons were processed, up from 1,609 thousand tons in 2015.

Net profit at replacement cost (EUR 28 million) was higher than in 2015 (EUR 24 million), and, in spite of the lower EBITDA, benefited from lower depreciation and amortisation and lower financial expenses.

The net financial position of TotalErg at 31 December 2016 amounts to EUR 244 million, lower than the EUR 294 million at 31 December 2015, impacted by the normal time-limited dynamics in working capital for the period.

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

TotalErg capital expenditure

During 2016, Total Erg made capital expenditure of approximately EUR 60 million, slightly lower than in the same period in 2015 (EUR 65 million).

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

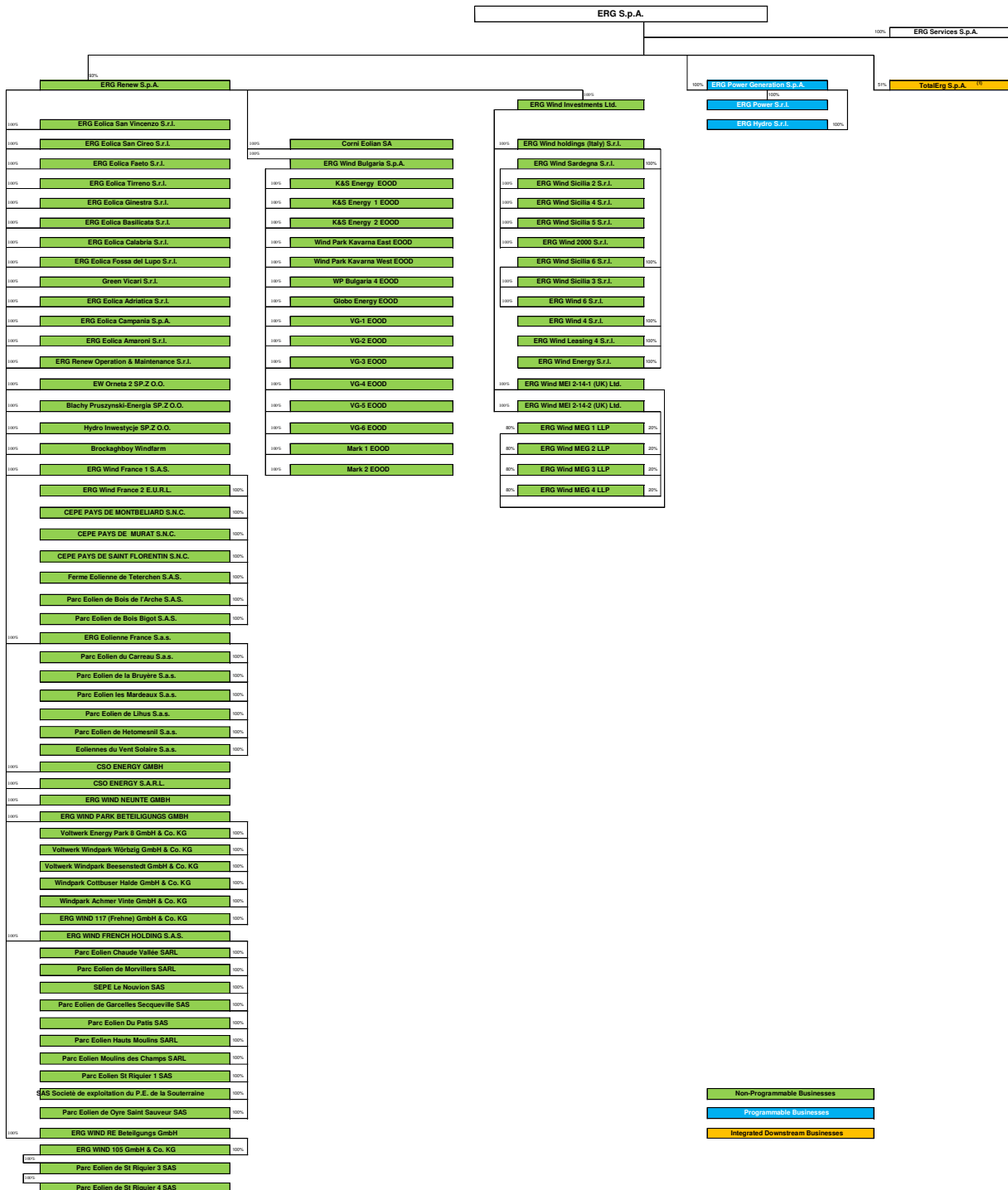
FINANCIAL STATEMENTS

Scope of consolidation and business segments

The table below shows the scope of consolidation at 31 December 2016.

Compared with 31 December 2015, the following is noted:

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



(1) Company measured under the equity method of accounting

Financial Statements

Income Statement

The income statement and statement of financial position results shown below include non-recurring items. Please see the section “Alternative performance indicators” for the analysis of the results net of these items which more fully represent the operating performance of the group. Comparison with the 2015 figures is affected by the change in scope, as better commented in the introduction of this Report.

Reclassified Income Statement	Year	
	2016	2015
<i>(EUR million)</i>		
Revenues from ordinary operations	1,025.5	920.3
Other revenues and income	16.3	16.3
TOTAL REVENUES	1,041.8	936.6
Costs for purchases and changes in inventory	(330.2)	(412.6)
Costs for services and other operating costs	(196.0)	(157.5)
Personnel costs	(62.3)	(58.2)
EBITDA	453.3	308.3
Amortisation, depreciation and write-downs of fixed assets	(253.7)	(163.0)
EBIT	199.6	145.2
Net financial income (expenses)	(83.9)	(54.8)
Net income (loss) from equity investments	37.7	(54.2)
Profit (loss) before taxes	153.5	36.2
Income taxes	(28.7)	(12.6)
Profit for the period	124.9	23.7
Minority interests	(2.4)	(3.1)
Group net profit (loss)	122.5	20.6

Revenues from ordinary operations

Revenues in 2016 were EUR 1,025 million, compared with EUR 920 million in 2015. The change is a result of the following factors:

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

Other revenues and income

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

Costs for purchases and changes in inventory

Costs for purchases include costs for the purchase of gas, utilities and steam intended to fuel the ERG Power S.r.l. CCGT plant and costs for electric power intended for resale on the market within the sphere of the Energy Management activities.

In 2016, these were EUR 330 million, down by EUR 83 million on 2015, mainly on account of lower costs for purchases of gas and electricity.

The change in inventories, linked to spare part inventories, was not significant.

Costs for services and other operating costs

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

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

The increase in this item mainly refers to the previously discussed change in the scope of consolidation.

Amortisation, depreciation and write-downs

Amortisation and depreciation refer to wind farms, the plants in the hydroelectric sector and the CCGT plant, and were significantly higher with respect to those in 2015 due to the full contribution in 2016 of the hydroelectric plants (amortisation and depreciation up EUR 53 million compared with 2015), the impact of the new acquisitions in the wind power sector in France and Germany (EUR +20 million) in the first quarter of the year, the start of operations of the wind farms in Poland (EUR +6 million) and the full economic contribution of the wind farms in Bulgaria and Romania (EUR +10 million), consolidated on a line-by-line basis since 1 January 2016, partly offset by the end of the useful life of several electronic components relating to wind farms.

Net financial income (expenses)

Net financial expenses totalled EUR 84 million in 2016, compared with EUR 55 million in 2015. The increase was essentially attributable to the higher medium/long-term interest expense due to the change in the reference scope of consolidation and the lower income relating to the liquidity handled as a consequence of the higher net average indebtedness for the period (approximately EUR 1.7 billion compared to approximately EUR 0.6 billion in 2015) and lower liquidity managed (average of EUR 0.3 billion in 2016 compared to EUR 0.9 billion in 2015) following cash-outs linked to the acquisitions made and non-recurring expenses of approximately EUR 8 million relating to the restructuring of medium/long-term debt during the year, including the refinancing of Tranche A of the ERG Hydro acquisition loan and the prepayment of the bank loan taken out by the Romanian company Corni Eolian S.A, which, as a whole, resulted in a significant reduction in the average cost of medium/long-term debt, which came to an average of 3.4% in 2016 compared to 4.1% in 2015.

Net of the non-recurring expenses above, net financial expenses at replacement cost for 2016 total EUR 76 million compared to EUR 63 million in 2015 (included in the same portion of the LukErg Renew joint venture).

Specifically, the item includes net short-term financial income of approximately EUR 1 million (EUR 9 million in 2015) deriving mainly from lesser cash management, and medium/long-term financial expenses of approximately EUR 75 million (EUR 64 million in 2015), resulting from the higher financial indebtedness of the period and the change in the scope of consolidation, described in the above paragraphs; the medium and long term amounts also reflect the effects of the derivatives hedging against the risk of interest rate fluctuation.

Net income (loss) from equity investments

In 2016, the item reflects the results of the TotalErg S.p.A. joint venture (EUR +26 million, compared to EUR -11 million in 2015), the income deriving from the sale of the equity investment in ERG Eolica Lucana (EUR +1 million), while the comparative figure of 2015 includes, in addition to the results of TotalErg S.p.A. (EUR -11 million), also the results of LUKERG Renew GmbH (EUR -3.5 million) measured with the equity method.

At replacement cost, not including the changes in the value of the inventory and non-recurring items, the income of TotalErg in 2016 increased compared to the same period of last year (EUR +14 million compared to EUR +12 million in 2015).

In 2016, the item includes income of EUR 11 million deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A. Conversely, in 2015 the item reflected expenses of EUR 38 million linked to the fair value measurement of the liability pertaining to the same option.

Income taxes

Income taxes in 2016 were EUR 29 million (EUR 13 million in 2015).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 19% (35% in 2015).

The tax rate at replacement cost, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 22% in 2016 (23% in 2015).

The decrease in the tax rate is mainly linked to the positive impact of the ACE (Aiuto Crescita Economica - Economic Growth Assistance) of EUR 20 million, up compared to EUR 11 million in 2015, both due to the adjustment of the tax rate applied (4.75% in 2016 compared to 4.5% in 2015) and as a result of the positive

effect of the share capital increase of ERG Power Generation S.p.A. (EUR 700 million in the third quarter 2016) following significant capital expenditure.

Statement of Financial Position

Reclassified Statement of Financial Position	31/12/2016	31/12/2015
<i>(EUR million)</i>		
Fixed assets	3,372.2	3,223.9
Net working capital	160.2	202.1
Employees' severance indemnities	(6.7)	(5.5)
Other assets	310.1	324.7
Other liabilities	(549.5)	(621.1)
Net invested capital	3,286.3	3,124.2
Group Shareholders' Equity	1,729.1	1,626.0
Minority interests	0.0	50.3
Net financial indebtedness	1,557.2	1,447.9
Shareholders' equity and financial debt	3,286.3	3,124.2

At 31 December 2016 net invested capital amounted to EUR 3,286 million, up with respect to 31 December 2015.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 47% (46% at 31 December 2015).

Fixed assets

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

Net working capital

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

Other assets

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

Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis (mainly concessions and fixed assets), the estimate of income taxes owed for the period, and the provisions for liabilities and charges.

Net financial indebtedness

Summary of the Group's indebtedness	31/12/2016	31/12/2015
(EUR million)		
Medium/long-term financial indebtedness	1,934.1	1,987.8
Short-term financial indebtedness (cash and cash equivalents)	(376.9)	(540.0)
TOTAL	1,557.2	1,447.9

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

Medium/long-term financial indebtedness	31/12/2016	31/12/2015
(EUR million)		
Medium/long-term bank borrowings	668.4	694.6
Current portion of mortgages and loans	0.0	0.0
Medium/long-term financial payables	141.9	153.4
Total	810.4	848.0
Total Project Financing	1,275.6	1,284.6
Current portion of Project Financing	(151.9)	(144.7)
Medium/long-term Project Financing	1,123.7	1,139.9
TOTAL	1,934.1	1,987.8

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

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

"Medium/long-term financial payables" include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 142 million (EUR 153 million at 31 December 2015).

The payables for "Medium/long-term Project Financing" (EUR 1,276 million at 31 December 2016) are for:

- loans of EUR 1,154 million issued to companies in the Non-programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 479 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 81 million;
- EUR 122 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

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

With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing is measured at fair value. Said fair value was lower than the nominal value, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition.

The difference between the positive fair value of the liability and its nominal value is consequently managed through the amortised cost method throughout the duration of the loan.

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

Short-term financial indebtedness (cash and cash equivalents)	31/12/2016	31/12/2015
(EUR million)		
Short-term bank borrowings	2.3	110.0
Current portion of mortgages and loans	0.0	0.0
Other short-term financial debts	3.8	68.7
Short-term financial liabilities	6.0	178.7
Cash and cash equivalents	(263.3)	(627.0)
Securities and other short-term financial receivables	(107.6)	(92.9)
Short-term financial assets	(370.9)	(719.8)
Short-term Project Financing	151.9	144.7
Cash and cash equivalents	(163.9)	(143.6)
Project Financing	(12.0)	1.1
TOTAL	(376.9)	(540.0)

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

The amount of the cash and cash equivalents essentially decreased during 2016 further to the partial early repayment of the Corporate loan, the purchases during the period and the distributions of dividends to shareholders.

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

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

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

	Year	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
(EUR million)		
Adjusted cash flow from current operations ⁽¹⁾	381.3	207.2
Income tax paid	(14.2)	(125.5)
Change in working capital	69.5	29.2
Change in other operating assets and liabilities	(34.3)	81.2
TOTAL	402.3	192.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net capital expenditure on tangible and intangible fixed assets	(55.9)	(113.2)
Net capital expenditure on financial fixed assets	(0.1)	(1.4)
Purchase price adjustment on sale of ERG Oil Sicilia	0.0	(0.5)
Total	(56.1)	(115.1)
CASH FLOW FROM SHAREHOLDERS' EQUITY:		
Distributed dividends	(142.8)	(71.4)
Other changes in equity ⁽³⁾	(6.2)	5.2
Total	(149.0)	(66.2)
CHANGE IN SCOPE OF CONSOLIDATION⁽²⁾	(306.5)	(1,128.6)
CHANGE IN NET FINANCIAL INDEBTEDNESS	(109.3)	(1,117.8)
INITIAL NET FINANCIAL INDEBTEDNESS	1,447.9	330.1
CHANGE IN THE PERIOD	109.3	1,117.8
FINAL NET FINANCIAL INDEBTEDNESS	1,557.2	1,447.9

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

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

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

Net financial indebtedness was EUR 1,557 million, up by EUR 109 million compared to 31 December 2015 mainly as a result of the acquisition of the French and German wind farms from the Impax group (EUR 292 million), of the entry into the United Kingdom (EUR 14 million), of the distribution of dividends (EUR 143 million) as well as of the capital expenditure of the period (60 million) and the payment of taxes (14 million). The high operating cash flow of the period of over EUR 400 million, significantly offset those effects. In the period, approximately EUR 40 million in prior receivables pertaining to Green Certificates and fees for diversion of water relating to the hydroelectric complex in Terni was collected. This was not recognised in the income statement, but as a PPA of EUR 25 million as part of the related acquisition.

A detailed analysis of capital expenditure made may be found in the specific section.

Alternative performance indicators

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

The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting.

Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method 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.

Non-recurring items include significant but unusual earnings.

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

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

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

¹⁵ Inventory gains and losses refer solely to the "income from equity investment" and refer to the TotalErg joint venture

Reconciliation with operating results at replacement cost

	Year	
	2016	2015
EBITDA	2016	2015
EBITDA	453.3	308.3
<i>Exclusion of non-recurring items:</i>		
Corporate		
- Ancillary charges on extraordinary operations	0.0	1.3
- Ancillary charges on the acquisition of ERG Hydro	0.0	11.2
- Write-downs of environmental certificates	0.0	2.6
- Charges for company reorganisation	0.0	1.7
Programmable sources		
- Charges for company reorganisation	0.3	1.7
- Ancillary charges on ERG Hydro operations	0.0	5.2
Non-programmable sources		
- Charges for company reorganisation	0.9	0.0
- Ancillary charges on extraordinary operations	0.9	6.3
<hr/>		
EBITDA at replacement cost	455.4	338.1
<i>LUKERG Renew 50% contribution at replacement cost</i>	<i>0.0</i>	<i>11.9</i>
EBITDA at adjusted replacement cost	455.4	350.0

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

Amortisation and depreciation at replacement cost	(253.7)	(163.0)
<i>LUKERG Renew 50% contribution at replacement cost</i>	<i>0.0</i>	<i>(7.8)</i>
Amortisation and depreciation at adjusted replacement cost	(253.7)	(170.9)

EBIT

EBIT at replacement cost	201.7	175.1
<i>LUKERG Renew 50% contribution at replacement cost</i>	<i>0.0</i>	<i>4.1</i>
EBIT at adjusted replacement cost	201.7	179.1

GROUP NET PROFIT (LOSS)	2016	2015
Group net profit (loss)	122.5	20.6
<i>Exclusion of inventory gains / losses</i>	<i>(15.7)</i>	<i>21.9</i>
<i>Exclusion of non-recurring items:</i>		
<i>Exclusion of capital gain on sale of ERG Oil Sicilia</i>	<i>0.0</i>	<i>0.5</i>
<i>Exclusion of write-off resulting from the effect of Robin Tax on deferred tax assets and liabilities</i>	<i>0.0</i>	<i>(2.9)</i>
<i>Exclusion of ancillary charges on the acquisition of ERG Hydro</i>	<i>0.0</i>	<i>13.1</i>
<i>Exclusion of write-downs of environmental certificates</i>	<i>0.0</i>	<i>1.9</i>
<i>Exclusion of ancillary charges on ERG Hydro operations</i>	<i>0.8</i>	<i>6.4</i>
<i>Exclusion of TotalErg non-recurring items</i>	<i>4.1</i>	<i>1.6</i>
<i>Exclusion of effects of loan prepayment (1)</i>	<i>5.9</i>	<i>0.0</i>
<i>Exclusion of the impact of tax adjustment</i>	<i>0.0</i>	<i>(8.4)</i>
<i>Exclusion of charges for company reorganisation</i>	<i>0.8</i>	<i>2.5</i>
<i>Exclusion of extraordinary income on dissolution of LukErg joint venture</i>	<i>0.0</i>	<i>0.3</i>
<i>Exclusion of allocation of provisions for risks on equity investments</i>	<i>0.0</i>	<i>0.9</i>
<i>Exclusion of financial expenses/income on minorities option (2)</i>	<i>(11.0)</i>	<i>38.0</i>
Group net profit (loss) at replacement cost ⁽¹⁾	107.3	96.3

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

Notes:

- (1) Ancillary charges for the prepayment of loans for wind farms in Romania and Germany
- (2) Recognition of financial income deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A.

TotalErg's non-recurring items refer mainly to extraordinary charges relating to clean ups.

In the table below the reconciliation of the 2016 Income Statement at replacement cost

Reclassified Income Statement	Reported	Non-recurring items	at replacement cost
(EUR million)			
Revenues from ordinary operations	1,025.5	-	1,025.5
Other revenues and income	16.3	-	16.3
TOTAL REVENUES	1,041.8	-	1,041.8
Costs for purchase	(332.1)	-	(332.1)
Changes in inventory	1.9	-	1.9
Costs for services and other operating costs	(196.0)	0.9	(195.1)
Cost of labor	(62.3)	1.2	(61.1)
EBITDA	453.3	2.1	455.4
Amortisation, depreciation and write-downs of fixed assets	(253.7)	-	(253.7)
EBIT	199.6	2.1	201.7
Net financial income (expenses)	(83.9)	7.7	(76.2)
Net income (loss) from equity investments	37.7	(22.7)	15.1
Profit before taxes	153.5	(12.9)	140.7
Income taxes	(28.7)	(1.8)	(30.4)
Profit for the period	124.9	(14.7)	110.2
Minority interests	(2.4)	(0.5)	(2.9)
Group's net profit (loss)	122.5	(15.1)	107.3

Significant events after the reporting period

As part of the “ONE Company” Project, ERG Power Generation S.p.A. incorporated ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A., effective from **1 January 2017**, universally replacing the incorporated companies in all legal receivable and payable positions. On **12 July 2017**, the Shareholders' Meeting of ERG Power Generation S.p.A. appointed a new Board of Directors, chaired by Vittorio Garrone - which confirmed Pietro Tittoni as Chief Executive Officer, on the same date.

On March 2017 ERG, through its subsidiary ERG Power Generation S.p.A., has acquired from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH, a 100% equity interest in six German companies, owners of six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW, have an expected average output of around 84 GWh per year, corresponding to about 66,000 t of avoided CO₂ emissions; the farms came on stream during 2007 and have an average incentive expiry date of 2027.

The price paid in terms of equity value amounts to 14,4 million Euro, corresponding to an enterprise value of approximately 40 million Euro, with average annual EBITDA forecast at around 5 million Euro.

The closing is expected to take place during the second quarter of 2017, subject to obtainment of authorisation from the antitrust authority in Germany.

This transaction, in keeping with its overseas growth and diversification strategy, will allow ERG to consolidate its position in the German onshore wind power market, with an installed power of 216 MW.

The geographical position of the wind farms, which are located in the Upper Saxony and Rheinland regions near to the ERG Group's other wind farms and its German operational headquarters, will make it possible to further streamline asset management activities, with potential added advantages also as regards the services performed for third parties.

Business outlook

The expected outlook for the main operating and performance indicators in 2017 is as follows:

Non-programmable sources

ERG continues with its international development strategy, thanks to which in 2016 it achieved 626 MW of installed power abroad, equal to 37% of the 1,720 MW installed in total, enabling the Group to become the eighth onshore wind operator in Europe. The year 2017 will benefit from the contribution of new wind farms abroad, with the entry into operation in the last part of the year of the plant of approximately 48 MW, built in Northern Ireland (UK) and the new wind farms acquired in Germany for 49 MW, with which ERG consolidates its position at about 216 MW, becoming one of the leading wind operators in the country. Operating results abroad are thus expected to grow thanks to the contribution of new wind farms, partially offset by the forecast of lower wind strength, which has already been affected by the trends since the beginning of the year, specifically in France and Germany.

As regards Italy, the EBITDA is expected to decrease following the gradual exit from the incentive system of approximately 214 MW during the year and the low winds recorded at the beginning of the year. These effects will be partially offset by the higher price of the incentive, whose value is determined based on the average price of electricity recorded in 2016, by a partial recovery in the price scenario in light of the trend in the initial months of the year, and by the recognition of the value of the production limits set by the TSO in the previous years with regard to the MW exiting the incentive system.

In general, the total EBITDA of the Wind sector is expected to decrease slightly.

Programmable sources:

During 2017, ERG will continue consolidating the hydroelectric complex in Terni and improving the operating efficiency of the ERG Power CCGT plant.

Results of the hydroelectric complex are expected to improve thanks to the higher price of the incentive that applies to approximately 40% of its production, participation in the dispatching services market and the actions of ongoing streamlining.

The results of the Thermoelectric plant are expected to decrease as the legislation on Essential Units is no longer applicable, and the related contribution to the coverage of fixed costs will no longer apply, in relation to the full entry into force of the Sorgente-Rizziconi power line on 28 May 2016, which tends to compress profitability. This is partially mitigated by participation in the dispatching services market, the maximisation of high-yield cogeneration, recoveries in operating efficiency and Energy Management activities.

On the whole, the EBITDA for 2017 is expected to be around EUR 430 million, despite the decrease in incentives in wind power in Italy and the lack of reintegration of costs of the essential units in the thermoelectric sector. Those effects will be partially offset by the development of new wind power generation capacity abroad, the maximisation of Energy Management activities on all markets and the continuous pursuit of efficiencies on central and business-based operating costs.

ERG's cash generation will reduce indebtedness by approximately EUR 100 million to approximately EUR 1,450 million (EUR 1,557 million in 2016) against new planned capital expenditure of approximately EUR 140 million, the ordinary distribution of dividends of EUR 0.50 per share and the payment of financial expenses.

Risks and uncertainties facing the business outlook

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

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Numero di Pagine: 67