



HALF-YEAR FINANCIAL REPORT

AT 30 JUNE 2017





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Half-Year Financial Report

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CORPORATE BODIES

BOARD OF DIRECTORS ¹

Chairman
EDOARDO GARRONE
(Executive)

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

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI ³
(Independent)
ALESSANDRO CARERI ^{3 4}
(Independent)
MARA ANNA RITA CAVERNI ⁵
(Independent)
ALESSANDRO CHIEFFI ⁵
(Independent)
BARBARA COMINELLI ⁵
(Independent)
MARCO COSTAGUTA
(Non-executive)
PAOLO FRANCESCO LANZONI ³
(Independent)
SILVIA MERLO ⁵
(Independent)

BOARD OF STATUTORY AUDITORS ⁶

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

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

INDEPENDENT AUDITORS
DELOITTE & TOUCHE S.p.A.

¹ The Board of Directors appointed on 24 April 2015. On 20 April 2017, at the end of the Shareholders' Meeting of ERG S.p.A., Luigi Ferraris – Independent Director and member of the Strategic Committee – submitted his resignation, with immediate effect, from the office of Director of ERG S.p.A.

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

³ With reference to the provisions of Article 148, paragraph 3 of the Italian Consolidated Finance Act.

⁴ Appointed by the Board of Directors of ERG S.p.A. on 11 May 2017 following the resignation on 20 April 2017 of the Board Member Luigi Ferraris.

⁵ With reference to the provisions of Article 148, paragraph 3 of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code promoted by Borsa Italiana S.p.A.

⁶ Board of Statutory Auditors appointed on 3 May 2016.

INTRODUCTION

The Half-Year Financial Report for the six-month period ended 30 June 2017, prepared on the basis of the indications contained in Article 154-ter of the Italian Consolidated Finance Act, was prepared in condensed form in accordance with IAS 34 "Interim Financial Reporting" and, with respect to recognition and measurement standards, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, including also all international standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and by the former Standing Interpretations Committee (SIC).

The Half-Year Condensed Consolidated Financial Statements were subjected to a limited review by the independent auditors Deloitte & Touche S.p.A. in accordance with Consob (Italian Stock Exchange Regulator) regulations; the results of this work will be published as soon as they are available.

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.

RECURRING RESULTS

To enhance understandability of business performance, the operating results are also shown excluding non-recurring items⁷ and inventory gains (losses)⁸. As from the Interim Report on Operations at 31 March 2017, these results, previously defined as "at replacement costs", are indicated with the definition "recurring".

The 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 from 1 July 2016, hydroelectric power), in addition to the adoption of effective coverage of the generation margin. Said coverage provides for, inter alia, the use of instruments to hedge the price risk.

⁷ Non-recurring items include significant but unusual earnings.

⁸ TotalErg's equity contribution is reported net of inventory gains (losses) and non-recurring items



For a clearer representation of the business at the technology level, the results of wind and hydroelectric power include the hedges carried out in relation to renewable sources ("RES") by the Energy Management of ERG Power Generation S.p.A.

CHANGE IN THE BUSINESS SCOPE

It should be noted that the first half-year results reflect the acquisition of six wind farms in Germany (48 MW), acquired during the period and fully consolidated from 1 January 2017.

BUSINESS DESCRIPTION

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

Today, the Group is leader in the wind power market 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, it is active in low-environmental impact thermoelectric production with a high-efficiency, modular cogeneration CCGT plant, as well as on the energy markets through the Energy Management activity.

Management of the industrial and commercial processes of the ERG Group is carried out by the subsidiary ERG Power Generation which directly carries out:

- the unified Energy Management activity for all three generation technologies in which the ERG Group operates;
- the Operation & Maintenance activities of the "Centrale Nord" plant, of its own Italian wind farms and of some of the wind farms in France and Germany. Through the CSO Energy companies it performs technical and administrative services in France and Germany both in favour of Group companies and of third parties.

ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the Electric power generation sectors using:

Non-programmable sources

ERG is active in the generation of electricity from wind sources, with 1,768 MW of installed power at 30 June 2017. 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 (674 MW operational and 47.5 MW under construction), in particular in France (252 MW), Germany (216 MW), Poland (82 MW) as well as in Romania and Bulgaria (70 MW and 54 MW), in addition to 47.5 MW under construction in Great Britain, expected to be commissioned in 2017. In May 2017, ERG further consolidated its position in the German on-shore wind market, through the acquisition of six German wind farms, with an installed capacity of 48 MW.



Programmable sources

- ERG operates in the generation of electricity from thermoelectric sources through the "Centrale Nord" plant (480 MW) at the industrial site of Priolo Gargallo (SR) in Sicily, which operated until 27 May 2016 as an Essential Unit in accordance with the Mucchetti Amendment⁹. This is a high-efficiency co-generation plant (C.A.R.), based on latest generation combined cycle technology fuelled with 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, of other utilities;
- ERG operates in the sector of the generation of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 16 plants, 7 dams, 3 reservoirs and one pumping station, geographically located throughout Umbria, Marche and Lazio, with a capacity of 527 MW.

Starting from 1 January 2017, all services across the Group have been centralised within ERG S.p.A.

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. It should be noted that at the end of 2016 a process was begun for the sale of a shareholding in TotalErg S.p.A. which should be concluded in the coming months.

Lastly, in the Half-Year Condensed Consolidated Financial Statements, the accounting results relating to the equity investment in TotalErg S.p.A. are indicated separately in compliance with the requirements of IFRS 5. For the purposes of clearer disclosure, these results of ordinary operations are shown and commented on in the line Income (loss) from equity investments in this Interim report.

ONE COMPANY



On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

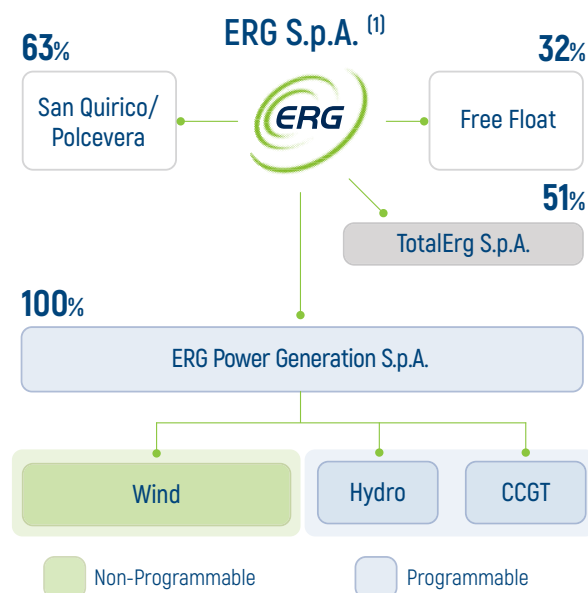
- ERG S.p.A. – Corporate – which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. The company is organised into the following 5 areas:
 - Business Development, with the mission of ensuring business development in various geographical, technological and market areas;
 - Administration, Finance, Planning and Control, Risk Management, M&A, Investor Relations and Purchasing;
 - Human Capital, ICT and General Services;
 - Institutional Relations and Communication;
 - Legal and Corporate Affairs.

⁹ Law converting Decree Law no. 91/14 ("Competition Decree"). For additional details, please see the section Thermoelectric.

- ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes, 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, across all business processes;
 - a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

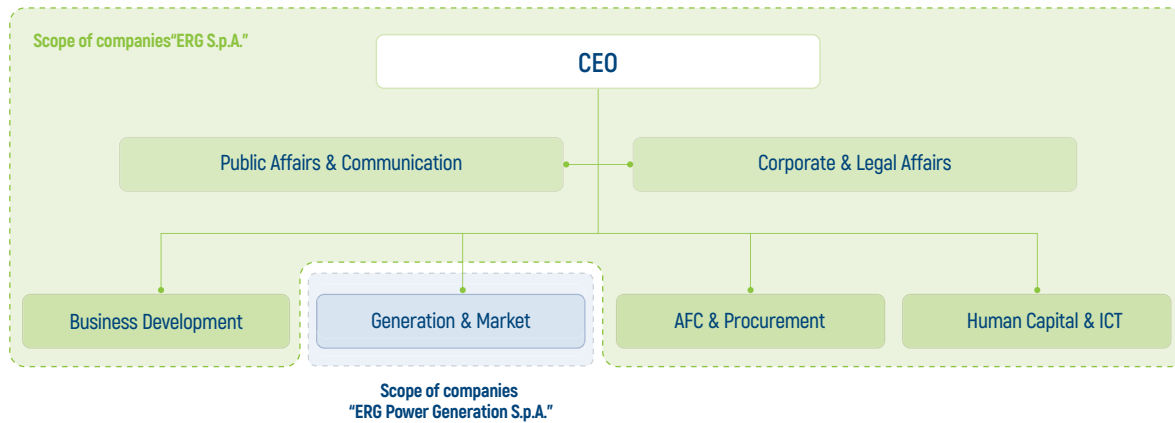
Implementation of the new Group Organisational Model, partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A., was planned to take full effect starting on 1 January 2017, specifically through:

- the merger of ERG Services S.p.A. into ERG S.p.A.;
- the merger 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 summarised as follows:



ERG'S STOCK MARKET PERFORMANCE

At 30 June 2017, the closing price of ERG's shares was EUR 12.31, up (+20.7%) from the end of 2016, in the presence of a rise, in the same period, of the FTSE All Share index (+8.6%), of the FTSE Mid Cap index (+20.6%) and of the Euro Stoxx Utilities Index (+11.0%).

During the period under review, the listed price of the ERG stock varied from a minimum of EUR 9.96 (9 January) and a maximum of EUR 12.63 (12 June).

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

Stock price	EUR
Closing price at 30.06.2017	12.31
Highest price (12.06.2017) ⁽¹⁾	12.63
Lowest price (09.01.2017) ⁽¹⁾	9.96
Average price	11.33

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

Traded volumes	No. of shares
Maximum volume (08.03.2017)	1,054,084
Minimum volume (05.06.2017)	94,073
Average volume	281,101

Market capitalisation was approximately EUR 1,850 million (EUR 1,535 million at the end of 2016).

ERG'S SHARE PRICE PERFORMANCE COMPARED WITH LEADING INDICES (NORMALISED)

ERG vs. Euro Stoxx Utilities, FTSE All Share and FTSE Mid Cap - % Change from 30.12.2016 to 30.06.2017



PERFORMANCE HIGHLIGHTS

Year			1 st half	
2016	(EUR million)		2017	2016
MAIN INCOME STATEMENT DATA				
1,025	Revenues from ordinary operations		538	530
455	Recurring EBITDA		258	273
202	Recurring EBIT		133	145
125	Net income		84	76
122	of which Group net income		84	73
107	Recurring Group net profit (loss) ⁽¹⁾		87	74
MAIN FINANCIAL DATA				
3,286	Net invested capital		3,267	3,433
1,729	Shareholders' equity		1,753	1,593
1,557	Total net financial indebtedness		1,514	1,840
1,276	of which non-recourse Project Financing ⁽²⁾		1,206	1,285
47%	Financial leverage		46%	54%
44%	% EBITDA Margin		48%	52%
OPERATING DATA				
1,720	Installed capacity at period end – wind farms	MW	1,768	1,720
3,501	Electric power generation from wind farms	millions of KWh	1,809	2,048
480	Installed capacity at period end – thermoelectric plants	MW	480	480
2,693	Electric power generation from thermoelectric plants	millions of KWh	1,175	1,293
527	Installed capacity at period end – hydroelectric plants	MW	527	527
1,358	Electric power generation from hydroelectric plants	millions of KWh	652	751
12,303	Total sales of electric power	millions of KWh	6,065	5,960
60	Capital expenditure ⁽³⁾	EUR million	26	19
715	Employees at the period end	Units	717	722
MARKET INDICATORS				
42.8	Reference price of electricity - Italy (baseload) ⁽⁴⁾	EUR/MWh	51.2	37.1
100.08	Feed-In Premium (former Green Certificates) - Italy	EUR/MWh	107.3	100.1
47.6	Sicily zone price (baseload)	EUR/MWh	56.8	41.9
47.6	Centre North zone price (peak)	EUR/MWh	58.7	40.0
139.0	Average unit value of sale of ERG wind energy - in Italy	EUR/MWh	152.7	135.6
92.6	Feed-In Tariff - Germany ⁽⁵⁾	EUR/MWh	91.0	91.7
88.7	Feed-In Tariff - France ⁽⁵⁾	EUR/MWh	89.0	88.6
84.0	Feed-In Tariff - Bulgaria ⁽⁵⁾	EUR/MWh	96.7	96.7
33.4	Electricity price - Poland	EUR/MWh	35.7	33.1
10.8	Certificate of origin price - Poland	EUR/MWh	7.3	16.6
27.3	Electricity price - Romania ⁽⁶⁾	EUR/MWh	28.7	27.6
29.5	Green Certificate price - Romania ⁽⁷⁾	EUR/MWh	29.2	29.5

To enhance understandability of business performance, recurring revenues and operating results are shown, therefore excluding non-recurring items.

(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 39.5 million made in 2017 for the acquisition of the companies of the DIF Group in Germany and the M&A investments amounting to EUR 306.5 million made in 2016.

(4) Single National Price

(5) the values of the Feed-In Tariff abroad refer to the prices obtained by the wind farms

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

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

PERFORMANCE HIGHLIGHTS BY SEGMENT

Year		1 st half	
2016	(EUR million)	2017	2016
REVENUES FROM ORDINARY OPERATIONS			
423	Non-programmable sources	232	244
423	Wind power	232	244
601	Programmable sources	306	288
479	Thermoelectric power ⁽¹⁾	230	228
122	Hydroelectric power	76	61
32	Corporate	20	16
(31)	Intra-segment revenues	(20)	(18)
1,025	Total revenues from ordinary operations	538	530
EBITDA			
308	Non-programmable sources	170	187
308	Wind power	170	187
161	Programmable sources	94	93
77	Thermoelectric power ⁽¹⁾	40	52
84	Hydroelectric power	54	41
(13)	Corporate	(6)	(6)
455	Recurring EBITDA	258	273
AMORTISATION, DEPRECIATION AND WRITE-DOWNS			
(163)	Non-programmable sources	(79)	(83)
(163)	Wind power	(79)	(83)
(88)	Programmable sources	(45)	(44)
(30)	Thermoelectric power	(16)	(15)
(58)	Hydroelectric power	(29)	(29)
(3)	Corporate	(1)	(1)
(254)	Recurring amortisation and depreciation	(126)	(129)
EBIT			
145	Non-programmable sources	91	104
145	Wind power	91	104
73	Programmable sources	49	48
47	Thermoelectric power ⁽¹⁾	24	37
26	Hydroelectric power	25	12
(16)	Corporate	(7)	(7)
202	Recurring EBIT	133	145
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS			
44	Non-programmable sources	20	13
44	Wind power	20	13
13	Programmable sources	5	5
10	Thermoelectric power	4	4
4	Hydroelectric power	1	1
3	Corporate	1	1
60	Total capital expenditures	26	19

(1) Includes Energy Management contribution



SALES

POWER

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

During the first half of 2017, total sales of electricity amounted to 6.1 TWh (6.0 TWh in the same period of 2016), in the presence of an overall output for the Group plants of approximately 3.6 TWh (4.1 TWh in the same period of 2016), of which roughly 0.7 TWh abroad and 2.9 TWh in Italy. The latter balance corresponds to around 1.9% of electricity demand in Italy (2.2% in the first half of 2016).

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

Year		1 st half	
		2017	2016
2016	SOURCES OF ELECTRIC POWER (GWh)		
2,220	Wind – wind power generation Italy	1,078	1,343
1,281	Wind – wind power generation Abroad	730	705
2,693	CCGT – thermoelectric power generation	1,175	1,293
1,358	Hydro – hydroelectric power generation	652	751
4,751	ERG Power Generation - purchases	2,430	1,867
12,303	Total	6,065	5,960

Year		1 st half	
		2017	2016
2016	SALES OF ELECTRIC POWER (GWh)		
542	Electric power sold to captive customers	262	263
2,020	Electric power sold to IREN	999	1,004
8,460	Electric power sold wholesale (Italy)	4,074	3,987
1,281	Electric power sold abroad	730	705
12,303	Total	6,065	5,960

Steam sales² amounted to 397 thousand tonnes in the first half of 2017 (452 thousand tonnes in the first half of 2016). 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 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 end users net of the quantities of steam withdrawn by the users and pipeline losses.

COMMENTS ON THE HALF YEAR'S PERFORMANCE

In the first half of 2017, **revenues from ordinary operations** amounted to EUR 538 million, slightly higher than the value of EUR 530 million of the first half of 2016, even in the presence of significantly lower RES compared to the same period of 2016 as a result of extremely adverse weather conditions (wind and water). These effects were more than offset, mainly, by the average increase not only in energy prices but also in incentives and Energy Efficiency Certificates. This item also includes the higher sales carried out within the price fluctuation hedging activities performed by Energy Management, the lower revenues relating to the wind farms no longer covered by the incentive scheme, partly offset thanks to the mechanism for recovering the incentives relating to the missed generation for shutdowns required by Terna in the previous years. The first half of 2016 included the "reintegration consideration" paid in view of the constraints imposed on the modulation of the CCGT plant to enforce regulations on Essential Units for the security of the electrical system, amounting to approximately EUR 31 million.

Recurring EBITDA amounted to EUR 258 million, less than the EUR 273 million recorded in the first half of 2016. The change is a result of the following factors:

Non-Programmable Sources: EBITDA of EUR 170 million, down compared to the same period of the previous year (EUR 187 million), mainly as a consequence of weaker wind conditions and lower output in Italy and in France, where the wind conditions were particularly unfavourable. These effects were only partly offset by a more favourable price trend in Italy, as well as by additional cost containment actions.

In addition, in the first half of 2017 approximately 91% of wind power generation in Italy benefited from the feed-in premium (former Green Certificate), for a unit amount of approximately 107 EUR/MWh, up compared to the same period of 2016 (approximately 100 EUR/MWh).

Programmable sources: EBITDA of EUR 94 million, substantially in line compared to the previous year (EUR 93 million). The contribution provided by the hydroelectric complex amounted to EUR 54 million, markedly higher than EUR 41 million in 2016 mainly as a result of the flexibility of the plants able to benefit from particularly favourable peak prices during the half-year in the Centre-North area with lower water availability compared to the same period of the previous year.

In addition, between the end of 2016 and the first half of 2017, at the end of a series of audits with the GSE, the IAFR revocation was revoked for the plants at Cotilia (48 MW) and Sigillo (5 MW), which therefore are entitled to receive incentives (in addition to the recovery of past incentives).

The result of the thermoelectric business, amounting to EUR 40 million, declined compared to EUR 52 million of the first half of 2016 which still benefited from the "reintegration consideration" granted to the CCGT plant, enforcing

the regulations on Essential Units for the security of the electrical system, in force until 27 May 2016, amounting to approximately EUR 31 million. This lower revenue was largely offset by the contribution from revenues for Energy Efficiency Certificates to which the CCGT plant is entitled inasmuch as it is qualified as a high-efficiency co-generating plant, and by the better performance of energy sale prices.

Recurring EBIT was EUR 133 million (EUR 145 million in the first half of 2016) after amortisation and depreciation of EUR 126 million (EUR 129 million in the first half of 2016).

The **Recurring Group net profit** amounted to EUR 87 million, up compared to the profit of EUR 74 million of the first half of 2016, as a result of the aforesaid lower operating results, more than offset by lower depreciation and amortisation, lower net financial expenses, and of the higher income from the equity investment in TotalErg (consolidated at equity). The result of 2016 also included the negative value of approximately EUR 3 million from minority interests.

The **Group net profit**¹⁰ was EUR 84 million (EUR 73 million in the first half of 2016).

In the first half of 2017, **Group capital expenditure** totalled EUR 26 million (EUR 19 million in the first half of 2016), of which 76% in the Non-programmable sector (68% in the first half of 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, 20% in the Programmable sector (27% in the first half of 2016), and 4% in the Corporate sector (5% in the first half of 2016).

Net financial indebtedness amounted to EUR 1,514 million, down by EUR 43 million compared to 31 December 2016 mainly as a result of the positive net operating cash flow and the dividend received by TotalErg, which offset the impacts arising from the acquisition of the German wind farms from the DIF Group, the distribution of dividends, the payment of taxes and the investments in the period.

¹⁰ Includes gains (losses) on inventory amounting to -EUR 3 million (+6 million in the first half of 2016). The values are net of tax effects. Additional details are provided in the chapter "Alternative performance indicators".

SIGNIFICANT EVENTS DURING THE HALF-YEAR

08
March
2017

ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and from DIF RE Erneuerbare Energien 3 GmbH 100% of the capital of six German companies that own six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW have an expected annual average output of approximately 84 GWh, equal to approximately 66,000 t of CO₂ emissions avoided. They came on stream in 2007 and have an average incentive expiry date of 2027. The price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million, with average annual EBITDA forecast at approximately EUR 5 million.

The transaction's closing date was **2 May 2017**.

The operation, in keeping with the strategy of international growth and diversification, enables ERG to consolidate its position in the German on-shore wind power market, with installed power of 216 MW.

20
April
2017

At the end of the Shareholders' Meeting, Luigi Ferraris, Independent Director and member of the Strategic Committee, tendered his resignation, effective immediately, from the office of Director of ERG S.p.A. to pursue other professional opportunities. At the time of his resignation, Luigi Ferraris did not hold any shares of the Company.

The Board of Directors of ERG S.p.A. of 11 May 2017 therefore proceeded to appoint, at the proposal of the Nominations and Remuneration Committee, in accordance with Article 2386 of the Italian Civil Code and Article 15 of the Articles of Incorporation, as new Director of the Company, Alessandro Careri (already Director of ERG S.p.A. from June 2011 to April 2015 and member of the Strategic Committee, currently Chairman of the Board of Directors of TotalErg S.p.A.), who will remain in office until the next Shareholders' Meeting of ERG S.p.A.

The Board of Directors also positively assessed the independence of the Director Alessandro Careri with reference to the provisions of Article 148, third paragraph, of the Italian Consolidated Finance Act.

Lastly, the Board of Directors resolved not to add to the current composition of the Strategic Committee.

22
June
2017

ERG, through its subsidiary ERG Power Generation S.p.A., acquired from Abo Wind UK LTD 100% of the share capital of the UK company Evishagaran Wind Farm Ltd, owner or the necessary authorisations for the construction of a wind farm (35 MW) in Northern Ireland, expected to enter into operation by 2020.



30
June
2017

ERG Eolica Fossa del Lupo S.r.l., ERG Eolica Amaroni S.r.l. and ERG Eolica Basilicata S.r.l., companies wholly owned by ERG Power Generation

S.p.A, signed a financing agreement in the form of multi-borrower non-recourse portfolio project finance.

The three companies involved in the transaction own three wind farms, which came on stream between 2011 and 2013, located in Calabria and Basilicata for a total installed capacity of 154 MW.

Thanks to the excellent operating and financial performance of these wind farms, the transaction made it possible to refinance the existing project financing

signed between 2012 and 2014 under significantly improved economic conditions, with a reduction in the cost of debt of over 50% with respect to the original conditions.

The financing agreement, for an amount equal to EUR 145 million and a duration of 10.5 years, was signed by Crédit Agricole CIB Milan Branch as Coordinating & Structuring Bank and Mandated Lead Arranger, by BNP Paribas (CIB Italia), by ING Bank N.V.- Milan Branch as Mandated Lead Arranger and by UBI Banca S.p.A, as Mandated Lead Arranger and Agent Bank. Crédit Agricole Carispezia acted as Account Bank.

REGULATORY FRAMEWORK: MAIN CHANGES

The most significant regulatory changes that characterised the energy industry in the first half of 2017 are described below.

GENERAL

National Energy Strategy (*Strategia Energetica Nazionale – SEN*)

On 12 June, the Ministry of Economic Development and the Ministry for the Environment launched the consultation on the National Energy Strategy (SEN). Comments and proposals on the document placed in consultation can be sent until 31 August 2017. The key themes that guided the drafting of the proposal for a new national energy strategy were: increasing the country's competitiveness by aligning energy prices with those in Europe, improving the security of supply and provision, decarbonising the energy system in line with the long-term objectives of the Paris Agreement. Although the scenario analyses carried out in support of the proposed strategy reveal that Italy would meet the European requirements for 2030 with a 24% quota of renewables, the document placed in consultation indicates a minimum target for renewable energy sources of 27%, which will result, for the electricity sector, in at least half of consumption being covered by renewable sources. The SEN recognises the strategic value of repowering, particularly for existing wind power plants, in order to increase the efficiency and the production of renewable energies, providing support mechanisms through the simplification of the authorisation process with ad-hoc procedures and agreements for the allocation of equity contributions on investment.

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. On 1 June 2017, the United States of America withdrew the acceptance of the agreement signed by the previous administration on 3 September 2016.

United Kingdom Referendum on membership in the European Union

On 23 June, 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—which began on 19 June 2017—for the effective implementation of the United Kingdom's exit from the European Union have been completed, the entire legal framework of the Union must be adapted to the new situation of 27 member states.

European Commission Regulatory Calendar – Clean Energy Package

On 30 November 2016, the European Commission published a package of regulatory measures on EU climate-energy policy for the period following 2020 (Clean Energy Package).

The main measures concern the revision and issue of directives and regulations on renewable energies, energy efficiency 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.

The European Parliament published the draft report containing its proposals for amendments to the Directives and Regulations included in the Clean Energy Package.

Environment – Efficiency – Safety Matters

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.

April 2017 saw the publication of two Italian legislative decrees implementing European directives in the field of noise pollution. The provisions will be implemented through subsequent ministerial decrees and introduce specific guidelines on activities that cause environmental noise which have, up to now, been excluded from legislation, in particular wind power plants, airfields, helipads, hydrosurfaces, sporting activities and disciplines and racetracks and raceways. For wind power plants in particular, the criteria for the measurement of airborne noise emitted by wind turbines and the containment of the corresponding noise pollution will be published.

The rules governing penalties have also been strengthened, giving the responsible body greater investigation and inspection powers.

June 2017 saw the approval of the Legislative Decree transposing European Directive no. 52 of 2014 on the modification and simplification of Environmental Impact Assessment (EIA) procedures; the Legislative Decree was published at the beginning of July 2017. In particular, the regulation prescribes the introduction of uniform EIA rules across the entire country and the consequent streamlining of the sharing out of administrative responsibilities between the State and the Regions, with inclusion at state level of EIA procedures for projects relating to infrastructure and to wind power plants with a total capacity exceeding 30 MW.

For modifications or extensions to existing plants, including the reconstruction or modernisation of wind power plants, it provides for the option to request that the competent authority perform a preliminary assessment of the project (pre-screening) in order to identify the procedures to be initiated.

Lastly, the overall timelines for the conclusion of procedures were reduced, providing for the responsibility of senior management and the replacement of directors in the event of non-compliance.

“Annual Extensions Act” Law Decree

Law no. 19 of 27 February 2017, converting Decree Law no. 244 of 30 December 2016, concerning the extension and definition of terms prescribed by law (the so-called “Annual Extensions Act”), was published in February 2017.

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 co-generation plants such as the CCGT of Priolo. The rates identified by the Authority for Energy, reduced to 12%, shall therefore 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.

Law converting the “Manovrina 2017” Decree Law

In June 2017, the law converting the decree law on financial matters, initiatives in favour of local entities, further interventions for areas affected by earthquakes and measures for development, referred to informally as the “Manovrina 2017” Decree Law, was published.

Of particular note are the modification of the parameters for the determination of ACE [Aiuto Crescita Economica - Economic Growth Assistance] measures for the promotion of competition in electric road transport and for infrastructure for charging electric vehicles, as well as certain changes to the rules governing inspections and penalties for electricity production units that benefit from incentives.

Increase in electricity dispatching service costs: resolution 342/2016 of the Italian Authority for Electricity, Gas and Water (AEEGSI) and subsequent measures

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

On 27 June 2016, the AEEGSI 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 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 production 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 by means of a specific resolution, with which the Authority also extended the time available for the conclusion of the entire process.

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. 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.

The Authority also established, by way of a special resolution, the automatic redistribution to end customers of the amounts that will be recovered by TERNA by virtue of the prescriptive ordinances and the measures of asymmetric regulation adopted as a result of the above proceedings.

In April 2017, resolutions 247/2017/E/EEL (ERG Hydro S.r.l.) and 268/2017/E/EEL (ERG Power Generation S.p.A.) were communicated to the parties concerned. The main elements of the above-mentioned deeds are the modification of the methodology used to define the results of the assessment with respect to that used in the communication of September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT).

As for previous measures, ERG Power Generation S.p.A. and ERG Hydro S.r.l. have appealed to the Administrative Court of Lombardy for the annulment of the deeds referred to above.

Electricity dispatching reform: resolution 300/2017/R/EEL

In May 2017 the Authority published Resolution 300/2017/R/EEL with which it initiated the first real reform of electricity dispatching, defining criteria to enable electricity demand, ineligible production units (including those powered by non-programmable renewable resources) and accumulation systems

to participate in the Dispatching Services Market (MSD), albeit in the context of pilot projects.

The projects will relate to the participation in the MSD of electricity demand and of production units not eligible to date, with accumulation systems also combined with production units in order to optimise the supply of dispatching resources in compliance with the requirements laid down by the Network Code.

Access to the dispatching market will also be possible for aggregators of several production units and consumption units, referred to as UVAs (eligible virtual units).

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. With regard to prescriptive measures within the meaning of resolution 342/2016/R/EEL, reference is made to the comments in the section “**General**”.

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

For the purposes of determining the value of the 2017 tariff incentive (2017 FIP), the Authority disclosed, by means of resolution 31/2017/R/EFR of 27 January 2017, the average annual value recorded in 2016 for electricity sale prices,

equal to 42.38 EUR/MWh. The value of the 2017 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year, therefore amounts to 107.34 EUR/MWh.

In accordance with the GSE's (national grid operator) procedures, these incentives **are disbursed by the GSE every quarter by the second quarter** following the reference quarter, in line with the current timelines for **withdrawing** green certificates.

The move from the system of green certificates to the feed-in tariff was regulated by the GRIN Convention, prepared by the GSE in April 2016.

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

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 enables 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 GSE's **"Procedure for the calculation and issue of the incentives that have replaced Green Certificates from 2016"**, published in February 2017 and updated in April 2017.

Resolutions 444/2016/R/EEL, 800/2016/R/EEL and 419/2017/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 above, 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 resolutions 800/2016 and 419/2017, the latter published by the Authority on 8 June 2017.

The main provisions of the latter regulation relate to the move to a new method of calculating the aggregate zonal imbalance sign based on the energy balance of the balancing macro-zone, which also recognises transits between the macro-zones.

The new aggregate zonal sign and the variables that make it up will initially be published on the first working day following the date of delivery of the energy; the Authority has established that Terna, as soon as possible and in any case no later than 1 January 2018, shall publish the data within 30 minutes.

The new method of calculation of the sign will enter into force on 1 September 2017; from that date all units (both production and consumption) not eligible to provide balancing services will go back to determining the imbalance price using the single pricing system.

In order to reduce arbitrage opportunities between zonal prices within the same macro-zone, the Authority also introduced a macro-zonal no-arbitrage consideration, which entered into force from 1 July 2017.

The same resolution 419/2017 also provided that Terna, before 2 September 2017, publish the value that the aggregate zonal imbalance sign would have been in the period 2015-2017 by applying the new methodology and the relative associated imbalance prices.

France

To ensure achievement of the European target for renewable sources 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 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 on-shore installed wind power capacity to 15 GW by 2018 (from around 12 GW at the end of 2016) and between 22 and 26 GW in 2023. On 13 December 2016, the decree governing the move from the feed-in tariff (FIT) to the feed-in premium (FIP) was published, based on a remuneration supplementing system plus a premium, for wind farms that finalised the application for withdrawal of the electricity generated by the network operator (EDF) in 2016. The total value of the new incentive is in line with the FIT pursuant to the aforementioned Decree dated 17 June 2014.

Wind farms that receive the incentive pursuant to the Decree dated 17 June 2014 will continue to receive a FIT for 15 years, the value of which 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. In May 2017, the CRE (French Energy Authority) published the procedures for auctions for accessing the new twenty-year FIP incentives, for on-shore wind power plants made up of more than 6 wind turbines or with individual wind turbines with capacity greater than 3 MW. The first auction session will take place on 1 November 2017 with a quota of 500 MW and a basic auction price of 74.8 EUR/MWh, while the last auction is scheduled for 1 May 2020. The aim is to use this mechanism to develop 3 GW of on-shore wind capacity over the years 2017-2020.

The decree of 6 May 2017 instead regulated access to the new FIP for on-shore wind power plants made up of a maximum of 6 wind turbines with up to a maximum of 3 MW of power each, that have submitted a request to EDF for access to the FIP starting from 2017. The value of the FIT, on the basis of which the incentive component (complément de rémunération) is calculated, depends on the diameter of the turbine rotor, as well as the annual production of the plant, which, if it exceeds a certain production threshold (limit), incurs a reduction for the excess energy produced.

Germany

The "Renewable Energy Sources Act" 2016 (EEG 2017), adopted on 8 July 2016 and judged by the European Commission on 20 December 2016 to be compliant with EU rules on State aid, marks the move to the auction mechanism for all Renewable Energy Sources plants > 750 KW entered into operation from 1 January 2017 for access to incentives. The annual auction quotas for new on-shore wind capacity are 2.8 GW per year up to 2020 and 2.9 GW from that time onwards. Inside Grid Expansion Areas there is a limit to the assigning of incentives through auction of new wind power capacity equal to 58% of the annual average additional capacity installed between 2013 and 2015, amounting to 902 MW/year for 2017 (and 258 MW for the first auction session of May 2017), 2018 and 2019. The regions involved, as defined by the decree of 20 February 2017, cover the northern part of northern Saxony, Bremen, Schleswig-Holstein, Hamburg and Mecklenburg-Western Pomerania and can be redefined from 1 January 2020 every two years. The first auction was held on 1 May 2017, with a starting price of 70 EUR/MWh, with the allocation of a quota of on-shore wind power of 807 MW. Bids were awarded on average 57.1 EUR/MWh, but 96% of the amount available (in terms of MW)

was awarded by the "Citizens' energy companies" with a rate of 57.8 EUR/MWh, equal to the maximum tariff at national level since for "Citizens' energy companies" (cooperatives) the marginal price registered in the auction is applied. The next auction is scheduled for 1 August 2017. The rate that the plant will actually receive however is calculated by the network manager following the allotment, by applying the so-called "corrective factor" to the bid accepted in order to take account of the specific wind conditions of the site, determined according to the "Site location quality" and the model of turbine used. In July 2017, the German Parliament approved certain amendments to the EEG 2017, providing, inter alia, that, from 2018, in order to be able to participate in auctions, projects of Citizens' energy companies must have been awarded environmental authorisation (BlmschG, abbreviation of Bundes-Immissionsschutzgesetz, i.e. federal pollution control act). From 2018, multi-technological "pilot" auctions must be planned for wind and photovoltaic technologies. Off-shore 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). At the end of June, the Bundestag amended the law on off-shore wind energy (WindSeeG) prohibiting negative offers to the auctions for off-shore wind. The upcoming federal elections, scheduled for next autumn, should not change the approach of the two main German 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 on-shore 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. on-shore 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.

A revision of the law, which should contain provisions for improvements to the wind power industry that are consistent with the critical observations of the European Commission Competition DG received in the meantime, should be approved in the second half of the year. 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 that participated in the multi-technology auctions, 84 projects (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).

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. Following the verification of compliance with EU rules on State aid by the European Commission, at the end of March 2017 the Romanian Government published Emergency Ordinance 24/2017 which introduced important amendments to law no. 220/2008. The main changes concern:

- the lengthening of the recovery period of the GCs withheld from 1 July 2013 to 31 March 2017 (which must take place at constant instalments through the years 2018-2025);
- the period of validity of the GCs, which is extended to 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months);
- the cap and the floor between which the price of the GCs may fluctuate, set respectively at 35 EUR/MWh (from 57 EUR/MWh) and 29.4 EUR/MWh (from 27 €/MWh);
- the definition of the mandatory quota, which from 2018 onwards shall be determined according to a pre-set fixed volume of GCs on the market and a maximum average expense on the end consumer that may not exceed 11.1 EUR/MWh;
- the creation of two “anonymous” centralised markets to trade GCs starting from September 2017 (in one market, only GCs will be traded by the parties anonymously, in another market it will instead be possible to sell the GCs together with the underlying electricity).

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. on 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 production units located in Sicily, as governed by the aforementioned Resolution 521/14.

The AEEGSI then confirmed said situation 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 Priolo CCGT plant was considered to come under essential facilities pursuant to Law Decree 91/2014 until 27 May 2016, the compensation advance agreed following the resolution is equal to around 68% of the balance requested. On 15 December 2016, the AEEGSI then issued resolution 761/2016/R/EEL, which confirmed and quantified the advance payment for financial year 2016.

Both amounts were paid by TERNA within the deadline (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).

HYDROELECTRIC POWER

With regard to "green certificates" and prescriptive measures within the meaning of resolution 342/20174/R/EEL, reference is made to the comments in the sections "**General**" and "**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 (TSAP) against that measure. At the hearing held on 7 December 2016, the parties stated their opinions; the judge then referred the parties to the board, scheduling the discussion hearing on 1 March 2017. During this hearing, first the issue of jurisdiction was addressed, filed with the office by the Chairman of the Board, and then the substantive issues relevant to the illegality of the rental increase. With its ruling submitted on 19 April 2017, the TSAP declared its lack of jurisdiction in favour of the Regional Court of Public Waters (TRAP) of Rome before which it arranged for the continuance of the appeal. Obligations for the purposes of the lodging of an appeal before the Court of Cassation against the judgement of the TSAP are in progress.

Impacts on the Group

With regard to possible impacts of these measures on the ERG Group for the year 2017, 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 Power Generation.

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⁾

Year 2016		2017	1st half 2016
Italian Renewable Energy Sources Market ⁽²⁾ (GWh)			
88,188	Generation from renewable sources ⁽³⁾	42,913	46,033
	of which:		
42,323	Hydroelectric	18,468	21,509
5,865	Geothermal	2,899	2,952
17,455	Wind	8,882	10,291
22,545	Photovoltaic	12,664	11,281
Sale prices (EUR/MWh)			
42.8	Reference price of electricity - Italy (baseload) ⁽⁴⁾	51.2	37.1
100.1	Feed-In Premium (former Green Certificates) - Italy	107.3	100.1
41.6	Electricity price - Central-South zone	48.8	37.6
40.4	Electricity price - South zone	47.5	36.5
47.6	Electricity price - Sicily	56.8	41.9
41.6	Electricity price - Sardinia	48.7	37.6
139.0	Average unit value of sale of ERG energy - in Italy ⁽⁵⁾	152.7	135.6
92.6	Feed-In Tariff - Germany ⁽⁶⁾	91.0	91.7
88.7	Feed-In Tariff - France ⁽⁶⁾	89.0	88.6
84.0	Feed-In Tariff - Bulgaria ⁽⁶⁾	96.7	96.7
33.4	Electricity price - Poland	35.7	33.1
10.8	Certificate of origin price - Poland	7.3	16.6
27.3	Electricity price - Romania ⁽⁷⁾	28.7	27.6
29.5	Green Certificate price - Romania ⁽⁸⁾	29.2	29.5

(1) Estimated output for June

(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 EUR 123.8/MWh acknowledged to the Palazzo S. Gervasio plant

(6) The values of the Feed-In Tariff abroad refer to the prices obtained by the wind farms

(7) The Romania price of electricity 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 the first half of 2017, 31% of (net) domestic electricity output of 137,459 GWh (+4.9%) was covered by renewable sources. In particular, 13% of the output derives from hydroelectric power, 6% from wind farms, 9% from photovoltaic plants, and 2% from geothermal sources.

Compared to the previous year, photovoltaic generation grew (+12%), while wind power generation declined sharply (-14%), as did hydroelectric generation (-14%) and geothermal generation (-2%).

REGULATORY SCENARIO

Italy

The incentive system in Italy envisages, for on-shore wind farms in operation before the end of 2012¹¹, 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 the same formula and paid on a quarterly basis by the last business day of the second quarter after that of pertinence. With regard to the value of the 2017 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 31/2017/R/EFR dated 27 January 2017, the average annual value recorded in 2016 for the electric power sales prices for incentive purposes, amounting to 42.38 EUR/MWh. Therefore, the value of the 2017 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year¹², amounts to 107.34 EUR/MWh¹³.

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 auction¹⁴. The Ministerial Decree of 23 June 2016 regulated the auctions that were held in 2016.

With regard to the rules on imbalances, with resolution 419/2017 the Authority for Energy scheduled a revision of the procedures for calculating the current aggregate zonal imbalance sign based on the energy balance of the macro-zone; this new method of calculation will come into force as from 1 September 2017. From that date, the 'single price' procedures for the setting of the imbalance price for all units not eligible (both production and consumption) will enter back into force. The Authority also introduced a macro-zonal no-arbitrage consideration in order to put a stop to any arbitrage between zonal prices within the same macro-zone.

In April 2017, resolutions 247/2017/E/EEL (ERG Hydro S.r.l.) and 268/2017/E/EEL (ERG Power Generation S.p.A.) issued within the scope of the proceedings initiated with resolution 342/2016 for the timely adoption of prescriptive measures and/or asymmetric regulation measures and the assessment of potential abuse on the wholesale electricity market within the meaning of (EU) Regulation no. 1227/2011 (REMIT), potentially committed in the recent past by

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

12 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.

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

14 Starting price 127 EUR/MWh.

some electricity market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.), were communicated by the AEEGSI to the companies concerned. The main elements of the above-mentioned deeds are the modification of the methodology used to define the results of the assessment with respect to that used in the communications sent to said companies in September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). It is estimated that any economic impacts are not significant.

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 2014¹⁵.

The tariff in force at 1 January 2017 for plants covered by the transitional rules is 83.8 EUR/MWh for the first five years of operation, and 46.6 EUR/MWh for the following 15 years. Application of the maximum tariff provided for the first 5 years may be extended to the remaining period: the extension varies according to the ratio between the actual hours of operation of the plant and the reference hours (amounting to 3,300 hours)¹⁶.

Starting from March 2017, the tariff undergoes reductions according to a pre-set schedule¹⁷ and from October 2017, additional cuts are applied depending on whether installed wind power during the year exceeds 2,500 MW.

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

15 In this regard, the BNetzA disclosed that: (i) 8,365 MW of new wind capacity should start operations between 2017 and 2018 (5,000 MW in 2017 and 3,365 MW in 2018) accessing the FIP in accordance with the 2014 EEG; (ii) 475 MW of capacity, which would have been entitled to access the FIP under the 2014 EEG, instead selected to participate in the auctions to be held in 2017-2018.

16 The ratio between actual hours of operation of the plant and the reference hours (amounting to 3,300 hours) fluctuates between a minimum value of 80% (below which the maximum tariff shall be applied to the entire duration of the incentive period) and 150% (above which the maximum tariff shall be applied only in the first 5 years).

17 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.

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 amount to: 2,800 MW/year for the years 2017, 2018 and 2019 and 2,900 MW/year from 2020 onwards, with the goal of reaching a portion of renewable energy sources of 40-45% by 2025, of 55-60% by 2035, and of 80% by 2050. Moreover, between 2018 and 2020, multi-technological auctions are planned for on-shore wind power and photovoltaic for a total amount of power of 400 MW. The assigned volumes shall be deducted from the respective annual amount reserved to the specific technology. On the occasion of the first auction on 1 May 2017, 807 MW of on-shore wind power with an average rate of 57.1 EUR/MWh was assigned. 96% of the amount (in terms of MW) was awarded by the "Citizens' energy companies" with a rate of 57.8 EUR/MWh, equal to the maximum tariff at national level since for cooperatives the marginal price is applied. In July 2017, the German Parliament approved certain amendments to the EEG 2017, providing, inter alia, that, from 2018, in order to be able to participate in auctions, projects of Citizens' energy companies must have been awarded environmental authorisation (BlmschG, abbreviation of Bundes-Immissionsschutzgesetz, federal pollution control act).

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 or submitted 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 farms with applications to purchase submitted from 2008 onwards, the value of the tariff is decreased by 2% per year, and 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 wind farm'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).

The system of FIP plus bonus introduced with the decree of 13 December 2016 (which is applied to wind farms with purchase application finalised or submitted in 2016) comprises several components: the incentive component (complément de rémunération), calculated as the difference between current FIT (equal to approximately 81 EUR/MWh) and the average monthly price of electricity weighted on the national wind profile, 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.

In May 2017, the CRE (French Energy Authority) published the procedures for the Dutch auction system for accessing

the new twenty-year FIP incentives, for on-shore wind power plants made up of more than 6 wind turbines or individual wind turbines with capacity greater than 3 MW each. The first auction session will take place on 1 November 2017 with a quota of 500 MW and a basic auction price of 74.8 EUR/MWh, while the last auction is scheduled for 1 May 2020. The aim is to use this mechanism to develop 3 GW of on-shore wind capacity over the years 2017-2020.

The decree of 6 May 2017 instead regulated access to the new FIP for on-shore wind power plants made up of a maximum of 6 wind turbines with up to a maximum of 3 MW of power each, that have submitted a request to EDF for access to the FIP starting from 2017. The value of the FIT, on the basis of which the incentive component (*complément de rémunération*) is calculated, depends on the diameter of the turbine rotor, as well as the annual production of the plant, which, if it exceeds a certain production threshold (limit), incurs a reduction for the excess energy produced.

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). Off-shore 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 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 purchase the green certificates is on the operators who sell electricity to end consumers. The

number of GCs pertaining to wind farms depends on their start-up date:

- for wind farms that started operating before 2014, two green certificates are provided for each MWh generated. From 1 July 2013 to 31 March 2017, the second GC produced by existing wind farms, however, is withheld and returned subsequently, in accordance with the new Emergency Ordinance 24/2017 published on 31 March 2017, the return shall take place at constant instalments through the years 2018-2025 (formerly, the time interval was between 2018 and 2020). The Gebeleisis wind farm (70 MW) receives two GCs until 2017, of which one is withheld until 31 March 2017;
- wind farms in operation after 1 January 2014 instead access 1.5 GCs for each MWh generated until 2017 and starting from 2018 0.75 GCs, being subject to the reduction of the number of GCs ("overcompensation") as prescribed by Emergency Ordinance 23/2014.

Emergency Ordinance 24/2017, published at the end of March 2017, in addition to changing the recovery period of the GCs withheld, introduced various amendments to Law no. 220/2008, which pertain to:

- the period of validity of GCs, which is extended to 31 March 2032. Only GCs issued before 31 March 2017 maintain the validity of 12 months;
- the cap and the floor between which the price of the GCs may fluctuate, set respectively at 35 EUR/MWh (from 57 EUR/MWh) and 29.4 EUR/MWh (from 27 EUR/MWh);
- the definition of the mandatory quota, which from 2018 onwards shall be determined according (i) to a pre-set fixed volume of GCs on the market, the "annual green certificates static quantity" calculated by ANRE every 2 years, which for the period 2017-2018 is set at 14,910,140 GCs; (ii) to a maximum average expense on the end consumer that may not exceed 11.1 EUR/MWh;
- the creation of two "anonymous" centralised markets to trade GCs starting from September 2017: in one market, only GCs will be traded by the parties anonymously, in another market it will instead be possible to sell the GCs together with the underlying electricity (the GCs at the closing price of the "GC only" market and the energy at market price).

With regard to the 2017 mandatory quota, the ANRE with its Ordinance 27/2017 established that for the April-December 2017 time interval it shall be equal to 0.358 GC/MWh, up compared to the value set for the January-March 2017 time interval with Ordinance 119/2016, equal to 0.320 GC/MWh (and equal to 0.306 GC/MWh for 2016). This quota corresponds to the maximum quota of output of renewable energy incentivised with the GCs set by the Government for 2017, i.e. 8.3% of the final consumption of energy estimated for 2017 (a decrease compared to the quota set for 2016, equal to 12.15% of final consumption).

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 annual mandatory quota amounted to 15% for 2016 and 16% for 2017 in line with the trajectory set by the Law of 18 October 2012, which prescribed an annual increase by 1% from now to 2021 (17% for 2018, 18% for

2019, 19% for 2020, 20% for 2021). However, the Polish Government may revise them annually. 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”. To date, these regulations have not succeeded in re-balancing the demand/supply ratio for CO, whose prices continued to decline. 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 entered into operation from July 2016. The version of the law approved in June¹⁸ 2016 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. In June 2016, 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 providing for a tightening of the rules regarding the minimum distance from other buildings for the construction of new wind farms. The Polish government has already stated that it may revise the severity of some of these 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 2017 – March 2018 amounts to 40.9% for Great Britain and 16.7% 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 any construction delays are not directly caused by the producer.
- **CfD** – for new, renewable source plants, a CfD incentive is recognised, awarded through multi-technological Dutch auctions. The incentive is recognised for 15 years (inflated). However, the approach to the governing Conservative party has created uncertainty concerning the future of CfD for on-shore wind farms and at the moment no set amounts are prescribed for this technology.

¹⁸ Additional details are provided in the chapter “Regulatory Framework”.

HIGHLIGHTS OF RECURRING PERFORMANCE ITEMS

Year		1 st half	
2016	OPERATING RESULTS	2017	2016
423	Revenues from ordinary operations	232	244
308	Recurring EBITDA ⁽¹⁾	170	187
(163)	Amortisation, depreciation and write-downs ⁽¹⁾	(79)	(83)
145	Recurring EBIT(1)	91	104
44	Capital expenditures on tangible and intangible fixed assets	20	13
74%	EBITDA Margin % ⁽²⁾	73%	76%

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

(2) recurring EBITDA over revenues from ordinary operations

The breakdown of recurring EBITDA between the various geographic areas of the Wind business was as follows:

Year		1 st half	
2016	RECURRING EBITDA	2017	2016
235	Italy	132	145
72	Abroad	38	41
	of which		
18	Germany	12	10
32	France	15	21
8	Bulgaria	4	3
8	Romania	6	4
6	Poland	2	4
(0)	UK	(0)	0
308	Total	170	187

The consolidated revenues recorded in the first half of 2017 from non-programmable sources were affected by the lower output (-12%) observed compared to the same period of the previous year, when particularly high output had been recorded, especially in Italy.

During the half-year, the incentivised period ended for some wind farms in Italy, so approximately 141 MW (equivalent to 98 GWh of output) no longer benefited from the replacement incentive; however, in the period said wind farms benefited from the extension regime through reimbursement of the missed wind power generation of previous years for an amount of EUR 5.4 million.

Concerning sale prices in the first half of 2017, for ERG in Italy the average unit revenue of wind output and related sales, considering the energy sale value and the value of the incentives (former green certificates), amounted to 152.7 EUR/MWh, up compared to the value of 136.4 EUR/MWh of the first half of 2016.

This increase is tied to the marked rise of energy sale prices observed in the various geographic areas (for ERG, mainly in the islands and in the South), to energy management actions on organised energy markets and to the rise in the value of the incentives (former green certificates) from 100.1 EUR/MWh to 107.3 EUR/MWh. In fact, as from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of 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 89.0 EUR/MWh and 91.4 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution to generation of the wind farms abroad was approximately 730 GWh (+4%).

The recurring EBITDA of the first half 2017 totalled EUR 170 million, down compared to the values recorded in the same period of the previous year (EUR 187 million), for the reasons referenced above, partly offset by the lower operating costs as a result of the higher efficiency made possible by closer control over them, thanks also to the new organisational structure.

The EBITDA Margin totalled 73%, at a high absolute value, albeit in decline relative to the particularly high values recorded in the first half of 2016, mainly due to the significant reduction of the volumes by effect of the weaker wind conditions observed in the half-year compared to the record values of the same period of the previous year, as well as the phase out of the incentives of some wind farms, commented on above.

Year		1 st half	
2016	INSTALLED POWER (MW)	2017	2016
1,094	Italy	1,094	1,094
	of which		
247	Campania	247	247
120	Calabria	120	120
249	Puglia	249	249
79	Molise	79	79
89	Basilicata	89	89
198	Sicily	198	198
111	Sardinia	111	111
2	Other	2	2
626	Abroad	674	626
	of which		
168	Germany	216	168
252	France	252	252
82	Poland	82	82
54	Bulgaria	54	54
70	Romania	70	70
1,720	Total installed power at period end ⁽¹⁾	1,768	1,720

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

The installed power at 30 June 2017 comes to 1,768 MW, an increase of 48 MW compared with 30 June 2016, following the acquisition of 6 wind farms in Germany.

Year		1 st half	
2016	GENERATION (GWh)	2017	2016
2,220	Italy	1,078	1,343
	of which		
502	Campania	246	316
256	Calabria	118	150
529	Puglia	273	317
167	Molise	88	96
190	Basilicata	93	114
342	Sicily	155	209
233	Sardinia	105	142
1,281	Abroad	730	705
	of which		
240	Germany	176	132
499	France	244	305
213	Poland	121	103
148	Bulgaria	78	76
181	Romania	112	89
3,501	Total wind farm output	1,809	2,048

In the first half of 2017, the electricity output from wind power amounted to 1,809 GWh, lower than in the first half of 2016 (2,048 GWh), with the output declining by approximately 20% in Italy (from 1,343 GWh to 1,078 GWh) and increasing by 4% abroad (from 705 GWh to 730 GWh).

The decline of output in Italy (-265 GWh) is tied to weak wind conditions compared to the usual seasonal values, and significantly lower than the particularly high conditions recorded in the first half of 2016. With regard to abroad, the increase of 25 GWh is attributable to the contribution of the German plants (DIF) acquired during the period in addition to good production levels in Poland and Romania, partially offset by weak production levels in France.

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.

Year		1 st half	
2016	LOAD FACTOR %	2017	2016
23%	Italy	23%	28%
	of which		
23%	Campania	23%	29%
24%	Calabria	23%	29%
24%	Puglia	25%	29%
24%	Molise	26%	28%
24%	Basilicata	24%	29%
20%	Sicily	18%	24%
24%	Sardinia	22%	29%
23%	Abroad	25%	26%
	of which		
16%	Germany	19%	18%
23%	France	22%	28%
30%	Poland	34%	29%
31%	Bulgaria	33%	32%
29%	Romania	37%	29%
23%	Load factor ⁽¹⁾	24%	27%

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

In the first half of 2017, the overall load factor, equal to 24%, was lower than the particularly high value recorded in the first half of 2016, with a decline from 28% to 23% in Italy, and a decline from 26% to 25% abroad, mainly because of a worse result in France, partially offset by good results in Poland and Romania.

PROGRAMMABLE SOURCES

Reference market

Year		1 st half	
2016	ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWh)	2017	2016
310,251	Demand	154,482	152,395
2,424	Pumping consumption	1,289	1,240
37,026	Import/Export	18,312	22,556
275,649	Internal generation ⁽²⁾	137,459	131,079
	of which		
187,461	Thermoelectric	94,546	85,046
42,323	Hydroelectric	18,468	21,509
45,865	Other renewable energy sources	24,445	24,524
SALE PRICES (EUR/MWh)			
42.8	PUN ⁽³⁾	51.2	37.1
47.6	Sicily zone price (baseload)	56.8	41.9
47.6	Centre North zone price (peak)	58.7	40.0

(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 electricity demand of the Italian electric system in the first half of 2017 came to 154.5 TWh, up (+1.4%) compared with the values recorded in the same period of 2016. With regard to Sicily, a region in which ERG is present with its CCGT plant, in the first half of 2017 a requirement of around 9.1 TWh was registered, up slightly (+0.8%) with respect to the first half of 2016, 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 21.6 TWh (+1.3%).

In the same period, net internal electricity generation amounted to 137.5 TWh, up by 4.9% compared with 2016, whilst the net balance of exchanges with foreign countries recorded net imports of 18.3 TWh (-18.8% compared to 2016). 64% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 36% from renewable sources. Compared with the previous year, there was greater output from thermoelectric sources (+11%) and a drop in hydroelectric output (-14%), against greater output from other renewable sources (+9%), particularly due to greater photovoltaic output (+12%) and the slight decline in geothermal output (-2%).

The average value of the PUN (Single National Price) in the first half of 2017 was 51.2 EUR/MWh, up by 38% compared with the value of 2016 (37.1 EUR/MWh).

Regulatory framework

Thermoelectric: the Mucchetti amendment

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 27 May 2016 following the commissioning of the aforementioned doubling of the Rizziconi-Sorgente power line. In the month of July 2016, the balance of the 2015 reintegration was thus requested in accordance with Article 65.28 of the 111/06 resolution; in September 2016 the advance payment of the reintegration price 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. It is noted that on 30 December 2016, approximately EUR 28 million was collected as an additional advance on 2015 and approximately EUR 18 million as an advance on 2016, while approximately EUR 26 million still remain to be collected in 2017.

Internal user networks

For operators that own "closed distribution systems", which include the "internal user network" (RIU) in Priolo, the Authority for Electricity, Gas and Water published Resolution 539/2015, which introduces the need to adopt accounting and functional separation of distribution activities from those of sale of electricity within the RIU (so-called "unbundling"). With the subsequent resolution 788/2016, the Authority has provided for the extension of the new regulations to 1 October 2017.

Finally, the annual competition law, definitively approved by Parliament and awaiting publication in the Italian Official Journal at the time this report went to print, made small distribution networks, including RIUs, exempt from the abovementioned functional separation requirement.

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 of nominal concession power 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 cancellation 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. Lastly, in April 2017, the Group was notified by the AEEGSI of prescriptive measures relating to the subsidiaries ERG Hydro and ERG Power Generation. Both notices pertain to the manner of participating in the electricity market for the period between January 2015 and July 2016. It is estimated that any economic impacts are not significant.

Remarks on the period performance highlights

The ERG Group is present in a differentiated manner in the sector of **programmable sources**. In particular, the Group operates:

- in the **hydroelectric segment**: 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; these plants are used within the scope of the related hydroelectric concessions that will expire at the end of 2029.
- in the **thermoelectric sector**: via the investment in ERG Power S.r.l., owner of the CCGT high output, high efficiency, low emission, highly modulable and flexible co-generation plant (480 MW).

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.

OPERATING RESULTS

Year			1 st half
2016	(EUR million)	2017	2016
601	Revenues from ordinary operations	306	288
161	Recurring EBITDA ⁽¹⁾	94	93
(88)	Amortisation, depreciation and write-downs ⁽¹⁾	(45)	(44)
73	Recurring EBIT ⁽¹⁾	49	48
13	Capital expenditures on tangible and intangible fixed assets	5	5
27%	EBITDA Margin %	31%	32%

(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

OPERATING RESULTS

Year			1 st half
2016	(EUR million)	2017	2016
479	Revenues from ordinary operations	230	228
77	Recurring EBITDA ⁽¹⁾	40	52
(30)	Amortisation, depreciation and write-downs ⁽¹⁾	(16)	(15)
47	Recurring EBIT ⁽¹⁾	24	37
10	Capital expenditures on tangible and intangible fixed assets	4	4
16%	% EBITDA Margin	17%	23%
2,693	Total output by thermoelectric plants (GWh)	1,175	1,293

(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

In the first half of 2017, ERG Power's net electricity generation was 1,175 GWh, down compared to the same period of 2016 (1,293 GWh); in addition, the period no longer benefited from the "reintegration consideration" due until the entry into force of the Essential Units scheme, which ended on 27 May 2016, whilst in the same period of last year it did benefit from it, by approximately EUR 31 million.

These impacts, at the revenue level, were mitigated by the significant general rise of electricity sale prices and by the increased sales of energy, leading to higher revenues than in the same period of 2016.

The net supply of steam to captive customers of the petrochemical site of Priolo Gargallo amounting to 397 thousand tonnes, decreased with respect to the 452 thousand tonnes in the first half of 2016 as a result of the lower amounts drawn by the Versalis plants. Approximately a quarter of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, including the net supply of steam.

The recurring EBITDA of the first half of 2017 amounted to EUR 40 million (EUR 52 million recorded in 2016), in line with expectations but lower than the first half of 2016, mainly as a result of the absence, among the 2017 revenues, of the former UESSE reintegration consideration, which in the first half of 2016 amounted to approximately EUR 31 million, which therefore affected the percentage of the operating result. This trend was partially mitigated by the rise in the value of the Energy Efficiency Certificates held by the CCGT as a high efficiency co-generating plant, of which approximately EUR 11 million relate to the higher value of the Energy Efficiency Certificates (TEE) accrued in the previous year, as well as by the increase in the margin (Spark spread) as a result of the higher rise of the sale prices compared to the cost of gas, as well as by the improved performance of ERG Power's CCGT plant and the industrial efficiency-boosting actions carried out during the period.

Hydroelectric power

The contribution of the hydroelectric assets 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 main plants of ERG Hydro S.r.l.

OPERATING RESULTS

Year		1 st half	
2016	(EUR million)	2017	2016
122	Revenues from ordinary operations	76	61
84	Recurring EBITDA ⁽¹⁾	54	41
(58)	Amortisation, depreciation and write-downs ⁽¹⁾	(29)	(29)
26	Recurring EBIT ⁽¹⁾	25	12
4	Capital expenditures on tangible and intangible fixed assets	1	1
68%	% EBITDA Margin	72%	68%
1,358	Total output by hydroelectric plants (GWh)	652	751

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

Of the revenues of the first half of 2017, amounting to EUR 76 million, EUR 38 million refer mainly to the sales of electricity, EUR 35 million to the revenues from feed-in premium (former green certificates), of which approximately EUR 8 million referred to the recovery of prior incentives following the repeal of the revocation of the IAFR qualification mainly of the Sigillo plant (5 MW) as well as revenues from MSD of approximately EUR 3 million.

The costs, amounting in total to EUR 22 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for the first half of 2017 was EUR 54 million.

The average sale prices reflect both the electricity sale price, higher than the single national price due to the zone price changes noted in the Centre-North area of Italy during the period as a result of the increased net balance of

energy imports/exports to and from France, and also due to the modulation of the plants, and the value of the feed-in premium (former green certificate), recognised on a portion of approximately 40% of output and for a value of approximately 107 EUR/MWh.

ERG Hydro's total output (652 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity, the revenues from MSD and the replacement incentives, totalling approximately 101.3 EUR/MWh, excluding the recoveries of prior incentives, already commented.

The EBITDA margin of the first half of 2017 totalled 72%.

The load factor recorded in the period, i.e. 33%, was affected by the poor rain conditions (output of 652 GWh in the first half of 2017, in line with the value of the first half of 2016 and lower than the ten-year historical average).

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 130 metres above sea level, lower than both the levels of 30 June 2016 (respectively 532, 528 and 131 metres above sea level) and the ten-year historical average (respectively 532, 529 and 133 metres above sea level).

CAPITAL EXPENDITURE

The capital expenditure figure for the first half of 2017, does not include **the acquisition of six wind farms in Germany**, acquired by the DIF Group with an installed capacity of 48.4 MW. The enterprise value of the acquisition is approximately EUR 14.6 million.

The capital expenditure figure for the first half of 2016 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 expected 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.

The capital expenditure in tangible and intangible fixed assets of the ERG Group in the first half of 2017 was EUR 26 million (EUR 19 million in the first half of 2016), including EUR 25 million for tangible fixed assets (EUR 17 million in the first half of 2016) and EUR 1 million for intangible fixed assets (EUR 2 million in the first half of 2016).

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

Year		1 st half	
2016	(EUR million)	2017	2016
44	Non-programmable sources	20	13
44	Wind power	20	13
13	Programmable sources	5	5
10	Thermoelectric power	4	4
4	Hydroelectric power	1	1
3	Corporate	1	1
60	Total	26	19

Non-programmable sources

The capital expenditure in the first half of 2017 refers mainly to the outlays made by ERG Power Generation following the works for the construction of the aforementioned wind farm in Northern Ireland for approximately EUR 18 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, with the commissioning phase expected to be completed in the fourth quarter.

Programmable sources

The investments in the first half of 2017 refer mainly to the CCGT plant of ERG Power, 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 Report on Operations 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.

Year 2016	(EUR million)	2017	1 st half 2016
OPERATING RESULTS			
135	Recurring EBITDA ⁽¹⁾	87	53
(75)	Amortisation, depreciation and write-downs	(40)	(36)
60	Recurring EBIT ⁽¹⁾	47	17
28	Recurring net result ⁽²⁾	29	5
60	Capital expenditures on tangible and intangible fixed assets	27	27
MAIN FINANCIAL DATA			
532	Net invested capital	493	497
287	Shareholders' equity	271	251
244	Total net financial indebtedness	222	246

(1) the data shown do not include the inventory gains (losses) of approximately -EUR 8 million in the first half of 2017, (+17 million in the first half of 2016).

(2) the figures shown do not include the inventory gains (losses) and 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 2,545 stations (of which 1,646 are owned by the Group and 899 are leased), compared with 2,585 stations at 31 December 2016. It is noted 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.

The recurring EBITDA of the first half of 2017 amounted to approximately EUR 87 million, up compared to the value recorded in the first half of 2016 (EUR 53 million).

With regard to the marketing sector, the results benefited from a positive scenario, featuring substantially stable demand compared to the first half of 2016 but with rising market margins.

In the Wholesale segment, the operating results for the period increased, as for Specialties.

With regard to refining, the results were significantly higher than those recorded in the same period of the previous year as a result of increased refining margins (EMC indicator up slightly from 2.3 \$/barrel to 3.1 \$/barrel); for logistics, the results of the first half of 2017 were lower than those recorded in the same period of the previous year.

Processing work carried out in the first half of 2017 amounted to 795 thousand tonnes, down slightly from 804 thousand tonnes in the first half of 2016.

The recurring net profit (EUR 29 million) was significantly higher than that of the first half of 2016 (EUR 5 million), mainly for the reasons discussed above when commenting on the operating results; it also benefited from lower financial expenses.

The net financial position of TotalErg at 30 June 2017 amounts to EUR 222 million, lower than the EUR 244 million at 31 December 2016.

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 is not secured by any collateral or other guarantees provided by the two shareholders.

TotalErg capital expenditure

During the first half of 2017, TotalErg made investments for approximately EUR 27 million, in line with the same period in 2016 (EUR 27 million).

Most of the capital expenditure (approximately 74%) 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.



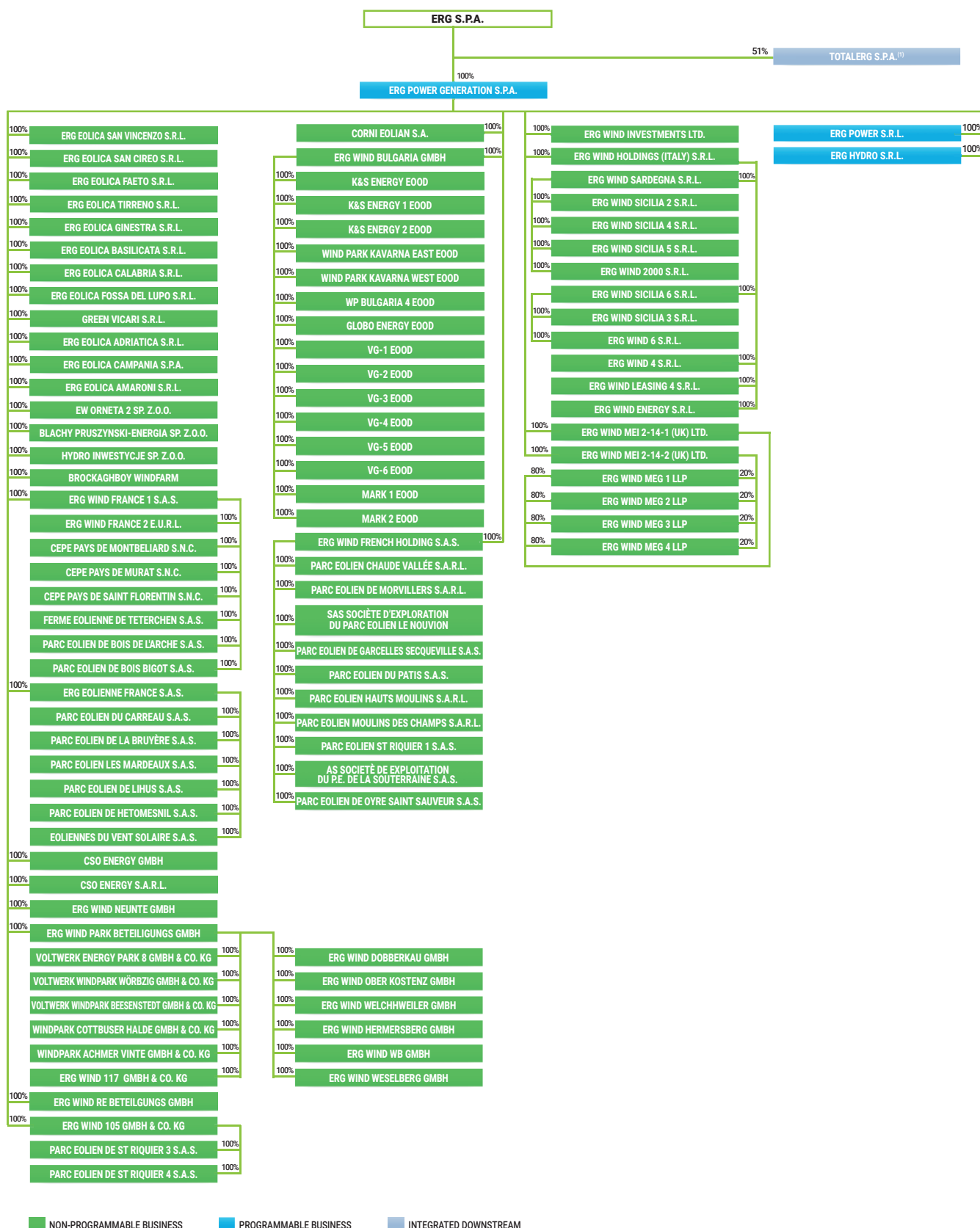
FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 30 June 2017.

Compared with 31 December 2016, the following is noted:

- the merger 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.;
- the acquisition by the DIF Group of six German companies that own six wind farms in Germany.



(1) Consolidated at equity

FINANCIAL STATEMENTS

INCOME STATEMENT

The income statement and statement of financial position results for the first half of 2016, shown below, **include non-recurring** items. In the first half of 2017, there were no 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.

RECLASSIFIED INCOME STATEMENT

Year		1 st half	
2016	(EUR million)	2017	2016
1,025.5	Revenues from ordinary operations	538.3	530.2
16.3	Other revenues and income	4.7	8.1
1,041.8	Total revenues	543.0	538.3
(330.2)	Costs for purchases and changes in inventory	(171.9)	(131.0)
(196.0)	Costs for services and other operating costs	(81.1)	(104.1)
(62.3)	Personnel costs	(31.8)	(32.0)
453.3	EBITDA	258.2	271.2
(253.7)	Amortisation, depreciation and write-downs of fixed assets	(125.6)	(128.7)
199.6	EBIT	132.6	142.5
(83.9)	Net financial income (expenses)	(34.0)	(46.0)
37.7	Net income (loss) from equity investments	11.9	8.2
153.5	Profit (loss) before taxes	110.5	104.8
(28.7)	Income taxes	(26.1)	(29.2)
124.9	Profit (loss) for the period	84.4	75.5
(2.4)	Minority interests	–	(3.0)
122.5	Group's net profit (loss)	84.4	72.5

Revenues from ordinary operations

2017 first half revenues were EUR 538 million, compared with EUR 530 million in the first half of 2016. The change is a result of the following factors:

- the decrease in the revenues **of the Wind sector** tied mainly to the lower output both in Italy and abroad, partly offset by a more favourable price trend;
- the increase in the revenues of the **Hydroelectric sector** as a consequence, mostly, of the higher average sale prices and of the higher revenues for green certificates of prior years;
- the revenues of the **Thermoelectric sector** substantially in line with the previous year even though the Mucchetti cost reimbursement was no longer available.

Other revenues and income

These mainly include insurance reimbursements, indemnifications and expense repayments, lesser chargebacks 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 the first half of 2017, they amounted to EUR 172 million, up by EUR 39 million compared to the first half of 2016 mainly as a result of the higher costs for gas and electricity purchases.

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, insurance costs, and costs 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 decrease of the item relates mainly to lower energy transportation costs.

Amortisation, depreciation and write-downs

Amortisation and depreciation refer to the wind farms, to the hydroelectric plants and to the CCGT plant and they are slightly lower than those of the same period of 2016, mainly as a result of the end of the useful life of some components of the French wind farms, the revision of the useful life of the farms in France and Germany acquired in the first half of 2016, within the scope of the Purchase Price Allocation defined in the 2016 Financial Statements, the effects of which were offset in part by higher amortisation and depreciation due to the acquisition of the German parks which occurred in the second quarter of 2017 (for approximately EUR 2 million).

Net financial income (expenses)

Net financial expenses in the first half of 2017 totalled EUR 34 million, compared with EUR 46 million in the first half of 2016. The decrease is mainly due to the lower medium-long term interest payments due to the repayments that took place during the period and to the restructuring actions completed in 2016.

The first half of 2016 included non-recurring expenses for approximately EUR 8 million pertaining to the prepayment of the bank loan of the Romanian company Corni Eolian S.A. and the refinancing of Tranche A of the ERG Hydro acquisition loan.

Net of the non-recurring costs referred to above, net financial expenses at replacement cost for the first half of 2016 were equal to EUR 38 million.

The effects related to financial restructuring enabled a reduction of the average cost of medium-long term debt, which in the first half of 2017 amounted, on average, to 3.3%, compared to 3.5% in the first half of 2016 (excluding non-recurring expenses).

The item also includes the effects of the derivatives hedging against the risk of interest rate fluctuations.

Net income (loss) from equity investments

In the first half of 2017, the item reflects the results of the joint venture TotalErg S.p.A. including the changes in the value of the inventory (EUR +12 million, compared with EUR 8 million in the first half of 2016).

Income taxes

Income taxes in the first half of 2017 were EUR 26 million (EUR 29 million in the same period in 2016).

The tax rate obtained from the ratio between income taxes and profit before taxes amounted to 24% (28% in the first half of 2016).

The recurring tax rate of the first half of 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 23% (28% in the first half of 2016).

The decrease in the tax rate is mainly tied to the benefit resulting from the reduction of the IRES rate (24% since 1 January 2017 versus 27.5% of the first half of 2016) which more than offset the negative effect as a result of the change to the ACE (Aid to Economic Growth) rate (1.6% in the first half of 2017, versus 4.75% in 2016).

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30.06.2016	(EUR million)	30.06.2017	31.12.2016
3,454.1	Fixed assets	3,320.3	3,372.2
313.1	Net working capital	210.1	160.2
(6.4)	Employees' severance indemnities	(6.5)	(6.7)
369.9	Other assets	329.3	310.1
(697.6)	Other liabilities	(586.6)	(549.5)
3,433.2	Net invested capital	3,266.7	3,286.3
1,540.7	Group Shareholders' Equity	1,752.6	1,729.1
52.4	Minority interests	–	–
1,840.1	Net financial indebtedness	1,514.1	1,557.2
3,433.2	Shareholders' equity and financial debt	3,266.7	3,286.3
54%	Financial leverage	46%	47%

At 30 June, net invested capital amounted to EUR 3,267 million, down with respect to 31 December 2016.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 46% (47% at 31 December 2016).

Fixed assets

This item includes tangible, intangible and financial fixed assets. The decrease compared to 31 December 2016 is mainly attributable to the amortisation/depreciation for the period, partly offset by the acquisition of the German wind farms carried out in the period and the investments relating to the construction of a wind farm in Northern Ireland.

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 regulations on the Essential Units 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 accrued in the period, and the provisions for liabilities and charges.



Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

30.06.2016	(EUR million)	30.06.2017	31.12.2016
1,994.6	Medium/long-term financial indebtedness	1,841.2	1,934.1
(154.5)	Short term financial indebtedness (cash and cash equivalents)	(327.2)	(376.9)
1,840.1	Total	1,514.1	1,557.2

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

30/06/2016	(EUR million)	30/06/2017	31/12/2016
667.4	Medium/long-term bank borrowings	669.4	668.4
–	Current portion of mortgages and loans	–	–
166.5	Medium/long-term financial payables	120.2	141.9
833.9	Total	789.7	810.4
1,284.9	Total Project Financing	1,206.5	1,275.6
(124.2)	Current portion of Project Financing	(154.9)	(151.9)
1,160.8	Medium/long-term Project Financing	1,051.6	1,123.7
1,994.6	TOTAL	1,841.2	1,934.1

The “Medium/long-term bank borrowings” at 30 June 2017 total EUR 669 million (EUR 668 million at 31 December 2016), 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 S.p.A. (EUR 150 million), UBI Banca S.p.A. (EUR 100 million) and UniCredit S.p.A. (EUR 75 million) entered into in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l. and the project 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 120 million (EUR 142 million at 31 December 2016).

The payables for “Medium/long-term Project Financing” (EUR 1,206 million at 30 June 2017) are for:

- loans of EUR 1,100 million issued to companies in the Non-Programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 433 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 72 million;
- EUR 106 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

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

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

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

SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30.06.2016	(EUR million)	30.06.2017	31.12.2016
93,8	Short-term bank borrowings	41,3	2,3
–	Current portion of mortgages and loans	–	–
5,8	Other short-term financial debts	1,8	3,8
99,5	Short-term financial liabilities	43,1	6,0
(224,2)	Cash and cash equivalents	(280,7)	(263,3)
(18,0)	Securities and other short-term financial receivables	(108,1)	(107,6)
(242,2)	Short-term financial assets	(388,8)	(370,9)
124,2	Short-term Project Financing	154,9	151,9
(136,1)	Cash and cash equivalents	(136,3)	(163,9)
(11,9)	Project Financing	18,6	(12,0)
(154,5)	TOTAL	(327,2)	(376,9)

In the first half of 2017, the amount of cash and cash equivalents increased as a result of the collections relating to feed-in premium receivables relating to the third and fourth quarters of 2016.

“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		1 st half	
2016	(EUR million)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
381.3	Adjusted cash flow from current operations ⁽¹⁾	222.9	231.6
(14.2)	Income tax paid	(15.2)	(8.7)
69.5	Change in working capital	(46.8)	(109.8)
(34.3)	Change in other operating assets and liabilities	(5.7)	(29.0)
402.3	Total	155.2	84.2
CASH FLOWS FROM INVESTING ACTIVITIES			
(55.9)	Net capital expenditure on tangible and intangible fixed assets	(24.2)	(15.6)
(0.1)	Net capital expenditures in financial fixed assets	15.4	4.4
(56.1)	Total	(8.7)	(11.2)
CASH FLOW FROM SHAREHOLDERS' EQUITY			
(142.8)	Distributed dividends	(74.4)	(142.8)
(6.2)	Other changes in equity ⁽³⁾	10.6	(16.0)
(149.0)	Total	(63.8)	(158.8)
(306.5)	CHANGE IN SCOPE OF CONSOLIDATION ⁽²⁾	(39.5)	(306.5)
(109.3)	CHANGE IN NET FINANCIAL INDEBTEDNESS	43.1	(392.3)
1,447.9	INITIAL NET FINANCIAL INDEBTEDNESS	1,557.2	1,447.9
109.3	CHANGE IN THE PERIOD	(43.1)	392.3
1,557.2	FINAL NET FINANCIAL INDEBTEDNESS	1,514.1	1,840.1

(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 the first half of 2017 refers to the line-by-line consolidation of the German companies acquired from the DIF RE Group. The figures relating to the first half of 2016 refer 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.

The net financial indebtedness amounted to EUR 1,514 million, down by EUR 43 million compared to 31 December 2016 mainly due to the net positive operating cash flows and the dividend received by TotalErg, which offset the impacts of the acquisition of the German wind farms from the DIF Group, the distribution of dividends, the payment of taxes, and the investments in the period.

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 excluding non-recurring items and **inventory gains (losses)**¹⁹.

As from the Interim Report on Operations at 31 March 2017, these results, previously defined as “at replacement costs”, are indicated with the definition “recurring”.

Recurring results 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 recurring results are described below.

Non-recurring items include significant income entries of an unusual nature.

Inventory gains (losses)¹⁹ 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.

¹⁹ Inventory gains and losses refer solely to the “income from equity investment” and refer to the TotalErg joint venture.



Reconciliation with recurring operating results

EBITDA

FY		1 st half	
2016	(EUR million)	2017	2016
453.3	EBITDA	258.2	271.2
	Exclusion of non-recurring items		
	Programmable sources		
0.3	- Charges for company reorganisation	–	0.3
	Non-programmable sources		
0.9	- Charges for company reorganisation	–	0.9
0.9	- Ancillary charges on extraordinary operations	–	0.9
455.4	Recurring EBITDA	258.2	273.3

GROUP'S NET PROFIT (LOSS)

FY		1 st half	
2016	(EUR million)	2017	2016
122.5	Group's net profit (loss)	84.4	72.5
(15.7)	Exclusion of inventory Gains / Losses	2.9	(6.0)
	Exclusion of non-recurring items		
0.8	Exclusion of ancillary charges on extraordinary operations	–	0.9
4.1	Exclusion of TotalErg non-recurring items	–	0.3
5.9	Exclusion of effects of loan prepayment	–	5.9
0.8	Exclusion of charges for company reorganisation	–	0.8
(11.0)	Exclusion of financial expenses/income on minorities option	–	–
107.3	Recurring Group net profit (loss)	87.3	74.3

It should be noted that during the first half of 2017 no non-recurring items were identified and isolated with the exception of the inventory gains (losses) of the joint venture TotalErg.

SIGNIFICANT EVENTS AFTER THE HALF-YEAR

19
July
2017

The process of issuing and placing with institutional investors a non-convertible bond loan amounting to EUR 100 million, with a nominal value

for each obligation of EUR 100 thousand, approved by the Board of Directors of ERG S.p.A. on **12 July**, was concluded.

The issue of the loan, which is not backed by guarantees, is aimed at obtaining additional funds for new investments in the renewable energy sector as well as refinancing the investments made on hydroelectric plants in Italy.

The bonds are unrated and are not subject to financial covenants and will be reimbursed in a one-off payment in January 2023.

The bonds were issued at a price equal to 100% of their nominal value and shall bear interest at a fixed rate equal to 2.175%. Interest will be paid on a deferred annual basis.

The issue will lengthen the duration of indebtedness, reduce the average cost and diversify the sources of financing of the Group.

Bonds are addressed exclusively to institutional investors in Italy and abroad and will not be offered or sold in the United States of America, Canada, Australia, Japan or in any other country in which the offer or the sale of the bonds are prohibited under applicable laws.

04
July
2017

The ERG Group announced the appointment of Sergio Chiericoni as new head of business development of the ERG Group in the role of Chief

Business Development Officer.

An engineer with twenty years of experience in top positions in international companies in the energy sector, Sergio Chiericoni has managed important development, design and construction projects in various countries of the world, focusing in the last ten years in the field of renewables.

He held the office of Vice President with responsibility for Engineering for the on-shore plants of the Technip Group, going on to become Director of the Process and Engineering areas in ICQ Holding, where he began handling development in the field of Renewables, and then in Sunpower Corporation, where he led key projects for the development of the business in the EMEA (Europe Middle East and Africa) and APAC (Asia - Pacific) regions. He was CEO of Falck Renewables Wind Ltd, and in the Falck Group also held the role of Head of Business Development, Engineering & Construction, and subsequently that of North Europe Area Manager.

This important addition confirms ERG's strategy to give further impetus to the development of the business. The position, directly reporting to the Chief Executive Officer, is entrusted to a manager of long and proven experience in the implementation of strategic projects in the energy sector on an international scale.

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 in Wind power, thanks to which it achieved 674 MW of installed power abroad, equal to 38% of the 1,768 MW installed in total, enabling the Group to become the eighth on-shore 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 48.4 MW, with which ERG consolidates its position at about 216 MW, becoming the eighth wind operator in the country.

As regards Italy, the EBITDA is expected to decrease mainly as a result of the low winds and secondarily due to the gradual exit from the incentive system of approximately 214 MW during 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 thus 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.

With regard to the hydroelectric complex, despite the year's low water availability the results are expected to grow slightly thanks to the better sale prices, to the better incentive price benefiting approximately 40% of output, which is expected to decline compared to the previous year, to the greater incentivised capacity as a result of the IAFR recognition for the Cotilia and Sigillo plants and to the continuous efficiency-boosting actions.

The results of the Thermoelectric plant are expected to decrease slightly 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 largely mitigated by the favourable scenario (also with reference to the prices of Energy Efficiency Certificates), participation in the dispatching services market, the maximisation of high-yield co-generation, improvements in operating efficiency and Energy Management activities.

On the whole, the EBITDA for 2017 is expected to be approximately 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 more favourable price scenarios, 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 0.5 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 wind conditions, the impact of regulations for the energy industry and for the environment, other changes in business conditions and in competitors' actions.

Genoa, Italy, 9 August 2017

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





Half-Year Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION ⁽¹⁾

(EUR thousand)	Notes	30.06.2017	31.12.2016
Intangible fixed assets	1	664,607	676,613
Goodwill	2	125,932	125,932
Property, plant and equipment	3	2,323,896	2,360,338
Equity investments:	4	22,525	170,225
- carried at equity		13,147	164,826
- other investments		9,375	5,398
Other non-current financial assets	5	40,469	39,099
of which towards related parties	38	1,855	-
Deferred tax assets	6	150,425	160,045
Other non-current assets	7	38,828	45,615
Non-current assets		3,366,681	3,577,867
Inventories	8	21,739	20,365
Trade receivables	9	292,846	292,978
of which towards related parties	38	1,378	3,449
Other receivables and current assets	10	140,082	104,437
of which towards related parties	38	49,432	13,556
Current financial assets	11	108,475	108,763
of which towards related parties	38	8,592	8,490
Cash and cash equivalents	12	417,008	427,195
Current assets		980,150	953,738
Assets held for sale	36	142,916	-
TOTAL ASSETS		4,489,747	4,531,605
Group Shareholders' Equity	13	1,752,586	1,729,099
Shareholders' Equity		1,752,586	1,729,099
Employees' severance indemnities	14	6,511	6,733
Deferred tax liabilities	15	273,695	274,357
Provisions for non-current liabilities and charges	16, 25	127,262	125,258
Non-current financial liabilities	17, 24	1,841,240	1,934,060
Other non-current liabilities	18	38,100	37,771
Non-current liabilities		2,286,808	2,378,179
Provisions for current liabilities and charges	19, 25	44,341	46,682
Trade payables	20	104,310	152,680
of which towards related parties	38	57	60
Current financial liabilities	21	198,321	159,098
of which towards related parties	38	29	-
Other current liabilities	23	103,379	65,865
of which towards related parties	38	3,375	16,600
Current liabilities		450,351	424,325
Liabilities held for sale	36	-	-
TOTAL LIABILITIES AND EQUITY		4,489,747	4,531,605

(1) The Statement of Financial Position at 30 June 2017 is represented as determined by IFRS 5, with the exclusion of the equity investment in the joint venture TotalErg S.p.A. The impacts of the aforementioned exclusion, indicated separately under the item "Assets held for sale", are described in more detail **Note 36 - Net profit (loss) from assets held for sale**.

INCOME STATEMENT ⁽¹⁾

(EUR thousand)	Notes	1 st half 2017	1 st half 2016
Revenues from ordinary operations	26	538,273	530,177
<i>of which towards related parties</i>	38	6,117	5,779
Other revenues and income	27	4,738	8,114
<i>of which towards related parties</i>	38	272	730
Change in inventory	28	(24)	1,867
Costs for purchases	29	(171,858)	(132,910)
<i>of which towards related parties</i>	38	(101)	(30)
Costs for services and other operating costs	30	(81,114)	(104,089)
<i>of which towards related parties</i>	38	(5,732)	(5,821)
<i>of which non-recurring items</i>	37	–	(932)
Personnel costs	31	(31,817)	(31,974)
<i>of which non-recurring items</i>	37	–	(1,159)
EBITDA		258,198	271,185
Amortisation, depreciation and write-downs of fixed assets	32	(125,608)	(128,676)
EBIT		132,590	142,509
Financial expenses	33	(45,463)	(58,316)
<i>of which towards related parties</i>	38	(5)	–
<i>of which non-recurring items</i>	37	–	(7,672)
Financial income	34	11,438	12,347
<i>of which towards related parties</i>	38	17	–
Net financial income (expenses)	33	(34,025)	(45,969)
Net income (loss) from investments carried at equity	34	71	365
Other net income (loss) from equity investments	34	(114)	44
Income (loss) from equity investments	34	(43)	409
PROFIT (LOSS) BEFORE TAXES		98,522	96,949
Income taxes	35	(26,058)	(29,216)
<i>of which non-recurring items</i>	37	–	1,759
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	36	72,464	67,733
Net profit (loss) from assets held for sale		11,953	7,814
<i>of which non-recurring items</i>	37	(2,855)	5,690
NET PROFIT (LOSS) FOR THE PERIOD		84,417	75,547
Minority interests		–	(3,044)
<i>of which non-recurring items</i>	37	–	491
GROUP SHARE OF NET PROFIT		84,417	72,503

(EUR)	1 st half 2017	1 st half 2016
Basic earnings per share from continuing operations	0.487	0.529
Diluted earnings per share from continuing operations	0.487	0.529
Group basic earnings per share	0.567	0.508
Group diluted earnings per share	0.567	0.508

(1) the income statement for the first half of 2017 is represented as determined by IFRS 5, with the exclusion of the results of the joint venture TotalErg, which is consolidated using the equity method of accounting. The impacts of the aforementioned exclusion, indicated separately under the item "Net profit (loss) from assets held for sale", are described in more detail **Note 36 - Net profit (loss) from assets held for sale**.

OTHER COMPREHENSIVE INCOME

(EUR thousand)	1 st half 2017	1 st half 2016
Net profit (loss) for the period	84,417	75,547
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	–	(119)
Income taxes referred to the change in the employees' severance indemnities provision	–	33
	–	(86)
Changes that will be reclassified in the income statement		
Changes in the cash flow hedge reserve	17,190	(15,918)
Income taxes referred to the change in the cash flow hedge reserve	(4,126)	4,304
	13,064	(11,614)
Changes in the translation reserve	(1,337)	(4,984)
Income taxes referred to the change in the translation reserve	586	685
	(751)	(4,299)
Other components of comprehensive income after tax	12,313	(15,999)
Comprehensive net income (loss)	96,730	59,549
Minority interests	–	(2,027)
Comprehensive net income (loss) pertaining to the Group	96,730	57,521

STATEMENT OF CASH FLOWS

(EUR thousand)	Notes	1 st half 2017	1 st half 2016
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Net profit (loss) for the period		84,417	75,547
- Amortisation, depreciation and write-downs of fixed assets	32	125,652	128,676
- Net change in provision for liabilities and charges	16, 19	(337)	2,036
- Net change in deferred tax assets and liabilities	6, 15	8,958	(4,217)
- Write-down of receivables and current assets	9	384	–
- Net capital gain/loss on sale of non-current assets		–	–
- Portion of income/expenses from investments carried at equity	34	8,480	(8,542)
- Net change in employees' severance indemnities	14	(222)	872
Cash flows before changes in working capital		227,332	194,372
- Change in other operating assets and liabilities:			
- Change in inventories	8	(1,374)	(1,788)
- Change in trade receivables	9	447	(71,795)
- Change in trade payables	20	(48,370)	(36,367)
- Net change in other receivables/payables and other assets/liabilities	7, 10, 18, 23	9,290	32
		(40,008)	(109,918)
CASH FLOWS FROM OPERATING ACTIVITIES (A):		187,324	84,454
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisitions of intangible fixed assets and goodwill	1, 2	(1,343)	(1,524)
Acquisition of property, plant, and equipment	3	(24,926)	(17,131)
Acquisition of equity investments and other non-current financial assets	4	(4,825)	(27)
Net change in other increases/decreases in fixed assets	1, 2, 3	(836)	2,027
Collection of balance from acquisition of ERG Hydro S.r.l.		–	10,510
Disposals of intangible fixed assets and goodwill	1, 2	–	2
Disposals of property, plant and equipment and related capital gains/losses	3	–	1,011
Disposals of equity investments and other non-current financial assets	4, 5	–	4,850
CASH FLOWS FROM INVESTING ACTIVITIES (B):		(31,930)	(282)
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
New non-current loans	17	145,000	325,000
Repayment of non-current loans	17, 21	(255,182)	(530,156)
Net change in short-term bank borrowings	21	37,839	–
Net change in other current financial assets/liabilities	11, 21	46,591	18,428
Share capital increases/repayments		–	–
Dividends paid to third parties		(74,408)	(142,800)
Other changes in shareholders' equity		13,478	(15,975)
CASH FLOWS FROM FINANCING ACTIVITIES (C):		(86,682)	(345,503)
CHANGE IN THE SCOPE OF CONSOLIDATION (D)		(11,930)	(149,007)
NET CASH FLOW FOR THE PERIOD (A+B+C+D)		56,781	(410,338)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	12	360,226	770,564
NET CASH FLOWS FOR THE PERIOD		56,781	(410,338)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		417,007	360,226
ADDITIONAL CASH FLOW STATEMENT INFORMATION			
		1st half 2017	1st half 2016
Income taxes paid		15,220	8,690
Interest paid		14,668	23,640

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Reserves	Net profit (loss) for the year	Group Shareholders' Equity	Minority interests	Total Shareholders' equity
BALANCE AT 31.12.2015	15,032	1,590,302	20,626	1,625,959	50,338	1,676,297
Allocation of 2015 profit	–	20,626	(20,626)	–	–	–
Dividends	–	(142,800)	–	(142,800)	–	(142,800)
Other changes	–	23	–	23	2	25
Net profit (loss) for 1 st half 2016	–	–	72,503	72,503	3,044	75,547
Actuarial change in employees' severance indemnities provision	–	(86)	–	(86)	–	(86)
Changes in the translation reserve	–	(3,914)	–	(3,914)	(385)	(4,299)
Changes in the cash flow hedge reserve	–	(10,983)	–	(10,983)	(632)	(11,615)
Comprehensive net income (loss)	–	(14,983)	72,503	57,520	2,027	59,549
BALANCE AT 30.06.2016	15,032	1,453,167	72,503	1,540,701	52,366	1,593,067
BALANCE AT 31.12.2016	15,032	1,538,846	175,222	1,729,099	–	1,729,099
Allocation of 2016 profit	–	175,222	(175,222)	–	–	–
Dividends	–	(74,408)	–	(74,408)	–	(74,408)
Other changes	–	1,166	–	1,166	–	1,166
Net profit (loss) for 1 st half 2017	–	–	84,417	84,417	–	84,417
Actuarial change in employees' severance indemnities provision	–	–	–	–	–	–
Changes in the cash flow hedge reserve	–	13,064	–	13,064	–	13,064
Changes in the translation reserve	–	(751)	–	(751)	–	(751)
Comprehensive net income (loss)	–	12,313	84,417	96,730	–	96,730
BALANCE AT 30.06.2017	15,032	1,653,138	84,417	1,752,586	–	1,752,586



NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

"ERG" refers to ERG S.p.A. and the companies included in its scope of consolidation.

THE GROUP

In 2015, the ERG Group has completed a fundamental transformation process, from leading Italian private oil operator to leading independent operator in the production of energy from renewable sources, differentiated by non-programmable sources (wind) and programmable sources (thermoelectric and hydroelectric), as well as in terms of geographic presence (with a rising presence on the foreign wind market, particularly in France and Germany).

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

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Half-year Financial Report for the six-month period ended 30 June 2017, prepared on the basis of the indications contained in Article 154-ter of the Italian Consolidated Finance Act, was prepared in condensed form in accordance with IAS 34 "Interim Financial Reporting" and, with respect to recognition and measurement standards, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, including also all International standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and by the former Standing Interpretations Committee (SIC).

In accordance with IAS 34 the Half-year Condensed Consolidated Financial Statements do not include all additional information required in the annual Consolidated Financial Statements for which, therefore, reference is made to the Group's annual Consolidated Financial Statements as of and for the year ended 31 December 2016.

For a clearer disclosure, it was deemed preferable to show all amounts rounded off to the nearest EUR thousand; consequently, in some statements, totals may differ slightly from the sum of the amounts that comprise it.

The Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017 are subjected to a limited review in accordance with Italian CONSOB resolution no. 10867 dated 31 July 1997.

The results of this activity, carried out by Deloitte & Touche S.p.A., will be published as soon as they are available.

ACCOUNTING STANDARDS AND CONSOLIDATION PRINCIPLES

The Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017 were prepared by applying the same consolidation principles and accounting policies used for the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2016, with the exceptions indicated below.

Accounting standards, amendments and IFRS interpretations applied starting on 1 January 2017

Since no new accounting standards, amendments and IFRS interpretations were envisaged for entry into force from 1 January 2017, the Group drafted this document using the same accounting standards used for the consolidated financial statements for the year ended 31 December 2016.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union, not yet mandatorily applicable and not adopted early by the Group at 30 June 2017

On 28 May 2014, “**IFRS 15 Revenue from Contracts with Customers**” was issued, with clarifying amendments subsequently issued on 12 April 2016. It is intended to replace IAS 18 Revenue and IAS 11 Construction Contracts, as well as IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new revenue recognition model which will apply to all contracts executed with customers with the exception of those that fall within the scope of other IAS/IFRS such as leases, insurance contracts and financial instruments. The fundamental steps for accounting for revenue according to the new model are:

- identifying the contract with the customer;
- identifying the performance obligations of the contract;
- determining the price;
- allocating the price to the performance obligations of the contract;
- initial recognition of the revenue when the entity fulfils a performance obligation.

The standard shall be effective from 1 January 2018, but early adoption is allowed.

The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, have not yet been approved by the European Union.

Impacts on the Group

The Group’s energy sales relate mainly to energy sold wholesale, which includes sales on the IPEX electricity exchange, both on the “day before market” (MGP) and on the “intraday market” (MI), and the “dispatching services market” (MSD), as well as sales to the main operators of the sector on the “over the counter” (OTC) platform.

Based on a qualitative analysis, this standard should not have a significant impact on the “core” sales mentioned above since they are not characterised as packet sales (energy/goods/services) or characterised by conditions of price variability in relation to sales volume trends that could result in a different temporal allocation of revenues.

In fact, the new revenue recognition model provided for by IFRS 15 could have an effect in the case of “bundle” offers by providing for the allocation of the Transaction Price (total consideration to which the entity will be entitled in exchange for the transfer of goods and/or services to the customer at each Performance Obligation (each separate asset or service that the entity has promised to transfer to the customer)) on the basis of the relative standalone selling price.

Non “core” sales are currently being analysed in order to determine any impacts.

On 24 July 2014, the final version of IFRS 9 - Financial Instruments was published. The document includes the results of the IASB project to replace IAS 39:

- it introduces new criteria for the classification and measurement of financial assets and liabilities;
- with reference to the impairment model, the new standard requires that the estimate of losses on loans be made on the basis of the expected losses model (and not on the incurred losses model used by IAS 39) using supportable information, available without unreasonable effort or expense, that include historical, current and prospective data;
- it introduces a new model of hedge accounting (increase in the types of transactions eligible for hedge accounting, change of accounting method for forward contracts and options when included in a hedge accounting report, changes to efficacy testing)

The new standard must be applied to financial statements from 1 January 2018 onwards.

Accounting standards, amendments and IFRS interpretations not yet endorsed by the European Union

At the date of this Half-Year Financial Report, the competent bodies of the European Union had not yet completed the endorsement process required for the adoption of the amendments and standards described below.

- **IFRS 16** – Leases.
- **Amendments to IAS 12** – Recognition of Deferred Tax Assets for Unrealised Losses.
- **Amendments to IAS 7** – Disclosure Initiative.
- Document “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”
- Document “Annual Improvements to IFRSs: 2014-2016 Cycle”.
- IFRIC 22 interpretation “Foreign Currency Transactions and Advance Consideration”.
- Amendments to IFRS 10 and IAS 28 “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”.

With reference to IFRS 16, the main impacts on the Group's consolidated financial statements can be summarised as follows:

- statement of financial position: more non-current assets due to the posting of the "right of use of the leased asset" against a "financial liability";
- separate income statement: different nature, qualification and classification of expenses (depreciation of the "right of use of the asset" and "financial charges for interest" with respect to the "fees for use of third party assets", with subsequent potential impact on operating profitability.
- In addition, the combination of the depreciation of the "right of use of the asset" and the effective interest rate method applied to the debts result in a different temporal allocation of costs.

Use of estimates – Risks and uncertainties

Preparation of the Financial Statements and explanatory notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying values of the assets and liabilities recognised in the Separate Financial Statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective judgment.

By their very nature, estimates and assumptions used may vary from year to year, and therefore, it cannot be excluded that in subsequent years the current financial statement values may differ as a result of the change in the subjective assessments used.

The main estimates for which subjective assessments are more heavily required were used, inter alia, for:

- the estimate of the revenues from ordinary operations which referred to the Power Business (with particular reference to that indicated in the chapter below);
- the estimate of the value of the presumable realisation of Energy Efficiency Certificates (white certificates) accrued in reference to the productions of the first half of 2017;
- provisions for bad debt, inventory obsolescence and asset write-downs;
- the definition of the useful life of fixed assets and the related amortisation and depreciation;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the evaluation processes involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay, and quantifying the related amount;
- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected composition and renewal of tax consolidation regimes.

It is hereby indicated that there is a risk of uncertainty relative to the green certificates in Romania, particularly with regard to the actual collection value of those which have accrued on the productions up to 2017 and which will be assigned between 2018 and 2020.

Estimates and assumptions are revised periodically and the effects of each change are reflected in the Income Statement in the period when the change took place.

MUCCHETTI AMENDMENT REGARDING THE PRODUCTION UNITS IN SICILY - UPDATE ON THE COMPLETION OF THE “SORGENTE-RIZZICONI” INTERVENTION

On 25 May 2016, TERNA announced the entry into operation at 00:00 a.m. on 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 production units located in Sicily, as governed by the aforementioned Resolution 21/14.

The AEEGSI then confirmed said situation 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 established the second advance for the compensation for costs in relation to essential facilities subject to the 91/14 regime, for the year 2015, giving a mandate to TERNA for the liquidation of the amounts.

On 15 December 2016, the AEEGSI then issued Resolution 761/2016/R/EEL, which confirmed and quantified the advance payment for financial year 2016.

On 30 December 2016, approximately EUR 28 million was collected as an additional advance on 2015 and approximately EUR 18 million as an advance on 2016, while approximately EUR 26 million still remain to be collected.

In August 2017 ERG Power Generation S.p.A. will send the report requesting the balance relating to 2016 (period from 1 January 2016 to 27 May 2016) to the Authority and to Terna.

IMPAIRMENT TEST

IAS 36 specifies that at each reporting date, an entity must assess the existence of an indication that an asset may have undergone impairment. If there is any indication of it, the entity must estimate the recoverable value of the asset. In assessing whether the aforesaid indication exists, the entity must consider the presence of any “impairment indicators”, as required by Paragraph 12 of IAS 36.

In particular, for that assessment, reference has been made to the results of the first half versus the provisions set forth in the approved plans and forecasts on business performance for the remainder of the year.

With regard to the Group assets, except as indicated in the paragraph below no impairment indicators emerged that would require the performance of an impairment test at 30 June 2017 on the carrying value of goodwill and intangible assets allocated to the aforesaid Cash Generating Units and therefore the carrying values already verified for the Consolidated Financial Statements at 31 December 2016 are confirmed.

Wind Farms in Poland

For a detailed description of the tariffs in Poland and the relative regulatory uncertainties please refer to the comments under the relative chapter of the Interim Report on Operations. To this end, we hereby specify that in the first half of 2016, these uncertainties contributed to a steep decrease in the price of the Certificates of Origin exchanged on the market, negatively impacting the profitability of the existing installations.

In consideration of the market conditions described above and the half-year results of the wind farms in Poland, the Directors cannot exclude that such results may also be confirmed prospectively. Therefore, the Directors shall continue to monitor, in the second half of the year, the possible impacts consequent to the persistent uncertainties and critical elements that characterise the reference macroeconomic environment and in particular they will assess whether the persistence of these elements could represent impairment indicators that would require an adjustment to the carrying value of the assets recorded in the Financial Statements.

CONSOLIDATION PRINCIPLES

Scope of consolidation

The Half-year Condensed Consolidated Financial Statements contain line-by-line consolidation of data pertaining to ERG S.p.A., the Parent company, and the subsidiaries either directly or indirectly controlled by ERG S.p.A. Such control exists when the Group has the power to determine the financial and operational policies of a company for the purpose of obtaining benefits from its activities. Subsidiary companies are consolidated commencing on the date when the Group effectively obtained control and cease to be consolidated from the date when control is transferred outside the Group.

Associates, where ERG S.p.A. has significant influence, and joint ventures, where it exercises joint control over financial and operational strategy, are measured under the equity method of accounting. The Group's share of profits or losses is recognised in the Half-Year Condensed Consolidated Financial Statements starting on the date when the significant influence commenced and up to the date when it ceased.

Should the Group's share of the losses incurred by an associate exceed the carrying value of the investment shown in the Consolidated statement of financial position, after writing off the carrying value a provision is recognised for the Group's share of the losses to the extent that the Group has legal or constructive obligations to cover the losses of the associate or, in any event, to make payments on its behalf or in relation to its scope of activity.

No companies were consolidated using the proportional method.



LIST OF GROUP COMPANIES

The following tables show the companies consolidated on a line-by-line basis, those measured under the equity method of accounting, and those measured at cost.

List of subsidiaries consolidated **on a line-by-line basis**:

	Registered office	Direct share	Group's share	Share capital (1) (2)	Shareholders' equity (1) (2)
ERG S.p.A.					
ERG Power Generation S.p.A.	Genoa	100%	100%	6,000	1.061.828
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	744,982
ERG Power S.r.l.	Genoa	100%	100%	5,000	143,535
Blachy Pruszyński-Energy SP. Z.O.O.	Warsaw (Poland)	100%	100%	3,000	699
Brockaghboy Windfarm Ltd. ⁽³⁾	Belfast (UK)	100%	100%	2	887
Corni Eolian S.A.	Constanta (Romania)	100%	100%	152,000	123,913
CSO Energy GmbH	Leisnig (Germany)	100%	100%	210	228
CSO Energy S.a.r.l.	Paris (France)	100%	100%	1,415	239
ERG Eolica Adriatica S.r.l.	Genoa	100%	100%	10	23,626
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	1,113
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	3,207
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	143
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	37,734
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	6,737
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	18,580
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(2,450)
ERG Eolica S. Cireo S.r.l.	Genoa	100%	100%	3,500	20,599
ERG Eolica S. Vincenzo S.r.l.	Genoa	100%	100%	3,500	20,168
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	13
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	21,625	26,435
ERG Wind 105 GmbH	Leisnig (Germany)	100%	100%	1	(437)
ERG Wind Bulgaria S.p.A.	Genoa	100%	100%	50	30,167
ERG Wind France 1 S.a.s.	Paris (France)	100%	100%	1,097	1,908
ERG Wind French Holdings S.a.s.	Paris (France)	100%	100%	1,410	(650)
ERG Wind Investments Ltd.	Gibraltar	100%	100%	112,993	108,025
ERG Wind Neunte GmbH	Leisnig (Germany)	100%	100%	25	56
ERG Wind Park Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	20
ERG Wind RE Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	20
EW Orneta 2 Z.O.O.	Warsaw (Poland)	100%	100%	32,675	29,612
Green Vicari S.r.l.	Camporeale	100%	100%	119	15,836
Hydro Inwestycje SP. Z.O.O.	Warsaw (Poland)	100%	100%	5	(784)

(1) data referring to the latest approved financial statements

(2) data in thousands of Euro except for Brockaghboy Windfarm Ltd. which is expressed in thousands of GBP, and Blachy Pruszyński SP. Z.O.O., EW Orneta 2 SP. Z.O.O., Hydro Inwestycje SP. Z.O.O. expressed in thousands of Polish Zloty and Corni Eolian SA expressed in thousands of RON

(3) since the farm, under construction at the time of preparing this document, is not yet operational, the 2016 financial statements have not been subject to audit

	Registered office	Direct share	Group's share	Share capital (1) (2)	Shareholders' equity (1) (2)
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	100%	37	(3,824)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	100%	1,114	(774)
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	100%	1,114	(384)
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	100%	1,060	(94)
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	100%	861	2,276
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	(1,439)
ERG Wind 105 GmbH					
Parc Eolien de St Riquier 3 S.a.s.	Paris (France)	100%	100%	37	(714)
Parc Eolien de St Riquier 4 S.a.s.	Paris (France)	100%	100%	37	(693)
ERG Wind Bulgaria S.p.A.					
Globo Energy EOOD	Sofia (Bulgaria)	100%	100%	4,379	5,791
K&S Energy EOOD	Sofia (Bulgaria)	100%	100%	3,179	3,774
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	100%	3,023	4,626
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	100%	3,051	4,620
Mark 1 EOOD	Sofia (Bulgaria)	100%	100%	4,113	5,837
Mark 2 EOOD	Sofia (Bulgaria)	100%	100%	4,113	5,668
VG-1 EOOD	Sofia (Bulgaria)	100%	100%	1,520	2,333
VG-2 EOOD	Sofia (Bulgaria)	100%	100%	3,034	4,121
VG-3 EOOD	Sofia (Bulgaria)	100%	100%	3,057	4,527
VG-4 EOOD	Sofia (Bulgaria)	100%	100%	2,955	5,386
VG-5 EOOD	Sofia (Bulgaria)	100%	100%	3,059	4,204
VG-6 EOOD	Sofia (Bulgaria)	100%	100%	3,023	4,169
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	100%	505	3,547
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	100%	175	3,650
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	100%	2,157	3,070
ERG Wind France 1 S.a.s.					
ERG Wind France 2 S.a.r.l.	Paris (France)	100%	100%	1	(28)
Cepe Pays de Montbeliard S.n.c.	Paris (France)	100%	100%	365	(3,230)
Cepe de Murat S.n.c.	Paris (France)	100%	100%	444	4,689
Cepe de Saint Florentin S.n.c.	Paris (France)	100%	100%	251	(4,230)
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	100%	100	2,492
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	100%	100	4,093
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	100%	80	2,297
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(941)
Parc Eolien de Morvillers S.a.r.l.	Paris (France)	100%	100%	8	(748)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	100%	37	(705)
Parc Eolien du Patis S.a.s.	Paris (France)	100%	100%	1,164	1,244
Parc Eolien Hauts Moulins	Paris (France)	100%	100%	15	(2,089)
Parc Eolien Moulins des Camps	Paris (France)	100%	100%	15	(1,820)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	100%	37	(620)
SAS Société d'Exploration du Parc Eolien de la Souterraine	Paris (France)	100%	100%	505	125
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	100%	37	(979)
Société d'Exploration du Parc Eolien Le Nouvion S.a.s.	Paris (France)	100%	100%	37	(256)

(1) data referring to the latest approved financial statements

(2) EUR thousand



	Registered office	Direct share	Group's share	Share capital (1) (2)	Shareholders' equity (1) (2)
ERG Wind Investments Ltd.					
ERG Wind Holdings (Italy) S.r.l.	Genoa	100%	100%	212	884,044
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	100%	134	2,812
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	100%	134	(199,970)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind 4 S.r.l.	Genoa	100%	100%	6,633	46,816
ERG Wind Energy S.r.l.	Genoa	100%	100%	1,000	76,747
ERG Wind Leasing 4 S.r.l.	Genoa	100%	100%	10	315
ERG Wind Sardegna S.r.l.	Genoa	100%	100%	77	46,122
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	100%	77	32,054
ERG Wind MEI 2-14-1 Ltd.					
ERG Wind MEG 1 LLP (3)	London (UK)	80%	100%	33,168	21,474
ERG Wind MEG 2 LLP (3)	London (UK)	80%	100%	28,010	18,446
ERG Wind MEG 3 LLP (3)	London (UK)	80%	100%	33,585	23,590
ERG Wind MEG 4 LLP (3)	London (UK)	80%	100%	29,721	20,486
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa	100%	100%	77	38,081
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	100%	77	11,517
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	100%	77	17,715
ERG Wind 2000 S.r.l.	Genoa	100%	100%	77	24,817
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	100%	77	47,039
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	100%	77	29,810
ERG Wind Park Beteiligungs GmbH					
ERG Wind 117 GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(407)
Voltwerk Energy Park 8 GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	–
Voltwerk Windpark Worbzig GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	1,233
Voltwerk Windpark Beesenstedt GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	2,344
Windpark Cottbuser Halde GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(3,753)
WP Achmer Vinte GmbH & Co. KG	Leisnig (Germany)	100%	100%	7,500	(3,142)
ERG Wind Dobberkau GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(1,870)
ERG Wind Hermersberg GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(663)
ERG Wind Ober Kostenz GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(1,573)
ERG Wind WB GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	(1,209)
ERG Wind Welchweiler GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(1,479)
ERG Wind Weselberg GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	1,077

(1) data referring to the latest approved financial statements

(2) EUR thousand

(3) The remaining 20% is held by ERG Wind MEI 2-14-2

List of equity investments carried **at equity**:

	Registered office	Direct share	Group's share	Share capital (1) (2)	Shareholders' equity (1) (2)	Balance sheet values at 30.06.2017
ERG S.p.A.						
TotalErg S.p.A. (3)	Rome	51.0%	51.0%	47,665	270,784	142,916
Joint ventures						142,916
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (4)	Melilli	24.4%	24.4%	28,100	54,113	13,147
Associates						13,147

(1) data referring to the latest approved financial statements

(2) EUR thousand

(3) in Joint Venture with Total Raffinage Marketing. The shareholding in TotalErg is classified, as determined by IFRS 5, under assets held for sale

(4) the consortium is subject to joint control with ISAB S.r.l. and with the other shareholders of the Versalis S.p.A. Group and Syndial

List of companies recognised **according to the cost method**⁴:

	Registered office	Direct share	Group's share	Share capital (1) (2)	Shareholders' equity (1) (2)	Balance sheet values at 30.06.2017
ERG S.p.A.						
ERG Petroleos S.A. (3)	Madrid (E)	100%	100%	3,050	(5,708)	–
ERG Power Generation S.p.A.						
Eolico Troina S.r.l. in liquid.	Palermo	99%	99%	20	250	25
Evishagaran Wind Farm Ltd.	Belfast (UK)	100%	100%	–	–	3,768
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(217)	123
Longburn Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	–	318
Sandy Knove Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	–	409
Creggan Wind Farm Limited	Seebeck House (UK)	100%	100%	–	–	1,007
WP France 6	Puteaux (France)	100%	100%	6	(4)	2,992
Subsidiaries						8,642
ERG Power Generation S.p.A.						
Rigghill Wind Farm Limited	Seebeck House (UK)	50%	50%	–	–	242
Joint ventures						242
ERG S.p.A.						
CAF Interreg. Dipendenti S.r.l.	Vicenza	0.04%	0.06%	276	1,029	–
Emittenti titoli S.p.A.	Milan	0.51%	0.51%	4,264	11,888	26
Meroil S.A.	Barcellona (E)	0.87%	0.87%	19,077	62,442	310
R.U.P.E. S.p.A.	Genoa	4.86%	4.86%	3,058	3,069	155
Other companies						491
TOTAL						9,375

(1) data referring to the latest approved financial statements

(2) EUR thousand

(3) company under liquidation. In view of the negative shareholders' equity of ERG Petroleos, a provision for risks on equity investments of approximately EUR 5.7 million has been allocated.

(4) companies measured at cost as they are not yet operational



The main transactions that were carried out involving Group **equity investments** are summarised as follows:

- On 8 March 2017 ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and from DIF RE Erneuerbare Energien 3 GmbH 100% of the capital of six German companies that own six wind farms in Germany. The wind farms, with an installed capacity of 48.4 MW have an expected average output of approximately 84 GWh, equal to approximately 66,000 t of CO₂ emissions avoided. They came on stream in 2007 and have an average incentive expiry date of 2027. The price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million, with average annual EBITDA forecast at approximately EUR 5 million. The transaction's closing date was **2 May 2017**. The operation, in keeping with the strategy of international growth and diversification, enables ERG to consolidate its position in the German onshore wind power market, with installed power of 216 MW.

For additional details, please refer to the paragraph **Changes in the scope of consolidation**.

- On **22 June 2017**, ERG, through its subsidiary ERG Power Generation S.p.A., acquired from Abo Wind UK LTD 100% of the share capital of the UK company Evishagaran Wind Farm Ltd, holder of the authorisations required for the construction of a wind farm in Northern Ireland, expected to be commissioned in July 2020. Since it is not an operational company, the equity investment is recognised using the cost method.

The following transactions **under common control** also took place:

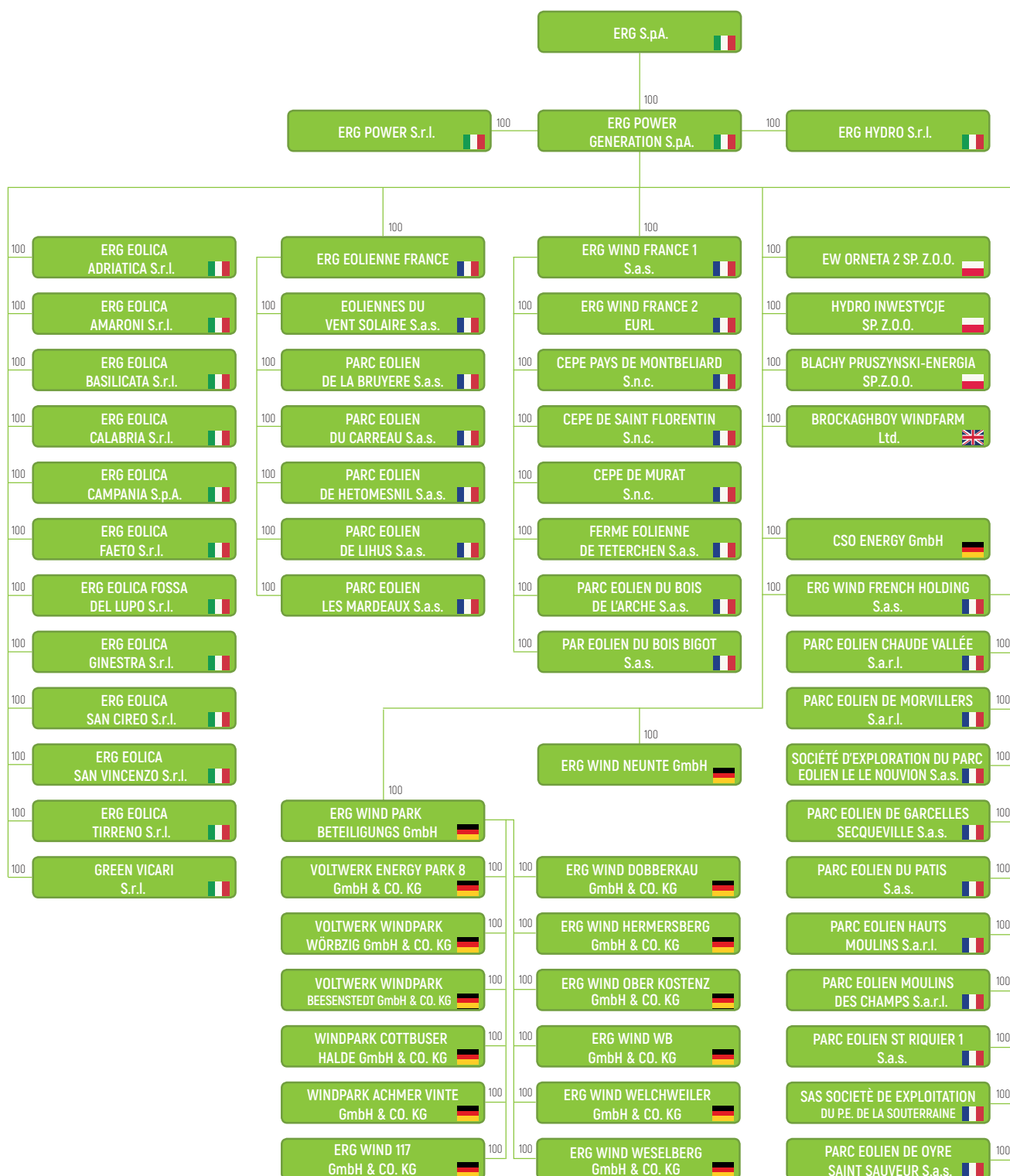
- On 9 November 2016, the merger by incorporation of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. in ERG Power Generation S.p.A., subsequently approved by the respective Shareholders' Meetings on 18 November 2016, was filed and entered in the Genoa Register of Companies. The deed of merger was concluded on 21 December 2016 and the merger took effect from **1 January 2017**.
- On 10 November 2016, the merger by incorporation of ERG Services S.p.A. in ERG S.p.A., subsequently approved by the Board of Directors on 14 December 2016, was filed and entered in the Genoa Register of Companies. The deed of merger was concluded on 21 December 2016 and the merger took effect from **1 January 2017**.
- In **June 2017**, ERG, through its subsidiary ERG Power Generation S.p.A., carried out a capital increase in the UK subsidiary Brockaghboy Windfarm Ltd for a value of GBP 17 million.
- The capital increases of the subsidiaries Blachy Pruszyński-Energia SP. Z.O.O ("Blachy") and Hydro Inwestycje SP. Z.O.O ("Hydro") were subscribed during **June 2017** by means of cash contributions by the parent company ERG Power Generation S.p.A. for the respective 50 million Zloty and 40 million Zloty. As a result of these capital increases, intercompany loans between the two companies and ERG Power Generation S.p.A. were partially repaid. This transaction represents the first step of a broader corporate and financial reorganisation of the companies in Poland aimed at renegotiating the project financing with the banks lending to EW Orneta 2 SP. Z.O.O, making it possible to benefit from the cash flows from Blachy and Hydro for the purposes of debt sustainability. After the end of the half-year:
 - On **3 July 2017**, ERG Power Generation S.p.A. subscribed a capital increase in Orneta, by means of the transfer of

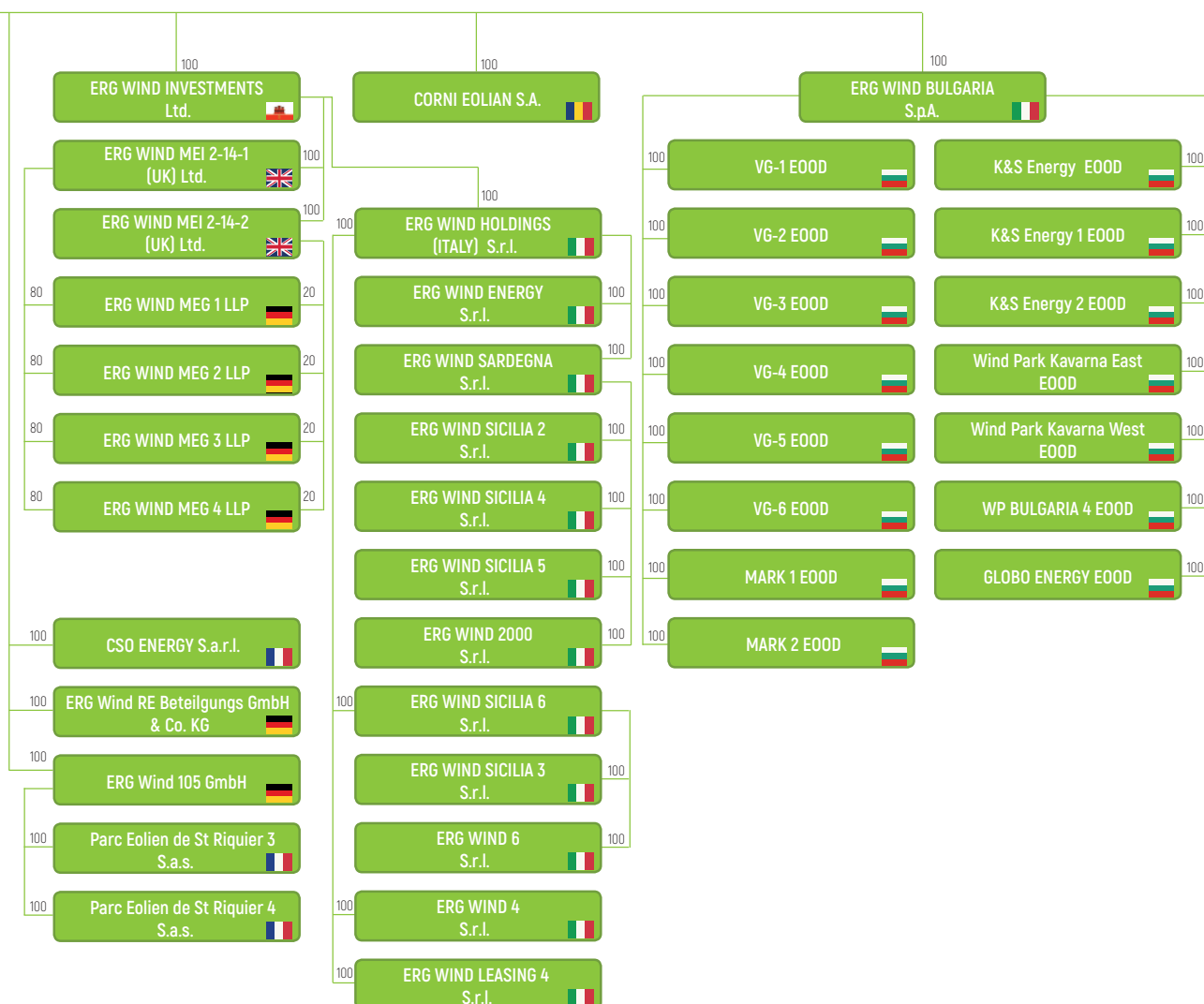
the equity investments held by ERG Power Generation S.p.A. in Blachy and Hydro for a total value of 132 million Zloty (corresponding to the market value of these shares).

- On **5 July 2017**, ERG Power Generation S.p.A. granted Orneta a new loan amounting to EUR 35 million under conditions in line with existing intercompany loans within the ERG Group, which Orneta used to issue two loans to Blachy and Hydro under conditions in line with intercompany ERG Group loans totalling 148 million Zloty, equivalent to the amount of the debt in euros that Blachy and Hydro currently owe to ERG Power Generation S.p.A, using it to settle said debt. As from **7 July 2017**, Blachy and Hydro no longer have a credit relationship with ERG Power Generation S.p.A.

Regarding restrictions and guarantees on the equity investments held by the Group, please refer to **Note 24 – Covenants and negative pledges** herein and Note 26 of the 2016 Consolidated Financial Statements.

SCOPE OF CONSOLIDATION AT 30 JUNE 2017





CHANGE IN THE SCOPE OF CONSOLIDATION

Purchase of equity investments in Germany - “DIF” business combination

On 8 March 2017 ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and from DIF RE Erneuerbare Energien 3 GmbH 100% of the capital of six German companies that own six wind farms in Germany. The wind farms, with an installed capacity of 48.4 MW have an expected average output of approximately 84 GWh, equal to approximately 66,000 t of CO₂ emissions avoided. They came on stream in 2007 and have an average incentive expiry date of 2027. The price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million, with average annual EBITDA forecast at approximately EUR 5 million. The transaction's closing date was **2 May 2017**. The operation, in keeping with the strategy of international growth and diversification, enables ERG to consolidate its position in the German onshore wind power market, with installed power of 216 MW.

This Half-Yearly Financial Report reflects the impact of the consolidation of the new German companies from 1 January 2017, considering as non-significant the effects on the Income Statement for the period from the closing date to the actual consolidation date.

Determination of the total price of the acquisition

The price of the acquisition was EUR 14.6 million of which EUR 14.4 million for acquisition of 100% of the share capital of the target companies and EUR 0.2 million for the payment of interest to the seller. The ancillary costs incurred to finalise the transaction of EUR 0.4 million were not included in the consideration transferred and these costs are recognised in the income statement for the current year under services and costs.

Measurement of the assets and liabilities of the business combination at the acquisition date and upon allocation of the purchase price

The acquisition was recognised on a provisional basis; the current values of the acquired assets were determined on the basis of the best estimate available at the preparation date of the half-year condensed consolidated financial statements and are present in the table below.

(EUR thousands)	German companies "DIF"	Adjustment to the acquisition situation	German companies "DIF" Adjusted
Intangible fixed assets	–	12,661	12,661
Goodwill	–	–	–
Property, plant and equipment	37,438	–	37,438
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	–	–	–
Other non-current assets	–	–	–
Non-current assets	37,438	12,661	50,099
Inventories	–	–	–
Trade receivables	699	–	699
Other receivables and current assets	595	–	595
Current financial assets*	–	–	–
Cash and cash equivalents*	2,652	(14,582)	(11,930)
Current assets	3,945	(14,582)	(10,637)
TOTAL ASSETS	41,383	(1,921)	39,462
Shareholders' Equity	6,341	(6,341)	–
Employees' severance indemnities	–	–	–
Deferred tax liabilities	5,122	4,420	9,542
Provisions for non-current liabilities and charges	1,436	–	1,436
Non-current financial liabilities*	27,557	–	27,557
Other non-current liabilities	–	–	–
Non-current liabilities	34,115	4,420	38,535
Provisions for current liabilities and charges	211	–	211
Trade payables	716	–	716
Current financial liabilities*	–	–	–
Other current liabilities	–	–	–
Current liabilities	927	–	927
TOTAL LIABILITIES AND EQUITY	41,383	(1,921)	39,462
*Impact on Net Financial Position	(24,905)	(14,582)	(39,487)

We provide here below a commentary on the amounts presented.

The column **German companies "DIF"** shows the opening balance values determined on the basis of the statutory accounting statement at the date of first consolidation (1 January 2017) of the target companies:

- property, plant and machinery: mainly turbines, blades and transformers;
- trade receivables: relative to the sale of electricity;
- other current receivables and assets: portions of deferred expenses;
- cash and cash equivalents: cash on hand held in current accounts;
- deferred tax liabilities related to higher depreciation charges made for tax purposes;
- non-current financial liabilities: bank borrowings for project financing;



- provisions for risks and charges related to dismantling expenses;
- trade payables: payables to the seller and third party suppliers;

In the column **Adjustments to the acquisition situation**:

- intangible fixed assets: capital gain attributed upon recognition of the acquisition; this capital gain was attributed to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the duration of the concessions;
- deferred tax liabilities related to the allocations referred to above.

Contribution of the German companies in the first half of 2017

In the time interval between the date of first consolidation (1 January 2017) and the reporting date of this Half-Year Financial Report, the companies acquired contributed to the Group's income statement with revenues of EUR 3 million and a break-even operating income.

JOINT VENTURES

TotalErg S.p.A.

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. Thanks to the joint venture, ERG benefited from a strengthened competitive position on the market, achieving significant commercial and cost synergies, in partnership with one of the world's largest players in the Oil industry. The company has been consolidated according to the equity method since 1 July 2010.

It is hereby specified that at 1 January 2015 the adjusted income and equity values shown in the Interim Report on Operations do not include the contribution of the joint venture TotalErg S.p.A. as it is no longer considered to be a core activity in the Group's new strategic and business structure.

It should be noted that from this Half-Year Financial Report, the shareholding is shown in "Assets held for sale", in accordance with IFRS 5, in view of the advanced process of sale of the shareholding in TotalErg S.p.A.

Priolo Servizi S.C.P.A.

Consortium company subject to joint control by ERG Power S.r.l. (24.41%), ISAB S.r.l. (38.05%) and the other members of the Versalis S.p.A. Group (33.16%) and Syndial S.p.A. (4.38%).

IFRS 12

The new IFRS 12 “Disclosure of Interests in Other Entities” includes all disclosure provisions previously included in IAS 27 pertaining to Consolidated financial statements, as well as all disclosure provisions of IAS 31 and of IAS 28 pertaining to the investments of an entity in subsidiaries, joint ventures, associates and structured entities and it also provides new disclosure cases.

The objective of the standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Measurements and significant assumptions

The companies designated as subsidiaries in the section **List of Group companies** are entities in which the ERG Group has the majority of the votes that can be cast and it exercises a dominant influence in the ordinary shareholders’ meeting.

The companies designated as jointly controlled subsidiaries in the paragraph **List of Group companies** are entities on whose activity the Group has joint control as defined in IAS 28 - Investments in Associates and Joint Ventures.

The companies designated as associates in the paragraph **List of Group companies** are entities on whose activity the Group has joint control as defined in IAS 28 - Investments in Associates and Joint Ventures.

Equity investments in subsidiaries

For information about the Group’s composition, please refer to the **Scope of Consolidation**.

With regard to the nature and extent of restrictions to the Group’s capability to access or use assets and to settle liabilities, please refer to **Note 24 – Covenants and negative pledges**.

The consequences of the changes in the equity investments in subsidiaries that took place in 2017 are expressed in the section **Changes in the scope of consolidation**.

With regard to provisions that can limit the distribution of dividends or other distributions of capital, it should be recalled that within the Project Financing agreements, the distribution of the available portions of shareholders’ equity to the Shareholders is subject to meeting the conditions prescribed by the project financing agreement, which impose the attainment of determined financial coverage ratios and the absence of default situations. For the details of the constraints and of the accounting values of the assets and liabilities to which such restrictions apply by individual company, please refer to **Note 24 – Covenants and negative pledges**.

Investments in joint control arrangements and associates

For the purposes of the disclosure of the nature, extent and financial effects of the Group’s interests in joint control arrangements and in associates, please refer to the sections **List of Group companies**, and **Joint Ventures**.

In view of the Group's 51% share in TotalErg S.p.A., it is considered a joint venture by virtue of the shareholders' agreements, providing for equally shared governance. For the summary of the economic and financial data of the joint ventures and associates, please see the following tables:

SUMMARY OF KEY ECONOMIC AND FINANCIAL DATA

(EUR thousand)	TOTALERG		PRIOLO SERVIZI	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Property, plant and equipment	473,060	481,709	76,775	79,838
Intangible fixed assets and Goodwill	32,347	37,244	13	64
Equity investments and Other non-current financial assets	68,226	67,603	38	36
FIXED ASSETS	573,633	586,556	76,826	79,939
Inventories	305,628	304,248	1,478	1,454
Trade receivables	563,572	549,871	6,365	7,179
Trade payables	532,170	648,346	10,144	13,917
Excise duties payable to tax authorities	215,827	122,348	–	–
NET WORKING CAPITAL	121,203	83,425	2,302	5,283
Employees' severance indemnities	7,386	7,990	468	571
Other assets	152,112	141,193	1,647	3,198
Other liabilities	346,722	271,460	2,913	3,473
NET INVESTED CAPITAL	492,840	531,724	72,790	73,810
Group Shareholders' Equity	270,784	287,404	53,860	53,872
Financial indebtedness	62,810	244,320	18,930	19,938
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	492,840	531,724	72,790	73,810
	1st half 2017	1st half 2016	1st half 2017	1st half 2016
Revenues from ordinary operations	2,240,424	1,808,254	23,864	25,985
Other revenues and income	17,624	16,728	1,442	1,507
Costs for purchases	(1,934,406)	(1,553,148)	(552)	(676)
Change in inventories	1,130	37,633	–	(49)
Costs for services and other operating costs	(207,613)	(201,853)	(15,348)	(16,871)
Personnel costs	(37,554)	(38,481)	(4,435)	(4,752)
EBITDA	79,605	69,133	4,972	5,144
Amortisation, depreciation and write-downs of fixed assets	(39,546)	(35,313)	(3,908)	(3,989)
EBIT	40,059	33,820	1,064	1,155
Net financial income (expenses)	(3,527)	(10,070)	(304)	(358)
Income (loss) from equity investments	674	761	–	–
PROFIT (LOSS) BEFORE TAXES	37,206	24,511	760	797
Income taxes	(13,213)	(8,075)	(467)	(465)
NET PROFIT	23,992	16,436	293	332

RECONCILIATION WITH THE CARRYING VALUE OF THE EQUITY INVESTMENT

(EUR thousand)	TOTALERG		PRIOLO SERVIZI	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Share attributable to ERG Group	51%	51%	24%	24%
Share of Group shareholders' equity	138,100	146,576	13,147	13,150
Purchase Price Allocation / Other adjustments	4,816	5,100	–	–
Carrying value of the equity investment	142,916	151,676	13,147	13,150

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE FIXED ASSETS

	Concessions	Other intangible fixed assets	Assets in progress	Total
Historical cost	817,467	52,600	964	871,030
Amortisation and write-downs	(149,172)	(45,245)	–	(194,417)
BALANCE AT 31.12.2016	668,295	7,355	964	676,613
Changes during the period:				
Change in the scope of consolidation	12,661	–	–	12,661
Capital expenditure	–	1,198	145	1,343
Capitalisation and reclassification	(1,161)	1	(340)	(1,500)
Disposals and divestments	–	–	–	–
Amortisation	(22,741)	(1,725)	–	(24,466)
Write-downs	–	–	–	–
Other changes	(24)	(9)	(10)	(43)
Historical cost	828,295	54,201	759	883,255
Amortisation and write-downs	(171,265)	(47,383)	–	(218,648)
BALANCE AT 30.06.2017	657,030	6,818	759	664,607

Concessions mainly comprise authorisations for wind farms, amortised based on their residual useful life.

Other intangible fixed assets refer to software licences and start-up and expansion costs.

The **change in the scope of consolidation** refers to the acquisition of the German companies from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH for an amount equal to EUR 12,661 thousand.

For more information, please refer to the section **Scope of consolidation**.

Investments relate mainly to licences and software. For a more detailed analysis of acquisitions, please refer to the **Investments** section in the **Interim Report on Operations**.

NOTE 2 - GOODWILL

"Goodwill", equal to EUR 125,932 thousand (EUR 125,932 at 31 December 2016), represents the excess acquisition cost of acquired companies over the value of their shareholders' equity, measured at fair value at the acquisition date in accordance with the purchase-price allocation method prescribed by IFRS 3.

Goodwill acquired through business combinations has been allocated to the separate cash-generating units attributable to the Wind power sector.

The item is not amortised in the Consolidated Income Statement and it is subjected to an impairment test every year or more frequently if there are indications during the period that the asset may be impaired.

On preparation of this Report, the test required by section 12 of IAS 36 was completed and no elements emerged that required an adjustment to the carrying value of goodwill.

For further details, please refer to the comments in the **Impairment Test** section.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Other assets	Assets under construction	Total
Historical cost	234,235	3,962,608	24,089	60,795	4,281,727
Depreciation and write-downs	(108,092)	(1,796,879)	(16,418)	–	(1,921,389)
BALANCE AT 31.12.2016	126,143	2,165,729	7,671	60,795	2,360,338
Changes during the period:					
Change in the scope of consolidation	–	37,438	–	–	37,438
Capital expenditure	1,225	746	94	22,861	24,926
Capitalisation and reclassification	2,630	447	147	(1,724)	1,500
Disposals and divestments	–	–	–	–	–
Depreciation	(5,076)	(95,412)	(654)	–	(101,142)
Write-downs	–	–	–	–	–
Other changes	–	26	–	810	836
Historical cost	237,349	4,033,927	24,351	82,741	4,378,368
Depreciation and write-downs	(112,426)	(1,924,953)	(17,093)	–	(2,054,472)
BALANCE AT 30.06.2017	124,923	2,108,973	7,258	82,741	2,323,896

To enhance understandability, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation.

The **change in the scope of consolidation** refers to the acquisition of the German companies from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH for an amount equal to EUR 37,438 thousand.

For more information, please refer to the section **Scope of consolidation**.

Investments relate mainly to works to develop the wind park under construction in Northern Ireland. For a more detailed analysis of acquisitions, please refer to the **Investments** section in the **Interim Report on Operations**.

Other changes mainly include capitalised interest in the amount of EUR 809 thousand in relation to the construction of the Brockaghboy wind farm in Northern Ireland. For information on the existence of restrictions on the assets held by the Group, please refer to **Note 24 - Covenants and negative pledges**.

NOTE 4 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries not consolidated on a line-by-line basis	Joint ventures	Associates	Other companies	Total
BALANCE AT 31.12.2016	4,703	151,880	13,157	491	170,225
Changes during the period:					
Acquisitions/share capital increases/increases	3,939	38	–	–	3,977
Reclassifications	–	–	–	–	–
Write-downs/use of provision to cover losses	–	–	–	–	–
Disposals and divestments	–	–	–	–	–
Measurement of investments using the equity method	–	–	(3)	–	(3)
IFRS 5 Reclassification	–	(151,676)	–	–	(151,676)
BALANCE AT 30.06.2017	8,642	242	13,154	491	22,525

Acquisitions relate, in the amount of EUR 3,768 thousand, to the UK company mentioned in the **Scope of consolidation** section and, in the amount of the remaining EUR 170 thousand, to capitalised charges.

The non-significant EUR 3 thousand negative change arising from **companies measured under the equity method of accounting** is due to the performance of the investee company Priolo Servizi in the period.

The **IFRS 5 reclassification** relates to the equity investment in TotalErg S.p.A.

Equity investments owned at 30 June 2017 were as summarised below:

	Measured at equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated on a line-by-line basis	–	8,642	8,642
- in joint ventures	–	242	242
- in associated companies	13,147	–	13,147
- in other businesses	–	491	491
Total	13,147	9,375	22,525

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets" amounting to EUR 40,469 thousand (EUR 39,099 thousand at 31 December 2016) are mainly comprised of grants due pursuant to Law 488/92 pertaining to wind farms acquired within the ERG Wind transaction, which are restricted in the dedicated Escrow Account established by Article 61, Paragraph 23, of Italian Law Decree no. 112/2008 (converted by Law no. 133/2008) and awaiting the decision of the Court of Avellino, amounting to EUR 32 million. Pending the ruling, the Ministry of Economic Development revoked the contributions pursuant to Law 488/92 which had been assigned to the beneficiary companies, with decrees notified respectively on 29 October and 3 November 2014. An extraordinary appeal was promptly filed against the cancellation decrees, with a request for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension

request and on the merits of the appeal. Pending this appeal, on 27 July 2015, the payment forms were served to the company against which the ERG Wind company's appeal before the Court of Genoa, submitting a further appeal for precautionary suspension. The appeal was accepted, therefore suspending the efficacy of the payment forms, subject to submission of appropriate bank guarantees by the appellant companies. In view of the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 Financial Statements within the definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 18 - Other non-current liabilities**). The item also includes financial receivables from third parties for the disposal of equity investments (EUR 1.9 million), receivables for financial derivatives on interest rates (EUR 0.9 million) and guarantee deposits.

NOTE 6 - DEFERRED TAX ASSETS

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis and on the tax losses that can be carried forward. The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.90% - 4.82% - 5.57%). Deferred tax assets amounting to EUR 150,425 thousand (EUR 160,045 thousand at 31 December 2016) were mainly recognised over derivative financial instruments, provisions for liabilities and charges as well as the reportable tax losses of the period, and they are deemed recoverable also considering the expected future taxable income in the medium term, and the surplus ACE [Aiuto Crescita Economica - Economic Growth Assistance] which has accrued but has not yet been used. In addition, deferred tax assets relating to excess interest expenses that can be carried forward, amounting to approximately EUR 42 million, referred to the ERG Wind Group, acquired in 2013, were not recognised in the financial statements.

NOTE 7 - OTHER NON-CURRENT ASSETS

Other non-current assets amounting to EUR 38,828 thousand (EUR 45,615 thousand at 31 December 2016) mainly comprise:

- the portion still to be collected (EUR 22 million) of the receivables for grants per Italian Law 488/92 relating to wind farms acquired within the scope of the ERG Wind transaction. In view of the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 Financial Statements within the definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 18 - Other non-current liabilities**).
- tax receivables relative to VAT (EUR 8 million).

NOTE 8 - INVENTORIES

Raw materials inventories, equal to EUR 21,739 thousand (EUR 20,365 thousand at 31 December 2016) relating to spare parts which are used mainly in the ordinary maintenance of wind farm installations and the CCGT plant, are measured at cost, determined using the weighted average cost method, or market value (replacement cost), whichever is lower.

NOTE 9 - TRADE RECEIVABLES

	30.06.2017	31.12.2016
Customer trade receivables	150,825	194,956
Receivables for incentives	147,795	101,668
Receivables due from Group companies not consolidated line-by-line	1,378	3,460
Bad debt provision	(7,151)	(7,106)
Total	292,846	292,978

The item mainly includes receivables for supply of electricity in respect of third parties, sale of utilities to operating subjects at the Priolo plant and environmental certificates (feed-in tariff, green certificates and white certificates).

For information concerning loans to Group companies not consolidated line-by-line, reference is made to **Note 38 – Related parties**.

The bad debt provision changed as follows:

	30.06.2017	Increases	Decreases	Change in the scope of consolidation	31.12.2016
Bad debt provision	7,151	594	(547)	–	7,106
Total	7,151	594	(547)	–	7,106

The Group assesses the existence of objective indications of impairment for each individual significant position. The aforesaid analyses are validated at the individual company level by the Credit Committee which meets periodically to analyse the situation of past due accounts receivable and any critical issue related to their collection.

The bad debt provision is deemed to be sufficient to address the risk of potential non-collectability of past due accounts receivable.

NOTE 10 - OTHER RECEIVABLES AND CURRENT ASSETS

	30.06.2017	31.12.2016
Tax receivables	44,559	48,039
Group VAT receivables due from TotalErg	47,651	9,238
IRES tax consolidation receivables due from TotalErg	–	2,909
Sundry receivables	47,872	44,251
Total	140,082	104,437

Tax receivables mainly comprise VAT and income taxes receivables.

“Sundry receivables” comprise, inter alia, receivables due from Group companies not consolidated line by line and the portions of deferred costs in subsequent periods. The item also includes receivables by way of indemnification of the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired within the scope of the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in **Note 19 - Provisions for current liabilities and charges**.



NOTE 11 - CURRENT FINANCIAL ASSETS

	30.06.2017	31.12.2016
Financial receivables due from investee companies	8,591	8,581
Securities	80,137	80,137
Other short-term financial receivables	19,747	20,045
Total	108,475	108,763

The item is in line with 31 December 2016.

"Other short-term financial receivables" mainly include the receivables from ECC - European Commodity Clearing, relating to the margin deposit and the fair value of futures contracts concluded (EUR 15 million).

NOTE 12 - CASH AND CASH EQUIVALENTS

	30.06.2017	31.12.2016
Bank and postal deposits	416,999	427,187
Cash and notes on hand	9	9
Total	417,008	427,195

The item "Bank and postal deposits" consists of cash and cash equivalents generated by Group activities and non-recurring transactions of previous years, deposited on a short-term basis at the banks with which the Group works. The item includes the amount in the accounts of ERG Power S.r.l. and the wind companies invested in by ERG Power Generation S.p.A. according to the restrictions on use set forth in the relative project financing.

For information on restricted liquidity, please refer to **Note 24 - Covenants and negative pledges**.

At 30 June 2017, the liquidity subject to the different restrictions prescribed by Project Financing agreements amounted to approximately EUR 145 million (EUR 164 million at 31 December 2016).

The reduced liquidity is mainly due to the acquisitions of wind farms in Germany, and investments relating to the development of the wind park in Northern Ireland.

NOTE 13 - GROUP SHAREHOLDERS' EQUITY

Share Capital

Fully paid-in share capital at 30 June 2017 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2016).

At 30 June 2017, the Parent Company's Shareholders Register, relative to holders of significant interests, shows the following:

- San Quirico S.p.A. held 83,619,940 shares, i.e. 55.628%;
- Polcevera S.A. (Luxembourg) held 10,380,060 shares, i.e. 6.905%;
- UniCredit S.p.A. holds 6,129,557 shares, i.e. 4.078%.

At 30 June 2017, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

On 20 April 2017, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 20 April 2017, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million sixty four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months as from 20 April 2017, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.

The original cost of treasury shares, write-downs for impairment, and income and losses deriving from any subsequent sales are presented as changes in shareholders' equity.

Other Reserves

Other reserves mainly comprise retained earnings, paid-in capital in excess of par and the cash flow hedge reserve.

NOTE 14 - EMPLOYEES' SEVERANCE INDEMNITIES

The employees' severance indemnities provision, totalling EUR 6,511 thousand (EUR 6,733 thousand at 31 December 2016), includes the estimated liability relating to the severance indemnities payable to employees when they terminate their employment.

No adjustments were made in terms of discounting during the first half of 2017, by virtue of the absence of any significant changes in the parameters used for the purposes of actuarial calculation.

NOTE 15 - DEFERRED TAX LIABILITIES

Deferred tax liabilities are recognised on taxable temporary differences which result from adjustments made to the separate financial statements of consolidated companies in order to align them with the Group's uniform accounting standards, as well as on temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis.

The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.9% - 4.82%).

Deferred tax liabilities at 30 June 2017 of EUR 273,695 thousand (EUR 274,357 at 31 December 2016), were allocated mainly on the capital gains from the business combinations and tax amortisations which exceeded the financial and technical amortisations.

NOTE 16 - PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

	30.06.2017	Increases	Decreases	Reclassifications	Change in the scope of consolidation	31.12.2016
Provision for decommissioning costs	36,395	379	–	–	1,436	34,579
Priolo site provision	81,071	–	–	–	–	81,071
Other provisions	9,797	544	(874)	517	–	9,609
Total	127,262	923	(874)	517	1,436	125,258

The provisions for non-current liabilities and charges mainly include liabilities related to:

- expenses for the restoration of the site on which the wind farms recognised against major tangible fixed assets operate;
- the Priolo site as discussed in further detail in **Note 25 - Contingent liabilities and disputes**, resulting mainly from the exit from the Oil sector.

The **increases** for the period relate to the revaluation of the wind farm restoration expenses.

The **decreases** during the period mainly refer to use against expenses incurred for the period.

Reclassifications, in the amount of EUR 0.5 million, were recognised against provisions for current liabilities and charges.

The **change in the scope of consolidation** includes amounts described in more detail in the corresponding section.

NOTE 17 - NON-CURRENT FINANCIAL LIABILITIES

	30.06.2017	31.12.2016
Medium/long-term mortgages and loans	669,435	668,439
- current portion of medium/long-term loans	–	–
	669,435	668,439
Medium/long-term Project Financing	1,206,454	1,275,580
- current portion of Project Financing	(154,882)	(151,906)
	1,051,571	1,123,674
Other medium/long-term financial payables	120,233	141,947
Total	1,841,240	1,934,060

Medium/long-term mortgages and loans

Mortgages and loans at 30 June 2017 totalled EUR 669.4 million (EUR 668.4 million at 31 December 2016), 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 S.p.A. (EUR 150 million) and UBI Banca S.p.A. (EUR 100 million) concluded in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan concluded for the acquisition of ERG Hydro S.r.l. and with Unicredit S.p.A. (EUR 75 million) for the project loan relating to the wind farm at Corni (Romania).

The loans are presented net of commission cost and other ancillary costs totalling EUR 9.7 million. These costs were recognised in the financial expenses for the first half of 2017 according to the amortised cost method in application of IAS 39 against an amount of EUR 1.0 million.



Medium/long-term Project Financing

The following tables show the main characteristics of existing Project Financing at 30 June 2017:

ASSOCIATED FINANCIAL DEBT						
Company	Wind Farm / Thermoelectric Plant	Net carrying amount of the asset	Carrying amount of the financial liability	Technical form	Issue / Maturity	Hedge
ERG Wind Investments	Parchi eolici Gruppo ERG Wind	408,724	470,595	Project financing	2008 2022	IRS: average fixed rate 4.46%
ERG Eolica Adriatica	Rotello - Ascoli Satriano (CB/FG)	124,472	107,902	Project financing	2009 2022	IRS: fixed rate 4.85%
ERG Eolica Fossa del Lupo	Fossa del Lupo (CZ)	106,640	81,702	Project financing	2017 2027	IRS: fixed rate 1.58%
ERG Eolica Campania	Bisaccia 2 - Foiano - Molinara - Baseliace - Lacedonia 2 (AV/BN)	83,362	40,127	Project financing	2009 2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Ginestra (BN)	59,152	29,440	Project financing	2010 2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Amaroni (CZ)	30,789	22,555	Project financing	2017 2027	IRS: fixed rate 1.96%
Green Vicari	Vicari (PA)	19,045	10,196	Project financing	2008 2019	Variable and partly fixed rate loan
ERG Eolica Faeto	Faeto (FG)	13,432	16,021	Project financing	2007 2021	IRS from 1 January 2016 fixed rate 2.13%
Eoliennes du Vent Solaire	Plogastel Saint Germaine (Francia)	4,097	4,976	Project financing	2011 2025	Fixed rate loan
Parc Eolien les Mardeaux	Les Mardeaux (Francia)	2,125	2,724	Project financing	2005 2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil	Hetomesnil (Francia)	2,131	2,100	Project financing	2005 2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus	Lihus (Francia)	2,219	1,913	Project financing	2005 2019	IRS: average fixed rate 5.77%
Parc Eolien de la Bruyere	La Bruyere (Francia)	2,050	1,620	Project financing	2005 2019	IRS: average fixed rate 5.77%
Parc Eolien du Carreau	Carreau (Francia)	1,723	1,865	Project financing	2005 2019	Variable rate loan
ERG Eolica Basilicata	Palazzo San Gervasio (PZ)	37,466	35,802	Project financing	2017 2027	IRS: fixed rate 1.46%
EW Ornet 2 SP. Z.O.O.	Radziejów (Poland)	49,569	37,616	Project financing	2015 2029	IRS: fixed rate 2.47% (wibor)
K & S ENERGY EOOD	Kavarna/Hrabovo	48,189	21,266	Project financing	2012/13 2018	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
ERG Wind France 1	Vari francesi	46,701	32,396	Project financing	2016 2025	IRS: fixed rate -0.065%
ERG Power	Impianto CCGT	318,119	105,579	Project financing	2010 2021	IRS: fixed rate 2.77%
Parc Eolien du Patis S.a.s.	Jallais (Francia)	7,219	7,164	Project financing	2013 2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Secqueville S.a.s.	Caen Garcelles (Francia)	6,706	5,982	Project financing	2007 2023	IRS: fixed rate 3.75%
SAS Société de exploitation du Parc Eolien de la Souterraine	La Souterraine (Francia)	6,566	6,954	Project financing	2013 2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur S.a.s.	Oyré (Francia)	11,524	9,876	Project financing	2014 2029	Fixed rate loan for 40%
Parc Eolien St Riquier 1 S.a.s.	St Riquier 1 (Francia)	8,744	10,420	Project financing	2009 2027	Fixed rate loan
ERG Wind 117 GmbH & Co. KG	Frehe I & II (Germania)	16,103	12,853	Project financing	2013 2030	Fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Achmer Vinte (Germania)	2,863	6,245	Project financing	2006 2021	Fixed rate loan
Windpark Cottbuser Halde GmbH & Co. KG	Cottbus (Germania)	23,362	20,620	Project financing	2007 2025	Fixed rate loan
Parc Eolien Chaude Vallée S.ar.l.	Chaude Vallée (Francia)	11,518	12,087	Project financing	2011 2027	Fixed rate loan for 85%
Parc Eolien Hauts Moulins S.ar.l.	Hauts Moulins (Francia)	12,437	12,114	Project financing	2012 2028	Fixed rate loan for 86%
Parc Eolien de Morvillers S.ar.l.	Morvillers (Francia)	12,410	12,733	Project financing	2012 2027	Fixed rate loan
Parc Eolien Moulins des Champs S.ar.l.	Moulins des Champs (Francia)	12,348	11,993	Project financing	2012 2028	Fixed rate loan for 85%
Parc Eolien de St Riquier 3 S.a.s.	St Riquier 3 (Francia)	13,184	13,800	Project financing	2014 2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	St Riquier 4 (Francia)	11,331	11,746	Project financing	2014 2028	Fixed rate loan
ERG Wind Dobberkau GmbH & Co. KG	Dobberkau (Germania)	11,044	14,815	Project financing	2014 2025	IRS: fixed rate 0.949%
ERG Wind Hermersberg GmbH & Co. KG	Hermersberg (Germania)	311	741	Project financing	2016 2024	Fixed rate loan
ERG Wind Ober Kostenz GmbH & Co. KG	Ober Kostenz (Germania)	971	2,756	Project financing	2016 2024	Fixed rate loan
ERG Wind WB GmbH & Co. KG	Waldfischbach Burgalben (Germania)	2,115	3,342	Project financing	2016 2024	Fixed rate loan
ERG Wind Welchweiler GmbH & Co. KG	Welchweiler (Germania)	472	1,191	Project financing	2016 2024	Fixed rate loan
ERG Wind Weselberg GmbH & Co. KG	Weselberg (Germania)	3,315	2,625	Project financing	2016 2024	Fixed rate loan
Total			1,206,454			

For further details on the new project financing compared to those described in the 2016 Consolidated Financial statements, please see **Note 24 – Covenants and negative pledges**.

At 30 June 2017, the weighted average interest rate on mortgages, loans and project financing was 1.41% (1.42% at 31 December 2016). The rate indicated does not take into account interest rate hedges.

The breakdown by due year for repayments on existing medium/long-term bank loans is as follows:

	Mortgages and loans	Project Financing
Due by 30.06.2018	–	154,882
Due by 30.06.2019	117,250	164,235
Due by 30.06.2020	242,250	162,190
Due by 30.06.2021	309,935	162,315
Due by 30.06.2022	–	131,726
Due beyond 30.06.2022	–	431,105
Total	669,435	1,206,454
	30.06.2017	31.12.2016
Secured by Group tangible assets		
with maturities up to December 2026	1,206,454	1,275,580
Not secured		
with maturities up to August 2020	669,435	668,439
Total	1,875,889	1,944,020

Please also refer to **Note 24 – Covenants and negative pledges** herein and **Note 26** of the 2016 Consolidated Financial Statements.

Other medium/long-term financial payables

Other medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 120 million (EUR 142 million at 31 December 2016), the details of which are provided below:

(EUR thousand)	Issuing bank	Contract	Maturity	Payable for fair value	
				30.06.2017	31.12.2016
ERG Wind Investment Ltd.	IntesaSanpaolo	IRS	31.12.2022	(42,375)	(49,186)
ERG Wind Investment Ltd.	IntesaSanpaolo	IRS	31.12.2022	(31,725)	(36,826)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15.06.2022	(6,730)	(7,920)
ERG Eolica Adriatica S.r.l.	ING	IRS	15.06.2022	(6,730)	(7,920)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15.06.2022	(6,730)	(7,920)
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31.12.2025	(2,173)	(2,623)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31.12.2025	(1,869)	(2,256)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31.12.2025	(1,434)	(1,731)
ERG Eolica Campania S.p.A.	UniCredit	IRS	31.05.2020	(874)	(1,113)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30.06.2025	(1,103)	(1,313)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30.06.2025	(1,103)	(1,313)
ERG Eolica Ginestra S.r.l.	Barclays	IRS	30.06.2025	(1,103)	(1,313)
ERG Eolica Amaroni S.r.l.	ING	IRS	31.12.2026	(555)	(697)
ERG Eolica Amaroni S.r.l.	Crédit Agricole	IRS	31.12.2026	(555)	(697)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31.12.2021	(352)	(444)
ERG Eolica Faeto S.r.l.	Unicredit	IRS	31.12.2021	(352)	(444)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30.12.2019	(78)	(110)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30.12.2019	(82)	(114)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30.12.2019	(74)	(103)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30.12.2019	(77)	(108)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30.12.2019	(75)	(106)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30.12.2019	(79)	(110)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30.12.2019	(79)	(111)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30.12.2019	(82)	(115)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30.06.2031	(746)	(937)
ERG Eolica Basilicata S.r.l.	Crédit Agricole	IRS	30.06.2031	(746)	(937)
K & S Energy Eood	Raiffeisen Bank	IRS	31.12.2018	(253)	(346)
K & S Energy Eood	Raiffeisen Bank	IRS	31.12.2018	(63)	(86)
ERG Power S.r.l.	BNP Paribas BNL	IRS	31.12.2021	(1,409)	(1,805)
ERG Power S.r.l.	IntesaSanpaolo	IRS	31.12.2021	(1,409)	(1,805)
ERG Power S.r.l.	Crédit Agricole	IRS	31.12.2021	(1,129)	(1,446)
ERG Power S.r.l.	Santander	IRS	31.12.2021	(224)	(287)
ERG Power S.r.l.	Centrobanca	IRS	31.12.2021	(224)	(287)
ERG Power S.r.l.	ING	IRS	31.12.2021	(224)	(287)
ERG S.p.A.	ING	IRS	06.08.2020	(429)	(504)
ERG S.p.A.	BNP Paribas BNL	IRS	06.08.2020	(412)	(484)
ERG S.p.A.	UniCredit	IRS	06.08.2020	(432)	(508)
ERG S.p.A.	Barclays	IRS	06.08.2020	(394)	(477)
ERG S.p.A.	IntesaSanpaolo	IRS	06.08.2020	(429)	(505)
ERG S.p.A.	Crédit Agricole	IRS	06.08.2020	(439)	(515)
ERG S.p.A.	Natixis	IRS	06.08.2020	(432)	(508)
ERG S.p.A.	UBI Banca	IRS	26.02.2021	–	(98)
ERG S.p.A.	Mediobanca	IRS	15.03.2021	(1,267)	(2,089)
ERG S.p.A.	UniCredit	IRS	21.04.2021	–	(194)
Parc Eolien du Patis S.a.s.	Crédit Cooperatif	IRS	02.08.2027	(251)	(308)
Parc Eolien du Patis S.a.s.	Crédit Cooperatif	IRS	30.07.2027	(256)	(313)
Parc Eolien de Garcelles Secqueville S.a.s.	Nord LB	IRS	30.06.2023	(650)	(783)
SAS Société d'Exploitation du Parc Eolien de la Souterraine	Crédit Cooperatif	IRS	29.12.2028	(620)	(767)
Parc Eolien de Oyre Saint Sauveur S.a.s.	Natixis	IRS	01.07.2029	(396)	(486)
Parc Eolien St Riquier 1 S.a.s.	Saar	IRS	31.12.2024	(160)	(181)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31.12.2029	(277)	(302)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31.12.2030	(78)	(98)
ERG Wind Dobberkau GmbH & Co. KG	Nord LB	IRS	31.12.2025	(478)	(681)
Total				(120,233)	(141,947)

NOTE 18 - OTHER NON-CURRENT LIABILITIES

	30.06.2017	31.12.2016
Minority interests sale option liabilities	–	–
Wind Group acquisition price	9,821	9,821
Prior tax payables from foreign company mergers	18,594	18,594
Portions of deferred revenue in subsequent periods	2,143	2,313
Payables due to employees	1,333	1,066
Other minor entries	6,209	5,977
Total	38,100	37,771

Other non-current liabilities, equal to EUR 38,100 thousand (EUR 37,771 thousand at 31 December 2016) were largely unchanged.

NOTE 19 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	30.06.2017	Increases	Decreases	Reclassifications	Change in scope of consolidation	31.12.2016
Provision for interest and revaluations under Law 488/1992	15,185	15	–	–	–	15,170
Restructuring and similar provisions	384	–	(427)	263	–	548
Provision for legal and fiscal risks	9,189	249	(238)	–	–	9,178
Provision for environmental risks	60	–	–	–	–	60
Provision for equity investments	5,754	242	(309)	–	–	5,821
Provision for miscellaneous expenses of former Oil business	–	–	(650)	–	–	650
Provision for contingent risks of foreign companies	9,005	–	–	–	–	9,005
Provisions for risks ERG Nuove Centrali S.p.A.	–	–	(220)	(12)	–	232
Provisions for hydroelectric sector risks	780	–	(151)	(517)	–	1,448
Other provisions	3,984	–	(546)	(251)	211	4,571
Total	44,341	506	(2,541)	(517)	211	46,682

Provisions for current liabilities and charges amounted, at 30 June 2017, to EUR 44,341 thousand (EUR 46,682 thousand at 31 December 2016) and they comprise:

- the provision for expenses tied to interest and revaluations on the contributions under Italian Law 488/1992 (EUR 15.2 million) relating to wind farms acquired within the scope of the ERG Wind transactions and revoked by the Ministry of Economic Development as commented more thoroughly in **Note 5**. It is hereby noted that the risks connected to the revocation of the aforementioned contributions are covered in the ERG Wind acquisition agreements by specific indemnification obligations issued by the seller and therefore we have allocated the relative credit in "Other current assets";
- the restructuring and similar provisions (EUR 0.4 million) refer to costs relating to the initiated personnel redundancy procedures and to the costs for restructuring the asset portfolio;
- the provision for legal and fiscal risks (EUR 9.2 million) related to risks arising from ongoing legal disputes;



- the provision for environmental risks (EUR 0.1 million) pertaining to reclamation costs;
- the provision for equity investments (EUR 5.8 million) refers mainly to the subsidiary ERG Petroleos, which is no longer operational and under liquidation;
- the provision for contingent risks of foreign companies (EUR 9 million) refers to contingent risk concerning Romania;
- the provision for hydroelectric sector risks (EUR 0.8 million) refers to various expenses inherent in the operations of ERG Hydro S.r.l.;
- the other provisions for risks and charges mainly refer to expenses considered to be probable as part of business relations and expenses considered to be probable for service rights payable to Municipalities.

The **increases** are mainly attributable to allocations relating to litigation matters in progress.

The **decreases** relate mainly to the following uses:

- EUR 0.4 million in relation to minor liabilities pertaining to sold businesses;
- EUR 0.2 million in relation to disputes of a legal nature the costs of which have been incurred during the period;
- EUR 0.7 million in relation to various types of expenses relating to the sold business.

The **change in the scope of consolidation** includes amounts shown in the section **Change in the scope of consolidation**.

Reclassifications were recognised against EUR -0.5 million in provisions for non-current liabilities and charges.

20 - TRADE PAYABLES

	30.06.2017	31.12.2016
Trade payables	104,251	152,525
Payables due to Group companies not consolidated line-by-line	59	156
Total	104,310	152,680

These are payables deriving from commercial transactions and are payable within the next year. These refer mainly to payables for the purchase of utilities (gas and electricity), investments and residual liabilities of prior years relative to businesses that have now been sold.

NOTE 21 - CURRENT FINANCIAL LIABILITIES

	30.06.2017	31.12.2016
Short-term bank borrowings	41,271	2,270
Other short-term financial payables:		
Current portion of medium/long-term bank borrowings	–	–
Current portion of medium/long-term bank project financing	154,882	151,906
Other financial payables	2,168	4,922
	157,050	156,828
Total	198,321	159,098

Relevant information about “Short-term bank borrowings” is as follows:

- at 30 June 2017, short-term borrowings amounted to 12% of total credit lines granted (16% at 31 December 2016);
- the average drawn on the short-term credit lines during the year was 12% of the total amounts granted (14% at 31 December 2016);
- these lines are revocable and unsecured.

NOTE 22 - NET FINANCIAL POSITION

(EUR thousand)	Notes	30.06.2017	31.12.2016
Medium/long-term mortgages and loans	17	669.435	668.439
- current portion of mortgages and loans	17, 21	–	–
Fair value of derivatives hedging interest rates	17	120.233	141.947
Total		789.669	810.386
Medium/long-term Project Financing	17	1.206.454	1.275.580
- current portion of Project Financing	17, 21	(154.882)	(151.906)
Total		1.051.571	1.123.674
Medium/long-term financial indebtedness/ (Medium/long term financial assets)		1.841.240	1.934.060
Short-term bank borrowings	21	41.271	2.270
Short-term financial debts	21	2.168	4.922
Total		43.439	7.192
Cash and cash equivalents	12	(253.140)	(263.328)
Securities and other short-term financial receivables	11	(108.475)	(108.763)
Total		(361.615)	(372.090)
Short-term Project Financing	17, 21	154.882	151.906
Cash and cash equivalents	12	(163.868)	(163.868)
Total		(8.986)	(11.962)
Net short-term financial indebtedness/ (Short-term financial assets)		(327.162)	(376.860)
NET FINANCIAL POSITION		1.514.078	1.557.200

Net financial position amounted to EUR 1,514 million, down by EUR 43 million compared to 31 December 2016, mainly by effect of the following impacts and the cash flow of the period:

- EUR +39 million relating to the **acquisition** by DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH described in the section **Changes in scope of consolidation**;
- EUR +74 million relative to distribution of dividends by shareholders;
- EUR -91 million in collections of incentives (feed-in tariff Italy, green certificates);
- EUR -64 million of cash flow during the period net of the investments and changes in operating capital.

Net financial position includes financial liabilities related to the fair value of interest rate hedging derivatives, amounting to approximately EUR 120 million (EUR 142 million at 31 December 2016).

NOTE 23 - OTHER CURRENT LIABILITIES

	30.06.2017	31.12.2016
Tax payables	80.313	19.764
Payables due to employees	5.831	8.765
Payables due to social security institutions	4.236	4.438
Payables due to TotalErg S.p.A. for tax consolidation	3.081	16.600
Portions of deferred revenue in subsequent periods	1.859	1.642
Other current liabilities	8.058	14.656
Total	103.379	65.865

"Tax payables" mainly refer to the estimate of income taxes owed for the period and VAT payable. It is hereby noted that in the first half of 2017 taxes were paid, net of offsetting, of approximately EUR 15.2 million in settlement of 2016 and as an advance for 2017. We moreover note that approximately EUR 9 million were paid to TotalErg and subsidiaries as part of the tax consolidation agreements, in remuneration of the losses brought forward and used.

NOTE 24 - COVENANTS AND NEGATIVE PLEDGES

Regarding covenants and negative pledges, at 30 June 2017 we note the following new items with respect to the information provided in **Note 26** of the 2016 Consolidated Financial statements.

- Loans to the companies **ERG Eolica Fossa del Lupo S.r.l.**, **ERG Eolica Amaroni S.r.l.** and **ERG Eolica Basilicata S.r.l.** (hereinafter the "Companies") were renegotiated jointly with effect from 30 June 2017.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the share capitals and on the restricted bank accounts (EUR 8.5 million at 30 June 2017). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the projects' cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the Companies to the hedging financial institutions or by the hedging financial institutions to the Companies according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, the Companies may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05, and the Companies do not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows expected by the Company between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. If the value is

less than 1.05, and the Companies do not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, the Companies may not issue further guarantees on their assets except in the event of guarantees required by law.

- The loan issued in November 2015 to **EW Orneta 2 SP. Z.O.O.** was renegotiated with effect from 24 May 2017.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the share capital of EW Orneta 2 SP. Z.O.O. and on 100% of the share capital of Blachy Pruszyński - Energia sp. z o.o and Hydro Inwestycje sp. z o.o. acquired from EW Orneta 2 SP. Z.O.O. on 24 May 2017 and on the restricted bank accounts of EW Orneta 2 SP. Z.O.O. The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, EW Orneta 2 SP. Z.O.O. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows expected by the company between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. If it is lower than 1.15, EW Orneta 2 SP. Z.O.O. may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, EW Orneta 2 SP.ZO.O. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan acquired as part of the DIF RE Erneuerbare Energien 1 GmbH business combination and by DIF RE Erneuerbare Energien 3 GmbH:

- Loan taken out by **ERG Wind Dobberkau GmbH & Co. KG** with Norddeutsche Landesbank dated 4 December 2014 and expiring on 31 December 2025.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.0. Failure to comply with the minimum historic DSCR values for two consecutive calculation dates or failure to comply with prospective DSCR for one calculation date constitute default events in terms of the loan.
 - The negative pledges are those which are typical of the project financing and they refer to the shares of the Company, its assets and current accounts.
 - There are no minimum DSCR values for distribution.
- Loan taken out with Sparkasse Bremen AG on 10 November 2016 by **ERG Wind Hermersberg GmbH & Co. KG, ERG Wind Ober Kostenz GmbH & Co. KG, ERG Wind WB GmbH & Co. KG, ERG Wind Welchweiler GmbH & Co. KG and ERG Wind Weselberg GmbH & Co. KG.**

The five companies simultaneously signed a Joint Liability agreement between them according to which all are jointly and severally liable for each loan taken out. This is essentially a single loan in which all the parties involved contribute to the financial commitments according to their liquid funds.

- There are no particular financial covenants if the repayment obligations and the maintenance of the DRSA are not complied with.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the Company, its assets and current accounts.
- There are no minimum DSCR values for distribution.

NOTE 25 - CONTINGENT LIABILITIES AND DISPUTES

ERG is a party in civil, administrative and tax proceedings and legal actions connected with the normal course of its operations. However, on the basis of the available information and considering the liability provisions accrued, it is deemed that these proceedings and actions will not determine significant negative effects on the Group.

Priolo Site

On 30 December 2013 ERG S.p.A. sold the final share held in ISAB S.r.l., definitively exiting the Coastal Refining business.

However, there still were certain contingent liabilities connected with the Priolo Site and originating from previous years which had not yet been fully defined.

Upon drafting the 2013 Financial Statements, in view of the uncertainty inherent to disputes, including tax disputes, of the complexity of site transactions and in general of the conclusion of the activities connected with the Coastal Refining business, a comprehensive assessment of the risk connected with the issues commented above was carried out, estimating the allocation of a "Priolo Site Provision" of EUR 91 million (EUR 81 million at 30 June 2016). In particular:

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it

should be recalled that on 6 April 2011 the Provincial Tax Commission of Siracusa partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, declaring them from 2007 onwards. The first degree decision was challenged within the deadline by the Inland Revenue Agency and ERG with appeal relative to the period subsequent to 2006. During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments. The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG. Following a thorough evaluation of the reasons for the appeal decision, the Company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of "harbour" in accordance with Italian Law 84/94 and to the alleged novating or retroactive validity of Article 1, Paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Regional Tax Commission of Siracusa allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. The date of the hearing has not yet been set. Starting from 2007, the related taxes had already been recognised in the Consolidated Income Statement under the accrual basis, while no provision had been made for the years from 2001 to 2006;

- with reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, in that the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and Lukoil. With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site), and by the agreement executed with Lukoil (new owner), the risk is as follows: (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 – 1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable. The following limitations apply to ERG's contractual liability to Lukoil: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and in case of uncertain identification of the period to which the potential damage is referred, a time shift until 2018 is applied. The agreement with Lukoil prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). Up to EUR 33.4 million, the costs shall be divided between ERG and Lukoil (51% and 49%);
- with reference to the **site commercial transactions**, there are both receivables and payables, mainly related to supplies of petroleum products and utilities pertaining to previous years.

At the time of preparation of this Report, the Management of the Group, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, noting the substantial absence of new elements and confirming, therefore, the appropriateness of the measurements made previously.

At 30 June 2017, therefore, the provision for liabilities was deemed appropriate and there have been no significant changes in the period as compared to 31 December 2016.

TotalErg

On 3 December 2013, at the offices of TotalErg S.p.A. in Rome and Milan and of ERG S.p.A. in Genoa, the Tax Police – Unit Headquarters of Rome executed the search warrant issued by the Prosecutor's Office at the Court of Rome within the scope of a criminal lawsuit against certain representatives of ERG S.p.A. and of TotalErg S.p.A. (company established as a result of the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A.).

The investigation - according to the charge formulated in the aforementioned warrant - pertained to alleged tax irregularities referred to the year 2010, allegedly carried out by recording, in the accounts of TotalErg S.p.A., invoices for alleged non-existing crude oil purchase transactions, issued for a total amount of EUR 904 million by Bermuda-based companies belonging to the Total Group, whose costs were included in the tax returns of TotalErg S.p.A. and reported by the consolidator ERG S.p.A. in the National Tax Consolidation return of the ERG Group.

As soon as it was informed of the ongoing investigation, the Company started an intense audit activity, aimed at thoroughly reconstructing the facts and the transactions in question, and at carefully analysing the internal control system.

With regard to tax matters, on **6 August 2014** ERG S.p.A., as a result of the same investigation, received, in its capacity as tax consolidator, a report on findings by the Tax Police of Rome, prepared with respect to TotalErg, whose contents substantially refer to the aforesaid allegations.

Moreover, on the same date TotalErg received a report on findings for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of substantially similar nature and amount, for each year, to those referenced above, hence referred to periods prior to the establishment of the TotalErg joint venture.

In view of the aforementioned reports on findings, ERG S.p.A. and TotalErg S.p.A., to further confirm the correctness of their actions, submitted their own observations and notes providing further information to the Financial Administration.

On **26 June 2015**, ERG S.p.A., in its capacity as the tax consolidating entity, and TotalErg S.p.A., in its capacity as the consolidated entity (formerly ERG Petroli S.p.A.), were served an assessment notice for IRES for tax year 2007. TotalErg S.p.A. 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 aforementioned 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 IRES, IRAP and VAT referring to 2007, 2008 and 2009 were served to TotalErg S.p.A., in its capacity as the incorporating entity of Total Italia S.p.A.

ERG S.p.A. and TotalErg (in its capacity as the consolidated entity), on **29 November 2016** and on **24 November 2016** respectively, were served an assessment notice for IRES for tax year 2010. TotalErg S.p.A. was served an assessment notice for additional IRES, 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 S.p.A. 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.

On **2 March 2017**, the Milan Provincial Tax Commission accepted the appeal in relation to IRAP for tax years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the incorporating entity of Total Italia S.p.A.).

The Italian Revenue Agency may appeal to the competent Regional Tax Commission within the terms established by law.



On **13 March 2017**, the Milan Provincial Tax Commission rejected the appeal in relation to IRES, Robin Tax and VAT for tax years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the incorporating entity of Total Italia S.p.A.).

TotalErg S.p.A. will appeal to the competent Regional Tax Commission within the terms established by law.

On **25 May 2017**, the Rome Provincial Tax Commission rejected the appeal in relation to IRES, IRAP and VAT for tax year 2007 (dispute relating to TotalErg S.p.A. as the incorporating entity of ERG Petroli S.p.A.).

TotalErg S.p.A. will appeal to the competent Regional Tax Commission within the terms established by law.

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.

Notice of adjustment and settlement of registration tax for the sale of the ISAB Energy S.r.l. business unit

With regard to the sale of the business unit consisting mainly of the "IGCC" thermoelectric power plant which took place pursuant to the deed dated 30 June 2014 by ISAB Energy S.r.l. to ISAB S.r.l., on 6 July of this year, the provincial division of the Italian Revenue Agency at Siracusa - Southern Prefecture (hereinafter the "Agency") served to ERG S.p.A. as the incorporating entity on December 2015 of the seller ISAB Energy S.r.l., a notice amending the values declared for settlement of the registration tax.

This same notice was served on 28 June of this year to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.

Essentially, the Agency verified the amount declared by the parties in terms of the registration tax in relation to each of the components of the business unit that was sold and proceeded to redetermine the value of (only) the real estate component consisting of the IGCC plant, measured at approximately EUR 7 million (net of accompanying liabilities of approximately EUR 7 million), and the carrying value thereof at 30 June 2014 at approximately EUR 432 million, making no further valuation regarding the fact that future economic results of the business unit that was sold could justify the aforementioned value.

The Agency therefore assessed the overall purchase price of the business unit that was sold at approximately EUR 442 million, instead of the consideration of approximately EUR 25 million declared by the parties, a consideration that is nevertheless higher than the overall purchase price for the business unit of approximately EUR 13 million, pursuant to a sworn appraisal by a third party appraiser appointed by ISAB Energy.

Based on these assumptions, the Agency levied a higher registration tax of approximately EUR 37 million, imposing a penalty equal to the higher registration tax that was assessed plus interest (total amount EUR 76 million).

Regarding the analysis of this case, we note that with the above the Agency simply expressed a differing estimate of "only" the tangible fixed assets component (IGCC plant) of the business unit, and not the business unit overall, in manifest violation of the regulations contained in the Consolidated Registration Tax Law.

In particular, based on the adjustment, the Agency identified only the carrying amount of the IGCC plant, completely disregarding its profitability (whether positive or negative) within the business unit in which the plant is expected to be used.

Therefore, the Agency disregarded the conditions and appraisal criteria that led the appraiser to determine the purchase price at EUR 13 million, and particularly the lack of cash flows following the termination of the CIP 6 Agreement, and did not consider at all the ascertained negative future profitability of the sold business unit, or the relative badwill (as fully described in the appraisal compiled by Prof. Pozza, which is already in the hands of the Agency).

As the company believes that it is able to formulate valid argument in its defence, with the support of its own tax consultants, it has submitted an appeal to the competent provincial tax commission and applications for both administrative and judicial suspension of the provisional tax demanded in the course of the proceedings (the amount of the provisional tax is equal to approximately EUR 13 million).

On 10 August 2016, the Syracuse Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded.

The relevant hearing was held on 15 November 2016 at the Provincial Tax Commission of Siracusa.

On 16 May 2017, the Syracuse Provincial Tax Commission annulled the contested act, but re-determined the value of the divested business for the purposes of registration tax in the amount of approximately EUR 71 million (compared to the approximately EUR 25 million declared for the purposes of registration tax).

The firm following the litigation confirmed the invalidity of the alleged tax as reformulated by the Syracuse Provincial Tax Commission and the subsequent existence of reasonable expectations of its complete rebuttal at the highest degrees of judgement.

On 17 July 2017, ERG S.p.A. appealed to the competent Regional Tax Commission.

The Group does not consider that it will lose and therefore no liabilities have been recognized to this end.

ERG Eolica Ginestra

In 2014 ERG Eolica Ginestra S.r.l. was subjected to a tax audit for fiscal year 2010 for IRES, IRAP and VAT purposes by the Genoa Provincial Office of the Italian Revenue Agency, which ended with the issuing of a report on findings served to the Company on 13 November 2014. The Agency is claiming only one alleged unlawful usage of the tax benefit provided under Article 5 of Italian Legislative Decree no. 78/2009, converted with amendments into Law no. 102/2009 ("Tax exemptions for investments in machinery"), the so-called Tremonti ter, proposing that IRES taxation be applied again for 2010 on 50% of the investments on which the company had received a tax benefit.

The Company believes it is able to formulate valid defensive arguments when it challenges the notice of assessment which may be issued as a result of the aforesaid report on findings.

On 30 March 2015, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) in its capacity as the tax consolidator and ERG Eolica Ginestra S.r.l. as the consolidated company were served an assessment notice for IRES, 2010 tax year, confirming the comment made during the audit regarding a tax loss that is lower by approximately EUR 26 million.

On 5 June 2015, the company appealed to suspend collection which was accepted on 16 July 2015.

With its ruling submitted on 14 January 2016, the provincial Tax Commission of Genoa accepted the appeal submitted by ERG Eolica Ginestra S.r.l.



On 24 May 2016, the Genoa Provincial Office of the Italian Revenue Agency appealed to the Liguria Regional Tax Commission against the first instance ruling.

The hearing date is yet to be set by the Liguria Regional Tax Commission.

In consideration of the above, the Group does not consider that it will lose and therefore no liabilities have been recognised to this end.

Law 488/92 contributions by ERG Wind

In the period from 2001-2005, prior therefore to the acquisition by ERG Renew S.p.A. (now ERG Power Generation S.p.A.) of the companies belonging to the International Power Group, funds were assigned to these companies pursuant to Law 488/1992 totalling EUR 53.6 million.

In relation to the allocation of these grants in the first half of 2007, investigation was initiated by the Public Prosecutor at the Court of Avellino in relation to alleged falseness of certain of the documents provided upon request.

During 2007, the confiscation of the Law 488/1992 incentives still to be provided was ordered (EUR 21.9 million) and on 30 September 2008 the Public Prosecutor ordered the precautionary attachment of seven wind farms. Following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010 the wind farms which have been under precautionary attachment were released, upon attachment of the aforementioned amounts.

These amounts were then transferred to the Single Guarantee Fund.

The preliminary investigation for the criminal proceedings at the Court of Avellino is underway. The next hearing is expected to be on 13 October 2017.

Despite the pending proceedings, in March and April 2014 the companies that were the recipients of the incentives pursuant to Law 488/1992 received from the Ministry of Economic Development the orders communicating the initiation of the procedures to revoke the aforementioned incentives.

On 6 February 2015, extraordinary appeals were served against the ministerial cancellation decrees, with simultaneous petition for the precautionary suspension of the enforceability of the contested measures.

On 27 July 2015, the beneficiary companies were issued with payment notices relating to the return of the incentives. Said notices were challenged with the submission of opposition proceedings before the Court of Genoa. As part of said proceedings, the Civil Judge ruled the tax assessments suspended against the submission of bank guarantees for the entire value of the latter (EUR 49 million). Subsequently, the Ministry of Economic Development and Equitalia raised the issue of the correctness of the judicial authority seised and the Court of Genoa suspended the defence proceedings, passing the case to the Court of Cassation for a decision. The hearing in the Supreme Court was held on 20 December 2016 and the Court subsequently confirmed - as expected - the jurisdiction of the Civil Court, before which the opposition proceedings were summarised by the opposing companies by 24 July 2017.

The proceedings subsequent to the filing of the extraordinary appeals to the Head of State are still pending and it is likely that the provisional judgement and the final judgement will be provided jointly, hopefully in the course of 2017.

In view of: (i) the guarantees issued by the seller of the companies of the International Power Group to ERG in the contract of transfer of the shareholdings in these companies, (ii) the settlement agreement concluded between said

seller and ERG dated 19 December 2016, in which these guarantees were confirmed and further detailed, and (iii) taking into account that in the 2013 Financial Statements a liability for an amount corresponding to the nominal value of the incentives for which the Ministry of Economic Development is requesting the return (see definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 18 - Other non-current liabilities**)) had already been allocated, further allocations are not required within the financial statements.

ERG Wind Investments Tax Audit

On 21 October 2015, the Tax Police - Special Income Unit - Investigation Group of Rome served to ERG Wind Investments Limited the final report on findings (hereinafter the "PVC") upon completion of the audit work which had begun on 17 June 2015.

From the above mentioned audit, except for certain comments regarding an insignificant amount, the following issues arose (i) failure to withhold an amount on the differences connected to Interest Rate Swaps during the 2010-2013 tax period from foreign counterparts, as they were qualified as interest, amounting to EUR 8.7 million, (ii) inappropriate deduction during the 2010-2013 tax period of interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by valid economic reasons (abuse of the right provided under Article 10-bis of Law 212/2000) with consequent higher taxes of EUR 8.8 million (iii) failure to apply, in the 2010-2013 tax period, withholding taxes on interest paid to non-resident individuals as part of the existing project financing of EUR 14 million.

Regarding the aforementioned PVC of 28 December 2015, the Company has received (i) an assessment notice only for the 2010 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties of EUR 2.5 million, plus a penalty of EUR 3 million and interest as at 22/12/2015 of EUR 0.4 million, (ii) an additional assessment of penalties for the reason under (i) with separate quantification of the penalties due to failure to pay a withholding amount of EUR 0.8 million and (iii) a question regarding the alleged inappropriate deduction of the interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by a valid economic reasons (abuse of the right afforded under Article 10-bis of Law 212/2000) for the 2010-2013 tax period. Following the proceedings initiated against Provincial Division I of Rome and the documentation produced, the comment made within the PVC regarding failure to apply, during the 2010-2013 tax period, withholding on interest paid to non-resident individuals as part of the existing project financing of EUR for 14 million was removed.

On 29 January 2016, the Italian Revenue Agency - Provincial Division I of Rome was presented with a settlement proposal against the assessment notice, and a defence brief against the tax assessment.

As the aforementioned settlement proposal was not successful, on 26 May 2016, because the company was able to formulate valid arguments in its defence, it appealed and concurrently requested the court to issue a stay against the collection pursuant to the assessment notice served on 28 December 2015.

On 16 November 2016, the Rome Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the hearing for 6 February 2017.

On 5 April 2017, the Rome Provincial Tax Commission accepted the appeal brought by the company. The Italian Revenue Agency may appeal to the competent Regional Tax Commission within the terms established by law.

On 8 November 2016, ERG Wind Investments Limited received an assessment notice for the 2011 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties for EUR 1.8 million, plus a penalty of EUR 2 million and interest at 14 October 2016 of EUR 0.3 million.

An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed. As a result of failure to discuss the application for judicial suspension in good time, the company put forward a request to the Italian tax collection agency for payment by instalments in order to divide the amounts due into instalments. The request for payment by instalments was accepted with payment being fixed over 72 monthly instalments.

The relevant hearing was fixed for 27 September 2017 at the Syracuse Provincial Tax Commission.

It is furthermore noted that against the tax assessment ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantee under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie declared that the assessment can be considered as a "Seller Driven Matter"²⁰ only for the 2010 and 2011 tax periods.

On 9 March 2016 an arbitration was initiated in order to request/prove the liability of Engie (formerly Gaz de France Suez) also for the subsequent tax period (in particular the 2012 tax period).

On 25 February 2016 ERG Wind Investments Limited also submitted to the Italian Revenue Agency - Provincial Division I of Rome a brief in response to the questionnaire for the alleged inappropriate deduction of interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited. Furthermore, intense confrontations took place with the aforementioned Provincial Division I of Rome in order to highlight, among other things, the valid financial reasons underlying the aforementioned loans, as well as the absence of any true economic advantages, which are essential conditions for the accusation of abuse of right pursuant to Article 10-bis of Law 212/2000.

In relation to this latter case, on 18 March 2016, the Italian Revenue Agency - Provincial Division I of Rome completed its assessment and communicated that it had removed the relative comment.

ERG Renew S.p.A. (now ERG Power Generation S.p.A.) at end-2016 decided not to pursue the arbitration, while reiterating Engie's responsibilities for subsequent tax periods.

ERG Wind Holdings (Italy) Tax Audit

On 3 December 2015, the Tax Police - Rome Unit served to ERG Wind Holdings (Italy) S.r.l. the final report on findings (hereinafter the "PVC") upon completion of the audit work which had begun on 6 August 2014.

From the aforementioned investigation, except for certain comments of an insignificant amount, only one comment emerged regarding registration tax referring to an extraordinary transaction that took place in 2012 relative to the

²⁰ Engie recognises its liability based on the aforementioned Share and Purchase Agreement.

transfer of business units consisting of electricity production plants (held on the basis of business leases) from 16 UK LLPs to ERG Wind Energy S.r.l. and subsequent assignment to the two shareholders (two UK LTD companies) of the equity investment in ERG Wind Energy S.r.l..

The abovementioned comment, based on the qualification of the company sale, would result in a higher registration tax of approximately EUR 9.5 million plus penalties.

ERG Wind Holdings (Italy) S.r.l. would be jointly and severally liable to pay the aforementioned registration tax as an incorporating entity during 2013 of the two UK shareholders of 16 UK LLPs (that is, the two UK LTD companies).

Regarding the aforementioned PVC, on 14 December 2015, the Italian Revenue Agency Provincial Division 3 of Rome served to ERG Wind Holdings (Italy) S.r.l. a notice for payment of the registration tax and penalties.

The higher taxes requested total EUR 9.5 million plus interest (EUR 0.9 million) and penalties (EUR 11.4 million), for a total of EUR 21.8 million.

On 10 February 2016 ERG Wind Holdings (Italy) S.r.l. appealed the aforementioned payment notices, in its belief that the company is able to put forth valid arguments in its defence.

The Group does not consider that it will lose and therefore no liabilities have been recognized to this end.

It is furthermore noted that against the tax assessment ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantee under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie has confirmed that the assessment can be considered to be a "Seller Driven Matter".

INCOME STATEMENT ANALYSIS

NOTE 26 - REVENUES FROM ORDINARY OPERATIONS

	1 st half 2017	1 st half 2016
Revenues from sales	533,174	526,174
Revenues from services	5,099	4,003
Total	538,273	530,177

The breakdown of revenues from ordinary operations by segment can be represented as follows:

	1 st half 2017	1 st half 2016
Wind power sector	231,703	244,455
Thermoelectric sector	230,480	224,317
Hydroelectric sector	75,527	60,675
Corporate	561	730
Total	538,273	530,177

The **revenues from sales** consist mainly of:

- the sales of **electricity** produced by the wind farms and thermoelectric installations and, from December 2015, the hydroelectric plants, as well as sales on organised markets through physical bilateral agreements. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral contracts. In particular, electricity sold wholesale includes the sales on the IPEX electricity exchange, both on the “day before market” (MGP) and on the “intraday market” (MI), and the “dispatching services market” (MSD), as well as the sales to the main operators of the sector on the “over the counter” (OTC) platform. We note finally the sales of water and steam which are supplied to the industrial operators at the Priolo site.
- the **incentives** relative to the production during the half year of the wind farms in operation belonging to the ERG Hydro hydroelectric plants. In Italy, the valuation of the incentives was calculated at the price of EUR 107.3/MWh determined on the basis of the expected realisable value. With reference to the regulations pertaining to incentives, please refer to the section **Criteria for the preparation of the financial statements**.

For further details regarding the prices and quantities sold please see the comment under the **Interim Report on Operations** herein.

The following table shows the breakdown of revenues from sales:

	1 st half 2017	1 st half 2016
Sales to third parties	527,721	5,055
Sales to Group companies not consolidated line by line	5,453	521,119
Total	533,174	526,174

NOTE 27 - OTHER REVENUES AND INCOME

	1 st half 2017	1 st half 2016
Indemnifications	239	410
Expense recoveries	166	199
Capital gains on disposals	–	1
Non-recurring income	27	1,236
Other revenues	4,306	6,268
Total	4,738	8,114

We note that the item mainly contains chargebacks to third parties of a minor entity, grants related to income and chargebacks to Group companies which are not consolidated on a line by line basis.

NOTE 28 - CHANGES IN RAW MATERIALS INVENTORIES

The changes in raw material inventories, relative to the spare parts which are recognised at the lower of the cost calculated using the weighted average cost method and the market value equal to EUR -24 thousand (EUR 1,867 thousand in the first half of 2016).

NOTE 29 - COST FOR PURCHASES

The amount relative to the first half of 2017 is equal to EUR 172 million (EUR 133 million in the first half of 2016) and refers mainly to the purchase of electricity from GME and gas from Edison and Gazprom S.p.A. The increase is mainly connected to higher costs for the purchase of gas and electricity.

NOTE 30 - COSTS FOR SERVICES AND OTHER COSTS

	1 st half 2017	1 st half 2016
Costs for services	57,131	79,342
Rents and leases	14,751	15,592
Write-downs of receivables	384	–
Accruals of provisions for liabilities and charges	1,429	1,418
Duties and taxes	5,636	3,646
Other operating expenses	1,782	4,091
Total	81,114	104,089

Costs for services are broken down as follows:

	1 st half 2017	1 st half 2016
Commercial, distribution and transportation costs	7,199	16,121
Repairs and maintenance	12,386	15,197
Utilities and supplies	2,464	3,624
Insurance	4,489	4,988
Consulting services	6,248	8,819
Advertising and promotions	749	568
Other services	23,597	30,025
Total	57,131	79,342

- The **commercial, distribution and transportation costs** refer to ancillary costs relative to the distribution of electricity. The decrease is mainly due to the decrease in the volumes of electricity supplied to end customers connected to the national grid interconnection points.
- **Repairs and maintenance** mainly consist of the costs for routine maintenance of electricity generation plants.
- **Other services** refer to the emoluments paid to Directors and Statutory Auditors, the costs relative to services provided by the joint venture Priolo Servizi to the ERG Power CCGT plant at the industrial site of Priolo Gargallo (EUR 5 million), bank expenses, general overheads and ancillary personnel costs.

Duties and taxes refer mainly to the municipal taxes for the ERG Power CCGT plant and the wind farms, VAT deductible for ERG S.p.A. financial assets and other taxes and duties.

NOTE 31 - PERSONNEL COSTS

	1 st half 2017	1 st half 2016
Salaries and wages	21,798	22,200
Social security contributions	6,601	6,560
Employees' severance indemnities	1,401	1,348
Other personnel costs	2,018	1,866
Total	31,817	31,974

The other costs include additional employees' severance indemnities.

The item is in line with the period of comparison.

The following table shows the breakdown of the ERG Group personnel (average headcount during the period):

	1 st half 2017	1 st half 2016
Executives	39	42
Managers	162	163
Staff	342	342
Workmen	173	167
Total	716	713

At 30 June 2017, the total number of employees was 717.

NOTE 32 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	1 st half 2017	1 st half 2016
Amortisation of intangible fixed assets	24,466	32,892
Depreciation of tangible fixed assets	101,142	95,482
Write-downs of fixed assets	–	302
Total	125,608	128,676

The decrease in the value of the depreciation/amortisation is mainly due to the end of the useful life of some plant components relating to the French wind farms.

NOTE 33 - NET FINANCIAL INCOME (EXPENSES)

	1 st half 2017	1 st half 2016
Income		
Foreign currency exchange gains	32	1,146
Interest income on bank accounts	1,985	1,261
Other financial income	9,422	9,940
	11,438	12,347
Expenses		
Foreign currency exchange losses	(123)	(665)
Interest on short-term bank borrowings	(5)	(4,142)
Interest on medium/long-term bank borrowings	(14,663)	(21,528)
Other financial expenses	(30,672)	(31,981)
	(45,463)	(58,316)
Total	(34,025)	(45,969)

The decrease in the interest on bank borrowings with respect to the first half of 2016 is mainly due to the reduction of the medium-long term residual debt.

“Other financial income” and “Other financial expenses” refer mainly to the results of the derivatives; other financial expenses also include the effect on the income statement of the fair value measurement of the loan to ERG Wind

Investments Ltd, adjusted downwards by EUR 159 million at the time of the acquisition, because it had originally been stipulated at more advantageous conditions than those proposed by the market at the time of the acquisition.

NOTE 34 - NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The income and loss from equity investments of EUR -43 thousand (EUR 409 thousand in the first half of 2016 post IFRS 5) mainly includes a negative adjustment relating to the acquisition of an equity investment, partially offset by the Group's portion of the result of Priolo Servizi.

NOTE 35 - INCOME TAXES

	1 st half 2017	1 st half 2016
Current income taxes	28,449	29,569
Taxes from previous years	846	619
Deferred taxes	(3,237)	(972)
Total	26,058	29,216

Provisions for income taxes for the period were calculated taking into account the forecast taxable income to be applied to the income of companies in the energy industry.

"Deferred taxes" originate from the temporary differences deriving from adjustments made to consolidated companies' separate financial statements in application of the Group's uniform accounting standards, from the temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis, and from tax losses that can be carried forward.

Additionally, deferred tax liabilities amounting to EUR 12.9 million (EUR 19.4 million in the first half of 2016), calculated on the fair value of the derivatives accounted for under the cash flow hedge rule, were accrued directly to shareholders' equity.

It is recalled that, as reported above, law 208 of 28 December 2015 (the 2016 Stability law) provided for the reduction of the IRES rate from 27.5% to 24% beginning from 1 January 2017. Note, therefore, that the rate used for the calculation of the prepaid taxes is equal to the nominal IRES rate of 24%, increased, where applicable, by the IRAP rate.

It should be noted that as a result of the conversion of Legislative Decree no. 50 of 24 April 2017 ("Urgent provisions on financial matters, initiatives in favour of local entities, further interventions for areas affected by earthquakes and measures for development"), relative to the establishment of ACE [Aiuto Crescita Economica - Economic Growth Assistance], for the 2017 tax period the rate for the calculation of the notional yield of the increase in own capital was fixed at 1.6% (rather than the 4.75% of the previous tax period).

NOTE 36 - NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE

As previously commented, 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. Thanks to the joint venture, ERG benefited from a strengthened competitive position on the market, achieving significant commercial and cost synergies, in partnership with one of the world's largest players in the Oil industry. The company has been consolidated according to the equity method since 1 July 2010.

As a result of the radical re-organisation process the Group has undergone in recent years, said equity investment is no longer regarded as part of the core business of the Group.

It should be noted that from this Half-Year Financial Report, the shareholding is shown in "Assets held for sale", in accordance with IFRS 5, in view of the advanced process of sale of the shareholding in TotalErg S.p.A.

The results for the first half of 2017 and the first half of 2016 arising from valuation of the investment under the equity method of accounting are classified in the item "Net profit (loss) from assets held for sale".



Reconciliation between reported and theoretical tax charges

IRES (Corporate tax)	
Profit (loss) before taxes	110,475
Theoretical IRES taxation at 24%	26,514
Impact of consolidation adjustments not relevant to the calculation of taxes	(2,980)
Impact of permanent tax changes	(4,373)
Current and deferred IRES	19,160
IRAP	
EBIT	132,590
Write-down of receivables	–
Total	132,590
Theoretical IRAP at 5%	6,629
Effect stemming from IRAP rate increase for some companies	912
Impact of permanent differences and consolidation adjustments not relevant to the calculation of income taxes	(1,490)
Current and deferred IRAP	6,051
Total theoretical taxes	33,143
Total IRES and IRAP in the financial statements	25,212
Taxes from previous year	846
Substitute taxes	–
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS	26,058

The impacts of the consolidation adjustments refer mainly to the results of the TotalErg S.p.A. joint venture measured under the equity method.

The aforesaid reconciliation is calculated on a “Profit (loss) before taxes” that does not already take into account reclassifications for IFRS 5 purposes.

NOTE 37 - NON-RECURRING ITEMS

(EUR thousand)	1 st half 2017		1 st half 2016	
Revenues from ordinary operations		–		–
Other revenues		–		–
Costs for purchases		–		–
Changes in inventories		–		–
Costs for services and other costs		–	1)	(932)
Personnel costs		–	2)	(1,159)
Amortisation, depreciation and write-downs of fixed assets		–		–
Net financial income (expenses)		–	3)	(7,672)
Net income (loss) from equity investments		–		–
Income taxes		–	4)	1,759
Net profit (loss) non-recurring items (continuing operations)		–		(8,004)
Net profit (loss) non-recurring items assets held for sale	1)	(2,855)	5)	5,690
Net profit (loss) non-recurring items		(2,855)		(2,314)
Minority interests		–	6)	491
Group net profit (loss) non-recurring items		(2,855)		(1,823)

1st Half 2017

- 1) Net profit (loss) non-recurring items assets held for sale relates to the price effect of the commodity inventories of the TotalErg joint venture.

1st Half 2016

- 1) costs for services and other costs mainly refer to costs for extraordinary operations;
- 2) the personnel costs inherent in the staff redundancy procedure pursued in 2016;
- 3) the net financial expenses mainly inherent in the early closing of the Corni Eolian project financing;
- 4) the income taxes arising from the above mentioned effects;
- 5) net profit (loss) non-recurring items assets held for sale relates to the price effect of the commodity inventories of the TotalErg joint venture;
- 6) the result of minority shareholders insofar as the portion held by the minority shareholders of non-recurring items relative to the ERG Renew Group.



NOTE 38 - RELATED PARTIES

For complete disclosures, the values reported below do not take into account the reclassifications required by IFRS 5 and hence they also include the amounts indicated in the line "Net income from sold assets and liabilities".

Statement of Financial Position

	Other non-current financial assets	Trade receivables	Other receivables and current assets	Trade payables	Other current liabilities	Current financial assets	Current financial liabilities
Priolo Servizi S.C.p.A.		1,203	–	–	–	–	–
TotalErg S.p.A.		136	48,023	57	3,375	–	–
ISAB Energy Solare S.r.l.	271	5	–	–	–	90	–
San Quirico S.p.A.		–	1,409	–	–	–	–
ERG Petroleos S.A.		–	–	–	–	8,490	–
Evishagaran Wind Farm Ltd.	521						
WP France 6	1,063						
Other		33	–	–	–	12	29
Total	1,855	1,378	49,432	57	3,375	8,592	29
<i>% of the total item</i>	<i>5%</i>	<i>0%</i>	<i>35%</i>	<i>0%</i>	<i>3%</i>	<i>8%</i>	<i>0%</i>

Income Statement

	Revenues from ordinary operations	Other revenues and income	Costs for purchases	Costs for services and other costs	Financial income	Financial expenses
Priolo Servizi S.C.p.A.	5,636	–	–	(5,408)	–	–
TotalErg S.p.A.	477	257	(101)	(2)	17	–
ISAB Energy Solare S.r.l.	3	16	–	–	–	5
San Quirico S.p.A.	–	–	–	–	–	–
ERG Petroleos S.A.	–	–	–	–	–	–
Edoardo Garrone Foundation	–	–	–	(100)	–	–
Other	–	–	–	(222)	–	–
Total	6,117	272	(101)	(5,732)	17	5
<i>% of the total item</i>	<i>1%</i>	<i>6%</i>	<i>0%</i>	<i>7%</i>	<i>0%</i>	<i>0%</i>

Transactions with subsidiaries not included in the scope of consolidation, associates and joint ventures essentially concern the exchange of goods, the supply of services, and the provision and use of financing.

All transactions form part of ordinary operations and are settled at market terms and conditions.

It is noted that ERG S.p.A. renewed the option for the 2017-2019 domestic tax consolidation, with tacit renewal at the end of every three years for a further three years, with the subsidiaries (including indirect) Totalgaz Italia S.r.l., Eridis S.r.l., Raffineria di Roma S.p.A., ERG Eolica Adriatica S.r.l., ERG Eolica Basilicata S.r.l., ERG Eolica Calabria S.r.l., ERG Eolica San Ciro S.r.l. and ERG Eolica Ginestra S.r.l.

Costs for services also include EUR 0.2 million related to remuneration for the office of Executive Chairman performed in a Group company by a related party of ERG S.p.A.

Additionally, in June 2017 EUR 100 thousand were paid to the Edoardo Garrone Foundation as a contribution for 2017.

NOTE 39 - EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

	1 st half 2017	1 st half 2016
Group share of net profit ⁽¹⁾	84,417	72,503
Average number of shares outstanding ⁽²⁾	148,816,800	142,804,000
Basic earnings per share from continuing operations ⁽²⁾	0.487	0.529
Diluted earnings per share from continuing operations ⁽²⁾	0.487	0.529

(1) Thousands of euros

(2) Unit

(3) Euros

There are no potentially dilutive securities that impact the Group's share of net profit.

NOTE 40 - SEGMENT INFORMATION

Information by segment and geographical area is presented in accordance with IFRS 8 - Operating segments.

The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management considers that these indicators are significant parameters insofar as the measurement of the performance of the ERG Group.

To enhance understandability of the individual business performances, the operating results are shown at replacement cost of non-recurring items.

INFORMATION BY BUSINESS SEGMENT

(EUR million)	Wind power	Thermoelectric power	Hydroelectric power	Corporate	Total replacement cost	Reconciliation items	Total reported	Discontinued operations	Total continuing operations
1ST HALF 2017									
Total revenues	232	230	76	20	558				
Intra-segment revenues	–	–	–	(20)	(20)				
Net revenues from ordinary operations	232	230	76	1	538	–	538	–	538
EBITDA	170	40	54	(6)	258	–	258	–	258
Amortisation, depreciation and write-downs	(79)	(16)	(29)	(1)	(126)	–	(126)	–	(126)
EBIT	91	24	25	(7)	133	–	133	–	133
Capital expenditure in fixed assets	20	4	1	1	26	–	26	–	26

INFORMATION BY GEOGRAPHICAL AREA

(EUR million)	Wind power	Thermoelectric power	Hydroelectric power	Corporate	Total replacement cost	Reconciliation items	Total reported	Discontinued operations	Total continuing operations
1ST HALF 2016									
Total revenues	244	228	61	16	549				
Intra-segment revenues	–	(3)	–	(15)	(18)				
Net revenues from ordinary operations	244	225	61	1	530		530		530
EBITDA	187	52	41	(6)	273	(2)	271	1	272
Amortisation, depreciation and write-downs	(83)	(15)	(29)	(1)	(129)	–	(129)	–	(129)
EBIT	104	37	12	(7)	145	(2)	143	1	144
Capital expenditure in fixed assets	13	4	1	1	19	–	19	–	19



Information by geographical area

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	Total replacement cost
1ST HALF 2017								
Revenues from ordinary operations	474.4	23.1	17.5	5.4	7.1	10.8	–	538.3
EBITDA	220.2	15.3	11.6	1.5	4.1	5.5	(0.1)	258.2
Amortisation, depreciation and write-downs	(97.7)	(10.7)	(9.5)	(2.9)	(2.1)	(2.7)	–	(125.6)
EBIT at replacement cost	122.5	4.7	2.1	(1.4)	1.9	2.8	(0.1)	132.6
Capital expenditure in fixed assets	7.6	0.1	0.2	1.0	–	–	17.4	26.3

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	Total replacement cost
1ST HALF 2016								
Revenues from ordinary operations	311.2	45.5	26.1	9.7	12.5	17.8	(0.0)	422.8
EBITDA	235.5	31.8	18.2	5.7	8.1	8.5	(0.1)	307.6
Amortisation, depreciation and write-downs	(105.0)	(25.1)	(14.8)	(6.4)	(4.2)	(5.4)	(0.0)	(160.9)
EBIT at replacement cost	130.4	6.8	3.4	(0.7)	3.9	3.1	(0.1)	146.8
Capital expenditure in fixed assets	9.0	–	–	0.8	–	–	8.9	18.6

For details and the reconciliation entries, please refer to the “**Alternative performance indicators**” section in the “**Interim Report on Operations**”.

NOTE 41 - DIVIDENDS

The dividends paid by ERG S.p.A. in the first half of 2017 (EUR 74.4 million) and in the first half of 2016 (EUR 142.8 million), as resolved upon approval of the Financial Statements for the previous year, amounted respectively to EUR 0.50 and EUR 1.00 (of which EUR 0.50 is the non-recurring component) for each of the shares with dividend rights as of the coupon date.

NOTE 42 – FINANCIAL INSTRUMENTS

30.06.2017	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	Hedging derivatives	Other liabilities	Total	of which non-current	Fair value
Equity investments	–	–	491	–	–	491	–	–
Financial receivables	–	40,469	–	–	–	40,469	40,469	–
Derivative financial instruments	–	–	–	18,778	–	18,778	–	18,778
Trade receivables	–	292,846	–	–	–	292,846	–	–
Financial securities classified as current assets	–	–	80,137	–	–	80,137	–	–
Other receivables	–	329,019	–	–	–	329,019	188,937	–
Cash and cash equivalents	–	417,008	–	–	–	417,008	–	417,008
Total assets	–	1,079,342	80,628	18,778	–	1,178,748	229,406	435,786
Mortgages and loans	–	–	–	–	669,435	669,435	669,435	–
Non-recourse project financing	–	–	–	–	1,206,454	1,206,454	1,051,571	–
Short-term bank borrowings	–	–	–	–	41,271	41,271	–	–
Financial payables	–	–	–	–	1,875	1,875	–	–
Derivative financial instruments	–	–	–	120,527	–	120,527	120,233	120,527
Trade payables	–	–	–	–	104,310	104,310	–	–
Other payables	–	–	–	–	108,712	108,712	38,175	108,712
Total liabilities	–	–	–	120,527	2,132,056	2,252,583	1,879,415	229,238

31.12.2016	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	Hedging derivatives	Other liabilities	Total	of which non-current	Fair value
Equity investments	–	–	491	–	–	491	–	–
Financial receivables	–	39,099	–	–	–	39,099	39,099	–
Derivative financial instruments	–	–	–	18,526	–	18,126	667	17,859
Trade receivables	–	292,978	–	–	–	292,978	–	–
Financial securities classified as current assets	–	–	80,137	–	–	80,137	–	–
Other receivables	–	309,781	–	–	–	309,781	205,344	–
Cash and cash equivalents	–	427,195	–	–	–	427,195	–	427,195
Total assets	–	1,069,054	80,628	18,526	–	1,168,208	245,110	445,055
Mortgages and loans	–	–	–	–	668,439	688,439	668,439	–
Non-recourse project financing	–	–	–	–	1,275,580	1,275,580	1,123,674	–
Short-term bank borrowings	–	–	–	–	2,270	2,270	–	–
Financial payables	–	–	–	–	4,675	4,675	–	–
Derivative financial instruments	–	–	–	142,194	–	142,194	141,947	142,194
Trade payables	–	–	–	–	152,680	152,680	–	–
Other payables	–	–	–	–	101,218	101,218	37,153	101,218
Total liabilities	–	–	–	142,194	2,204,863	2,347,057	1,971,213	243,412

(1) FVTPL: fair value through profit or loss

(2) L&R: Loans and receivables

(3) AFS: Available for sale financial investments

The following table provides an analysis of the derivative financial instruments measured at fair value, grouped as levels 1 to 3 based on the degree to which their fair value can be observed:

- level 1, the fair value is determined from prices quoted on active markets;
- level 2, the fair value is determined using valuation techniques based on variables which are directly (or indirectly) observable on the market;
- level 3, the fair value is determined using valuation techniques based on significant variables that cannot be observed on the market.

	Level 1	Level 2	Level 3
Financial assets			
- FVTPL	–	–	–
- AFS	–	–	–
- Hedging derivatives	18,444	334	–
Total	18,444	334	–
Financial liabilities			
- FVTPL	–	–	–
- Hedging derivatives	–	120,527	–
Total	–	120,527	–

The Group has no financial instruments classifiable under level 3.

The financial instruments classified under level 1 are commodities (electricity and gas) the value of which is listed on a daily basis.

Financial instruments on interest rates are classified under level 2; to determine the market value of these instruments, ERG uses various models for measuring and valuation, as summarised below:

Type	Instrument	Pricing model	Market data used	Data provider	IFRS 7 Hierarchy
Interest rate derivatives	Interest Rate Swap	Discounted Cash Flow	- Deposit rates (Euribor) - Swap rates	- Reuters	Level 2
	Interest Rate Option (Cap, Floor)	Black & Scholes	- Deposit rates (Euribor) - Swap rates - Implicit rate volatility	- Reuters - Reuters	Level 2
Currency exchange rate derivatives	FX Forward	Discounted Cash Flow	- Zero coupon curves of the reference currencies - ECB Spot rates	- Reuters	Level 2
	FX Option	- Black & Scholes - Edgeworth Expansion - Monte Carlo, Simulation	- Zero coupon curves of the reference currencies - ECB Spot rates - Exchange rate implicit volatility	- Reuters	Level 2
Commodity derivatives	Commodity Swap	Discounted Cash Flow	- Official spot quotes on reference commodities	- Platts	Level 2
	- Crude oils		- Forward prices quoted on OTC markets	- Reuters	
	- Petroleum products		- Forward prices derived (i.e. linear regression) from OTC prices		
	- Crack spread		- Zero coupon curves on Euro and US Dollar		
	- Gas formulas		- ECB Spot rates		
	Commodity Future	Listed instrument	- Official settlement prices Source: EEX	- EEX via Reuters	Level 1
	Contract for Difference (CfD)	Discounted Cash Flow	- Forward national single price quoted on the OTC market - Zero coupon curve on the Euro	- EEX via Reuters - Reuters	Level 2

NOTE 43 - DISCLOSURE ON RISKS

With regards to the types of risks connected with the Group's business, the related hedging policies, the derivatives and the levels of observability of fair value, there were no significant changes from the 2016 Consolidated Financial Statements.

Summary of derivative instruments used

The derivative financial instruments arranged by ERG, designed to hedge its exposure to commodities price and interest rate risks were as follows at 30 June 2017:

Type	Hedged risk	Underlying financial instruments		Fair Value at 30.06.2017
Cash Flow Hedging Instruments				(EUR thousand)
A	Interest rate swaps and interest rate caps	Economic interest rate risk	1,327 EUR million	(120,233)
A	Interest rate swaps and interest rate caps	Economic interest rate risk	235 EUR million	850
B	Gas price risk swaps	Commodity transaction risk	253 thousands of MWh	(106)
C	Electricity price risk hedging futures	Commodity transaction risk	298 thousands of MWh	(1,011)
Total cash flow hedging instruments				(120,501)
Non Hedge Accounting Instruments				
D	Electricity price risk hedging CFD	Commodity transaction risk	81 thousands of MWh	157
E	Electricity price risk hedging futures	Commodity transaction risk	193 thousands of MWh	(92)
Total non Hedge Accounting instruments				65
TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS				(120,436)

A Interest Rate Swaps and Interest Rate Caps and Floors

Transactions for hedging the "interest rate" economic risk tied to fluctuations in interest rates on loans.

The underlying financial instruments lie in the following companies:

- ERG S.p.A.;
- ERG Power;
- companies in the renewable energies business.

At 30 June 2017, there was a total negative fair value in the amount of EUR 119.4 million. The change is recognised in the Cash Flow Hedge reserve.

B Gas price risk swaps

Swaps used to hedge the risk of price fluctuations in gas formulas for provision and supply agreements. In these contracts, the parties undertake to pay or collect at an agreed future date the difference between the established price and the price observed during the period multiplied times the quantities indicated in the contract.

At 30 June 2017, there was a total negative fair value in the amount of EUR 0.1 million.

C Electricity price risk hedging futures

Forward contract in which two parties agree to exchange at a future date a certain asset at a price fixed at the time of concluding the contract.

At 30 June 2017, there was a total negative fair value in the amount of EUR 1.0 million.

D Electricity price risk hedging CFD

Swaps used to hedge the risk of fluctuations in the price of electricity for provision and supply agreements. In these contracts, the parties undertake to pay or collect at an agreed future date the difference between the established price and the price observed during the period multiplied times the quantities indicated in the contract.

At 30 June 2017, there was a total positive fair value in the amount of EUR 0.2 million.

E Electricity price risk hedging futures

Forward contract in which two parties agree to exchange at a future date a certain asset at a price fixed at the time of concluding the contract.

At 30 June 2017, there was a total negative fair value in the amount of EUR 0.1 million.



NOTE 44 - OTHER DISCLOSURES

Disclosures on significant events occurring after the reporting period are provided in the relevant section of the

Interim Report on Operations.

NOTE 45 - PUBLICATION DATE OF THE HALF-YEAR FINANCIAL REPORT

On 9 August 2017, the Board of Directors of ERG S.p.A. authorised the publication of the Half-Year Financial Report together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, Italy, 9 August 2017

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

A handwritten signature in black ink, appearing to be 'Edoardo Garrone', written over a horizontal line.

REPRESENTATIONS ON THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-bis, subsections 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, represent as to:
 - the suitability in relation to the characteristics of the business and
 - the actual application of the administrative and accounting procedures for the preparation of the Half-Year Condensed Consolidated Financial Statements as of and for the first half of 2017.
2. In this regard, the following is pointed out:
 - the suitability of the administrative and accounting procedures for the preparation of the half-year condensed consolidated financial statements of ERG S.p.A. at 30 June 2017 was verified by the assessment of the system of internal control over Financial Reporting. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
 - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore represented that:
 - the Half-year Condensed Consolidated Financial Statements of the ERG Group at 30 June 2017:
 - were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
 - match the underlying accounting books and records;
 - are suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;
 - the Half-year Financial Report includes a reliable analysis of the references to the significant events occurred in the first six months of the year and to their impact on the Half-year Condensed Consolidated Financial Statements, as well as a description of the main risks and uncertainties for the six remaining months of the year. The Half-Year Financial Report also includes a reliable analysis of the information on significant transactions with related parties.

Genoa, Italy, 9 August 2017

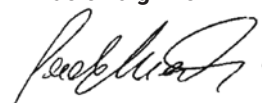
The Chief Executive Officer

Luca Bettonte



The Manager Responsible for preparing the
company's financial reports

Paolo Luigi Merli



AUDITORS' REPORT ON THE LIMITED AUDIT

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**To the Shareholders of
ERG S.p.A.**

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of ERG S.p.A. and subsidiaries (the "ERG Group"), which comprise the consolidated statement of financial position as of June 30, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the six month period then ended, and the related explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of ERG Group as at June 30, 2017 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
August 9, 2017

This report has been translated into the English language solely for the convenience of international readers.

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ERG S.p.A. - August 2017

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