



ANNUAL REPORT
AS AT 31 DECEMBER 2017



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Report on Operations

CORPORATE BODIES

BOARD OF DIRECTORS¹

Chairman

EDOARDO GARRONE *(Executive)*

Deputy Chairman

ALESSANDRO GARRONE² *(Executive)*

GIOVANNI MONDINI *(Non executive)*

Chief Executive Officer

LUCA BETTENTE

Directors

MASSIMO BELCREDI *(Independent)*³

ALESSANDRO CARERI *(Independent)*^{3,4}

MARA ANNA RITA CAVERNI *(Independent)*⁵

ALESSANDRO CHIEFFI *(Independent)*⁵

BARBARA COMINELLI *(Independent)*⁵

MARCO COSTAGUTA *(Non-executive)*

PAOLO FRANCESCO LANZONI *(Independent)*³

SILVIA MERLO *(Independent)*⁵

BOARD OF STATUTORY AUDITORS⁶

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., Mr. 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 Consolidated Finance Law and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.

⁶ Board of Statutory Auditors appointed on 3 May 2016.

INTRODUCTION

The Consolidated Financial Statements at and for the year ended 31 December 2017 were prepared in accordance with the Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

This document was audited by the independent auditor Deloitte & Touche S.p.A. in accordance with CONSOB (Italian Stock Exchange Regulator) regulations.

DISCLOSURE PURSUANT TO ARTICLES 70 AND 71 OF THE ISSUERS' REGULATIONS

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

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 hedges of the generation margin. Said hedges include, inter alia, the use of instruments to hedge the price risk.

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

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.

CHANGE IN THE BUSINESS SCOPE

The 2017 results reflect the acquisition of six wind farms in Germany (48 MW), acquired during the period and fully consolidated from 1 January 2017.

It is further specified that the 2017 results reflect the contribution of the wind farm owned by the company Brockaghboy Windfarm Ltd., which started operating in the fourth quarter of 2017. At the end of 2017, the process for the sale of that company was started, and it was completed on 7 March 2018.

SALE OF EQUITY INVESTMENT IN TOTALERG

On **3 November 2017**, ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the Api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery.

The transaction closed on **10 January 2018**, following the approval of the Antitrust and the completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The consideration for the sale of the assets is EUR 194 million, of which EUR 14 million were already collected as advance payment in 2017, EUR 144 million were collected in 2018 at the time of the closing and EUR 36 million as a deferred component regulated by a vendor loan agreement with maturity at 5 and one half years, entered into with Api S.p.A.

The total equity value of the transaction amounts to EUR 273 million that includes, in addition to the aforesaid consideration, also the extraordinary dividends distributed by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remaining EUR 51 million on 26 October 2017) the interest to be accrued within the scope of the vendor loan agreement and the related tax effects.

Already starting from the "Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017", the equity investment has been recognised and indicated in application of the requirements of IFRS 5. For the purposes of clearer disclosure, the TotalErg results of ordinary operations are shown and commented on in the line "Income (loss) from equity investments" in this Report, recognising their recurring contribution for the entire year 2017.

For the reconciliation of these values please refer to the section "Alternative performance indicators". For additional details of the amounts tied to the measurement and recognition of the equity investments for IFRS 5 purposes, further reference is made to **Note 27** of the Consolidated Financial Statements.

BROCKAGHBOY WINDFARM LTD.

In early 2016, ERG acquired from TCI Renewables ("TCI") 100% of the capital of Brockaghboy Windfarm Ltd. ("BWF"), a British company owning the authorisations required for the construction, then completed in 2017, of a wind farm in Northern Ireland with 48 MW of installed capacity. The wind farm has already been accredited for the purposes of the current incentive schemes (NIRO) provided by the regulatory system.

The agreements signed at the time provided that at the end of the construction and after the accreditation of the incentives (NIRO) ERG had the right to present a supplementary offer to TCI so as to maintain ownership definitively. If this offer is not accepted and only in the case of higher offers from third parties, the sale would be carried out, through a contractual mechanism of allocation of the capital gain.

This stated, it is pointed out that at the end of 2017, a process for the sale of the subsidiary Brockaghboy Windfarm Ltd. was started; it was completed on 7 March 2018.

In consideration to the above, in the Notes to the Consolidated Financial Statements the accounting results of the assets being sold are indicated separately in accordance with IFRS 5.

For clearer disclosure, the results of the assets being sold are shown and commented under ordinary operations in this Report on Operations.

For the reconciliation of these values please refer to the section "Alternative performance indicators".

BUSINESS DESCRIPTION

In 2017, 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 the 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 S.p.A. 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 1,814 MW of installed power at 31 December 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 (1,093 MW), but with a significant and rising presence also abroad (722 MW operational), in particular in France (252 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW) and Northern Ireland (47.5 MW)⁹. In particular, it is pointed out that in May 2017, ERG further consolidated its position in the German onshore wind market, through the acquisition of six German wind farms, with an installed capacity of 48.4 MW; moreover, in the fourth quarter 2017 the 47.5 MW wind farm in Northern Ireland progressively started operations.

On 12 January 2018, ERG entered the photovoltaic sector by purchasing 100% of ForVei S.r.l., the ninth photovoltaic operator in Italy with a total installed capacity of 89 MW.

⁹ It is the Brockaghboy wind farm sold on 7 March 2018.

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 Amendment¹⁰. 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 19 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.

At 31 December 2017, the ERG Group held an equity investment of 51% in TotalErg, a joint venture in the integrated downstream sector. It should be noted that, after a sale process started at the end of 2016, on **10 January 2018** the equity investment was sold to the Api Group.

One Company



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

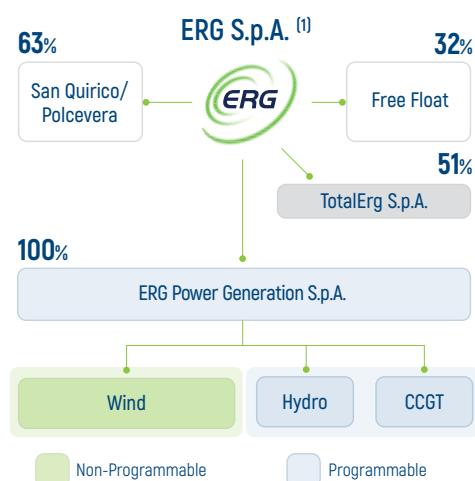
- ERG S.p.A. - Corporate - which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. The company is organised into the following 5 areas:
 - Business Development;
 - Administration, Finance, Planning and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

¹⁰ Law converting Decree Law no. 91/14 (“Competition Decree”). For additional details, please see the **Thermoelectric** section.

- 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.

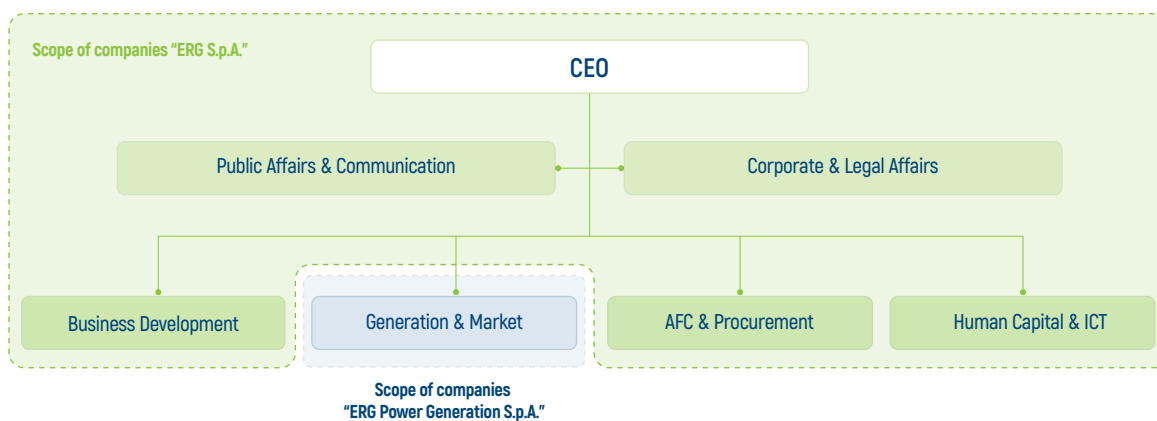
Implementation of the new Group Organisational Model, partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A., took full effect starting on 1 January 2017, specifically through:

- 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:



STRATEGY

ERG has radically changed its business portfolio, anticipating long-term energy scenarios, reaching a leadership position in renewable energy sources, not only in the Italian market but also in the European market.

In 2017 ERG completed the industrial transformation path started 10 years ago, having completely left the Oil business, with the sale of its equity investment in TotalERG. In addition, the Company took a significant step towards technological diversification, with the acquisition of 89 MW in solar power in Italy. ERG thus became a primary independent producer of electricity from renewable sources in Europe. The Group reached an installed capacity of 2,800 MW (approximately 1,814 MW in the wind power sector, 89 MW in solar power, 527 MW in the hydroelectric sector and 480 MW in the C.A.R. thermoelectric sector) with an asset portfolio that is diversified both technologically and geographically, characterised by a significant presence in wind power abroad.

ERG's strategy will continue to be to anticipate the scenarios and the trends of the sector and for this reason the 2018-2022 Business Plan was approved a year early. In recent years there has been a radical and profound change in Europe in the industry of energy generation from renewable sources: while on one hand Governments are pushing ever harder for decarbonization and in favour of renewable sources, on the other hand there has been a radical change in the competitive scenario, with the progressive introduction of competitive auctions for the awarding of new renewable capacity and the consequent abandonment of the incentive systems. Thus, renewables changed from being a business with strong infrastructural connotations to a business with purely industrial characteristics.

Within the changed competitive environment, ERG's strategy is to continue growing in renewable energies, now leveraging its own industrial know-how, its territorial presence, the quality of its own assets, its operating efficiency and on the flexibility of the integrated Energy Management portfolio.

The target in the 2018-2022 time interval is to increase the installed capacity by approximately 850 MW through three channels:

- 1) **Greenfield and co-Development:** ERG intends to continue with its growth strategy through internal growth or co-development agreements in France, Germany and United Kingdom.
- 2) **Repowering and Reblading in Italy:** In consideration of the technological evolution of the wind power sector, ERG's objective is to carry out repowering and reblading on wind farms equipped with obsolete technologies, with turbines below one MW, with incentives already expired or expiring, but at the same time in the windiest sites, hence with very high expected profitability even in the absence of incentives.
- 3) **M&A:** ERG intends to continue having an opportunistic approach, in order to exploit opportunities for growth in renewable sources in the countries of interest for ERG, leveraging the experience acquired along its transformation path and on the synergies deriving from consolidation with its own portfolio.

ERG 2018-2022 strategic options

ERG GROUP CURRENT GEOGRAPHICAL PRESENCE

Presence: 7 countries, Installed capacity: 2,8 GW, 3 Technologies



GEOGRAPHICAL PRESENCE



BUSINESS/TECHNOLOGY



Wind



Solar



Hydro



CCGT



O&M e TCM

COUNTRY/BUSINESS ATTRACTIVENESS FOR ERG

Reference geographies



BUSINESS/TECHNOLOGY



Wind

Greenfield &
Co-development



Repowering &
Reblading



M&A



Solar

M&A



O&M e TCM

Focus
on technical
operating
efficiency



ERG'S STOCK MARKET PERFORMANCE

At 29 December 2017¹¹, the closing price of ERG's shares was EUR 15.40, up (+51.0%) from the end of 2016, in the presence of a rise, in the same period, of the FTSE All Share index (+15.7%), of the FTSE Mid Cap index (+32.3%) and of the Euro Stoxx Utilities Index (+15.7%). During the period under review, the listed price of the ERG stock ranged between a minimum of EUR 9.96 (9 January 2017) and a maximum of EUR 16.50 (12 December 2017).

Figures relating to the prices and exchange volumes of ERG's shares at 29 December are set out below:

Stock price	EUR
Reference price at 29/12/17	15.40
Highest price (12/12/17) ⁽¹⁾	16.50
Lowest price (09/01/17) ⁽¹⁾	9.96
Average price	12.62

⁽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

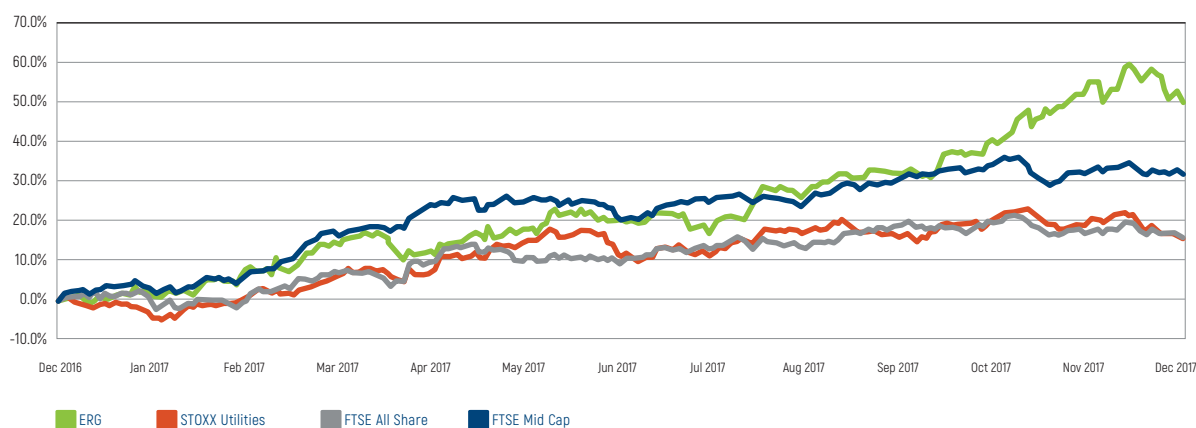
Traded volumes	No. of shares
Maximum volume (08/03/17)	1,054,084
Minimum volume (28/08/17)	75,785
Average volume	249,533

Market capitalisation was approximately EUR 2,315 million (EUR 1,535 million at the end of 2016). The average number of shares outstanding in 2017 came to 148,816,800.

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 29/12/2017



¹¹ Last day available for the year 2017.

PERFORMANCE HIGHLIGHTS

(EUR million)		YEAR	
		2017	2016
MAIN INCOME STATEMENT DATA			
Revenues from ordinary operations		1.056	1.025
Recurring EBITDA		472	455
Recurring EBIT		220	202
Net profit		207	125
<i>of which Group net income</i>		207	122
Recurring Group net profit⁽¹⁾		142	107
MAIN FINANCIAL DATA			
Net invested capital		3,110	3,286
Shareholders' equity		1,877	1,729
Total net financial indebtedness		1,233	1,557
<i>of which non-recourse Project Financing⁽²⁾</i>		1,115	1,276
Financial leverage		40%	47%
% EBITDA Margin		45%	44%
OPERATING DATA			
Installed capacity at period end – wind farms	MW	1,814	1,720
Electric power generation from wind farms	millions of kWh	3,613	3,501
Installed capacity – thermoelectric plants	MW	480	480
Electric power generation from thermoelectric plants	millions of kWh	2,453	2,693
Installed capacity at period end – hydroelectric plants	MW	527	527
Electric power generation from hydroelectric plants	millions of kWh	1,144	1,358
Total sales of electric power	millions of kWh	11,747	12,303
Capital expenditure ⁽³⁾	EUR million	54	60
Employees at the period end	Units	714	715
MARKET INDICATORS			
Reference price of electricity - Italy (baseload) ⁽⁴⁾	EUR/MWh	54.0	42.8
Feed-In Premium (former Green Certificates) - Italy	EUR/MWh	107.3	100.1
Sicily zone price (baseload)	EUR/MWh	60.8	47.6
Centre North zone price (peak)	EUR/MWh	63.5	47.6
Average unit value of sale of ERG wind energy - in Italy	EUR/MWh	147.1	139.0
Feed In Tariff - Germany ⁽⁵⁾	EUR/MWh	91.7	92.6
Feed In Tariff - France ⁽⁵⁾	EUR/MWh	88.3	88.7
Feed In Tariff - Bulgaria ⁽⁵⁾	EUR/MWh	81.9	84.0
Electricity price - Poland	EUR/MWh	36.5	33.4
Certificate of origin price - Poland	EUR/MWh	8.5	10.8
Electricity price - Romania ⁽⁶⁾	EUR/MWh	28.7	27.3
Green Certificate price - Romania ⁽⁷⁾	EUR/MWh	29.0	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 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 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 Romania price of electricity 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

(EUR million)	YEAR	
	2017	2016
RECURRING REVENUES FROM ORDINARY OPERATIONS		
Non-programmable sources	445	423
Wind Power	445	423
Programmable sources	610	601
Thermoelectric power ⁽¹⁾	473	479
Hydroelectric power	137	122
Corporate	38	32
<i>Intra-segment revenues</i>	<i>(37)</i>	<i>(31)</i>
Total revenues from ordinary operations	1,056	1,025
RECURRING EBITDA		
Non-programmable sources	316	308
Wind Power	316	308
Programmable sources	172	161
Thermoelectric power ⁽¹⁾	78	77
Hydroelectric power	94	84
Corporate	(16)	(13)
Recurring EBITDA	472	455
AMORTISATION, DEPRECIATION AND WRITE-DOWNS:		
Non-programmable sources	(160)	(163)
Wind Power	(160)	(163)
Programmable sources	(89)	(88)
Thermoelectric power	(31)	(30)
Hydroelectric power	(58)	(58)
Corporate	(3)	(3)
Recurring amortisation and depreciation	(252)	(254)
EBIT		
Non-programmable sources	156	145
Wind Power	156	145
Programmable sources	83	73
Thermoelectric power ⁽¹⁾	48	47
Hydroelectric power	35	26
Corporate	(19)	(16)
Recurring EBIT	220	202
CAPITAL EXPENDITURE ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
Non-programmable sources	35	44
Wind Power	35	44
Programmable sources	16	13
Thermoelectric power	10	10
Hydroelectric power	6	4
Corporate	3	3
Total capital expenditure	54	60

(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 2017, total sales of electricity came to 11.7 TWh (12.3 TWh in 2016), in the presence of an overall value of production for the Group plants of around 7.2 TWh (7.6 TWh in 2016), of which roughly 1.5 TWh abroad and 5.7 TWh in Italy. The latter balance corresponds to approximately 1.8% of electricity demand in Italy (2.0% in 2016).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table¹²:

SOURCES OF ELECTRIC POWER (GWh)	2017	2016
Wind - wind power generation Italy	2,117	2,220
Wind - wind power generation Abroad	1,496	1,281
CCGT - thermoelectric power generation	2,453	2,693
Hydro - hydroelectric power generation	1,144	1,358
ERG Power Generation - purchases	4,536	4,751
Total	11,747	12,303

SALES OF ELECTRIC POWER (GWh)	2017	2016
Electric power sold to captive customers	539	542
Electric power sold to IREN	2,015	2,020
Electric power sold wholesale (Italy)	7,697	8,460
Electric power sold abroad	1,496	1,281
Total	11,747	12,303

In 2017, steam sales¹³ amounted to approximately 737 thousand tonnes (752 thousand tonnes in the same period 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.

¹² 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.

¹³ Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

COMMENTS ON THE PERIOD'S PERFORMANCE

In 2017, **revenues from ordinary operations** amounted to EUR 1,056 million, slightly higher than the value of EUR 1,025 million of 2016, even in the presence of slightly lower RES compared to the same period of 2016 as a result of particularly adverse rain conditions in Italy. These effects were more than offset by the growth of wind power volumes thanks to the contribution of the new wind farms in Germany and in the UK in a positive scenario that recorded an average increase in energy prices, of the incentives and of the Energy Efficiency Certificates. This item also reflects the effects of 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 previous year up to the month of May 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 472 million, higher than the EUR 455 million recorded in 2016. The change is a result of the following factors:

Non-programmable sources: EBITDA of EUR 316 million, up compared to the same period of the previous year (EUR 308 million), mainly as a consequence of a more favourable general price trend as well as additional cost containment actions and of the contribution of the newly acquired wind farms in Germany, in addition to the commissioning of the new wind farm in Northern Ireland. These effects were only partially offset by weaker wind conditions and lower output in Italy and in France, where the wind conditions were less favourable. The wind conditions recorded in Germany and in Eastern countries, instead, were good.

In 2017 approximately 87% (96% in 2016) 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 172 million, up compared to the previous year (EUR 161 million). The contribution provided by the hydroelectric complex amounted to EUR 94 million, markedly higher than EUR 84 million in 2016 mainly as a result of the flexibility of the plants able to benefit from particularly favourable peak prices especially in the early part of the year in the Centre-North area, albeit with significantly lower water availability compared to the same period of the previous year. In addition, the results benefited from the repeal of the IAFR revocation, at the end of a series of audits with the GSE, for the plants at Cotilia (48 MW) and Sigillo (5 MW), which therefore are entitled, from the current year onwards, to receive incentives in addition to the recovery of past incentives.

The result of the thermoelectric business, amounting to EUR 78 million, was in line with the previous year (EUR 77 million) which however 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 more than offset by the contribution from revenues for Energy Efficiency Certificates to which the CCGT plant is entitled in as much as it is qualified as a high-efficiency co-generating plant, as well as by the better performance of energy sale prices.

Recurring EBIT was EUR 220 million (EUR 202 million in 2016) after amortisation and depreciation of EUR 252 million (EUR 254 million in 2016).

The **Recurring Group net profit** amounted to EUR 142 million, up strongly compared to the profit of EUR 107 million of 2016, as a result of the aforesaid higher operating results, lower net financial expenses, and higher income from the equity investment in TotalErg (consolidated at equity for the entire year 2017 in the present Report).

The result of 2016 also included the negative value of approximately EUR 3 million from minority interests.

Net Group income¹⁴ was EUR 207 million (EUR 122 million in 2016), and reflects, in addition to the already commented net operating results and the lower net financial expenses, the effects tied to the application of IFRS 5 to the TotalErg transaction.

In 2017, **Group capital expenditure** totalled EUR 54 million (EUR 60 million in 2016), of which 65% in the Non-programmable sector (73% in 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, in operation starting from the fourth quarter of 2017, and 30% in the Programmable sector (22% in 2016), and 5% in the Corporate sector (5% in 2016). To these are added approximately EUR 40 million invested in 2017 for the acquisition of 48 MW in Germany from the DIF Group (EUR 306 million in 2016 for the acquisition of wind farms in France and Germany from the Impax Group and Brockaghboy).

Net financial indebtedness amounted to EUR 1,233 million, down by EUR 325 million compared to 31 December 2016 mainly due to the positive operating cash flows, to the dividends received distributed by TotalErg (EUR 71 million), to collection of the advance payment from the Api Group within the scope of the sale of TotalErg (EUR 14 million), and to collection of the UESSE reintegration consideration (EUR 22 million)¹⁵ which offset the impacts of the acquisition of the German wind farms from the DIF Group (EUR 40 million), the distribution of dividends (EUR 74 million), the payment of taxes (EUR 23 million) and the capital expenditure in the period (EUR 54 million).

¹⁴ Includes non-recurring items amounting to EUR +38 million and inventory gains (losses) amounting to EUR +9 million (EUR +16 million in 2016). The values are net of tax effects. Additional details are provided in the chapter “Alternative performance indicators”.

¹⁵ In the fourth quarter of 2017, EUR 13 million were collected as settlement of 2015 and EUR 9 million as the second advance payment of 2016.

SIGNIFICANT EVENTS DURING THE YEAR

WIND POWER

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 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.

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

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.

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. (renamed ERG UK Holding) 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.

11
October
2017

ERG, through its subsidiary ERG Eolienne France S.a.s, executed with Vent d'Est S.a.s, a company of the French Grand Est region with industrial competencies in the management

and development of wind farms and strong relationships with local communities, an agreement for the acquisition of 75% of the share capital of two companies owning two parks for a total capacity of 16.25 MW (Parc Eolienne del Voie Sacrée S.a.s of 12 MW, which started operating in 2007 and Parc Eolienne d'Epense S.a.s of 4.25 MW, which started operating in 2005). The remaining 25% is held by Renvico France S.a.s. The enterprise value of the acquisition, base 100%, amounted to EUR 12.9 million. The closing, subordinated inter alia to the minority shareholders' waiving of the right of first bid, is expected by the first quarter of 2018. The transaction also provides the stipulation of a co-development agreement with Vent d'Est S.a.s for an early-stage pipeline of approximately 300 MW of projects, also located in France, in areas where wind speeds are very high. The agreement will then make it possible to start a greenfield co-development activity in France as well, of which ERG will have the leadership in the technical definition of the projects and in the management of the costs. With this acquisition, consistent with the Plan objectives of geographic diversification and growth abroad, ERG brings its installed capacity to approximately 270 MW in France, where a plan of progressive in-sourcing of wind farm management activities has already been launched.

SOLAR

16
November
2017

ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with VEI Green, an investment holding company controlled by PFH S.p.A. that is an investee of primary

Italian institutional investors, for the purchase of 100% of the company ForVei S.r.l., ninth photovoltaic operator in Italy.

ForVei, a joint venture between VEI Green and Foresight established in 2011, owns and operates 30 photovoltaic plants, which started operations between 2010 and 2011, located in 8 regions between Northern and Southern Italy, with an installed capacity of 89 MW and annual production of approximately 136 GWh, equivalent to approximately 77 kt of CO₂ emissions avoided. 100% of installed capacity benefits from incentives with average expiration in 2030.

The enterprise value of the transaction was EUR 336 million; the annual EBITDA expected for 2017 is approximately EUR 35 million. The assets are currently financed by non-recourse Project Financing for an amount of approximately EUR 180 million and lease agreements for an amount of approximately EUR 60 million. The transaction's closing date was **12 January 2018** (see **Significant events after the reporting period**) and therefore the company will be consolidated line by line starting from 1 January 2018.

CORPORATE

20
April
2017

At the end of the Shareholders' Meeting, Mr. 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, Mr. 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 Association, 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, at the time of the appointment 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.

04
July
2017

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.

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.

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.

03
November
2017

ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the Api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately

2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery.

The transaction closed on 10 January 2018, following the approval of the Antitrust and the completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The total amount that ERG S.p.A. will collect for the equity value of the transaction is EUR 273 million. This amount includes the extraordinary dividends distributed by TotalErg S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017) and a deferred component of approximately EUR 36 million, regulated by a vendor loan agreement with a duration of 5 and a half years, entered into with Api S.p.A.

TOTALERG INVESTIGATION

With regard to the investigation on the alleged tax irregularities involving TotalErg (a joint venture 51%-owned by ERG and 49%-owned by Total, resulting from the merger of Total Italia and ERG Petroli on 1 October 2010), on 26 June 2015 ERG, in its capacity as the tax consolidating entity, and TotalErg, in its capacity as the consolidated entity (formerly ERG

Petroli), were served with an assessment notice for IRES for tax year 2007. TotalErg was served an assessment notice for IRAP and VAT for the same year.

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

On 6 July 2015, assessment notices for IRAP, IRES and VAT referring to 2007, 2008 and 2009 were served to TotalErg, in its capacity as the incorporating entity of Total Italia. 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 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 has appealed 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. appealed 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.). On 27 December 2017, TotalErg S.p.A. appealed to the competent Regional Tax Commission.

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

In relation to the matters described above, it should be recalled that the joint venture agreement with Total provided an adequate mutual set of guarantees which remained valid even as a result of the sale to Api - anonima petroli italiana S.p.A. of the equity investment in TotalErg (the dispute in question were retained by the selling parties ERG and Total Marketing Services SA as Retained Matters).

adeguato reciproco apparato di garanzie che sono rimaste valide anche a seguito della cessione ad Api – anonima petroli italiana S.p.A. della partecipazione in TotalErg (i contenziosi in argomento sono rimasti in capo ai venditori ERG e Total Marketing Services SA quali c.d. Retained Matters).

REGULATORY FRAMEWORK: MAIN CHANGES

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

GENERAL

Paris Agreement on Climate Change

The Paris Agreement, signed in December 2015, ratified on 4 October 2016 and signed by 94.4% of the adhering Countries at the following 5 October, formally entered into force on 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 revoked the acceptance of the agreement signed by the previous administration.

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, with the goals of providing a stable regulatory framework, necessary to facilitate transition towards the use of clean energy (and significant for the creation of an energy Union) and to enable the EU to achieve the climate-energy targets for 2030¹⁶ adopted in October 2014 and presented to the COP 21 of December 2015.

The measures to be finalised also include the Commission's guidance for member states to draw up action plans.

The approval of the final measures, which should take place by 2018, involves a joint decision process by the European Parliament and the Council of the EU. All measures should enter into force in 2021.

Revision of the ETS directive

The ETS system is considered the main mechanism available to the European Union to promote attainment of climate-altering gas emission reduction targets for 2020 and 2030.

The prolonged depression of CO₂ prices, coupled with the need to adapt the system to the 2030 decarbonization targets, has highlighted the need for a structural revision of the system.

In 2015, the European Commission therefore presented a proposed reform, directed at regulating the fourth phase for

¹⁶ Reducing greenhouse gas emissions by 40% compared to 1990 levels; improving energy efficiency by at least 27%; at least 27% of energy from renewable sources.

the 2021-2030 ten-year time interval; the main purpose of the reform is to reach a structural resolution to the excess supply of CO₂ quotas, which led to the collapse and to the subsequent stagnation of the price of the quotas to levels altogether insufficient to promote decarbonization.

After over two years of discussions, the Council of the EU and the European Parliament reached an agreement on a common text with respect to the ETS reform proposed by the EC that is more incisive than the latter.

The agreement thus reached will have to be ratified both by the Parliament and by the Council, to be subsequently published on the Official Journal of the Union, presumably by the first quarter of 2018.

United Kingdom Referendum on membership in the European Union

On 23 June 2016, 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.

On 8 December 2017, an agreement was reached between the European Union and the United Kingdom on the first phase of the separation process.

The points of convergence pertain mostly to the measures to protect the rights of expatriate European citizens in the United Kingdom, the procedures for approaching the issue of the border with Northern Ireland and the methodology for calculating the amount, in Euro, which the United Kingdom will have to pay to the European Union, without prejudice to the financial commitments already made on the current multi-year budget to 2020.

The agreement allows negotiations to continue to the following phase, i.e. the definition of a new commercial agreement between the United Kingdom and the European Union.

National Energy Strategy (Strategia Energetica Nazionale - SEN)

Last 10 November 2017, the 2017 National Energy Strategy was presented through the Inter-ministerial Decree signed by the Ministers of Economic Development and of the Environment; the Decree was published on the websites of the two Ministries last 22 November.

The objective of the Strategy, which defines the energy policies through 2030 revising the similar document published in 2013, is threefold: continuation and strengthening of the transition towards decarbonized energy, greater energy price competition for Italian consumers with the objective of boosting the Country's competitiveness in Europe, increase energy procurement security with the concurrent reduction of energy dependence on foreign countries.

The 2017 SEN will serve as the basis for the finalisation, by 2018, of the National Energy and Climate Plan prescribed by the Clean Energy Package of the European Commission.

Concerning the targets for 2030 set by the 2017 SEN, they call of the attainment of 28% on total energy consumption and 55% on electrical consumption, through the substantial increase in the generation of electricity from solar and wind source.

Among the other major objectives contained in the Strategy is the intention of stopping the use of coal for electricity generation by 2025, replacing it with a mix of gas generation and with renewable sources, assisted by infrastructural upgrades to the electrical network and with accumulations of both electro-chemical and hydroelectric energy.

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, equity contributions on investment and the use of long-term bilateral energy supply agreements (Power Purchase Agreements - PPA).

National Strategy for Sustainable Development (SNSS)

On 2 October 2017, the Council of Ministers approved the National Strategy for Sustainable Development.

The purpose of the document is to provide a shared reference framework to the Country for a vision of development oriented towards sustainability. Therefore, five areas of intervention are identified: People, Planet, Prosperity, Peace, Partnership.

The Strategy, of which the SEN is an integral, coordinated part, takes up the previous "Environmental action strategy for sustainable development in Italy 2002-2010" and the contents of the 2030 Agenda for sustainable development, adopted in 2015 by the United Nations at the Head of State and of Government level, in line with the Agreement reached in 2015 on the occasion of the "Conference of the Parties" of Paris on contrasting climate changes.

This approval is followed by a second phase, coordinated by the Office of the Chairman of the Council of Ministers, for the definition and quantification of specific objectives to be associated to the sustainable development objectives set by the Strategy, and of shared methods to monitor them and for the assessment of the contribution of the adopted policies for their achievement.

Environment - Efficiency - Safety Matters

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 sound pollution 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 Italian Legislative Decree no. 104/2017 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.

To implement the aforementioned Legislative Decree, in August the Decree of the Director for Environmental Assessments and Authorisations of the Ministry of the Environment was published, establishing the first general control lists, functional to the pre-screening and consequent identification of the procedure to be initiated for changes, extensions, technical upgrades of existing plants, directed at improving their efficiency and environmental performance. Subsequent decrees identify the control lists relating to specific types of projects; in particular, Director Decree no. 48 of 5 February 2018 was promulgated for wind farm modernisation and repowering.

In August 2017, Italian Law no. 123 of 3 August 2017 was published; it converted into law, with amendments, Italian Law Decree no. 91 of 20 June 2017, i.e. the “Decreto Mezzogiorno” (“South Decree”).

The provisions of the law include the alignment of the national regulations pertaining to waste classifications to European regulations, overcoming the restrictions introduced by the previous “Competitiveness” Law of 2014. The new classification criteria contained in Regulation (EU) 2017/997 enter into force starting from 5 July 2018, to allow operators to comply with the new rules.

Also in August, Italian Presidential Decree no. 120/2017 was published, providing simplified regulations for the management of excavation spoils, implementing the conversion law of Italian Law Decree no. 133/2014 (known as “Unlock Italy”). The regulation defines the general requirements to be met so that excavation spoils and rocks can be qualified, under specific conditions, as sub-products, not waste.

Last November, Italian Law no. 163 of 25 October 2017, of 2017 European delegation, was published.

The law delegates authority to the Government to make national laws and regulations conform to Community regulations and directives. This includes authority to make Italian laws and regulations conform to European regulations on apparatuses that burn gaseous fuels and on personal protective equipment, as well as the authority for the transposition of Directive (EU) 2016/2284 on the reduction of national emissions of certain atmospheric pollutants.

European Law 2017

In November 2017, Italian Law no. 167 of 20 November 2017, for the fulfilment of the obligations deriving from Italy's membership in the European Union, was promulgated.

The law, which entered into force on 12 December, encompasses several issues and contains some articles that are directly tied to the energy sector.

In particular, it prescribes revising the national laws and regulations to make them conform to the European

Guidelines on State aid for environmental protection and energy 2014-2020.

In execution of this Law, through a dedicated Ministerial Decree, published at the end of December 2017, enterprises with high energy consumption were recognised subsidies, including tariff revisions in the other segments to raise the necessary funds. Subsidies were also activated for enterprises with high natural gas consumption.

To avoid excessive charges in the utility bills, the Authority for electricity, gas and water deferred to 1 January 2019 the implementation of the reform of the tariff components to cover the general charges for household electricity customers.

With regard to incentives for energy from renewable sources, Italian Legislative Decree no. 28 of 3 March 2011 was revised, bringing the threshold value within which incentives are possible without auctions to 1 MW, with the exception of wind farms that maintain the value to 5 MW. In addition, the Government was given the authority to call auctions with amounts open to different technologies.

“Annual Extensions” Law

Italian Law no. 19 of 27 February 2017, converting Italian 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 by 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.

2017 Competition Law

In August 2017, the annual Law for the market and competition no. 124 of 4 August 2017 was published; the law entered into force on 29 August 2017.

For the energy sector, the most important provision is the abolition of the protected regime for retail sales of electricity and gas, starting from 1 July 2019. For electricity a safeguard service is introduced, regulated by the AEEGSI, through competitive procedures for territorial areas and at conditions that incentivise the migration to the free market, to assure the continuity of deliveries to household customers and small businesses.

In this regard, in addition to a series of implementing decrees to complete the sector’s liberalisation, a register of electricity sellers is to be established with criteria and procedures set by the Minister of Economic Development at the proposal of the Authority for Electricity, Gas and Water.

On the front of the separation of the sale and distribution of energy, the exemption for closed distribution systems that are a part of a vertically integrated enterprise from the functional separation obligation was transposed, without changing the need for accounting separation.

Law converting the “Manovrina 2017” Italian 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” Italian 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.

2018 Budget Law

At the end of December 2017, Italian Law no. 205 of 27 December 2017, the “2018 Budget Law”, was published.

Among the points of highest interest contained in the law, of note is the revision of the penalties prescribed in relation to incentives for renewable sources: for some ascertained violations, the incentive will no longer be revoked altogether but it will be reduced by between 20% and 80%, depending on the extent of the violation.

In case of “voluntary correction” by the operator who spontaneously reports the violation outside an audit, the aforesaid reductions are smaller by one third.

The violations that entail reductions in the incentive shall be established by the Minister of Economic Development on the basis of elements provided by the GSE itself.

The law also provides for assignment of the authority for waste to the Energy Authority, which is called ARERA and returns to be governed by a 5-member council.

Incentives for industrial investments within the Industria 4.0 package are also confirmed: the super-depreciation for capital assets with the exclusion of vehicles and hyper-depreciation, the refinancing of the “New Sabatini” law for SME investments in machinery, plant and equipment, the 40% tax credit for training personnel on digital technologies.

To address droughts and to manage water losses in pipelines, a plan for reservoirs and for pipeline renovation is established.

To promote stable employment, employers will be granted a 50% reduction for the first three years of contract with increasing protections from 1 January onwards, subject to compliance with specific conditions. The reduction, intended for young people, is raised to 100% if the person went through school-work programmes or served as an apprentice with the same employer.

Access to early pension at the State’s expenses is to be extended to 15 categories of heavy duty occupations. In addition, the reduction of the contribution requirements prescribed for women is expanded from 6 months to 1 year, always within the maximum limit of 2 years. The time interval in which the period of activities required in heavy duty occupations is extended (in addition to the 6 years out 7 scheme, it is possible to accrue the period of activity according to the scheme of 7 years of 10).

In regard to registration tax, to establish taxation to be applied to the deed filed for registration, interpretational elements outside the deed or contained in other connected legal deeds are no longer considered.

Within the scope of waste tracking and management, an extension is introduced for penalties on operations, along with the amnesty for failure to pay the annual contribution and several administrative simplifications.

"Ecobonuses" are also confirmed for 2018, with changes on the incentives for boilers, as well as subsidies for earthquake protection works (which may be accumulated with the ecobonus).

The tax calendar is also redefined: the deadline for the pre-filled Return is 23 July and the deadline for the Income Tax Return is 31 October.

2018 Tax Decree and conversion into law

In October 2017, the Tax Law Decree no. 148/2017, connected to the Economic and Financial Planning Document, was published. Conversion into Law and publication took place the following December.

Among the most significant provisions, the extension of the Split Payment to all Public Administration subsidiary companies, some rules pertaining to corporate transparency, the renewal of the "junking" of tax assessments, the prohibition to issue 28-day invoices for telecommunications, new rules for earthquake-affected areas and some subsidies for return to Italy after working abroad.

Energy efficiency certificates

In April 2017, Italian Ministerial Decree of 11 January 2017 was published; defining the energy savings targets for electricity and gas distribution entities for the years from 2017 to 2020, it affects the balance between supply and demand of the energy efficiency certificates (TEE).

As a consequence of the Decree, the Authority for electricity, gas and water (AEEGSI) issued its decisions 435/2017 and 634/2017, changing for the future some criteria for determining the unit tariff contribution to be recognised to compliant distributors within the TEE mechanism and revising the regulations on bilateral TEE transactions set up by the Energy Markets Manager (GME). The changes will be implemented for the years after 2017.

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 (EU) Regulation 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.).

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 repeal of the measures indicated above, deeming that there were no grounds for the issue of such measures.

In April 2017, the AEEGSI notified the involved companies ERG Hydro S.r.l. and ERG Power Generation S.p.A. of the resolutions issued within the scope of the procedures started with resolution no. 342/2016. 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). Also with reference to these measures, ERG Power Generation S.p.A. and ERG Hydro S.r.l. have appealed to the Administrative Court of Lombardy for their repeal.

With two successive resolutions approved in January and February 2018, the Authority closed the procedures related to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. By March, Terna is expected to quantify the value to be returned as a result of the two indicated resolutions. It is estimated that any economic impacts are not significant.

Lastly, in October 2017, the companies received, from the Penalties and Commitments Department of the Authority, the notice that the penalty measure had been initiated for the behaviours that had been the subject of resolution no. 342/2016.

Gas emergency plan - EU procurement security

At the end of October 2017, the Italian Ministerial Decree revising the preventive action plan and the emergency plan to react to unfavourable events for the natural gas system was published.

Non-market measures to be adopted in emergencies are revised, introducing new instruments for balancing the system.

Also in October the European Union published the new regulations on natural gas procurement security, in force since 1 November 2017.

The general purpose of the regulation, based on the basic principles - enhancing risk assessments, solidarity mechanism and intensification of the exchange of information - is to increase the energy security of the European Union, reducing dependency on others for the procurement of energy and making it possible to react more rapidly and effectively to any crises in the procurement of gas more rapidly and effectively.

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).

To implement the Resolution 300/2017, Terna launched to pilot projects that provide for the creation of Virtual Eligible Consumption Units (UVAC) and Virtual Eligible Production Units (UVAP). UVAC and UVAP aggregate respectively non-significant multiple consumption units and multiple production units existing on a same network area; the role of the aggregator is established and it is distinct from the dispatching user owning the Production Units or the Consumption Units aggregated in the eligible virtual Units. In 2019, Terna will publish additional proposed pilot projects entailing the aggregation of UP and UC within the same UVA.

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; since 28 December, Terna reduced the delay in publishing the preliminary data to 30 minutes prior to the time of physical delivery, in line with the indications of the Authority.

The new method of calculation of the sign entered 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, from 2 September 2017 onwards, shall 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.

Regional Regulations

At the regional regulations level, in October 2017 the Sicilian Regional Government published its Italian Presidential Decree on the criteria for identifying areas unsuitable for the construction of plants for generating electricity from wind power. The measure follows Regional Law no. 29/2015 and the regulation implementing Regional Law no. 11/2010, pertaining respectively to the protection of landscapes and the environment and the penetration targets for renewable energy sources.

In November 2017, the Campania Regional Government published a Resolution pertaining to changes in energy authorisation matters; a previous measure that deemed "non substantial" plant modifications entailing size increases up to 30% was repealed.

The measure lists the authorisation cases, distinguishing between plants that fall within the scope of application of the EIA and works that affect the physical dimensions of individual apparatuses and on the volumes of the individual structures.

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 onshore 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, for assignment of a volume of 500 MW and a basic auction price of 74.8 EUR/MWh, ended on 1 December 2017, 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.

In December 2017, the CRE also regulated the procedures on multi-technological auctions for access to the FIP for new wind farms and FV with power between 5 MW and 18 MW scheduled for September 2018. The amount made available is 200 MW and there will be a Cap and Floor for the bid, respectively amounting to 90 EUR/MWh and 40 EUR/MWh.

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 or 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 in value for the excess energy produced.

GERMANY

The “Renewable Energy Sources Act” 2016 (EEG 2017), adopted on 8 July 2016, marks a move to an auction scheme for access to incentives, applied to all Renewable Energy Plants with more than 750 KW of power operating from 1 January 2017¹⁷. The annual auction quotas for new on-shore wind capacity are 2.8 GW per year up to 2020 and 2.9 GW for the following years. 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, 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 every two years from 1 January 2020.

For the three wind power auctions that took place in 2017, the starting bid price was set to 70 EUR/MWh, for the assignment of a quota of onshore wind power of 800 MW for the first session in May and 1,000 MW per session for the other two auctions of August and November 2017. Nearly all quotas were assigned to projects belonging to “Citizens’ energy companies” (Cooperatives) that benefited from the advantage, not provided for the other operators, of being allowed to participate without previously obtaining the specific authorisation.

In the three sessions of 2017, the average award values declined progressively, and in November 2017, they reached 38.2 EUR/MWh (the average award value of the May and August sessions equalled respectively 57.1 EUR/MWh and 42.8 EUR/MWh). Cooperatives, unlike the other operators that are awarded the price offered on the basis of the “pay-as-bid” mechanism, obtain the national marginal price, i.e. the maximum bid awarded nationwide.

The tariff that the plant will actually receive, however, is calculated by the network operator following the award, 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, for the first two sessions of 2018, in order to be able to participate in auctions, all projects, including the Cooperatives’, must have obtained the environmental authorisation (BlmschG, abbreviation of Bundes-Immissionsschutzgesetz, federal pollution control act).

In light of the low award values reached in the 2017 auctions, BNETZA (the German Regulator for network services) decided to raise the starting bid price for 2018, from 49 EUR/MWh prescribed by the EEG (i.e. the average of the three highest tariffs awarded in the three previous auctions increased by 8%) to 63 EUR/MWh, for all auctions to be carried out during the year (1 February, 1 May, 1 August and 1 November 2018).

Moreover, from 2018 onwards, multi-technological “pilot” auctions should be planned for wind and photovoltaic technologies.

¹⁷ Onshore wind farms authorised by 2016 and in operation by 2018 may continue to benefit from the (reduced) FIP in accordance with EEG 2014. The initial value recognised in the first 5 years of operation is 83.8 EUR/MWh, the baseline value for the following years is 46.6 EUR/MWh, and periodic reductions are planned from March 2017 onwards. From October 2017, the maximum reduction of the tariff is applied (-2.4%) because the wind power MW installed in the past year widely exceeded the set limit value. Alternatively to the FIP, it is possible to participate in the auction (deadline for participation: 1 March 2017).

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.

After weeks of negotiations, the talks for the formation of a governing coalition between the Christian-democrats (CDU/CSU), the liberals (FDP) and the Greens collapsed at the end of November 2017.

Following a new round of negotiations, in February 2018 the two main parties SPD and CDU/CSU reached an agreement to form a new governing "Grand Coalition".

With regard to energy matters, the agreement provides an extension of the target for the reduction of CO₂ emissions by 40%, to be achieved "as soon as possible"; in addition, an increase of the FER penetration target to 65% in 2030 is proposed, to be attained through new electricity generation assigned with additional auctions to be carried out in 2019 and 2020, dedicated to onshore wind power and to solar power (4 GW for each technology). In parallel, the fossil fuel phase-out phase will be defined within one year.

The final confirmation of the agreement for the definition of the new government has to wait for the internal vote of the SPD party members, scheduled for 4 March 2018.

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.

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.

At the end of September 2017, the Government announced the cancellation of all auctions planned for the year, including the one for wind power, to which a basket of 5,175 GWh for 15 years had been dedicated (~145 MW installed). The next auctions will probably be organised in 2018 after the entry into force of the amendment to RES Act 2015. In this regard, last December 2017 the European Commission announced the approval, on the basis of European state aid rules, of the Polish programme for renewable energies, which provides, for installation with capacity above 500 kW, a premium relative to the wholesale price, awarded through competitive auctions.

As to the Certificates of Origin (CO) mechanism provided for renewable plants commissioned by June 2016, in August 2017 an amendment was introduced to the RES Act 2015 which changed the method for calculating the Substitution Fee (the penalty applied in case of non-compliance with the CO purchase obligation) tying its value to the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For the September-December 2017 period, this penalty was thus equal to 92.04 PLN/MWh (sharply lower than the value of 300.03 PLN/MWh set previously). For the year 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh.

ROMANIA

At the end of December 2016 the Government approved the mandatory quota for purchase and cancellation of Green Certificates for operators selling electricity for large consumers. 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 EUR/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: the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (PCSCV).

THERMOELECTRIC POWER

Essential Units pursuant to Italian Law Decree no. 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 Italian 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 Italian Law Decree no. 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.

Resolution 745/2017 recognised the balance relating to the 2015 reintegration.

Resolution 841/2017 recognised an extraordinary account relating to the 2016 reintegration request.

Both amounts were paid by Terna within the respective deadlines.

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 Italian Law Decree no. 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).

Closed Distribution Systems (SDC) / Internal Utility Networks (RIU)

In August 2017, the Authority published resolution 582/2017, extending the date of enforcement of the TISDC (closed distribution systems integrated text), in the case of the RIU from 1 October 2017 to 1 January 2018, to align it to the revision of the tariff structure of the general system expenses (which, inter alia, will entail the elimination of the degressive brackets) active from 1 January 2018, and to the exemptions on the functional unbundling prescribed by the Competition law.

HYDROELECTRIC POWER

With regard to tariffs in lieu of “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**”.

On 30 December 2017 the decree of the Agenzia del Demanio (State Property Office) was published; it introduces the revision of the measure of the riverine extra-fee for hydroelectric offtakes.

This extra-fee, revised every two years on the basis of the Istat inflation data, is raised by 0.05 EUR/kW and 0.06 EUR/kW respectively for small and large water offtakes. In the 2018-2019 two-year time interval, the extra-fee for large offtakes rises from 7.61 EUR/kW to 7.67 EUR/kW.

In the following month of January 2018, the value of the extra-fee applicable to Mountain Water Catchment Areas (BIM) due by water offtake permit holders for the generation of power for the two-year period from 1 January 2018 - 31 December 2019”.

The amount of the BIM extra-fee for all offtakes with more than 220 kW of power changed to 30.67 EUR/kW.

Regional Regulations

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.

With regard to the TSAP decision, an appeal was filed before the Court of Cassation; the Court’s setting of the hearing is currently pending.

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	
	2017	2016
Italian Renewable Energy Sources Market ⁽²⁾ (GWh)		
Generation from renewable sources ⁽³⁾	85.618	88.932
of which:		
Hydroelectric	37.530	43.785
Geothermal	5.785	5.867
Wind	17.492	17.523
Photovoltaic	24.811	21.757
Sale prices (EUR/MWh)		
Reference price of electricity - Italy (baseload) ⁽⁴⁾	54.0	42.8
Feed-In Premium (former Green Certificates) - Italy	107.3	100.1
Electricity price - Central-South zone	51.6	41.6
Electricity price - South zone	49.8	40.4
Electricity price - Sicily	60.8	47.6
Electricity price - Sardinia	51.5	41.6
Average unit value of sale of ERG energy - in Italy ⁽⁵⁾	147.1	139.0
Feed-In Tariff - Germany ⁽⁶⁾	91.7	92.6
Feed In Tariff - France ⁽⁶⁾	88.3	88.7
Feed-In Tariff - Bulgaria ⁽⁶⁾	81.9	84.0
Electricity price - Poland	36.5	33.4
Certificate of origin price - Poland	8.5	10.8
Electricity price - Romania ⁽⁷⁾	28.7	27.3
Green Certificate price - Romania ⁽⁸⁾	29.0	29.5

(1) Estimated output for December

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

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

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

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

(6) The values of the Feed-In Tariff abroad refer to the prices obtained by 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 2017, 32% of (net) domestic electricity output of 213,108 GWh (+3.6%) was covered by renewable sources. In particular, 14% of the output derives from hydroelectric power, 6% from wind farms, 10% from photovoltaic plants and 2% from geothermal sources.

Compared to 2016, photovoltaic generation grew (+13%), while hydroelectric power generation declined (-12%) as did wind (-7%) and geothermal power generation (-2%).

Regulatory scenario

Italy

In Italy, for plants powered by renewable sources in operation no later than 2012¹⁸ and entitled to receive Green Certificates (GCs), the incentive system calls for the conversion of these certificates into a feed-in premium (FIP) starting from 2016 and for the residual period of entitlement to incentives. With regard to the value of the 2017 FIP, 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 year¹⁹, amounts to 107.34 EUR/MWh.

Pursuant to Italian Ministerial Decree of 6 July 2012, wind plants 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 auction. The Italian 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 of 8 June 2017 the Authority for Energy prescribed 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 came into force on 1 September 2017. From that date onwards, the 'single price' procedures for the setting of the imbalance price for all units not eligible (both production and consumption) entered back into force. The Authority also introduced a macro-zonal no-arbitrage consideration in order to put a stop to any arbitration between zonal prices within the same macro-zone.

In April 2017, the AEEGSI notified the involved companies ERG Hydro S.r.l. and ERG Power Generation S.p.A. of the resolutions issued within the scope of the procedures started with resolution no. 342/2016 for the timely adoption of prescriptive and/or asymmetrical regulation measures and the assessment of potential abuses in the electricity wholesale market in accordance with (EU) Regulation no. 1227/2011 (REMIT), potentially committed in the recent past by some electric market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.). 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).

¹⁸ There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.

¹⁹ Electricity sale 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.

With the two successive resolutions approved in January and February 2018, the Authority closed the procedures related to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. By the end of February, Terna is expected to quantify the value to be returned as a result of the two indicated resolutions. 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 date of 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 operation 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.

For wind power plants authorised by the end of 2016 and in operation by 2018, a transition period is provided, in which it is possible to continue to benefit from the tariffs set out in the EEG 2014²⁰ with decreasing value in relation to the actual new power installed in the period.

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 prescribed for the first 5 years can 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 (i.e. 3,300 hours)²¹.

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 for a total amount of 2,800 MW.

In the three sessions of 2017, the average award values declined progressively, and in November 2017, they reached 38.2 EUR/MWh (the average award value of the May and August sessions equalled respectively 57.1 EUR/MWh and 42.8 EUR/MWh). Citizens Energy Companies (Cooperatives), unlike the other operators who are awarded the price offered on the basis of the "pay-as-bid" mechanism, obtain the national marginal price and, for the exemption from the obligation to obtain the authorisation before the auction is conducted, they had nearly all the amounts envisioned recognised.

²⁰ In this regard the BNetzA announced 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 opted to participate in the auctions to be held in 2017-2018.

²¹ 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).

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, the Cooperative's projects must have been awarded the environmental authorisation (BlmschG, abbreviation of Bundes-Immissionsschutzgesetz, federal pollution control act).

In light of the low award values reached in the 2017 auctions, BNETZA (the German Regulator for network services) decided to raise the starting bid price for 2018, from 49 EUR/MWh prescribed by the EEG (i.e. the average of the three highest tariffs awarded in the three previous auctions increased by 8%) to 63 EUR/MWh, for all auctions to be carried out in 2018 (1 February, 1 May, 1 August and 1 November 2018).

Four auctions will be held in 2018 and 2019 (1 February, 1 May, 1 August and 1 October), for a total amount of 2,800 MW/year, and three in 2020 (1 February, 1 June, 1 October) for an amount of 2,900 MW/year also planned for the following years. 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. The goals to reach a portion of renewable energy sources of 40-45% by 2025, of 55-60% by 2035, and of 80% by 2050.

France

The incentive system for on-shore wind power is of the feed-in tariff (FIT) type, governed by the Decree of 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 the Decree of 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. 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 premium introduced with the decree of 13 December 2016 (which is applied to plants with acquisition application finalised or filed in 2016) comprises multiple components: the incentive component (complément de rémunération), calculated as the difference between the current FIT (amounting to approximately 81 EUR/MWh) and the average monthly price of energy weighted on the national wind power profile, plus the management premium of 2.8 EUR/MWh, to cover the costs for managing the sale of energy. The total value of that incentive is in line with the FIT pursuant to the Decree of 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 took place on 1 December 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 June 2020. The aim is to use this mechanism to develop 3 GW of on-shore wind capacity over the years 2017-2020. In December 2017, the CRE also regulated the procedures on multi-technological auctions for access to the FIP for new wind farms and FV with power between 5 MW and 18 MW scheduled for September 2018. The amount made available is 200 MW and there will be a Cap and Floor for the bid, respectively amounting to 90 EUR/MWh and 40 EUR/MWh.

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 onshore 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.

Romania

At the end of December 2016 the Government approved the mandatory quota for purchase and cancellation of Green Certificates for operators selling electricity and for large consumers. 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 EUR/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: the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (PCSCV).

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 principle 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.

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.

At the end of September 2017, the Government announced the cancellation of all auctions planned for the year, including the one for wind power, to which a basket of 5,175 GWh for 15 years had been dedicated (corresponding to approximately 145 MW installed).

The next auctions will probably be organised in 2018 after the entry into force of the amendment to RES Act 2015. In this regard, last December 2017 the European Commission announced the approval, on the basis of European state aid rules, of the Polish programme for renewable energies, which provides, for installation with capacity above 500 kW, a premium relative to the wholesale price, awarded through competitive auctions.

As to the Certificates of Origin (CO) mechanism provided for renewable plants commissioned by June 2016, in August 2017 an amendment was introduced to the RES Act 2015 which changed the method for calculating the Substitution Fee (the penalty applied in case of non-compliance with the CO purchase obligation) tying its value to the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For the September-December 2017 period, this penalty was thus equal to 92.04 PLN/MWh (sharply lower than the value of 300.03 PLN/MWh set previously). For the year 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh.

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).

In October 2017, the Government approved the document on Clean Growth Strategy, the strategy whereby the British Government promotes a new era of green economic growth, supported by the largest increase in public expenditures of the last three decades (2.5 billion Pounds to support innovation with low carbon emissions from 2015 to 2021). The Clean Growth Strategy regulates the extension of the tenders for the CfD which, however, do not provide onshore amounts except for projects "on remote Scottish islands".

Highlights of recurring performance items

OPERATING RESULTS	YEAR	
	2017	2016
Revenues from ordinary operations	445	423
Recurring EBITDA ⁽¹⁾	316	308
Amortisation, depreciation and write-downs ⁽¹⁾	(160)	(163)
Recurring EBIT ⁽¹⁾	156	145
Capital expenditure on tangible and intangible fixed assets	35	44
%EBITDA MARGIN ⁽²⁾	71%	73%

(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:

RECURRING EBITDA	YEAR	
	2017	2016
Italy	241	235
Abroad	76	72
of which		
Germany	25	18
France	30	32
Bulgaria	6	8
Romania	8	8
Poland	5	6
UK	2	(0)
Total	316	308

The consolidated revenues recorded in 2017 from non-programmable sources were affected by the lower output in Italy (-5%) compared to the previous year, offset, however, by a better price scenario net of the effects of the hedges. During the period, the incentivised period ended for some wind farms in Italy, so approximately 214 MW (equivalent to 260 GWh of output, with a theoretical economic value of EUR 28 million) which therefore 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 10.2 million.

Concerning sale prices in 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), amount to 147.1 EUR/MWh, up compared to the value of 139.0 EUR/MWh of the first nine months 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 have an impact on the value of the incentive for the subsequent year.

Sales by foreign farms were specifically concentrated in France and Germany, whose average unit revenues were 88.3 EUR/MWh and 91.7 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland, as well as in Northern Ireland, starting from the fourth quarter of 2017. The contribution to the output of wind farms abroad was approximately 1,496 GWh (+17%).

The recurring EBITDA of 2017 totalled EUR 316 million, up slightly compared to the values recorded in the previous year (EUR 308 million), for the reasons referenced above and because of 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 71%, at a high absolute value, albeit in slight decline relative to 73% recorded in 2016, mainly due to the reduction of the volumes by effect of the weaker wind conditions observed in Italy in 2017 compared to the 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, partly offset by the contribution of the wind farms acquired in Germany.

INSTALLED POWER (MW)	YEAR	
	2017	2016
Italy	1,093	1,094
of which		
Campania	247	247
Calabria	120	120
Puglia	249	249
Molise	79	79
Basilicata	89	89
Sicily	198	198
Sardinia	111	111
Other	–	2
Abroad	722	626
of which		
Germany	216	168
France	252	252
Poland	82	82
Bulgaria	54	54
Romania	70	70
UK	48	–
Total installed power at period end ⁽¹⁾	1,814	1,720

(1) power of plants in operation at period end

The installed power at 31 December 2017, amounting to 1,814 MW, increased by 94 MW compared with 31 December 2016, following the start of operations of the wind farm in Northern Ireland (47.5 MW), the acquisition of 6 wind farms in Germany (48.4 MW) and the disposal of two non-operating wind farms in Northern Italy (1.6 MW).

GENERATION (GWh)	YEAR	
	2017	2016
Italy	2,117	2,220
of which		
Campania	489	502
Calabria	238	256
Puglia	531	529
Molise	167	167
Basilicata	183	190
Sicily	299	342
Sardinia	209	233
Abroad	1,496	1,281
of which		
Germany	369	240
France	491	499
Poland	248	213
Bulgaria	157	148
Romania	201	181
UK	29	n.a.
Total wind farm output	3,613	3,501

In 2017, the electricity output from wind power amounted to 3,613 GWh, higher than in 2016 (3,501 GWh), with the output declining by approximately 5% in Italy (from 2,220 GWh to 2,117 GWh) and increasing by 17% abroad (from 1,281 GWh to 1,496 GWh).

The decline of output in Italy (-103 GWh) is tied to wind conditions, which were weak compared to the usual seasonal values and lower than those recorded in 2016. Outside Italy, the increase of 215 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 and to the contribution of the new wind farm built in Northern Ireland.

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

LOAD FACTOR %	YEAR	
	2017	2016
Italy	22%	23%
of which		
<i>Campania</i>	23%	23%
<i>Calabria</i>	23%	24%
<i>Puglia</i>	24%	24%
<i>Molise</i>	24%	24%
<i>Basilicata</i>	24%	24%
<i>Sicily</i>	17%	20%
<i>Sardinia</i>	21%	24%
Abroad	25%	23%
of which		
<i>Germany</i>	19%	16%
<i>France</i>	22%	23%
<i>Poland</i>	35%	30%
<i>Bulgaria</i>	33%	31%
<i>Romania</i>	33%	29%
<i>UK</i>	<i>n.a.</i>	<i>n.a.</i>
Load factor ⁽¹⁾	23%	23%

(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 2017 the overall load factor at 23% was in line with 2016, with a slight decrease from 23% to 22% in Italy, offset by an increase from 23% to 25% abroad.

The above data do not include the wind farms in Northern Ireland, because their data were not representative as a result of the gradual, progressive start of operations of the 47.5 MW wind farm in the fourth quarter.

PROGRAMMABLE SOURCES

Reference market

ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWh)	YEAR	
	2017	2016
Demand	320,437	314,261
Pumping consumption	2,441	2,468
Import/Export	37,760	37,026
Internal generation ⁽²⁾	285,118	279,703
of which		
<i>Thermoelectric</i>	199,500	190,771
<i>Hydroelectric</i>	37,530	43,785
<i>Other renewable energy sources</i>	48,088	45,147
SALE PRICES (EUR/MWh)		
PUN ⁽³⁾	54.0	42.8
Sicily zone price (baseload)	60.8	47.6
Centre North zone price (peak)	63.5	47.6

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

(2) output net of consumption for auxiliary services

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

Market scenario in Italy

The electricity demand of the Italian electric system in 2017 came to 320.4 TWh, up (+2.0%) compared with the values recorded in 2016. With regard to Sicily, a region in which ERG is present with its CCGT plant, in 2017 a requirement of approximately 19.1 TWh was recorded, up (+1.1%) with respect to 2016, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, electricity demand amounted to 44.8 TWh (+2.6%).

In the same period, net internal electricity generation amounted to 285.1 TWh, up by 1.9% compared with 2016, whilst the net balance of trading with foreign countries recorded net imports of 37.8 TWh (+2.8% compared with 2016). 70% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 30% from renewable sources. Compared to the previous year, thermoelectric output grew (+5%) whilst hydroelectric output declined (-14%).

The average value of the PUN (Single National Price) in 2017 was 54.0 EUR/MWh, up by 26% compared with the value of 2016 (i.e. 42.8 EUR/MWh).

Regulatory framework

Thermoelectric: the Mucchetti amendment

The period for application of the regulation on Essential Units pursuant to Italian Law Decree no. 91/2014 and the resolution 521/2014 as amended, 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.

On 30 December 2016, approximately EUR 28 million had been collected as an additional advance on 2015 and approximately EUR 18 million as an advance on 2016, while approximately EUR 26 million still remained to be collected. In October 2017 the Authority initiated the preliminary investigation on fixed cost pertaining to the request for reintegration for the year 2015. The preliminary investigation ended with resolution 745/2017: at the end of November 2017, the final balance accrued in 2015 (approximately 12.6 M€) was collected.

In October 2017 Terna carried out the preliminary investigation on the contribution margin of the request for reintegration (balance) accrued in 2016: with Resolution 841/2017, ARERA set an extraordinary advance for the UESSE per Italian Legislative Decree no. 91/2014 pertaining to 2016 accruals. The company collected this advance payment in December 2017 (9 M€ out of the residual 12.9 M€).

The residual 2016 reintegration shall be collected in 2018.

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. With its resolution 582/2017, the AEEGSI further postponed the entry into force of the new RIU regulations to 1 January 2018, in order to align the aforesaid reform with the entry into force of the reform of the structure of the general system costs.

Lastly, Article 1, paragraph 91 of Law no. 124/2017 (“2017 Competition Law”) prescribes that functional separation rules do not apply to the operators of closed distribution Systems (which includes the RIU); only the accounting separation rules apply to the aforesaid operators. The Authority initiated a process to implement the provisions of the aforesaid law (resolution no. 613/2017 of 7 September 2017).

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 31.02 EUR/kW per module, which applies as from 1 January 2016, comes to double that in force until 31 December 2015. In December 2015, ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways in Rome, to request the 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.

Remarks on the period performance highlights

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

- in the **hydroelectric sector**: through the equity investment in ERG Hydro S.r.l., owner of the Terni hydroelectric complex (527 MW), including a system of programmable and flexible plants throughout central Italy; these plants are operated within the respective hydroelectric concessions that will expire at the end of 2029;
- in the **thermoelectric sector**: through the equity 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

(EUR million)	YEAR	
	2017	2016
Revenues from ordinary operations	610	601
Recurring EBITDA ⁽¹⁾	172	161
Amortisation, depreciation and write-downs ⁽¹⁾	(89)	(88)
Recurring EBIT ⁽¹⁾	83	73
Capital expenditure on tangible and intangible fixed assets	16	13
% EBITDA MARGIN	28%	27%

(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

(EUR million)	YEAR	
	2017	2016
Revenues from ordinary operations	473	479
Recurring EBITDA ⁽¹⁾	78	77
Amortisation, depreciation and write-downs ⁽¹⁾	(31)	(30)
Recurring EBIT ⁽¹⁾	48	47
Capital expenditure on tangible and intangible fixed assets	10	10
% EBITDA Margin	17%	16%
Total output by thermoelectric plants (GWh)	2,453	2,693

(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 2017, ERG Power's net electricity generation was 2,453 GWh, down compared to the same period of 2016 (2,693 GWh), partly as a result of the changes made to the pertinent regulatory system. It should be pointed out that the period no longer benefited from the "reintegration consideration" due until the entry into force of the Essential Units regulations, 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.

The net supply of steam to captive customers of the petrochemical site of Priolo Gargallo of 737 thousand tonnes, slightly lower (-2%) than the 752 thousand tonnes of 2016. Approximately a quarter of ERG Power's energy output was allocated to cover the requirements of the Priolo industrial site, where energy also includes the net supply of steam.

The recurring EBITDA of 2017 amounted to EUR 78 million (EUR 77 million in 2016), higher than expected and than the values of 2016, which had benefited from the reintegration consideration per UESSE, i.e. approximately EUR 31 million. This remarkable result was due to 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 and collected in 2017, as well as to the increase in the margin (Spark spread) as a result of the higher rise of the sale prices compared to the cost of gas, and to 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

(EUR million)	YEAR	
	2017	2016
Revenues from ordinary operations	137	122
Recurring EBITDA⁽¹⁾	94	84
Amortisation, depreciation and write-downs ⁽¹⁾	(58)	(58)
Recurring EBIT⁽¹⁾	35	26
Capital expenditure on tangible and intangible fixed assets	6	4
% EBITDA MARGIN	69%	68%
Total output by hydroelectric plants (GWh)	1,144	1,358

(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 2017, revenues, amounting to EUR 137 million, refer mainly to sales of electricity (EUR 68 million), to revenues from the feed-in premium (former green certificates) amounting to EUR 64 million (of which approximately EUR 8 million relating to the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification mainly of the Sigillo plant (5 MW) in addition to revenues of MSD amounting to EUR 6 million).

The costs, amounting in total to EUR 43 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for 2017 was EUR 94 million (EUR 84 million in 2016).

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 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 exceeding that of 2016 and amounting to approximately 107 EUR/MWh.

ERG Hydro's total output (1,144 GWh) therefore benefited from an average unit revenue, considering the sales price of electricity, the revenues from MSD and the replacement incentives, totalling approximately 110 EUR/MWh (90 EUR/MWh in 2016), excluding the recoveries of prior incentives, already commented.

The EBITDA margin of 2017 totalled 69% (68% in 2016).

The load factor recorded in the period, amounting to 25%, was affected by the poor rain conditions observed (output of 1,144 GWh in 2017, down both relative to the corresponding period of 2016 and to the ten-year historical average).

The total capacity of the plants at the Terni complex came to 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW related to small offtakes and minimum vital outflows, which increased by 0.4 MW as a result of the completion of the construction of three new mini hydro plants that access to the FER tariff per Italian Ministerial Decree of 23 June 2016.

The level of the reservoirs of lakes Turano, Salto and Corbara amounted respectively at approximately 524, 526 and 131 metres above sea level, higher than the levels of 31 December 2016 (respectively 524, 524 and 127 metres above sea level).

CAPITAL EXPENDITURE

The capital expenditure figure for the period does not include the **acquisition of six wind farms in Germany**, acquired from the DIF Group with an installed capacity of 48.4 MW. The enterprise value of the acquisition is approximately EUR 40 million.

The figure of capital expenditure for the corresponding period of the previous year 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 the Impax 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 Ireland²², 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 investment for construction of the farm was approximately EUR 79 million, already including the initial consideration paid for the purchase of the company.

Capital expenditure in tangible and intangible fixed assets by the ERG Group in **2017** came to EUR 54 million (EUR 60 million in 2016), including EUR 50.7 million for tangible fixed assets (EUR 55.6 million in 2016) and EUR 3.6 million for intangible fixed assets (EUR 3.9 million in 2016).

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

(EUR million)	YEAR	
	2017	2016
Non-programmable sources	35	44
Wind Power	35	44
Programmable sources	16	13
Thermoelectric power	10	10
Hydroelectric power	6	4
Corporate	3	3
Total	54	60

²² Brockaghboy wind farm sold on 7 March 2018.

Non-programmable sources

The capital expenditure in 2017 (EUR 35 million) refers mainly to the outlays made by ERG Power Generation of approximately EUR 29 million following the works for the construction of the aforementioned wind farm in Northern Ireland, which started operations during the fourth quarter of 2017. The Brockaghboy wind farm consists of 19 2.5 MW Nordex N90 wind turbines, totalling 47.5 MW.

Programmable sources

The investments in 2017 (EUR 16 million) 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.

Hydroelectric investments refer mainly to the aforementioned investment in the new mini hydro plants, in addition to maintenance work orders and others.

TOTALERG

At 31 December 2017, the ERG Group held an equity investment of 51% in TotalErg, a joint venture in the integrated downstream sector, established in 2010 through the merger by absorption of Total Italia S.p.A. in ERG Petroli S.p.A. It should be noted that, after a sale process started at the end of 2016, on **10 January 2018** the equity investment was sold to the Api Group.

The equity investment is recognised in the Notes to the Consolidated Financial Statements in accordance with IFRS5. 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	
(EUR million)	2017	2016
Operating results		
Recurring EBITDA⁽¹⁾	153	135
Amortisation, depreciation and write-downs	(70)	(75)
Recurring EBIT⁽¹⁾	83	60
Recurring net profit⁽²⁾	48	28
Capital expenditure on tangible and intangible fixed assets	54	60
Main Financial data		
Net invested capital	425	532
Shareholders' equity	288	287
Total net financial indebtedness	137	244

(1) the data reported do not include inventory gains (losses) of +25 million in 2017 (+45 million in 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 2,519 stations (of which 1,638 are owned by the Group and 881 are leased), compared with 2,585 stations at 31 December 2016. You are hereby reminded that at the end of 2012, the network comprised 3,248 stations and that the decrease in sales outlets is due to the process for restructuring of the fuel network continued over the last few years, which led to the closure of outlets which have a low fuel turnover, the modernisation/automation of those owned which have a higher fuel turnover and the termination of contracts for third party stations which are not very profitable.

TotalErg also operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the subsidiaries, 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 tonnes (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 2017 amounted to approximately EUR 153 million, markedly higher compared to the value recorded in 2016 (EUR 135 million).

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

In the Wholesale and Specialties businesses, the operating results for the period contracted.

With regard to refining, the results were higher than those recorded in the same period of the previous year as a result of increased refining margins (EMC indicator up from 2.3 \$/barrel to 3.0 \$/barrel); for logistics, the results of 2017 were lower than those recorded in the previous year.

In 2017, 1,615 thousand tonnes were processed, in line with 1,627 thousand tonnes in 2016.

The recurring net profit of 2017 (EUR 48 million) was significantly higher than that of the same period of 2016 (EUR 28 million), mainly for the reasons discussed above when commenting on the operating results; it also benefited from lower amortisation and depreciation and financial expenses.

The net financial position of TotalErg at 31 December 2017 amounted to EUR 137 million, down compared to EUR 244 million at 31 December 2016, mainly as a result of the sale of the Restiani subsidiary.

TotalErg capital expenditure

During 2017, TotalErg made capital expenditures of approximately EUR 54 million, slightly lower than in the same period in 2016 (EUR 60 million).

Most of the capital expenditure (approximately 77%) 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.

RISKS AND UNCERTAINTIES

1. Risk of availability of Renewable sources (Wind, Water and Sun)

This risk consists of the possibility that the Group may incur economic damages deriving from fluctuations in the volumes of electricity generation, specifically regarding generation from renewable energy sources and the availability of natural resources such as Wind, Water and, following the recent acquisition of photovoltaic plants in Italy, Sun.

The risk tied to the natural variability in the availability of renewable energy sources, which are known to change according to the weather conditions of the sites where the plants are located, is mitigated through:

- the technological diversification of renewable energy plants (e.g. Wind, Hydro and Solar) and the geographic diversification of the generating plants, which reduce both the impact and the likelihood of occurrence;
- the scheduling of shut-downs of renewable energy plants operating in the periods of low input from renewable energy sources, which reduces the impact of the risk;
- the use of more accurate meteorological forecasting tools (wind, water and sun) to define generation plans, that further improve the Volume Risk management strategies in the short term.

In addition, statistical risk analysis models are used, which make it possible to quantify its economic impacts in the medium term (plan horizon).

Entry into the solar business is a further important step in the (technology and geographic) diversification strategy that makes it possible to mitigate the risks tied to the unavailability of natural resources, further reducing the overall risk profile to which the Group is exposed as a producer of EE from renewable sources.

Risk mitigation strategies are implemented in accordance with company policies.

2. Price Risk

That risk is identified as the possibility that fluctuations in the purchase and sale prices of commodities may cause such significant changes in the income statement results as to compromise the achievement of the objectives defined in the strategic plan.

In conducting its business, the ERG Group is exposed to the following risks:

- fluctuation in electricity prices for all generation plants which sell electricity on the market;
- fluctuation in the prices of gas, CO₂ and Energy Efficiency Certificates (TEE) attributable to the generation of the natural gas-fired electricity co-generation plant (CCGT) of ERG Power.

The ERG Group minimises the impact of the fluctuations in commodities prices through:

- an aggregate view of the portfolios, which results in allocation of risks where they may be more efficiently managed, benefiting from the offsetting of positions with opposite signs taken on;

- the definition of risk exposure limits and of an associated escalation process in the event that limits are exceeded, with the identification of the persons responsible for defining / authorising the actions for returning within the limits;
- definition of processes and responsibilities for monitoring the level of exposure using suitable indicators (e.g. P@R, V@R, Stop Loss, Take Profit, Open positions);
- definition of minimum and maximum hedging amounts (hedging ratios) on electricity sales over the time horizon of the plan;
- use of derivative instruments to stabilise cash flows generated, contributing to guaranteeing the Group's economic and financial equilibrium. Use of hedging derivative instruments is authorised exclusively if there is an underlying asset to pursue the reduction in the economic impacts tied to the volatility of prices on the financial market and it is constantly monitored;
- where possible, the balancing of purchasing formulas (e.g. for natural gas) with the charge-backs to end customers and/or inclusion in the sales contracts of the transfer of the higher costs deriving from the fluctuations in prices, including specific clauses to reduce emerging costs (e.g. linked to the profile).

In terms of organisation, the governance model adopted by the Group requires the separation of control functions from those that manage risks in operations.

Management strategies for that risk are implemented in accordance with company policies.

3. Litigation Risk

This risk refers to the eventuality that the Company ERG S.p.A., its subsidiaries or the Group's employees may be involved in civil and/or administrative and/or tax-related proceedings and/or in legal actions deriving from potential violations of law or regulations, from contractual or extra-contractual liabilities or from other disputes (e.g. labour-related litigation). The occurrence of such eventualities could cause damages, engender penalties, harm the Group's reputation and erode shareholder value.

The litigation risk also refers to the possibility that a company of the Group may impugn an act or a measure damaging its interests issued by Institutions or administrative Bodies and/or independent Authorities.

The ERG Group mitigates the risk tied to possible impacts because of the exposure to higher costs and penalties through:

- the oversight, carried out by specific corporate Organisational Units, responsible for assuring compliance with the reference regulations in the different fields of competence (e.g. Legal, tax, administrative, etc.);
- an effective management of the pre-litigation phase by the competent Organisational Units with the support of the specialists of the legal and tax areas;
- management of litigation with the support of external law firms of high standings, with expertise in the matters of the litigation;
- constant monitoring of the evolution of pending litigation and the assessment of the likelihood of losing; if the risk of losing in a specific proceeding is assessed as likely, an estimate of the economic impact is produced that takes

into consideration all possible consequences and a specific provision is allocated in the financial statements;

- preparation and transmission of periodic internal updates with regard to the litigation, also through the 231 flows to the Supervisory Bodies.

In case of extraordinary transactions (i.e. acquisition of Companies, establishment of JV), to mitigate the risk of litigation and the consequent negative economic impacts, specific Due Diligence work is carried out (e.g. looking at legal and tax aspects) and, if it is deemed appropriate, the counterparty is required to provide specific guarantees set out in the agreements that regulate the transaction.

In relation to the issuance of acts or measures that are harmful to its interests, the ERG Group mitigates risk through:

- a regular and correct management, coordinated at the Group level, either directly or through the trade associations, of relations with Institutional Stakeholders at the local, national and international level;
- participation in the phases of preparation of the acts or measures (including consultation procedures);
- impugning the acts or measures deemed harmful before the competent authorities.

Management strategies for that risk are implemented in accordance with company policies.

For additional details with regard to litigation and to the contingent liabilities of the Group, please refer to notes 19 and 26 of the Notes to the Consolidated Financial Statements.

4. Anti-Corruption Compliance Risk

The ERG Group operates in renewable energy sources in Italy and abroad, and, in particular in: France, Germany, Romania, Poland, Bulgaria and the United Kingdom. For this reason, the Group is vulnerable to anti-corruption compliance risk in all countries where it carries out its business.

This risk relates to the possibility that an employee and/or Company of the Group could be involved in proceedings for offences committed in breach of anti-corruption laws in force in the specific country.

ERG condemns the commission of any type of corruption with the utmost strictness, without exception. To prevent offences of corruption, the Group has set up a system of rules and controls defined in relation to the national and international regulatory context it operates in. In particular, for all Group Companies:

- a system of rules of conduct adopted by the Group Companies is in place (Code of Ethics, Model 231, and Anti-Corruption Policy), based on their respective characteristics, which all employees must comply with in carrying out their work and which prohibit all types of corruption, whether active or passive, involving not only public officials but also private parties;
- the responsibilities and specific expenditure powers (authorising and signature) are defined and assigned in compliance with the principle of Segregation of Duty, to limit the possibility for a single person to complete an entire process with full autonomy;
- specific training programs for employees have been defined and implemented to inform them, on one hand, of the anti-corruption regulatory framework (and the related penalty system) and, on the other hand, of the rules of

conduct adopted by the Group (e.g. Code of Ethics, Models 231 and Anti-Corruption Policy);

- a process is in place, under the supervision of the Supervisory Bodies under Italian Legislative Decree no. 231/01, for the management of reports of behaviours contrary to the principles prescribed by the Code of Ethics, by the Models 231 and by the Anti-Corruption Policy;
- specific third level control activities are carried out by Internal Audit, in compliance with the principles prescribed by the Code of Ethics, by the Models 231 and by the Anti-Corruption Policy.

Risk management strategies are implemented in accordance with company policies.

5. New Capital Expenditure Risk

This risk refers to the set of uncertain events originating from various factors, for example, scenarios (micro/macro-economic, political, regulatory, business-related), technical, operating, financial or organisational factors which may impact the decision to make New Capital Expenditure and on its success.

These risks are mainly attributable to the impossibility to develop certain economic/financial forecasts over the lifetime of a Project (in the event of a specific initiative), with resulting income statement or financial position losses, or the deterioration of the Group's image.

To minimise risk, the ERG Group has defined specific structured processes for selecting capital expenditure that involve a set of successive levels of examination and approval carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses, models and financial assessment/planning. The Group minimises possible risks linked to new capital expenditure by assessing all the risks for significant projects, which are associated with:

- potential impacts and strategy/actions to contain/eliminate risk;
- follow-up items to monitor the mitigation processes.

The Group also periodically updates the WACC/HR, also through benchmarks, to ensure a suitable return in relation to the expected risk profile.

Risk management strategies are implemented in accordance with company policies.

6. Default Risk in loan agreements

This risk pertains to the possibility that upon the occurrence of certain events regulated by the loan agreements, counterparties to those contracts would be entitled to demand that ERG immediately repay the amounts loaned, consequently engendering a potential liquidity risk.

The ERG Group, to finance its own development initiatives, makes use of medium/long term debt, mainly through Project Financing operations or, alternatively, through corporate financing. In general, all loans are required to comply with financial covenants calculated based on the economic-financial data of the single Legal Entities or the consolidated Group.

The ERG Group implements a risk mitigation strategy which involves:

- periodic monitoring of the final and expected results and the consequent impacts on the covenants;
- monitoring of the main financial risks that may directly or indirectly impact leverage and the covenants;
- assessment of each new investment initiative with regard to the future impacts it may have on the covenants;
- continuous monitoring of all commitments (not necessarily financial) envisaged by the agreements, whose breach may result in the potential default of the loan.

Risk management strategies are implemented in accordance with company policies.

For additional details on the loan agreements and to the related covenants, reference is made to Note 25 of the Notes to the Consolidated Financial Statements.

7. Image and Reputation Risk

An organisation's reputation is the set of all expectations, perceptions and opinions formed over time by all stakeholders (customers, suppliers, investors, the media, etc.) in relation to the quality of the organisation, its characteristics and its expected conduct. This risk relates to the potential effects of a negative perception of the Group's image and/or reputation. The various factors that have a negative influence include, for example: improper use of the trademark, inconsistency in actions carried out and the objectives announced and/or misalignment between the performance and stakeholder expectations, circulation of negative news, whether true or not, which may compromise the trust in the Group, its reliability and/or credibility.

The Group mitigates the risk that its reputation could worsen among stakeholders through:

- a structured process of Corporate Social Responsibility which includes, among others, social responsibility initiatives and the publishing of the "Consolidated non-financial statement";
- continuous monitoring of stakeholders' perception of the ERG brand;
- specific relationships of active communication and information with the leading stakeholders and the media;
- a Crisis Management process which, using a structured approach, promptly manages and contains the effects of crises to safeguard the Group's reputation.

The strategies for mitigating such risks are implemented in accordance with company policies.

8. Information & Communication Technology Risk

This risk is identified as the inadequacy of the set of technical and organisational measurements aimed at assuring the protection of the integrity, availability, confidentiality of the automated information and of the resources used to acquire, store, process and communicate said information. In particular, the following main risks in the area of ICT are identified:

- risk of uncontrolled access to networks, systems and data processing centre premises: this is identified as the risk that unauthorised persons may access systems, information or premises where computers are located and

compromise their use, harming the integrity and security of systems and the information contained therein;

- risk of vulnerability of the IT systems: this is the possibility that the architecture/Framework of the ICT systems may be vulnerable to internal/external attacks or exposed to accidental events because of defects in their design, implementation, configuration and/or operating management, as well as due to the lack of awareness in the company population of the risks deriving from ICT attacks;
- risk of technological disaster: this is the possibility that the technological infrastructures serving corporate operations may be dramatically compromised by accidental events.

The ERG Group's operations are managed using ICT systems that support the main company processes, both operating and administrative and commercial. The Group mitigates ICT risks through the following main control objectives, in line with the ISO 27001:2013 standards and the Cobit 5 Model:

- constant protection of the confidentiality, integrity and availability of the information managed on ICT systems;
- adoption of specific models of the correct conduct in using workstations and ICT tools to guarantee suitable levels of information security;
- outsourcing of the management of the main systems to a provider with data centres that have high levels and standards of physical security that are formally certified;
- adoption of instruments to manage logical and physical accesses and to verify and record such accesses, based on specific best practices;
- use of automatic instruments to detect and manage incidents and anomalies;
- implementation of processes for the design, development, operation, maintenance, assistance and disposal of ICT infrastructures, of network services and of applications for mitigating the vulnerability of the ICT systems, in line with reference best practices.

The process of integration and consolidation of the ICT systems in the Group, defined based on the changes in the corporate structures over the previous years, and currently being finalised, will result in significant benefits and the consequent reduction in related ICT risks thanks to an approach based on risk management.

To mitigate potential business interruption risks on ICT processes deemed strategic, the Group has set up a Disaster Recovery system which ensures the continuity of service and data at an alternative data centre whose efficiency is subject to periodic audits. Furthermore, considering the significance of the activities carried out daily on the electricity exchange, specific attention is focused on oversight of the market interface systems. These systems are subject to specific management and maintenance procedures to protect their stability.

Risk mitigation strategies are implemented in accordance with company policies.

9. Business Interruption Risk

This identifies the risk connected to the occurrence of natural, accidental or catastrophic events (i.e. earthquakes, floods, seaquakes, fires, etc.), in the course of the performance of business activities, with negative consequences for

the Group in terms of revenues or of preservation of corporate assets, such as to place routine operations in severely critical conditions or to undermine the Group's stability and balance in a significant and durable manner.

As regards the risks of unavailability of plants, the Group implements preventive mitigation strategies at all of its production units, to reduce the probability of such risks, as well as action strategies to mitigate any impacts thereof. In particular, the ERG Group mitigates these risks through:

- appropriate plant management policies aimed at pursuing high levels of safety and operating excellence, in line with industrial best practices;
- adoption and ongoing updating in line with sector best practices, of scheduled maintenance procedures, both ordinary and preventive, to identify and prevent potential critical issues, also based on specific engineering analyses conducted by specialised personnel;
- periodic overhaul of plants and the use of tools for control and remote control of the technical parameters for monitoring and promptly detecting any anomalies in addition to, where possible, the use of redundancies in the components needed to guarantee the continuity of production processes;
- continuous provision of specialised training courses for technical personnel that operate on the plants.

In addition, ICT solutions are to be adopted for the detection of technical issues and the calculation of the actual yield, directed at allowing a predictive approach for scheduling and carrying out maintenance operations to limit plant outages due to accidental failures.

As regards production processes, particular attention is paid to the prevention and control of the related risks, through the implementation of risk assessments, business impact analyses and a business continuity management activity, with the aim of ensuring the operational continuity of industrial production plants.

At the Hydroelectric Complex of Terni, specific infrastructure activities still continue with the aim of improving the dams' response to seismic events. These activities are being carried out under the supervision of the Ministry of Infrastructure and Transport - Dam Directorate-General and coordinating with the Civil Defence. The monitoring activities and the controls have confirmed the seismic safety of all dams, infrastructures and production plants. To cover natural and catastrophic risks, to transfer its own industrial risks and third party risk and cover residual risks, the ERG Group uses the insurance market, thereby providing a high level of protection for its structures, even in the event of an interruption of activity. The contract terms and conditions of insurance policies are periodically reviewed. Risk mitigation strategies are implemented in accordance with company policies.

10. Commercial Credit Risk

This is the risk of unexpected change in the creditworthiness of a counterparty in relation to which there is an exposure significant enough to trigger potential negative consequences for the income statement and statement of financial position. The objective of the Group is to maintain the profile of the risk in question on extremely low levels through the preliminary assessment of the creditworthiness of the counterparties and the adoption, when deemed necessary, of risk mitigation instruments, such as the acquisition of guarantees.

In particular, in pursuing its commercial and business objectives, ERG minimises the risk profile, through:

- the definition of the limits of risk exposure at the Group level and of adequate risk mitigation instruments to ensure that the risk profile is aligned to the Group's requirements;
- an overall Group portfolio strategy that makes it possible to benefit from offsetting the different risk profiles associated with individual customers and in particular between the riskier and the safer positions in terms of Probability of Default;
- a structure process of "active" credit management, in which specific Organisational Units and a Credit Committee:
 - assess the creditworthiness of each individual commercial counterparty in terms of Rating, Credit Limit and Probability of Default and assign it a specific level of credit in terms of maximum exposure ("facility");
 - analyse the risk profile of the portfolio and the levels of exposure with the counterparties in terms of granted facility and revenues;
 - analyse the ageing, constantly monitor the exposure level, both comprehensively and for each individual counterparty, evaluate the possible definition and implementation of any corrective actions.

Lastly, the Group has defined the types of guarantees that can be accepted in case of a facility granted to counterparties lacking a satisfactory rating, and the financial institutions (banks and insurance companies) that are suitable for releasing such guarantees.

Risk management strategies are implemented in accordance with company policies.

For additional details on the trade receivables and on the bad debt provision, please refer to Note 9 - Trade receivables of the Notes to the Consolidated Financial Statements.

11. Credit Risk with Financial Counterparties

The ability to adequately assess the financial counterparties and to intercept any threats or risk elements in a timely manner is a fundamental requirement for the safeguard of an enterprise's assets and reputation. This risk is defined as the risk that an unexpected change in the creditworthiness of a financial counterparty towards which there is an exposure (e.g. cash deposit) may cause consequent negative impacts in financial/capital terms and harm the enterprise's image.

The Group's objective is to find a proper balance between the return of financial investments and the minimisation of the related counterparty risk through:

- reliance on counterparties with Investment Grade Public Rating or, in its absence, on a specific authorisation by the CEO with the input of the Risk Committee;
- risk diversification strategies (for example by depositing cash with different banks and/or investment funds) in accordance with the indications of the Risk Committee;
- the verification, for each financial counterparty, that it is not included in any National and/or International Black List;
- continuous monitoring of the Counterparties' standing and an escalation process in case of negative events and/or deterioration of the risk profile.

At the Group level, a structured process is applied, comprising:

- the autonomy of the Finance area in depositing liquidity up to 12 months with banks with Investment Grade Rating;
- an authorisation process (within the scope of the Risk Committee) for cash deposits above 12 months or with banks with Rating below Investment Grade.

Risk management strategies are implemented in accordance with company policies.

12. Liquidity Risk

This is the risk deriving from the lack of financial resources to fulfil both short and medium/long-term commercial and financial commitments. This type of risk considers the possibility that the enterprise is not able to fulfil its obligations (funding liquidity risk), or that it is able to do so only at unfavourable economic conditions because of situations of tension or of the market's changed perception of the risk of the Group (or of one of its companies).

ERG implements a risk mitigation strategy directed at preventing the emergence of liquidity crisis situations, which involves the pursuit of a financial structure that is balanced in terms of duration and composition and the systematic generation of cash by its own business activities. The objective of the Group is to maintain the profile of the risk in question on extremely low levels through the implementation of a financial planning process that has the following objectives:

- enabling the Group to be solvent both under normal conditions of conducting business and under crisis conditions, optimising the related opportunity cost;
- assuring the availability of an adequate level of operating flexibility, optimising the cost of funding in relation to current and future market conditions; the Group uses a prudential approach in estimating incoming and outgoing flow projections, which also takes into account assessments of the impact of different scenarios, including stress scenarios, that make it possible to identify the risk factors that could alter the cash flows forecast in the Financial Plan (e.g. scenario changes, postponements in the execution of disposals) and to define and implement the related mitigation actions;
- maintaining a balance in terms of duration and composition of debt, also through an operating structure that operates within assigned limits that are periodically revised and approved, and a second level control structure, autonomous from the first one that verifies its activities;
- guaranteeing adequate distribution of credit lines, deposits of cash and cash equivalents and related financial assets among the main Italian and international banks.

To pursue its risk mitigation objectives, the stocks of financial assets of the ERG Group is invested in short-term, high liquidity financial instruments, favouring a very low risk profile.

Risk management strategies are implemented in accordance with company policies.

13. Country Risk

This is the risk of possible changes in the political, legislative, economic and/or social framework of a country that may have negative impacts on operations, income statement results and/or the financial equilibrium.

Several examples of country risk are: (i) lack of a stable legislative framework and uncertainties regarding the protection of rights of foreign workers in the event of breaches of contract by government entities or other private parties; (ii) penalising application of laws or unilateral changes to contracts that result in the reduction in value of the assets; (iii) increases in tax pressure; and (iv) complex authorisation processes that impact the time-to-market of development projects.

In particular, the ERG Group manages country risk through a strategy that involves:

- risk is not assumed, and thus, investments are not made in countries which have political/social instability that makes the countries unsuitable to the risk profile the Group intends to assume;
- mitigation of risk in countries where there is considerable interest in making new investments, requiring a suitable return in relation to the expected risk profile. This assessment is carried out by analysing the main indicators of the country in question (e.g. macroeconomic and financial indicators).

The mitigation of risk in those countries also involves the creation, development and maintenance of relations with key institutions and stakeholders, in order to understand the political, institutional and regulatory scenario of the country of interest for the Group and its possible impacts on the business. These indicators are periodically updated to take into considering any changes which could impact the correct representation of country risk.

Risk management strategies are implemented in accordance with company policies.

14. Regulatory Risk

This is the risk tied to the evolution of the local, national regulatory framework in the countries where the Group conducts its business. This evolution, in consideration of the high level of regulation of the businesses in which the ERG Group operates, may cause significant economic impacts on the value of assets. Thus, among risk factors the constant and not always predictable evolution of the reference regulatory framework must be considered.

The Group constantly monitors the evolution of the regulatory framework in the countries it operates in, in order to prevent and/or mitigate the effects on the various business areas to the extent possible. Monitoring is structured over several levels, and involve cooperative dialogue with the institutions and government and regulatory bodies in the sector through active participation in trade associations and work groups set up at those entities, as well as through examining the regulatory evolution and measures of sector authorities and drawing up specific position papers to communicate its position on these issues.

For this purpose, the ERG Group has established specific Organisational Units dedicated to the continuous monitoring of the evolution of the national and international reference regulations.

Management strategies for that risk are implemented in accordance with company policies.

15. Health, Safety and Environment (HSE) Risk

The HSE Risk is mainly tied to the operation of industrial assets having an impact on workers' health and safety and environmental issues.

Health risks are those with potential impact and impairment of the biological equilibrium of personnel tasked with performing operations or work processes, as a result of emission into the environment of environmental risk factors, of a chemical, physical and biological nature.

Safety risks are connected with the occurrence of accidents or injuries, or of damages or (more or less severe) physical disablements suffered by the persons assigned to the various work activities.

Environmental risks are connected with the possibility that, due to the Group's business activities, an event may occur which triggers an alternation in the physical-chemical parameters of the water, air and soil environmental matrices, with negative impacts on the natural habitat and/or individuals' health, to the extent requiring the adoption of extraordinary emergency measures with negative consequences for the Company, in terms of the income statement, statement of financial position and/or reputation.

The ERG Group, which is strongly committed to mitigating those risks, has adopted specific Health, Safety and Environment guidelines which, in line with best practices, require that all the Group's Companies: (i) comply with all current laws and regulations; (ii) pursue specific performance targets; (iii) continuously train personnel and (iv) certify specific integrated HSE management systems.

Moreover, the ERG Group adopts safety standards and operating practices having high quality and reliability in order to assure regulatory compliance, continuous improvement of environmental performance and the effectiveness of the actions taken in terms of prevention and containment of potential environmental impacts.

In particular, Companies that manage industrial assets, which by their nature are more exposed to the HSE risk, are all provided with an OHSAS 18001 and ISO 14001 certified Management system, and EMAS certification is obtained on all the main plants. The companies that do not manage industrial assets are provided with an OHSAS 18001 certified Management system. During 2017 the periodic audits were conducted by the certifying bodies, which issued and/or confirmed the certifications held by the Group Companies.

Moreover, the Group pursues the goal of zero injuries, through a structured oversight of health and safety issues and the development of numerous programmes for prevention and for spreading a "safety culture", targeted both to the internal personnel and to suppliers that operate at the plants. Care for people is also expressed through initiatives directed at personal development, performance assessment at all levels and sharing best practices.

The adoption of the best available technologies, the application of ever more rigorous and stringent operating practices in terms of pollution prevention and reduction and the correct management of the waste produced enable the ERG Group efficiently to manage its industrial activities and the correlated health, safety and environmental issues.

The ERG Group publishes its "Consolidated non-financial statement" which provides salient information and data regarding HSE and social issues connected with the Group's business.

Health, safety and environmental strategies are implemented in accordance with company policies.

16. Risk of losing key professionals

This is defined as the risk that the global rewarding systems present in the Group (formed by fixed and variable components and benefits) may be inconsistent with respect to the persons' motivation or to the market benchmarks, with a resulting economic impact for the Group caused by the loss of key professionals and/or deemed strategic.

The Group mitigates that risk by developing remuneration strategies and policies based on weighing and matching positions, aligned with market benchmarks, in order to ensure the effectiveness of the rewarding components (monetary and non-monetary).

In particular, the Group uses differentiated tools for retention based on the degree of strategic importance and seniority of its personnel. In that view, the fixed component of remuneration ensures retention through continuous benchmarking to the market, while the variable component guarantees the alignment of company objectives and the individual's interests by paying bonuses upon reaching long term (LTI) and short term objectives (MBO).

The strategies for mitigating such risks are implemented in accordance with company policies.

17. Exchange Rate Risk

This is defined as the risk that changes in exchange rates of the currencies the Group operates in may impact:

- on income, as a result of the different significance of costs and revenues denominated in a foreign currency compared to the time when the price conditions were defined (economic risk);
- on income, as a result of the conversion of trade or financial receivables/payables denominated in a foreign currency (transaction risk);
- on the consolidated financial statements (income and shareholders' equity) by effect of the conversion of assets and liabilities of companies that prepare their financial statements in another currency (translation risk).

The ERG Group has adopted a strategy for mitigation of exposure to exchange rate risk, reducing the possible economic impacts tied to the volatility of exchange rates on the financial market through:

- the definition of risk exposure limits and of an associated escalation process in the event that limits are exceeded, with the identification of the persons responsible for defining / authorising the actions for returning within the limits;
- definition of processes and responsibilities for monitoring the level of exposure using suitable indicators (e.g. Cash Flow @Risk, EBITDA@Risk);
- pursuit of a balance between assets and liabilities in foreign currency, minimising net exposure and providing M/L term financing of capital expenditure in local currency, whose profitability and cash flows are mainly expressed in currencies other than the ERG Group's functional currency;
- repatriation as soon as possible of the net cash flow generated by foreign operations, within the limits of liquidity needed to support their operation, in compliance with the Project Finance contractual restrictions and in line with the maturities of any hedging derivatives approved.

Use of hedging derivative instruments, if any, is authorised exclusively if there is an underlying asset and is subject to approval by the Risk Committee as well as periodically monitored.

The strategies for mitigating such risks are implemented in accordance with company policies.

18. Interest Rate Risk

This risk is defined as the risk that an unexpected change in interest rates may entail a change in the value of financial positions and of their level of cost. In this sense, changes in market interest rates can have such negative impacts on the level of financial expenses as to compromise the Group's financial stability and its capital adequacy.

In particular, the ERG Group implements an interest rate risk mitigation strategy which involves:

- searching for and obtaining financial resources at the best conditions offered by the market, in compliance with the restrictions set by the Risk Committee;
- regularly monitoring the level of exposure to risk and compliance with the restrictions set by the Risk Committee;
- using authorised derivative instruments (e.g. IRS, Interest Rate Swaps), exclusively where an underlying exists;

the following objectives are pursued:

- identifying the optimum combination of fixed and floating rates;
- optimising the Group's cost of debt within the risk limits assigned by the Chief Executive Officer, whose decision is supported by a consulting opinion from the Risk Committee, and made in line with the specific characteristics of the business;
- reducing the possible economic impacts tied to the volatility of interest rates on the financial market.

The strategies for mitigating such risks are implemented in accordance with company policies.

19. Risks of Financial Compliance and in Market Disclosures

These are the risks that expose to penalties and/or harm to image tied to non-compliance with respect to the reference standards the ERG Group is obligated to comply with, with regard to:

- compliance in market disclosures, connected with the publicly listed status of ERG S.p.A.;
- financial compliance, connected with the use of derivative instruments.

a. Compliance in Market Disclosures

This is defined as the risk of incurring penalties and/or harm to image as a result of the failure to comply with the (financial and non financial) disclosure regulations that ERG SpA is obligated to comply with, in consideration of its status as a listed company.

Mandatory market disclosures can be distinguished between "periodic disclosure" and "episodic disclosure". By way of example, the following are included in:

- periodic disclosure: the annual financial report (Separate Financial Statements and Consolidated Financial

Statements); the half-yearly financial report; any additional periodic financial information; the report on corporate governance and the ownership structure; the remuneration report;

- episodic disclosure: mergers and splits; significant acquisitions and sales of equity investments, companies or business units; increases or reductions of share capital; issues of bonds; related party transactions with significant impact on the accounting position of the company; significant facts in general.

ERG implements a risk reduction strategy which involves:

- management of all market disclosures through specialist Organisational Units and a structured process for the release of any information, according to current legal and regulatory provisions and the best practices dictated by the Corporate Governance Code promoted by Borsa Italiana S.p.A.;
- a specific internal control system for governing the process of forming the financial disclosure, defined in accordance with international best practices on the matter (International Control Financial Reporting - ICFR). In particular, the ICFR system:
 - Consists of a complete set of procedures that regulate the corporate processes that have direct or indirect accounting effects on the financial statements and on communications of a financial nature;
 - Provides a structure of controls on three mutually independent levels that assure the compliance of the financial disclosures presented to the market: the first level is guaranteed by the parties responsible for the process; the second level is assured by the Compliance structure under Law no. 262/05; the third level is assured by the Internal Audit O.U.

b. Financial compliance in the use of derivative instruments

This is defined as the risk of incurring penalties, financial losses or reputation damage as a result of the failure to comply with the financial regulation relating to trading in derivative financial instruments. These rules are aimed at assuring integrity and transparency in financial and wholesale electricity markets through disclosure obligations the ERG Group is obligated to fulfill.

At the date of approval of the present document, the main rules the Group is obligated to comply with to assure financial compliance are the European Directives on financial markets (MiFID II, EMIR) and the international regulations on energy markets (REMIT).

ERG implements a risk management strategy directed at assuring full financial compliance through:

- the study of international and national regulations on financial markets and on wholesale electricity markets and of their evolutions;
- the definition and monitoring of specific levels of significance / tolerance (numerical and otherwise);
- the definition and implementation of the activities that have to be carried out within the ERG Group to fulfill the regulatory obligations and in particular the definition of the processes and of the related procedures, directed at

regulating the activities / operating controls to be implemented and the specific responsibilities attributed to the different organisational units, as well as training activities concerning regulatory evolutions.

The strategies for mitigating such risks are implemented in accordance with company policies.

20. Industrial Relations Risk

This risk is the possible negative impact deriving from an inappropriate management of individual and collective relations with employees, which generates potential internal and/or external conflicts and compromises the attainment of the business objectives.

Relations with employees, deriving from the employment agreement, are assured, both individually and collectively, through compliance with labour laws and regulations and with international standards pertaining to human rights, diversity and equal opportunity and the establishment of an industrial culture centred:

- on continuous relations with the Organisations representing Workers at the national and local level;
- on the employees' participation in business objectives;
- on second level negotiation activities.

The strategies for mitigating such risks are implemented in accordance with company policies.

HEALTH, SAFETY AND ENVIRONMENT

In 2017, a new organisational structure called “One Company” was launched; it features a strong focus on process logic and the intention to “mould” the entire organisation towards a single, common vision, concentrating on two macro-roles:

- ERG Corporate, which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes;
- ERG Power Generation, a company that generates and sales energy, is dedicated to the comprehensive, integrated management of the three different and complementary generation technologies (Thermo, Hydro and Wind units), available to the Group today and to the sale of electricity through a single centralised Energy Management structure.

The company reorganisation, effective since 1 January 2017, entailed the merger by absorption of ERG Services S.p.A. into ERG S.p.A. and of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. in ERG Power Generation S.p.A. In addition, a new “HSE” Organisational Unit was established, with the task of functionally coordinating the resources assigned to the individual Electricity generating units (Thermo, Hydro and Wind), with the goal of strengthening and integrating health, safety and environment matters.

Protecting persons’ health and safety and the environment is a priority that has always characterised the ERG Group’s enterprise culture: the prevention and management of the connected risks are therefore central in the implementation of the Group’s strategic guidelines.

The principles adopted by the Group concerning health, safety and environment were stated in the Sustainability Policy which, with respect to all stakeholders, expresses the values, commitments and objectives pertaining to sustainability that ERG intends to pursue.

In line with its own Code of Ethics, ERG aligns all the Group’s activities, coupling the objective of creating sustainable value over time, with respect for the environment and attention to internal and external stakeholders.

For the ERG Group, sustainable growth means integrating the economic and business growth objectives with the creation of value for the Environment and Society, to increase the generated value and also transforming it into competitive advantage.

Health and Safety

During 2017, business activities continued consistently with the provisions of the health, safety and environment Policy and in accordance with the principles provided by the Guidelines and by the Code of Ethics adopted by the Group.

ERG S.p.A. continued to pursue the “zero accidents” objective and achieved again it for its own personnel and for third parties’ personnel in the year 2017, as in the previous year.

In terms of actions carried out, an intense training activity was completed, both on managerial themes and with regard to workplace health and safety, at all organisational levels, involving the different involved parties, in line with the contents of the applicable State-Regions Agreement. Dedicated seminars for Employers and Delegated Executives were carried out.

In addition, in 2017, as in the previous years, the ERG Group, which has always been keen on promoting its employees’ health and safety, also offered its personnel the opportunity to undergo a series of medical tests for the prevention of the most common neoplasms for subjects more exposed to risk according to international protocols and provided the flu vaccine to all its employees.

In addition, the Health, Safety and Environment Specification, applicable to all companies of the ERG Group, was also revised. The document codifies the main measures to be adopted and observed with regard to injury prevention, workplace health and protection of the environment by those who sign and exercise contracts for the performance of services and works.

Environment

Environmental protection is a fundamental value in the Group’s enterprise culture. For this reason, ERG has developed a business model that enables it to generate energy with a very low environmental impact.

In compliance with this principle, the Group undertakes:

- to favour the development of renewable energy sources and the use of fuels with low carbon density;
- to minimise the environmental impact of its own activities, reducing energy consumption, atmospheric emissions and the production of waste, also through the improvement of quality and plant efficiency;
- to consider the protection of biodiversity, of natural habitats and of ecosystems as a significant component of sustainable development in the realisation of its projects;
- to promote the conscious, responsible use of all natural resources available to the Group;
- to adopt, in the operating units, Environmental Management Systems that are certified according to recognised standards, with a view to the continuous improvement of its own performance and of risk mitigation.

Management and Certification Systems

The implementation of an Occupational Safety Management System in accordance with the OHSAS 18001 standard was, in the past, a decision of ERG S.p.A. and of ERG Services S.p.A. Today, this commitment is kept by ERG S.p.A.

As stated in the foreword, since the company ERG Services S.p.A. was absorbed by the company ERG S.p.A., in 2017 a single certificate, which is currently valid, was issued for ERG S.p.A.

During the year, a series of actions for maintaining the system were carried out, including the management of the improvement plan, the performance of internal and external audits, the implementation of the plan for training

employees on health and safety matters, the revision of individual locations' emergency plan in accordance with the new organisational set-up, essentially in terms of individuals responsible for managing emergencies.

ERG Power Generation S.p.A. fulfils all of the obligations and prescriptions in pursuit of the Sustainability Policy and the objectives set by the Management. ERG Power Generation S.p.A. has defined its Integrated Management System (IMS) as the aggregate of "organisational structure, procedures, processes and resources necessary to implement Environment and Safety Management".

The Integrated Management System has the following purposes:

- identify and describe in detail the production processes managed, illustrating the various processes, interfaces, their input and output and control elements;
- measure and keep processes under control, to achieve the planned results in compliance with the principles of effectiveness, efficiency and continuous improvement;
- it manages the processes in accordance with the requirements of the standards (ISO 14001 and OHSAS 18001)
- it entails the adoption of reference procedures and guidelines applicable to all units

In light of "One Company", during 2017, the Integrated Management Systems of ERG Power Generation adopted by the Thermo, Hydro and Wind units have been upgraded in view of the new organisational structure and of the new corporate changes. The natural consequence of this integration was the start of the process of unification of all ERG Power Generation certifications in order to have a single reference accrediting agency.

In 2017, all certifications of the Integrated Management Systems of ERG Power Generation S.p.A. were confirmed according to the international standards ISO 14001 Environment and OHSAS 18001 Health and Safety, in addition to ISO 9001 pertaining to Quality (Thermo and Wind units); during these certification processes, no significant findings arose, but only observations to improve certain processes. Thus, the management of company processes pertaining to environment and health and safety in the workplace was deemed effective. In addition, Thermo, Hydro units initiated the process for the migration of their own environmental management system to the 2015 version of the ISO 14001 standard, while the Wind unit has already completed alignment to the new standard.

In accordance to the provisions of the systems, internal audits were scheduled and carried out to verify compliance with the rules of the adopted Management Systems; in 2017, the innovation consisted of the establishment of mixed audit teams with internal resources coming from organisation units different from the audited one. This allowed a valid internal comparison and an exchange of the competencies acquired separately in the previous years, which today are unified in "One Company".

Another important goal, achieved by ERG Power S.r.l. and by ERG Hydro srl in 2017, is the three-year renewal of the EMAS registration, in accordance with Regulation (EC) 1221/2009.

The EMAS, together with the adoption of an Environmental Management System consistent with the ISO 14001 international standard, makes it pursue an effective, efficient management of environmental aspects, based on a

trustful, transparent relation with the institutions and with the public and on the active participation of the employees and of the Third Parties that operate at the operating sites.

The reports and the indicators used in the Environmental Statement, validated by an accredited Auditor, enable all stakeholders to have a comprehensive view of the activities and of the main environmental issues. The document, in addition to presenting the results achieved in 2016, proposes the new environmental programme, the commitments made and the new planned objectives that the organisation undertakes to implement in the 2017-2020 three-year time interval.

Voluntary participation in an EU system of eco-management is an additional confirmation of the importance of the issue of environmental sustainability for our Group, to increase the effectiveness of one of the objectives of corporate social responsibility (CSR): open communication with the public.

With reference to the management of near misses, the promotion of a prevention-based safety culture has major importance for the ERG Group, because it helps preserve people and the environment from harm. For this reason, the reporting process by employees and of third parties that operate at the sites was incentivised and enhanced: by thoroughly investigating each report, it is possible to determine the causes and assess whether analogous or similar situations exist in other portions of the Group's plants.

However, in spite of compliance and of the constant monitoring of the effectiveness of the operating procedures, in 2017 4 injuries to employees were recorded (2 in the course of maintenance operations of the thermoelectric plant and 2 in the wind farms). The Group's HSE functions assessed the occurrences and actions were taken to adequately modify the operating procedures and replacing the equipment items with others more capable of preventing the reoccurrence of the injuries. The analyses involved not only the specific area of the accident by all the areas of the involved plants in order to extend the effects of the prevention activities as far as possible.

GOVERNANCE

ERG conducts its business in accordance with the highest standards of corporate governance, making a firm commitment to constantly apply the principles of integrity, impartiality and transparency.

With the objective of guaranteeing these principles at all moments of company life, the Group has implemented a Governance System and Internal Control and Risk Management System that not only complies with the current legislative and regulatory provisions in force but is also aligned with national and international best practices as well as, specifically, with the recommendations of the current Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A.

Corporate Governance encompasses **statutory bodies, board committees** and the **corporate governance documents** that regulate their operation²³.

The **Board of Directors**, appointed by the Shareholders' Meeting of 24 April 2015, whose composition was reintegrated on 11 May 2017 as a result of a Board Member's resignation, tendered on 20 April 2017, is composed of 12 members - 7 of which are independent²⁴ (one appointed by minority shareholders) - in compliance with the criterion of gender balance; the mandate conferred to the Board of Directors will expire on the date of the Shareholders' Meeting called for the approval of the Financial Statements at 31 December 2017.

The **Nominations and Remuneration Committee**, in line with the current Corporate Governance Code, is composed of three non-executive directors, a majority of which are independent²⁵. It is in charge of making recommendations to the Board of Directors for the remuneration of Directors with delegated powers or tasked with particular duties and formulating opinions for the Chief Executive Officer for the definition of remuneration policies and incentive plans for Key Management and Top Management of the Group.

ERG has adopted a **Policy for the remuneration** of members of the Board of Directors and of Key Managers in line with the current Corporate Governance Code, thus aiming to stimulate the utmost alignment of the beneficiaries' interests with the pursuit of the primary objective of sustainable creation of value for shareholders over the medium/long-term. The medium/long-term monetary incentive system (**LTI**) envisaged for the Chief Executive Officer, Key Managers and other Top Managers of the Group has a performance target linked to the performance of the

²³ For detailed information in this regard, refer to the section "Report on Corporate Governance and Ownership" and the "Consolidated non-financial statement" for the year 2017, available at the Company's website (www.erg.eu).

²⁴ 4 Independent Directors pursuant to the Consolidated Finance Act (T.U.F.) and the Corporate Governance Code and 3 Independent Directors pursuant to the T.U.F.

²⁵ The Chairman of the Committee was classified by the Board of Directors of 24 April 2015 as an independent director pursuant to the Italian Consolidated Finance Act but not pursuant to the Corporate Governance Code, exclusively due to the extensive term of office. The other members are independent pursuant to the Italian Consolidated Finance Act and the Corporate Governance Code. These assessments were confirmed by the Board of Directors at its meetings of 13 July 2016 and of 12 July 2017.

ERG share over the three-year reference period (2015-2017) and the amount of dividends per share paid in the same period (**Total Shareholders Return**) with a weight of 40%.

Revisions to the Company's Remuneration Policy, proposed by the Nominations and Remuneration Committee, were made by the Board of Directors, to take into account, effective starting from 2018, the general principles of the 2018-2020 LTI System.

In line with the provisions of the current Corporate Governance Code, the **Control and Risk Committee** is composed of three non-executive directors, the majority of which are independent²⁶ and is tasked with supporting the assessments and decisions of the Board of Directors pertaining, inter alia, to the Internal Control and Risk Management System, as well as those pertaining to the approval of periodic financial reports.

ERG considers proper **risk management and mitigation** within the Group to be of fundamental importance. Thus it has defined a policy to govern the rules and assign the related responsibilities.

With specific regard to financial and market risks, the Group strengthened the **Risk Committee**, an internal committee composed of the Chief Executive Officer, the CFO and the Top Management, tasked with managing risks inherent in Energy Management for Group's entire energy portfolio: for this purpose, the company set a single **PAR** (profit at risk).

ERG has set up a highly rigid **system of control and assessments of investments** (relating to both M&A and organic development) in order to stay within the profitability parameters established. In that area, the following play a central role:

- the **Investment Committee**, an internal committee composed of the Chief Executive Officer, the CFO and the Top Management, tasked with providing support in assessing investment proposals by the Business Units and expressing a technical and economic-financial opinion for the Strategic Committee on the investment proposal;
- the **Strategic Committee**, a board committee composed of the Executive Deputy Chairman - Chairman of the Committee – the Non-executive Deputy Chairman, the Chief Executive Officer and 1 Director (non-executive) tasked with, inter alia, providing support to the Chief Executive Officer and the Board of Directors in defining the strategic guidelines for the business, the portfolio, strategic finance and decisions relating to long-term strategic plans and regarding capital expenditure and significant acquisitions.

²⁶ The Chairman of the Committee was classified by the Board of Directors of 24 April 2015 as an independent director pursuant to the Italian Consolidated Finance Act but not pursuant to the Corporate Governance Code, exclusively due to the extensive term of office. The other members are independent pursuant to the Italian Consolidated Finance Act and the Corporate Governance Code. These assessments were confirmed by the Board of Directors at its meeting of 13 July 2016 and of 12 July 2017.

HUMAN RESOURCES

The Group's ambitious objectives set ever more significant challenges, in terms of consistency and impact, for managing people and processes. In this area, in 2017 ERG's commitment was strongly oriented in two directions:

- the implementation of the new organisational model, One Company, in force since 1 January after the long preparation work carried out the previous year;
- optimisation of the new model for the development of Human and organisational Assets, comprising four areas of initiative:
 - continuously refining the Group's organisational structure, which gave rise to the new organisational model of the Group;
 - increasing the value of human assets (PEOPLE);
 - aligning and motivating managers (MBO);
 - focusing on value creation over time and retention (LTI).

Organisation & Processes

In 2016, as a result of the drive provided by the challenging targets of the 2015-2018 Business Plan, it became clear that it was necessary to change the current Group Organisational Model, **Fast Steering**, in force since 2014.

While, on one hand, in the last three years, the flexibility and scalability of the model had made it possible to extremely quickly, efficiently and effectively support the implementation of a total business turnaround, from Oil operator to Independent Power Producer, on the other hand, the focus and organisational separation by generation technology began to appear antithetical, inefficient and ineffective in relation to the outlook and potential deriving from the new business structure.

In the new industrial set/up deriving from the business transformation process, the Group understood that it had to leverage its new specific characteristics to continue generating value for the shareholders, its own personnel and the community; therefore, in mid-2016 an internal project was launched which led to the development of a new organisational structure featuring a strong focus on process logic, aiming for the utmost organisational simplification, by creating specific areas of competence, for the ultimate purpose of concentrating the entire organisation towards a single, integrated vision of the business:



The new organisational structure, featuring a strong focus on process logic and the intention to “mould” the entire organisation towards a single, common vision, motivating the choice of the name “One Company” (in force since

January 1, 2017), features the definition of two macro-roles:

- ERG S.p.A. - corporate - which guarantees strategic guidance, is directly responsible for business development processes and ensures the management of all the business support processes. The company is organised into 5 areas:
 - Business Development;
 - Administration, Finance, Planning and Control, Risk Management, M&A, IR and Purchasing;
 - Human Capital, ICT and General Services;
 - Institutional Relations and Communication;
 - Legal and Corporate Affairs.

- ERG Power Generation S.p.A., which is assigned the responsibility for the Group's industrial and commercial processes. It is organised into:
 - Wind, Thermo and Hydro generation technologies, which in turn are organised into production units on a geographical basis;
 - Energy Management, as the single entry point into organised markets;
 - a commercial structure dedicated to Key Accounts;
 - a centre of technological excellence in charge of the Engineering & Construction processes;
 - a hub of specialised skills in regulatory, planning and performance control matters, transversal to all business processes;
 - a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

The implementation of the Group's new corporate Organisational Model fully entered into force starting from 1 January 2017, in particular through:

- the absorption of ERG Services 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.

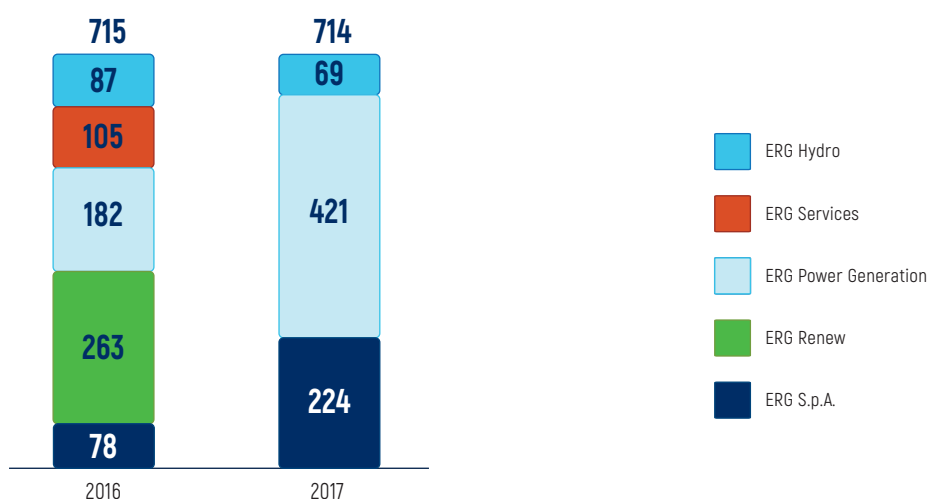
In this framework of change, throughout 2017 the Group continued to carry out an important change management program, with the goal of ensuring quick realignment of operating processes and clear definition of the place in the organisation of all processes and resources involved, thus facilitating the achievement of the objectives of operating effectiveness and efficiency defined in the reorganisation plan.

In terms of the Group workforce, at 31 December 2017 ERG had 714 employees (-1 compared to 31 December 2016), broken down as follows:

- ERG S.p.A. recorded an increase in the workforce compared to 2016, reaching a total number of 224 persons

compared to 78 at the end of the previous year, as a result in particular of the absorption of ERG Services, which brought 105 employees to the workforce;

- ERG Power Generation S.p.A. and its subsidiaries recorded a growing workforce, reaching 490 persons, in particular with reference to the effects of the merger by absorption (effective from 1 January 2017) of ERG Renew S.p.A. and ERG Renew Operations & Maintenance which contributed respectively 60 and 150 persons to the workforce;
- ERG Hydro S.r.l., a Group company which was consolidated following the acquisition of the hydroelectric business of the Terni complex by E.ON starting on 1 December 2015, closed 2017 with a workforce of 69 employees, recording a reduction by 21 employees, in particular as a result of intercompany transfers for the start of the One Company organisational set-up.



The changes in the workforce were mainly generated by the aforementioned mergers by absorption consequent to the implementation of the Group's new One Company organisational model, as well as by physiological but limited turnover in the various Group companies, and by:

- new hiring to cover new positions generated by the pursuit of the plan for insourcing the Wind generation technology within Operations & Maintenance;
- the gradual implementation of processes of re-skilling and professional reassignment for several resources who were less exposed to change management or job rotation plans in the previous years, at the time of changes in the scope of business at Group level;
- other cases of transfers between Group companies, as part of the internal processes of professional development and optimisation of the workforce.

The average age of the Group's employees is approximately 43.6, down slightly compared to the 2016 figure (43.9), and approximately 91% of all employees holding either a secondary school diploma or university degree, in line with the figure at the end of the previous year.

Human Resources Development

Dispersed leadership is ERG's managerial development model. This means that the management team is closely involved in the development of human resources as a corporate competitiveness multiplier.

For this reason, also during 2017 the Human Capital Committee held regular meetings to carry out its fundamental role in defining and monitoring the main programs and activities for human resources development, supporting the Executive Deputy Chairman and the Chief Executive Officer in major personnel management decisions.

The Committee confirmed its guidance and control role, both with regard to the evolution of the Group's Organisational Model and the sharing of new organisational changes, and as regards disseminating managerial culture and implementing strategies and instruments for their achievement; in particular, after 2016, when the Human Capital Committee was deeply involved in the project that led to the definition of the new One Company model, in 2017 a great deal of effort was expended in the redefinition of the Group's managerial competencies model, to realign it and enable it to rise to the significant challenges of the new business structure.

Moreover, in line with its mission, in 2017 the Committee also gave a fundamental impulse for the development of the following processes:

- job evaluation & succession planning;
- career planning;
- talent management;
- promotion and key people management.

The objective, newly and strongly confirmed, is to provide the Group with an integrated system for the management of Human Capital, able to assure that its capital of skills and knowledge is continuously adapted to ever-changing business conditions, so that available resources are always capable of rising to the challenges put forward by ever keener competition and by a complex, rapidly changing scenario.

In this context, the Group has further brought on stream its integrated use with other human capital processes of the skills management model developed in the previous two years. An extremely innovative tool, strictly based on the need to oversee specific skills to cover single organisational roles, and capable of "measuring" the value of the wealth of skills in the Group using a centralised process that is transversal to all Group Organisational Units.

The methodology was further fine-tuned, acting on tools that have been introduced in the Group in recent years (the Organisational Manual, the new Group organisational model, a centralised skills catalogue) which are the foundation of the tool, as well as on specific aspects of the tool (skills catalogue, profiling method, etc.), enabling the calculation of the Human Capital Coverage (HCC) ratio for 2017, which amounted to 87%. That ratio has thus become the frequent subject of measurements and optimisation actions, capable of expressing the effective level of coverage in relation to the desired level, in relation to the profile of skills needed to effectively carry out a specific organisational role or a certain group of organisational roles.

Measuring the HCC ratio, along with analysing business and organisational evolutions further boosts the processes

of managing and developing human capital, providing more consistent guidance of job rotation and career planning processes and talent development processes and the related investments in training in relation to actual needs.

As in previous years, in 2017, too, the investment in training activities was kept at high levels (approximately 4,740 days involving approximately 692 participants), but above all it was distinguished by its quality and focus. The system comprises three areas (Managerial, Institutional and technical/specialist) and it covers all the needs of the company's personnel with an end-to-end approach (from newly hired personnel to executives); in practice, it is the basic structure of an ERG "corporate university", with a training platform integrated into the human capital management processes and closely aligned with the needs dictated by the evolution of the business.

Aligning and Motivating Managers

The ability to align the company's management on clear, integrated objectives is a primary need of modern organisations. In this area, the implementation of short-term and long-term incentive systems that are assigned based on targets that can be achieved by the owners continued in 2017. The **Short-term** incentive is targeted to the set of Directors, Senior Managers, Managers and a selected number of Professionals. The system is based on a Management By Objectives approach (MBO), in which the selected balance between Group objectives (30%) and individual objectives (70%) matches leading companies' best practices for managerial incentives and it was designed to provide further support to the development of leadership and individual initiative. The **Long-term** incentive system (LT-I), instead is targeted to the Group Directors - Top Management. The system has been developed in accordance with market best practices and aims to stimulate the utmost alignment, in terms of objectives, of the beneficiaries' interests with the pursuit of the primary objective of sustainable creation of value for shareholders over the medium/long-term. The performance ratios that are currently applied to each beneficiary of the plan are Economic Value Added of the ERG Group and the Total Shareholder Return.

- **Economic Value Added** of the ERG Group is a performance target that represents the "residual" economic value following the remuneration of all production factors, including the cost of capital employed. Thus, as it expresses income net of the cost of capital, EVA considers the financial and equity components alongside the income component.
- the **Total Shareholder Return** is a performance target linked to the performance of the ERG share over the three-year reference period and the amount of dividends per share paid in the same period.

The performance ratios selected are differentiated based on the role held by the Beneficiary in the ERG Group in relation to the scenario of the approved Business Plan:

- for the CEO & and Corporate Resources, the Economic Value Added has a weight of 60% and the Total Shareholder Return has a weight of 40%;
- for Business Resources, the Economic Value Added has a weight of 80% and the Total Shareholder Return has a weight of 20%.

The new contractual home of the ERG Group

2017 was a year of radical innovation for ERG's contractual structure and for its system of Industrial Relations.

The recent acquisitions and transformations had led to a situation characterised by the concurrent presence of National Collective Labour Agreements (CCNL) belonging to the different product sectors, both within the same companies of the Group and within the same territories.

In this context, it was necessary to identify a new shared contractual home, able to best represent the Group's new industrial structure and the typical professional skills and competencies of the electric sector.

After a thorough analysis, the choice fell on the Electricity CCNL, which from 1 January 2018 onwards will be the CCNL for all ERG Persons; this choice is consistent and in continuity with the inception of "Elettricità Futura" (Future Electricity) of which ERG is one of the main associates.

In 2017, a constructive process was started to negotiate with all National, Territorial and Local Unions, directed at jointly identifying a unified regulatory and contractual solution for all Persons in the Group.

The meetings, which in the tradition of ERG Industrial Relations were conducted with a positive, participative climate, followed a work schedule characterised by tight timelines and a structured analysis methodology.

This approach enabled us to sign the confluence agreements on 11 October 2017, a date destined to remain in the "memory" of ERG's contractual structure.

The contractual confluence, and the climate in which it was developed, also represented an important time of dialogue, with the sharing of the corporate objectives with all Social Partners and ERG's union stakeholders, at a time when attention for the development of renewable energies in our country is an important focus point for them as well.

The union and confluence path described above, therefore, was very useful for ERG's shift from obsolete, no longer functional regulatory and contractual structures, to the unified, nationwide system of rules and treatments, consistent with our business model, which will give us synergistic advantages for the implementation of our 2018-2020 Plan.

CULTURAL AND SOCIAL ACTIVITIES

In 2017 ERG renewed its efforts in the cultural and social arenas, operating in three main areas: “environment, health and social development” - “culture and knowledge” - “youth and sport”.

The initiatives mainly regarded the following:

- support to start-ups, with initiatives referred mainly to technological development projects in the Energy world;
- the new generations, with educational activities on environment, climate change and renewable sources, and support for sporting events;
- cultural activities, promoted with initiatives in support of the local areas where ERG operates.

Environment, Health and Social Development

In the spring of 2017, the first **ERG Re-Generation Challenge** ended. This is a business plan competition designed to offer students, start-ups and companies the opportunity to develop business initiatives in the area of Terni. The project is a part of the “**Terni Urban Re-Generation**” initiative, promoted by the Municipality of Terni for the redevelopment of the urban areas. 10 teams, selected among 66 projects from 11 Italian regions, reached the final stage. The three best ideas are awarded an amount of money to use to develop their respective projects.

Collaboration continued with **CDI Labs**, an initiative launched in 2016, promoted by SAFM (Scuola di Alta Formazione al Management di Torino), in partnership with CDI (Collège des Ingénieurs) to promote matching technological start-ups from 10 European countries and Israel with large industrial groups, including ERG.

The annual **environmental education project “Vai col vento!”** (“Go with the Wind”), promoted by ERG and dedicated to eighth grade students in the municipalities where the Group’s wind farms are located, reached its fourth edition. The initiative, which has been sponsored by the Ministry of the Environment since its inception, as well as by the Carabinieri since 2016, involved around 1,500 students residing in Sicily, Calabria, Basilicata, Campania, Molise, Puglia and Sardinia. “**Vai col vento!**” aims at making students and teachers more aware of the active role the young generations can carry out for environmental protection and for the development of the culture of sustainability. It involves classroom lessons focused on the sources of renewable energy, wind energy in particular, on environmental issues, on climate change and energy efficiency. The didactic portion was supplemented by guided tours of the wind farms, in which ERG technicians illustrated the various stages of construction, management and operation of a wind farm up to the generation of electricity. In the wake of “Vai col Vento” and with the same format, in the spring of 2017 the first edition of “**A tutta acqua!**” was held. It is intended for the high schools of the Umbria and Lazio regions, where ERG operates its hydroelectric plants. In this case, too, educational moments are provided along with guided visits of the Galletto plant and of the protected area of the Marmore Falls.

Since 2010, ERG has organised the **"School Project"**, carrying out activities within schools of all levels in the Siracusa province. In this context, specifically in 2017, ERG supported the Legality Project of the Provincial Department of the Siracusa Carabinieri through the competition entitled "Un casco vale una vita" ("A helmet is worth a life") for eighth grade students. ERG also supported "Icaro 2017", a road education project organised by the Provincial Department of the Siracusa Traffic Police, which involved around 2,000 high school students.

Also within the "School Project", ERG organised the **"Electricity Day"**, an event dedicated to students attending the last years of technical high schools in the areas where ERG's plants are located. This initiative, which has been held repeatedly in the province of Siracusa, has also been held in the towns of Terni, Perugia, Rieti and Viterbo since 2016. In November, over 150 students from four technical high schools visited the Galleto hydroelectric plant. Just as many young people from Siracusa (SR), Augusta (SR), Palazzolo (SR) and Carlentini (SR) were able to visit the combined cycle energy generation plant in Melilli and the control centre of the wind farm at Carlentini. ERG's managers and engineers described to the young people the technical characteristics of the two structures, highlighting the issues of energy efficiency and the sustainability of generation pursued by ERG.

In February, ERG supported **GeMUN** (Genoa Model United Nations), the student conference that annually puts together 700 young people from the ages of 14 to 26, coming from all over the world for three days of talks modelled after the United Nations. This year, the central theme was Sustainable Development. The participants are students called up to simulate diplomatic roles as representatives of the different countries of the world. The GeMUN, affiliated to the model of the United Nations of the Hague, is officially recognised by the UN and is considered one of the 10 leading events of its kind worldwide.

In November, employees of the ERG Group with their family members and the top management took part in the first **Corporate Volunteering** day organised by ERG and dedicated to cleaning the park of the Villa Croce Museum of Contemporary Art, one of the structures of the Genoa museum cluster. The initiative, in collaboration with Legambiente, is a part of "Puliamo il Mondo", the Italian edition of Clean Up the World, to clean up and beautify urban centres.

ERG supports the **Fondazione Mus-E Onlus**, a non-profit foundation that promotes projects specifically targeted to elementary schools in areas with a high presence of immigrant children or with disadvantaged social and family circumstances, involving the children in shared experience of creating art to integrate them into primary school.

Culture and Knowledge

For ERG, spreading the culture of Sustainability is an important issue: for this reason it supports the **"CSR IS Sustainability and Social Innovation Fair"**, a significant initiative not only for the promotion of best practices for Corporate Social Responsibility, but also to enable some major CSR players to "network": companies and non-profit organisations, students, teachers and experts. The theme of the 2017 edition was "the Art of Sustainability". ERG illustrated its own experiences in the Genoa event of the initiative and participated in the national event concluding the Salon at Bocconi University in Milan.

In 2017, ERG renewed its commitment to **Fondazione INDA Onlus**, a non-profit foundation that since 1914 has

organised classical plays at the Greek Theatre in Siracusa, by supporting the theatrical productions and other activities promoting classical culture.

In 2017, ERG supported the **Communication Festival of Camogli** (Genoa). The theme of the fourth edition, which took place from 7 to 10 September, i.e. "Connections", was the common thread for conferences, dialogues, round tables, interviews, laboratories, shows, involving social, economic, political, financial, scientific aspects of our life, which in the Internet era are changing and evolving rapidly.

In November, ERG participated in the 2017 edition of the **"Festival della Scienza"** (the Science Festival) held in Genoa from 26 October to 5 November. Within the main activities and laboratories scheduled in the Festival, "The Wind of Change" was proposed; it is a virtual experience conceived for children aged 11 and up.

In the stand, set up in the portico of Palazzo Ducale, wearing last-generation 3D viewers, it was possible to virtually visit ERG wind farms.

With a view to promoting significant cultural initiatives in the areas where it operates, this year ERG once again supported the **"Umbria Jazz" Festival**, held in Perugia in July: during the period of the musical kermesse, the city's main square was dubbed "ERG Square". ERG's contribution also promoted the organisation of **Umbria Jazz Spring, thus making it possible for the Jazz Festival to return to Terni, promoting** the Valnerina area, severely affected by seismic events.

ERG sponsored the Confindustria's annual **Young Entrepreneurs Conference** (Convegno dei Giovani Imprenditori), held on 9 and 10 June 2017 in Rapallo (GE). This event, which reached its 47th edition, provides a valuable opportunity for discussion of economic, political and social issues, to showcase the contribution of young Italian entrepreneurs to the Country's economic and social development.

For Confindustria Giovani, ERG also sponsored the sixth edition of the **"Bootcamp"**, a training event where theoretical teaching and practice merge to create useful competencies to confront the challenging environment where Italian companies are currently operating.

In 2017, ERG contributed to the project to create the new theatre in Genoa, as a result of a renewal project through the integration of the Teatro Stabile and of the Teatro dell'Archivolto. The ERG Group is a member of **CIVITA**, an association for promoting and managing Italy's cultural heritage and in safeguarding, enhancing and providing access to artistic and cultural assets also through exhibitions, cinema and European projects.

Young People and Sport

ERG sponsored the **33rd Torneo Ravano (Ravano Tournament) - 24th Coppa Mantovani (Mantovani Cup)**, the largest school tournament in Europe. The 2017 edition involved, in April and May, over 5,000 very young athletes coming from schools in Liguria, in Lower Piedmont and in the province of Siena, participating in tournaments of 10 different sports: football (men's and women's), basketball, rugby, volleyball, cycling, fencing, crew, sailing, track and field and waterpolo. In this year's edition, the focus was on sensitising the youngsters to "green" behaviours through a series of Edutainment laboratories: ERG was present with a corner that was entirely dedicated to the theme of the generation of "sustainable" energy from renewable sources.

ERG was a Gold Sponsor of the 18th annual **Stelle nello Sport** (Sports Stars), a project that promotes the values of sports to an increasing bracket of the population in Liguria, with specific focus on young people and schools; it also promotes and supports sports in Liguria, with an emphasis on disciplines that get less media coverage incentivising social projects, promoting initiatives in support of paralympic sports and fundraising for the Associazione Gigi Ghirotti of Genoa and the Fondazione Areo Onlus.

In September, ERG was a sponsor of the fifteenth edition of the **"AON Open Challenger - Giorgio Messina Memorial"**. This tournament, which takes place in Genoa, is the number two tennis event in Italy following the Italian Open at Foro Italico.

In 2017 the 26th edition of the **"Trofeo Archimede e Elettra"** (Archimedes and Electra Trophy), considered a classic sports event at school in the Siracusa Province, was held. The event took place at the ERG "Riccardo Garrone" Sports Centre in Siracusa and involved 1,000 students from 22 grammar and middle schools in Siracusa and its province.

Edoardo Garrone Foundation

Out of the commitment of the ERG Group and of the Garrone and Mondini families in social and cultural matters arose, in 2004, the Edoardo Garrone Foundation (Fondazione Edoardo Garrone, FEG).

Headed up to January 2013 by Riccardo Garrone, who had a strong vocation to the Foundation and developed it in line with the historical and social framework it operated in, the Foundation, now chaired by his son Alessandro, confirms and renews its mission through internally designed initiatives, characterised by uniqueness and the ability to provide elements of innovation and progress, especially to the benefit of the young generations. Training and promotion of cultural resources and assets in the local areas are the focus of the commitment that enables the Foundation to realise the following projects in 2017: **RestartApp** and **ReStartAlp**, campuses for new businesses in the Apennines and in the Alps, both dedicated to young people under 35 with business and start up ideas, involved in the economic and social development of the Italian mountainous areas; **AppenninoLAB**, a training and orientation experience in the Apennines, dedicated to adult students from upper schools in Liguria and Piedmont; **Genova Scoprendo**, dedicated to **middle schools** in the province of Genoa, with the goal of engaging young students, through the issues of sustainable development and active, responsible citizenship, in designing sustainable growth solutions for their towns. In addition, two new projects were launched: **Fundraising Coaching Plus**, which provides two small non-profit organisations from Genoa the opportunity to raise funds, and the project dedicated to the **Museo della Ceramica di Savona** (Savona Museum of Ceramics), with the goal of selecting a new team for the experimental management of the Museum for two years, aiming to showcase the cultural and ceramics heritage of the city of Savona.

TREASURY SHARES

At 31 December 2017 ERG S.p.A. held 1,503,200 treasury shares, amounting to 1% of share capital. 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.

BRANCH OFFICES

ERG S.p.A. has its registered office and principal place of business in Genoa, Italy and offices in Rome, Terni and Priolo Gargallo, Italy. The company has no branch offices.

RELATED PARTIES

For information on transactions with related parties, including transactions with unconsolidated investee companies, see Note 40 of the Consolidated Financial Statements.

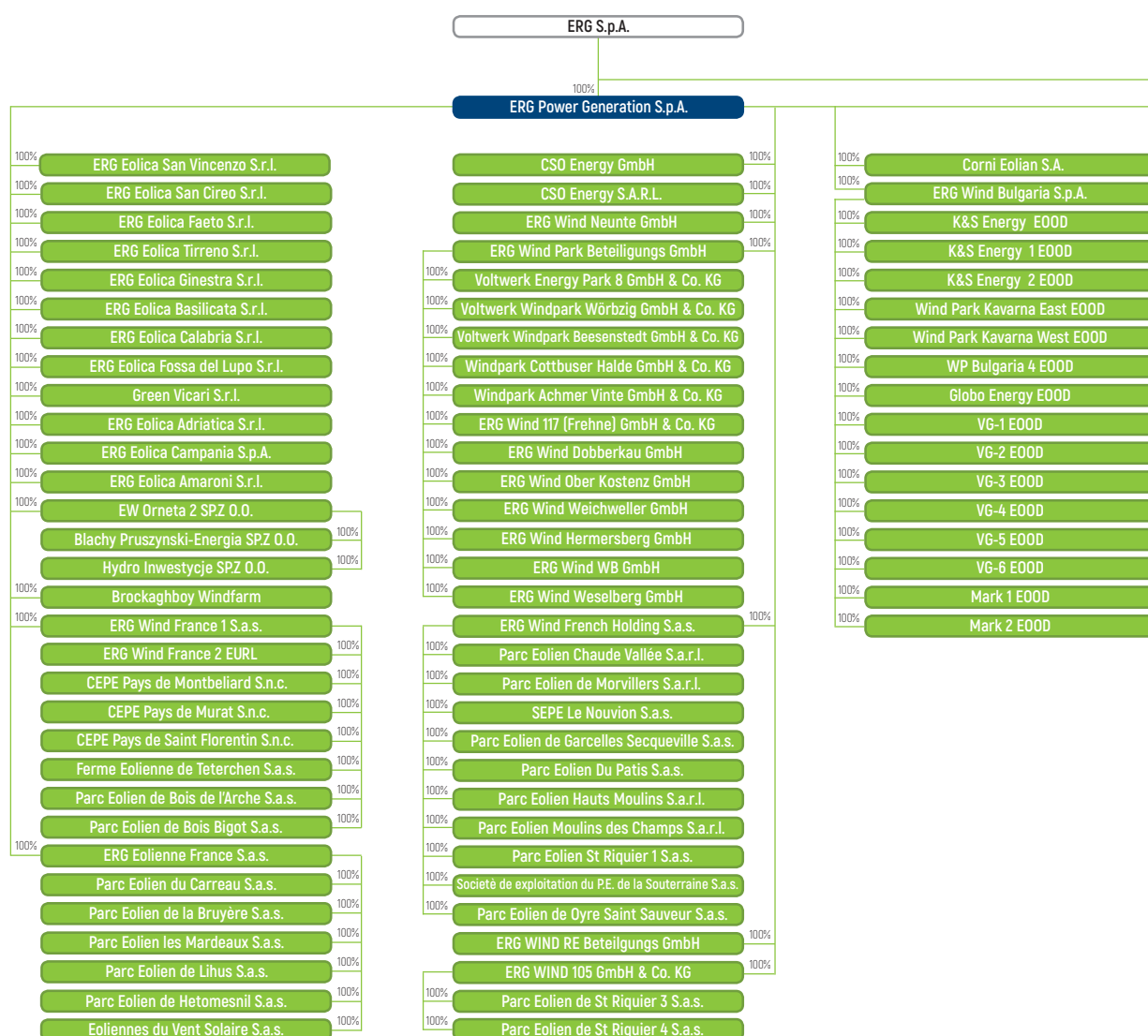
FINANCIAL STATEMENTS

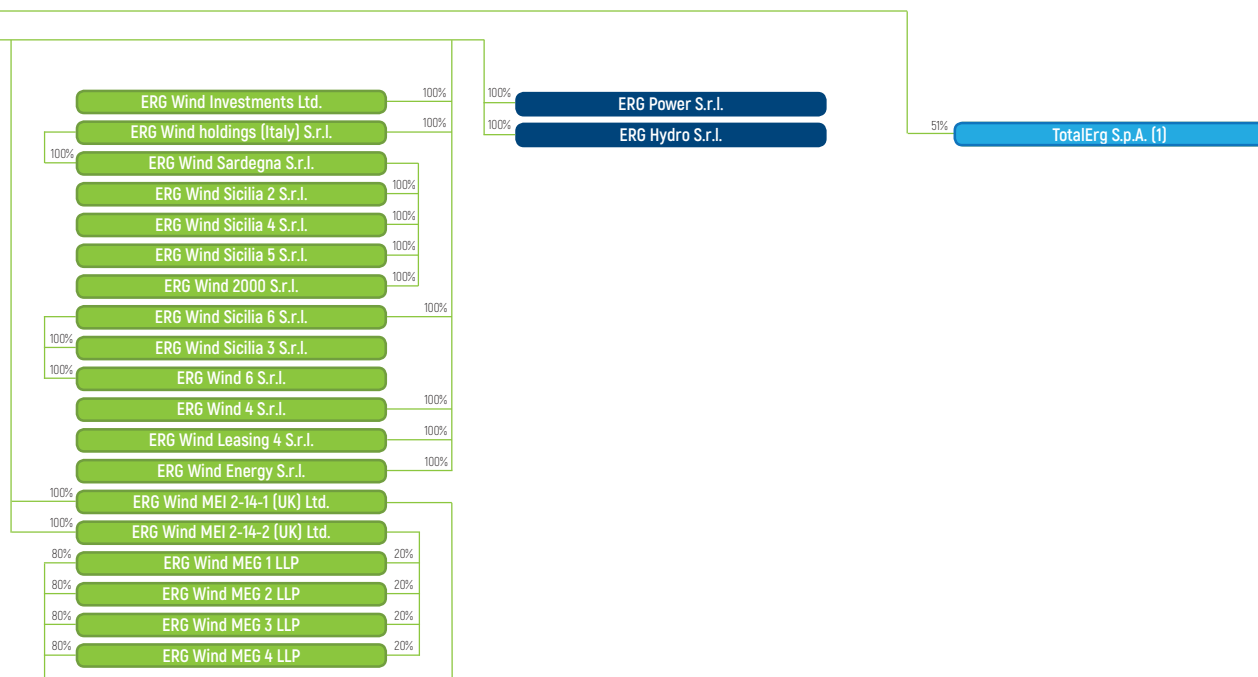
SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 31 December 2017.

Compared with 31 December 2016, the following is noted:

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





Non-Programmable Business

Programmable Business

Integrated Downstream

(1) Consolidated at equity

FINANCIAL STATEMENTS

Income Statement

The income statement and the statement of financial position figures shown below **include non-recurring items**.

In addition, the results of the TotalErg equity investment and of Brockaghboy Windfarm Ltd. in the Notes to the Consolidated Financial Statements are measured and posted in accordance with the IFRS 5.

For clearer disclosure, their respective results were posted and commented herein under ordinary operations.

For the reconciliation of these values please refer to the section "Alternative performance indicators". For additional details of the amounts tied to the measurement and recognition of the aforesaid results for IFRS 5 purposes, reference is made to **Note 27 of the Consolidated Financial Statements**.

RECLASSIFIED INCOME STATEMENT

	YEAR	
(EUR million)	2017	2016
Revenues from ordinary operations	1,056.5	1,025.5
Other revenues and income	10.6	16.3
TOTAL REVENUES	1,067.0	1,041.8
Costs for purchases and changes in inventory	(355.8)	(330.2)
Costs for services and other operating costs	(182.6)	(196.0)
Personnel costs	(68.7)	(62.3)
EBITDA	459.9	453.3
Amortisation, depreciation and write-downs of fixed assets	(252.2)	(253.7)
EBIT	207.7	199.6
Net financial income (expenses)	(65.6)	(83.9)
Net income (loss) from equity investments	98.4	37.7
Profit (loss) before taxes	240.5	153.5
Income taxes	(33.7)	(28.7)
Profit (loss) for the period	206.8	124.9
Minority interests	–	(2.4)
Group's net profit (loss)	206.8	122.5

Revenues from ordinary operations

Revenues in 2017 amount to EUR 1,056 million, slightly up compared to EUR 1,025 million in 2016. The change is a result of the following factors:

- the increase of the **Wind power sector** tied mainly to a more favourable trend in prices and the change in the scope of consolidation as a result of the acquisition of the DIF Group companies, partially offset by lower output in Italy;
- the increase in the revenues of the **Hydroelectric sector** as a consequence, mostly, of the higher average sale prices;
- the **Thermoelectric sector** substantially in line with 2016, as a result of the loss of the entitlement to the "reintegration consideration", offset by the rise in the values of the Energy Efficiency Certificates and by the increase in electricity sale prices.

Other revenues and income

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

Costs for purchases and changes in inventory

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

In 2017, they amounted to EUR 356 million, up by EUR 26 million compared to 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 wind farms which occurred in the second quarter of 2017 (for approximately EUR 4 million) and the start of operations of the Brockaghboy wind farm in Northern Ireland.

Net financial income (expenses)

The year 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 2016 were equal to EUR 76 million.

Net financial expenses totalled EUR 66 million in 2017, down significantly compared with EUR 76 million in 2016 net of non-recurring expenses. The decrease is due to higher cash management income and 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 effects related to financial restructuring enabled a reduction of the average cost of medium/long-term debt, which in 2017 amounted, on average, to 3.2%, compared to 3.4% in 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 2017, the item includes mainly the results of the TotalErg joint venture recognised in accordance with IFRS 5 and in particular it takes into account the results of the first half of 2017, of the dividends distributed to ERG S.p.A. in the second half of 2017 and of the reversal of previous write-downs in consideration of the fair market value net of the expected selling costs.

Net of these items, in 2017 the entry includes write-downs (approximately EUR 1 million) of minor equity investments measured at cost.

In 2016, the item included income of EUR 11 million deriving from the fair value measurement of the liability relating to the option to sell the minorities of ERG Renew S.p.A.

Income taxes

Income taxes in 2017 were EUR 34 million (EUR 29 million in 2016).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 14% (19% in 2016).

The recurring tax rate of 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 20% (22% in 2016).

The decrease in the tax rate is mainly tied to the benefit deriving from the reduction of the Italian IRES (Corporate tax) rate (24.0% from 1 January 2017, versus the rate of 27.5% applied in 2016) and to the positive impact (approximately EUR 4 million) deriving from the reduction of the Corporate Income Tax in France (28% in 2017, versus 33% in 2016). This decrease was partly offset by the negative effect as a result of the change to the ACE (Aid to Economic Growth) rate (1.6% in 2017, versus 4.75% in 2016).

STATEMENT OF FINANCIAL POSITION

In addition, the TotalErg equity investment and the net assets (assets and liabilities) of Brockaghboy Windfarm Ltd. in the Notes to the Consolidated Financial Statements are measured and posted in accordance with IFRS 5. For clearer disclosure, their respective values were posted and commented herein in the ordinary items of the statement of financial position.

For additional details of the amounts tied to the measurement and recognition of the assets and liabilities for IFRS 5 purposes, further reference is made to Note 27 of the Consolidated Financial Statements.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)	31/12/2017	31/12/2016
Fixed assets	3,260.8	3,372.2
Net working capital	150.0	160.2
Employees' severance indemnities	(6.4)	(6.7)
Other assets	278.7	310.1
Other liabilities	(573.0)	(549.5)
Net invested capital	3,110.1	3,286.3
Group Shareholders' Equity	1,877.5	1,729.1
Minority interests	–	–
Net financial indebtedness	1,232.7	1,557.2
Shareholders' equity and financial debt	3,110.1	3,286.3

At 31 December 2017, net invested capital amounted to EUR 3,110 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 40% (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 capital expenditure relating to the construction of a wind farm in Northern Ireland, which started operations in the fourth quarter of 2017.

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, and the trade payables mainly regarding the purchase of electricity and gas, the maintenance of the wind farms and other trade payables.

Other assets

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

Other liabilities

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

Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

(EUR million)

	31/12/2017	31/12/2016
Medium/long-term financial indebtedness	1,788.7	1,934.1
Short-term financial indebtedness (cash and cash equivalents)	(556.0)	(376.9)
Total	1,232.7	1,557.2

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

(EUR million)

	31/12/2017	31/12/2016
Medium/long-term bank borrowings	670.6	668.4
Current portion of mortgages and loans	(58.6)	–
Medium/long-term financial payables	205.9	141.9
Total	817.8	810.4
Total Project Financing	1,114.7	1,275.6
Current portion of Project Financing	(143.8)	(151.9)
Medium/long-term Project Financing	970.9	1,123.7
TOTAL	1,788.7	1,934.1

The “Medium/long-term bank borrowings” at 31 December 2017 total EUR 671 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).

The current portion of mortgages and loans (EUR 59 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

“Medium/long term financial payables”, amounting to EUR 206 million, refer to:

- liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 106 million (EUR 142 million at 31 December 2016).

- liability deriving from the issue of the non convertible bond (EUR 99 million²⁷ at 31 December 2017) made in the third quarter 2017, directed at raising additional funds for new capital expenditure in the sector of renewable energies and to refinance the capital expenditure made on hydroelectric plants in Italy.

The payables for "Medium/long-term Project Financing" (EUR 1,115 million at 31 December 2017) are for:

- loans of EUR 1,052 million issued to companies in the Non-programmable Renewable Energy Sources business for the construction of wind farms, of which EUR 427 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 64 million;
- EUR 62 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 net financial indebtedness is shown below:

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)		
(EUR million)	31/12/2017	31/12/2016
Short-term bank borrowings	83.0	2.3
Current portion of mortgages and loans	58.6	–
Other short-term financial debts	1.7	3.8
Short-term financial liabilities	143.3	6.0
Cash and cash equivalents	(679.2)	(263.3)
Securities and other short-term financial receivables	(28.8)	(107.6)
Short-term financial assets	(708.0)	(370.9)
Short-term Project Financing	143.8	151.9
Cash and cash equivalents	(135.1)	(163.9)
Project Financing	8.7	(12.0)
TOTAL	(556.0)	(376.9)

The amount of cash and cash equivalents increased in 2017 mainly as a result of the collections relating to receivables for feed-in premium relating to the first half of 2017 and to the Energy Efficiency Certificates relating to 2016, of the dividends distributed by TotalErg (EUR 71 million) and of the collection of the advance payment from the Api Group within the TotalErg sale, as well as the cash flow of the period.

²⁷ Net of ancillary costs, recognised with the amortised cost method.

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

Short-term bank borrowings include short-term credit lines amounting to approximately EUR 80 million in ERG S.p.A. 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	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
(EUR million)		
Adjusted cash flow from current operations ⁽¹⁾	402.1	381.3
Income taxes paid	(23.2)	(14.2)
Change in working capital	13.2	69.5
Change in other operating assets and liabilities	8.1	(34.3)
Total	400.3	402.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net capital expenditure on tangible and intangible fixed assets	(55.6)	(55.9)
Net capital expenditure in financial fixed assets	(7.4)	(0.1)
TotalErg Transaction ⁽²⁾	85.2	–
Total	22.2	(56.1)
CASH FLOW FROM SHAREHOLDERS' EQUITY		
Distributed dividends	(74.4)	(142.8)
Other changes in equity ⁽³⁾	15.9	(6.2)
Total	(58.5)	(149.0)
CHANGE IN SCOPE OF CONSOLIDATION ⁽⁴⁾	(39.5)	(306.5)
CHANGE IN NET FINANCIAL INDEBTEDNESS	324.5	(109.3)
INITIAL NET FINANCIAL INDEBTEDNESS	1,557.2	1,447.9
CHANGE IN THE YEAR	(324.5)	109.3
FINAL NET FINANCIAL INDEBTEDNESS	1,232.7	1,557.2

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

(2) includes the dividends distributed by TotalErg S.p.A. in 2017 (EUR 71 million of which EUR 20 million distributed in May 2017 and EUR 51 million distributed in October 2017) and the advance payment made by the Api Group within the scope of the sale of the equity investment in TotalErg

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

(4) the change in the scope of consolidation in 2017 refers to the line-by-line consolidation of the German companies acquired from the DIF RE Group. The figures relating to 2016 refer mainly to the line-by-line consolidation of the companies acquired from Impax Asset Management

Net financial indebtedness amounted to EUR 1,233 million, down by EUR 325 million compared to 31 December 2016 mainly due to the positive operating cash flows, to the dividends received distributed by TotalErg (EUR 71 million), to collection of the advance payment from the Api Group within the scope of the sale of TotalErg (EUR 14 million), and to collection of the UESSE reintegration consideration (EUR 22 million)²⁸ which offset the impacts of the acquisition of the German wind farms from the DIF Group (EUR 40 million), the distribution of dividends (EUR 74 million), the payment of taxes (EUR 23 million), and the capital expenditure in the period (EUR 54 million).

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

²⁸ In the fourth quarter of 2017, EUR 13 million were collected as settlement of 2015 and EUR 9 million as the second advance payment of 2016.

ALTERNATIVE PERFORMANCE INDICATORS

To enhance understandability of business performance, the operating results are also shown excluding non-recurring items and **inventory gains (losses)**²⁹.

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)²⁹ 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 year.

TotalErg Transaction - IFRS 5

With reference to the TotalErg transaction, already commented in the Introduction and in the Significant Events, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the investee are recognised in accordance with IFRS 5.

For the purposes of clearer disclosure, the TotalErg results of ordinary operations are shown and commented on in the line Income (loss) from equity investments in this Report, recognising their recurring contribution for the entire year 2017.

²⁹ Inventory gains and losses refer solely to the “income from equity investment” and refer to the TotalErg joint venture.

Brockaghboy Windfarm Ltd. - IFRS 5

With reference to the Brockaghboy Windfarm Ltd. transaction, already commented in the Introduction, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the assets being sold are indicated separately in accordance with IFRS 5.

For clearer disclosure, the results of the assets being sold are shown and commented under ordinary operations in this Report on Operations.

Reconciliation with recurring operating results

	YEAR	
EBITDA	2017	2016
EBITDA from Continuing Operations	457.6	453.3
<i>Contribution of Discontinuing operation (Brockaghboy)</i>	2.3	–
EBITDA IAS Reported	459.9	453.3
<i>Exclusion of non-recurring items:</i>		
Corporate		
<i>Reversal of ancillary charges on extraordinary operations ⁽¹⁾</i>	12.0	–
Programmable sources		
<i>Charges for company reorganisation</i>	–	0.3
<i>Reversal of ancillary charges on extraordinary operations ⁽¹⁾</i>	0.3	–
Non-programmable sources		
<i>Charges for company reorganisation</i>	–	0.9
<i>Reversal of ancillary charges on extraordinary operations ⁽¹⁾</i>	0.1	0.9
Recurring EBITDA	472.3	455.4

	YEAR	
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	2017	2016
Amortisation and depreciation on continuing operations	(250.9)	(253.7)
<i>Contribution of Discontinuing operation (Brockaghboy)</i>	(1.3)	–
Amortisation, depreciation and write-downs	(252.2)	(253.7)
<i>Exclusion of non-recurring items:</i>		
<i>Non-recurring items</i>	–	–
Recurring amortisation and depreciation	(252.2)	(253.7)

(1) reversal of ancillary expenses relating to special projects

GROUP'S NET PROFIT (LOSS)	YEAR	
	2017	2016
Group's net profit (loss) in the Consolidated Financial Statements	206.8	122.5
<i>Exclusion of IFRS 5 effects (TotalErg)⁽¹⁾</i>	<i>(99.0)</i>	<i>–</i>
<i>51% contribution of TotalErg IAS Reported⁽²⁾</i>	<i>72.3</i>	<i>–</i>
Group's net profit (loss)	180.2	122.5
<i>Exclusion of inventory Gains/Losses</i>	<i>(9.1)</i>	<i>(15.7)</i>
Exclusion of non-recurring items:		
<i>Exclusion of ancillary charges on extraordinary operations⁽³⁾</i>	<i>9.3</i>	<i>0.8</i>
<i>Exclusion of TotalErg non-recurring items⁽⁴⁾</i>	<i>(38.8)</i>	<i>4.1</i>
<i>Exclusion of effects of loan prepayment</i>	<i>–</i>	<i>5.9</i>
<i>Exclusion of charges for company reorganisation</i>	<i>–</i>	<i>0.8</i>
<i>Exclusion of financial expenses/income on minorities option</i>	<i>–</i>	<i>(11.0)</i>
Recurring Group net profit (loss)	141.6	107.3

(1) reversal of the effects tied to the application of IFRS 5. For additional details, please see the following section "TotalErg Transaction - IFRS 5"

(2) for the purposes of the present Report, for clearer exposure, it was deemed appropriate to represent the contribution of TotalErg in continuity for the entire year 2017, without considering the effects of the application of IFRS 5 as commented above

(3) reversal of ancillary expenses relating to special projects net of the related tax effects

(4) capital gain relating to the Totalgaz Italia S.r.l. sale, a subsidiary of TotalErg S.p.A. that markets LPG, which was sold to 5 October 2017 to UGI Italia S.r.l.

TotalErg Transaction - IFRS 5

On **3 November 2017**, ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the Api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery.

The transaction closed on **10 January 2018**, following the approval of the Antitrust and the completion of the split of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The consideration for the sale of the assets is EUR 194 million, of which EUR 14 million were already collected as advance payment in 2017, EUR 144 million were collected in 2018 at the time of the closing and EUR 36 million as a deferred component regulated by a vendor loan agreement with maturity at 5 and one half years, entered into with Api S.p.A.

The total equity value of the transaction amounts to EUR 273 million that includes, in addition to the aforesaid consideration, also the extraordinary dividends distributed by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017) the interest to be accrued within the scope of the vendor loan agreement and the related tax effects.

Already starting from the "Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017", the equity investment has been recognised and indicated in application of the requirements of IFRS 5. Application of this Standard in the Consolidated Financial Statements entailed:

- at the date of first classification of the equity investment as held for sale (30 June 2017), the Group ceased to apply the equity method to recognise the equity investment to be sold. The book value at 30 June 2017 amounted to EUR 142.9 million including the result of the first half of 2017, recognised in the income statement, was EUR 12 million;
- comparison of the book value as determined with the previously commented sale price (EUR 194 million) net of the related expenses (EUR 15 million). This comparison shows a partial reversal of previous write-downs, amounting to EUR 37 million, with positive offsetting entry in the income statement;
- the recognition in the income statement of the dividends distributed by TotalErg S.p.A. to ERG S.p.A. after 30 June 2017, amounting to EUR 51 million.

Overall, the application of the above entailed, in the 2017 Consolidated Financial Statements, the recognition of the equity investment under "Assets held for sale" at the value of EUR 179.5 million (sale price net of the related ancillary expenses) and the recognition of income amounting to EUR 99 million under "Net profit from assets held for sale".

The reconciliation of the statements posted and commented in this Report on Operations with the values indicated in the Notes to the Consolidated Financial Statements and the reconciliation to the recurring values is provided below.

Reclassified Income Statement

(EUR million)	Values in the Consolidated Financial Statements	Reversal of TotalErg IFRS 5 reclassifications	Reversal of Brockaghboy (UK) IFRS 5 reclassifications	Values indicated in the Report on Operations (IAS Reported)	Reversal of ancillary charges on special projects	Reversal of TotalErg IFRS 5 effect	Consolidated ERG IAS recurring
Revenues from ordinary operations	1,053.6	–	2.9	1,056.5	–	–	1,056.5
Other revenues and income	10.6	–	–	10.6	–	–	10.6
Total revenues	1,064.1	–	2.9	1,067.0	–	–	1,067.0
Costs for purchases	(355.2)	–	–	(355.2)	–	–	(355.2)
Changes in inventories	(0.6)	–	–	(0.6)	–	–	(0.6)
Costs for services and other operating costs	(182.0)	–	(0.6)	(182.6)	7.1	–	(175.5)
Personnel costs	(68.7)	–	–	(68.7)	5.3	–	(63.4)
EBITDA	457.6	–	2.3	459.9	12.4	–	472.3
Amortisation, depreciation and write-downs of fixed assets	(250.9)	–	(1.3)	(252.2)	–	–	(252.2)
EBIT	206.7	–	1.1	207.7	12.4	–	220.1
Net financial income (expenses)	(65.3)	–	(0.3)	(65.6)	–	–	(65.6)
Net income (loss) from equity investments	(1.2)	99.6	–	98.4	–	(75.1)	23.3
Profit (loss) before taxes	140.2	99.6	0.8	240.5	12.4	(75.1)	177.8
Income taxes	(33.0)	(0.6)	(0.1)	(37.7)	(3.1)	0.6	(36.2)
Profit (loss) before minority interests	107.2	99.0	0.6	206.8	9.3	(74.5)	141.6
Net profit (loss) from assets held for sale	99.6	(99.0)	(0.6)	–	–	–	–
Net profit (loss) for the year	206.8	–	–	206.8	9.3	(74.5)	141.6
Minority interests	–	–	–	–	–	–	–
Group share of net profit	206.8	–	–	206.8	9.3	(74.5)	141.6

In accordance with IFRS 5 in relation to the TotalErg sale, the reversal of non-recurring items include:

- the reversal of the dividends distributed by TotalErg S.p.A. to ERG S.p.A. after 30 June 2017 (EUR -51 million);
- the reversal of the recovery of previous write-downs (EUR -37 million);
- the reported second half result of TotalErg S.p.A. (EUR +60 million);
- the reversal of the non-recurring items of TotalErg relating to the entire year 2017 (EUR -48 million).

Reclassified Statement of Financial Position

(EUR million)	Values in the Consolidated Financial Statements	Reversal of TotalErg IFRS 5 reclassifications	Reversal of Brockaghboy IFRS 5 reclassifications	Values indicated in the Report on Operations
Fixed assets	3,004	180	77	3,261
Net working capital	149	–	1	150
Employee severance indemnity	(6)	–	–	(6)
Other assets	278	–	1	279
Other liabilities	(572)	–	(1)	(573)
Net invested capital continuing operations	2,853	180	78	3,110
Net invested capital discontinued operations	258	(180)	(78)	–
Net invested capital	3,110	–	(0)	3,110
Group shareholders' equity	1,877	–	–	1,877
Net financial indebtedness	1,234	–	(1)	1,233
Indebtedness discontinued operations	(1)	–	1	–
Shareholders' equity and financial indebtedness	3,110	–	(0)	3,110

ERG S.P.A. FINANCIAL STATEMENTS

The separate financial statements of ERG S.p.A. at 31 December 2017 have been drawn up on the basis of the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards - IAS - and International Financial Reporting Standards - IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

RECLASSIFIED INCOME STATEMENT

The results of the TotalErg equity investment in the Notes to the Separate Financial Statements are measured and posted in accordance with the IFRS 5.

For clearer disclosure, their respective results were posted and commented herein under ordinary operations.

For the reconciliation of these values please refer to the information provided at the end of the present section.

For additional details of the amounts tied to the measurement and recognition of the aforesaid results for IFRS 5 purposes, reference is made to the Notes to the Separate Financial Statements.

RECLASSIFIED INCOME STATEMENT

(EUR million)	YEAR	
	2017	2016
Revenues from ordinary operations	37.9	16.6
Other revenues and income	2.0	5.4
TOTAL REVENUES	40.0	22.0
Costs for purchases and changes in inventory	(0.2)	(0.1)
Costs for services and other operating costs	(66.0)	(36.4)
EBITDA	(26.2)	(14.5)
Amortisation, depreciation and write-downs of fixed assets	(3.0)	(0.2)
Net financial income (expenses)	(4.5)	(1.7)
Net income (loss) from equity investments	50.4	27.4
Profit (loss) before taxes	16.6	10.9
Income taxes	7.4	0.5
Profit (loss) for the year	24.0	11.5

Revenues from ordinary operations

In 2017, revenues amounted to EUR 38 million, versus EUR 17 million in 2016, and refer mainly to charges for services rendered to subsidiaries. The significant increase is due to the merger of the company ERG Services in ERG S.p.A. and to the related absorption of all the services that were previously performed by the latter.

Other revenues and income

Other revenues were essentially due from Group companies and specific regard other recoveries and charges to Group companies, relating to sundry consulting services and special projects and sundry expense recoveries.

Costs for purchases and changes in inventory

Costs for purchases essentially refer to costs for consumables due to Group companies.

Costs for services and other operating costs

Costs for services and other operating costs mainly include personnel expenses and service costs due to third parties. The significant increase compared to the previous year is due to the merger of the company ERG Services in ERG S.p.A. and to the related absorption of all the services that were previously performed by the latter.

Amortisation, depreciation and write-downs

The significant increase compared to the previous year is due to the merger of the company ERG Services in ERG S.p.A.

Net financial income (expenses)

This item mainly includes net intercompany income (EUR +3 million), interest income on liquidity management (EUR +5 million) and charges on bank loans (EUR -8 million) as a result of the loan contracted for the acquisition of Hydro Terni S.r.l. and the loans concluded to refinance the short-term portion of the corporate acquisition loan concluded for the acquisition of ERG Hydro S.r.l. and the project loan for the wind farm at Corni (Romania).

It also includes the effects of derivatives hedging against the risk of interest rate fluctuation for around EUR 2.8 million and expenses arising from the measurement at amortised cost of mortgages for an amount of EUR 2.1 million.

In 2016, this item included expenses of EUR 11 million relating to the cancellation of the value of the option to sell the minorities of ERG Renew S.p.A. in consideration of the operation finalised with Unicredit in 2016.

Net income (loss) from equity investments

In 2017, the item includes mainly the dividends distributed by TotalErg and the effects deriving from the application of IFRS 5.

Income taxes

In 2017, income taxes were positive by EUR 7.4 million (positive by EUR 0.5 million in 2016).

STATEMENT OF FINANCIAL POSITION

The TotalErg equity investment in the Notes to the Separate Financial Statements are measured and posted in accordance with IFRS 5.

For clearer disclosure, the equity investment was posted under Fixed assets.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
(EUR million)	31/12/2017	31/12/2016
Fixed assets	2,029.3	2,043.4
Net working capital	(55.2)	(38.8)
Employees' severance indemnities	(1.6)	(0.6)
Other assets	98.4	78.7
Other liabilities	(194.9)	(148.2)
Net invested capital	1,875.9	1,934.5
Shareholders' equity	1,642.8	1,692.1
Net financial indebtedness	233.1	242.4
Shareholders' equity and financial debt	1,875.9	1,934.5

At 31 December 2017 net invested capital amounted to approximately EUR 1,876 million, a decrease of approximately EUR 59 million compared with 2016.

Fixed assets

Fixed assets consist mainly of financial fixed assets. The decrease is tied mainly to the adjustment of the TotalErg equity investment to the values determined in accordance with IFRS 5.

Net working capital

Net working capital consists of trade receivables and payables vis-à-vis Group companies and third parties. The change recorded is mainly due to a decrease in trade receivables.

Other assets

They mainly comprise receivables from tax authorities and other receivables from Group companies. The item also includes deferred tax assets and prepaid expenses.

Other liabilities

They mainly comprise short-term tax payables, payables to Group companies and other payables. The item also includes the other provisions for risks and future liabilities.

Net financial indebtedness (cash and cash equivalents)

SUMMARY OF NET INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

(EUR million)	31/12/2017	31/12/2016
Medium/long-term financial indebtedness	715.5	674.3
Short-term financial indebtedness (cash and cash equivalents)	(482.4)	(431.9)
Total	233.1	242.4

The following table shows the medium/long-term financial indebtedness:

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

(EUR million)	31/12/2017	31/12/2016
Medium/long-term bank borrowings	611.9	668.4
Current portion of mortgages and loans	103.5	5.9
Total	715.5	674.3

The increase is mainly due to the issue of the non convertible bond (EUR 99 million at 31 December 2017) made in the third quarter 2017, directed at raising additional funds for new capital expenditure in the sector of renewable energies and to refinance the capital expenditure made on hydroelectric plants in Italy, partially offset by the reclassification to short term of the repayments on Corporate loans (EUR 59 million).

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

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

(EUR million)	31/12/2017	31/12/2016
Short-term bank borrowings	141.5	2.3
Other short-term financial debts	–	–
Financial payables due to subsidiary companies	49.2	59.4
Short-term financial liabilities	190.7	61.6
Cash and cash equivalents	(662.0)	(247.6)
Securities and other financial receivables	(2.6)	(80.8)
Financial receivables due from subsidiary companies	(8.5)	(165.0)
Short-term financial assets	(673.1)	(493.5)
TOTAL	(482.4)	(431.9)

Short-term bank borrowings include the repayment portion on Corporate loans (EUR 59 million) expected in 2018, in addition to short-term credit lines (EUR 80 million). Short-term financial payables and receivables vis-à-vis subsidiaries mainly comprise the balances on the centralised treasury accounts operated with other Group companies as part of centralised management of the Group's finance function.

The significant increase in cash and cash equivalent is mainly due to the repayment of the investment in Credit Link Notes matured at the end of 2017 (EUR 80 million), to the collection of the dividends from TotalErg, (EUR 71 million), to the collection deriving from the issue of the non-convertible bonds, amounting to EUR 99 million, as well as from the cash flow generated in the period.

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

(EUR million)	31/12/2017	31/12/2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit for the period	(29.2)	11.5
Amortisation and depreciation	3.0	0.2
Change in working capital and other assets and liabilities	41.8	(7.9)
Other	(4.7)	0.5
Total	(10.9)	4.2
CASH FLOWS FROM INVESTING ACTIVITIES		
Net capital expenditure on tangible and intangible fixed assets	(2.8)	(0.0)
Net capital expenditure on financial fixed assets	(5.3)	(41.8)
TotalErg Transaction	85.2	–
Total	77.1	(41.8)
CASH FLOW FROM SHAREHOLDERS' EQUITY		
Distributed dividends	(74.4)	(142.8)
Sale of treasury shares	–	77.0
Other changes in equity	1.2	(2.2)
Total	(73.3)	(68.1)
CHANGE IN NET FINANCIAL INDEBTEDNESS	14.7	(105.6)
INITIAL NET FINANCIAL INDEBTEDNESS	242.4	136.8
CHANGE IN THE PERIOD	(14.7)	105.6
CHANGE FROM MERGER OF ERG SERVICES IN ERG S.P.A.	5.3	–
FINAL NET FINANCIAL INDEBTEDNESS	233.1	242.4

NOTES ON THE RESULTS OF THE MAIN NON-CONSOLIDATED SUBSIDIARIES⁽³⁰⁾, ASSOCIATED COMPANIES AND JOINT VENTURES

ISAB Energy Solare S.r.l.

The Company, a wholly owned subsidiary of ERG Power Generation S.p.A., is active in the renewable energy segment, and specifically in the generation of electricity from solar power. The company owns a photovoltaic plant at the industrial site of ISAB Energy S.r.l. in Priolo Gargallo (SR) for the generation of electricity with an installed power of 968 kW, which started commercial operations in 2011. In 2014, the 49% minority share was acquired from Princemark Limited.

The company ended the year at 31 December 2017 with a small profit.

In addition, the Group holds equity investments in non-operating subsidiaries, listed below:

- ERG UK Holding Ltd.;
- Longburn WindFarm Ltd.;
- Sandy Knowe Wind Farm Ltd.;
- WP France 6 S.a.s.;
- ERG Development France S.a.s.;
- Rigghill Wind Farm Limited (joint venture).

DISCLOSURE PURSUANT TO ARTICLE 2.6.2, PARAGRAPH 8 OF BORSA ITALIANA S.P.A. REGULATIONS

ERG Wind Investments Ltd.

In relation to the obligations per Article 2.6.2, paragraph 8, of the Regulations of the Markets organised and managed by Borsa Italiana S.p.A. and taking into account the provisions of Article 36 of the Market Regulations adopted by CONSOB with its Resolution No. 16191 of 29 October 2007 as amended, it is hereby certified that: (i) ERG S.p.A. acquired from ERG Wind Investments Ltd.³¹ – the Articles of Association, the composition and powers of the related corporate bodies; (ii) ERG Wind Investments Ltd. provides the Group's auditors with the information necessary to audit the annual and infra-annual accounting statements and reports of ERG S.p.A. and has a suitable administrative-accounting system, capable of regularly delivering to the Group's Head Office and auditors the economic and financial data required for the preparation of the consolidated financial statements.

³⁰ For additional details on the TotalErg joint venture, please refer to the specifically dedicated chapters.

³¹ An indirectly controlled foreign company not belonging to the European Union, which has significant relevance according to the provisions of Title VI, Paragraph II of the Issuers' Regulations.

The accounting situation of ERG Wind Investments Ltd., prepared for the purposes of the preparation of the consolidated financial statements at 31 December 2017, is provided below.

RECLASSIFIED INCOME STATEMENT

(EUR million)

	2017	2016
Revenues from ordinary operations	–	–
Other revenues and income	–	–
Total revenues	–	–
Costs for purchases	(0.0)	–
Changes in inventories	–	–
Costs for services and other operating costs	(0.5)	(0.8)
Personnel costs	–	–
EBITDA	(0.5)	(0.8)
Amortisation, depreciation and write-downs of fixed assets	–	(0.0)
EBIT	(0.5)	(0.8)
Net financial income (expenses)	(25.2)	(27.5)
Net income (loss) from equity investments	54.3	53.9
Income (loss) from ordinary operations	28.6	25.7
Net non-recurring income (expenses)	–	–
Profit (loss) before taxes	28.6	25.7
Income taxes	9.6	11.2
Net profit	38.3	36.9

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)

	31/12/2017	31/12/2016
Intangible fixed assets	(0)	(0)
Tangible fixed assets	–	–
Equity investments and other financial fixed assets	741	1,141
Fixed assets	741	1,141
Inventories	–	–
Trade receivables	–	–
Trade payables	(0)	(0)
Excise duties payable to tax authorities	–	–
Net working capital	(0)	(0)
Employees' severance indemnities	–	–
Other assets	37	53
Other liabilities	(41)	(35)
Net invested capital	737	1,158
Group Shareholders' equity	201	147
Minority interests	–	–
Medium/long-term financial indebtedness	534	636
Net short-term financial indebtedness	2	375
Shareholders' equity and financial debt	737	1,158

ERG S.p.A.'s management and coordination of subsidiaries

ERG S.p.A. carries out management and coordination activities with respect to directly and indirectly controlled companies - respecting the managerial and operational autonomy of these companies, which benefit from the advantages, synergies and economies of scale deriving from inclusion in the Group - represented, in particular, by:

- the definition of business strategies and of the corporate governance systems and shareholding composition;
- the determination of shared general policies with respect to human resources, information & communication

technology, accounting, budgeting, taxes, procurement, finance, capital expenditure, risk management, legal and corporate affairs, communication, institutional relations, corporate social responsibility and business development. Taking into account the new corporate organisational model adopted by the Group starting from 1 January 2017, the directly and indirectly controlled Italian subsidiaries with respect to which in 2017 the management and coordination activity within the scope outlined above was carried out in accordance with Article 2497 et seq. of the Italian Civil Code were:

ERG Power Generation S.p.A. – and the following companies under its control:

- ERG Hydro S.r.l.
- ERG Power S.r.l.
- ERG Eolica Adriatica S.r.l.
- ERG Eolica Amaroni S.r.l.
- ERG Eolica Basilicata S.r.l.
- ERG Eolica Calabria S.r.l.
- ERG Eolica Campania S.p.A.
- ERG Eolica Faeto S.r.l.
- ERG Eolica Fossa del Lupo S.r.l.
- ERG Eolica Ginestra S.r.l.
- ERG Eolica San Cireo S.r.l.
- ERG Eolica San Vincenzo S.r.l.
- ERG Eolica Tirreno S.r.l.
- Green Vicari S.r.l.
- ERG Wind Holdings (Italy) S.r.l.
- ERG Wind Sardegna S.r.l.
- ERG Wind Sicilia 2 S.r.l.
- ERG Wind Sicilia 3 S.r.l.
- ERG Wind Sicilia 4 S.r.l.
- ERG Wind Sicilia 5 S.r.l.
- ERG Wind Sicilia 6 S.r.l.
- ERG Wind 2000 S.r.l.
- ERG Wind 4 S.r.l.
- ERG Wind 6 S.r.l.
- ERG Wind Leasing 4 S.r.l.
- ERG Wind Energy S.r.l.
- ERG Wind Bulgaria S.p.A.
- Eolico Troina S.r.l. in liquidazione
- ISAB Energy Solare S.r.l.

With reference to the significant equity investment in the company TotalErg S.p.A., sold on 10 January 2018, ERG S.p.A. did not carry out any management and coordination activities with respect thereto, even by effect of the provisions contained in the shareholder agreement entered into with the other shareholder.

In 2017, ERG S.p.A. continued managing the various directly and indirectly owned interests, also via service contracts for staff activities, for a total consideration of EUR 35.6 million. ERG S.p.A. also manages, as consolidator, the Group's VAT and domestic tax consolidation with the Group's main subsidiaries.

All transactions refer to ordinary operations and are settled at arm's length conditions.

Privacy

Again in 2017 the ERG Group invested suitable resources and skills in Compliance as regards Privacy. The structure of internal regulations was systematically updated as well as the system of appointments and delegated powers, aligning them with the changes in external regulations and internal organisational rules, to guarantee compliance with the provisions of the Privacy Code (Italian Legislative Decree 196/2003) and the Measures issued by the Personal Data Protection Authority.

As regards the regulatory restrictions deriving from the entry into force of the EU General Data Protection Regulation (24 May 2016), the ERG Group is planning for the implementation of all the regulatory aspects thereof which, in any event, will become directly applicable in all EU countries on 25 May 2018.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

10 January 2018 marked the closing, with the Api Group, of the sale of 51% of the shares of TotalErg S.p.A., a company active in the distribution of oil products and in refinement, as well as the closing, with Total Marketing Services S.A., of the sale of the group's own share (51%) in the company Total Italia S.r.l., owner of the business unit relating to the lubricants sector, previously held by TotalErg S.p.A.

The transaction was completed following approval by the competent Antitrust Authority and completion of the split of the aforesaid business unit of TotalErg S.p.A. in favour of Total Italia S.r.l.

This step represents the successful completion of a complex transaction that marks the definitive exit of the ERG Group from the Oil world, further strengthening its financial capacity to continue on the path to growth in Renewable energy sources.

On **12 January 2018** ERG, through its subsidiary ERG Power Generation S.p.A., completed the acquisition from VEI Green S.r.l., an investment holding company controlled by PFH S.p.A. that is an investee of primary Italian institutional investors, of 100% of ForVei S.r.l., the ninth photovoltaic operator in Italy with a total installed capacity of 89 MW.

The transaction, which obtained the authorisation of the Antitrust authority and the approval of the financing banks, marks ERG's entry into the solar sector and represents an additional important component in the strategy of technological diversification in electricity generation from renewable sources.

On **12 January 2018** ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, executed an agreement with the Vortex Energy group for acquisition of 100% of the capital of Windpark Linda GmbH & Co. KG, a company that holds the permits for the construction of a wind farm in Germany with 21.6 MW of power and estimated generation, at steady state, of approximately 50 GWh per year, equivalent to approximately 39 kT of CO₂ emissions avoided.

The project has already obtained authorisation for construction and will participate in the auction procedures in 2018. The estimated investment for construction of the farm is approximately EUR 30 million, already including the consideration paid for the purchase of the shares of the company.

The future construction of the farm, which will be located in proximity to other wind farms of ERG, which already owns 216 MW in operations in Germany, is a part of the growth strategy that leverages the capitalisation of its own industrial competencies in the development, engineering and construction activities.

On **7 March 2018** ERG approved the 2018-2022 strategic plan. After completing the industrial transformation path in 2017, having left the Oil business and having taken an important step in technological diversification with the acquisition of 89 MW in the solar segment, ERG became a primary independent producer of electricity from renewable sources. ERG's objective in the 2018-2022 time interval is to increase the installed capacity by approximately 850 MW through 3 channels: Greenfield and co-Development, Repowering and Reblading in Italy and M&A. Total capital expenditure in the 2018-2020 time interval amounts to EUR 1.68 billion.

On **7 March 2018** ERG sold to the Greencoat UK Wind PLC Fund, listed on the London Stock Exchange and specialised in investments in renewable energies, 100% of the capital of Brockaghboy Windfarm Ltd. ("BWF"), a British company that owns the 47.5 MW wind farm built in Northern Ireland, in Londonderry County, by ERG and TCI Renewables Ltd.

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2018 is as follows:

Non-programmable sources

With regard to the Wind business in Italy, the EBITDA is expected to decline as a result of the departure of approximately 214 MW from the incentive system in 2017 and of the progressive departure of an additional 72 MW in 2018; this decrease is also due to the lower price of the incentive for 2018, whose value is determined on the basis of the average price of electricity recorded in 2017 with a decrease of approximately 8 EUR/MWh on incentivised generation.

The EBITDA of the Wind business abroad is expected to decrease compared to 2017 as a result of the reduction of the incentive in Romania to only one green certificate, and following the sale of the subsidiary Brockaghboy Windfarm Ltd., completed on 7 March 2018.

In general, the total EBITDA of the Wind business is thus expected to decline; this effect is mostly offset by the entry into the Solar business through the acquisition of 100% of ForVei S.r.l., the ninth photovoltaic operator in Italy with a total installed capacity of 89 MW whose impact in terms of EBITDA is estimated at approximately EUR 35 million.

Overall, the result of Non-Programmable Sources (Wind and Solar) is expected to be lower than in 2017.

Programmable sources

With regard to the Hydroelectric business, results are expected to grow thanks to a forecast of higher output than in 2017, which was significantly below the historical averages; this effect is partially offset by the lower price of the incentive provided for approximately 40% of output and by the non-repetition of the revenues obtained in 2017, i.e. EUR 8 million relating to the recovery of previously accrued incentives.

For the Thermoelectric power plant, slightly lower results are forecast, mainly as a result of the effect of an expected decline in generation margins with respect to the particularly positive values of 2017.

Overall, the contribution of Programmable sources is expected to rise compared to 2017.

For 2018, therefore, the Group's EBITDA is expected to grow slightly to approximately EUR 475 million. The effects of the reduction of the incentivised scope in the Wind business in Italy, and of the lower price of the incentive, are offset by the contribution of the new solar asset and by a forecast of higher hydroelectric output than in the previous year.

ERG's generation of operating cash associated with the amounts collected as a result of the sale of TotalErg and of Brockaghboy Windfarm Ltd., totally about EUR 290 million, will make it possible to absorb the acquisition of ForVei

of approximately EUR 337 million, the new development investments expected to amount to approximately EUR 100 million and the distribution of the dividend of approximately EUR 170 million (EUR 1.15 per share). Overall, therefore, debt is expected to be substantially in line with that of 2017, i.e. approximately EUR 1,260 million (EUR 1,233 million at 31 December 2017).

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, wind conditions, the impact of regulations for the energy sector and for the environment, other changes in business conditions and in competitors' actions.

Genoa, 7 March 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





Report on corporate governance and ownership

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1. EXECUTIVE SUMMARY

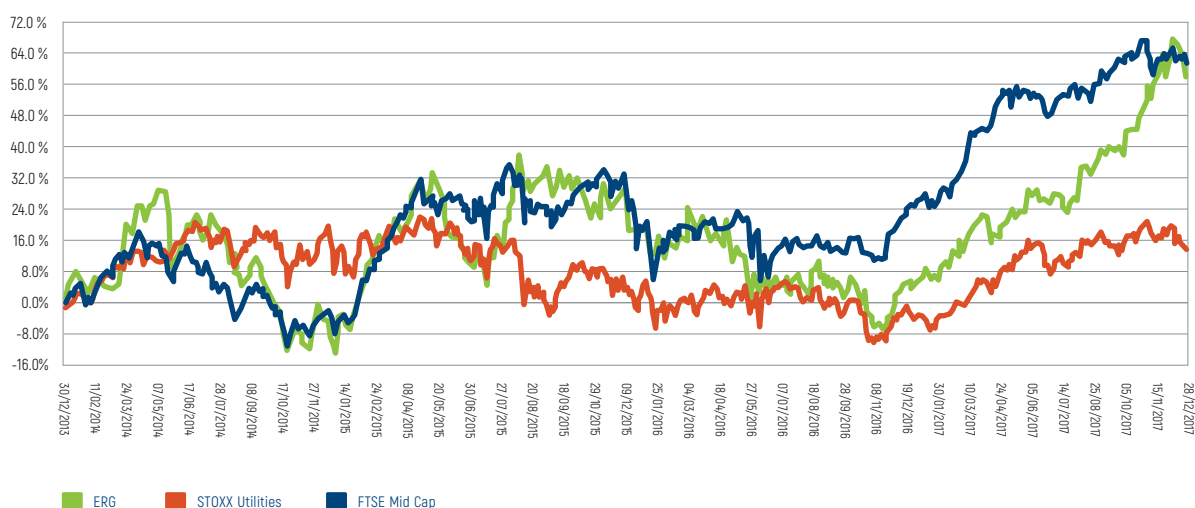
1.1. ERG GROUP - MAIN HIGHLIGHTS

Figures in EUR millions	2015	2016	2017	% Change 2016-2017; 3 years for TSR
Revenues from ordinary operations ⁽¹⁾	944	1,025	1,056	3%
EBITDA	350	455	472	4%
EBIT	179	202	220	9%
Net financial indebtedness	1,448	1,557	1,233	-21%
ROI	5.7%	6.1%	7.1%	
ROE	10.7%	11.7%	11.7%	
Capitalisation at 31/12	1,874	1,535	2,315	
Employees	666	715	714	
Sector	Utility			
Shareholders' Equity	1,676	1,729	1,877	
EBIT	179	202	220	

(1) at adjusted replacement cost

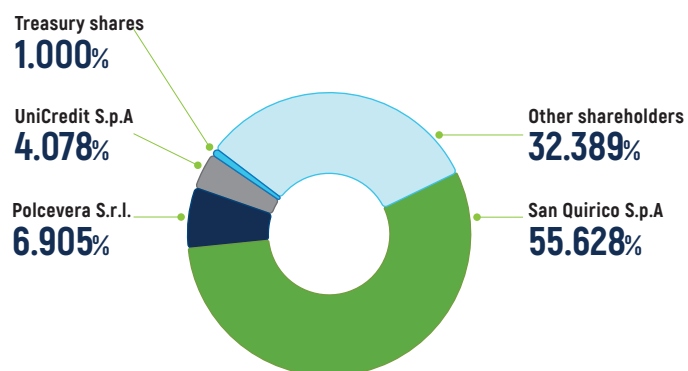
SHARE PERFORMANCE, 2014-2017

ERG vs Euro Stoxx Utilities and FTSE Mid Cap
% change from 30/12/2013 to 29/12/2017



1.2. SHAREHOLDING STRUCTURE

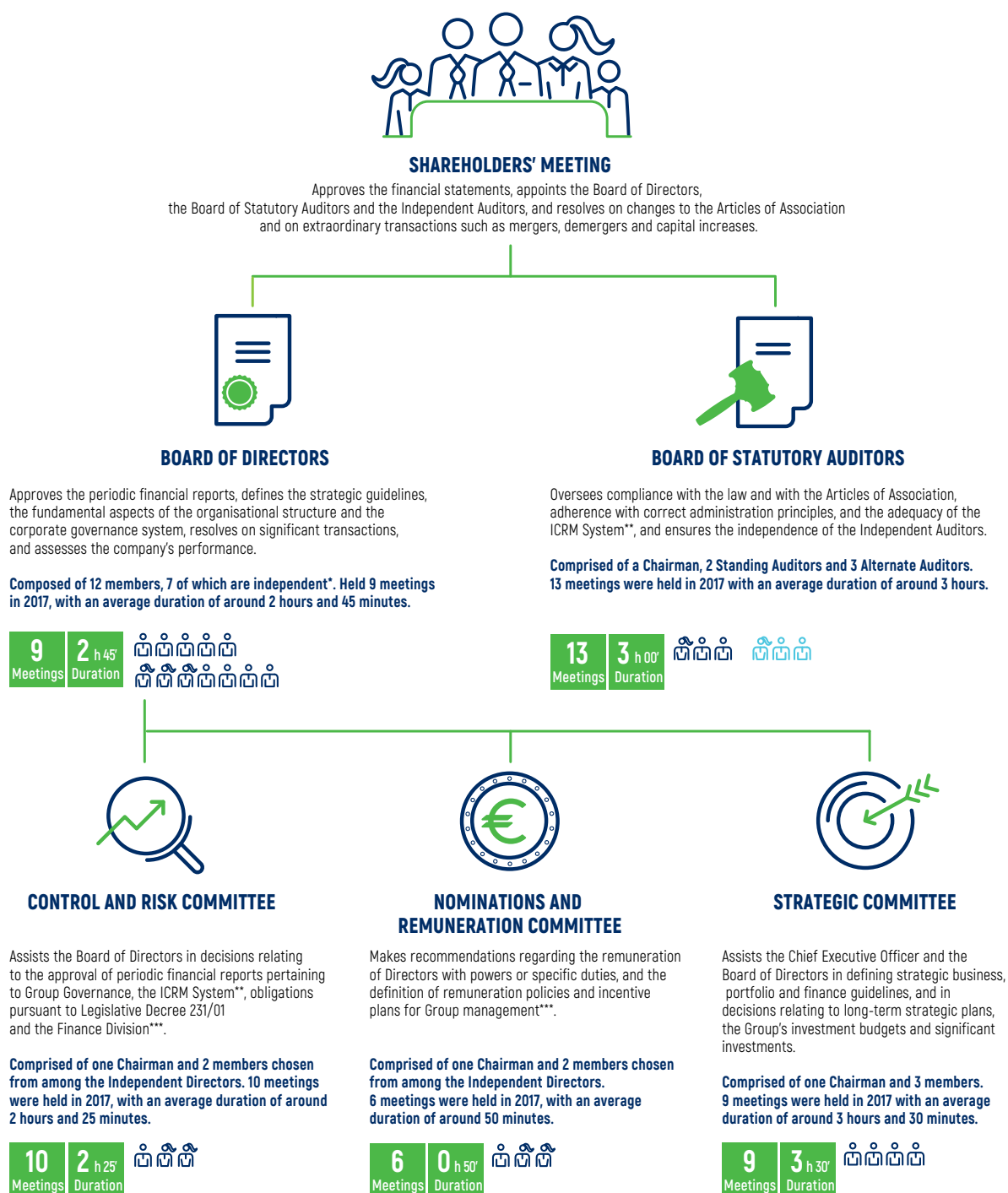
OWNERSHIP STRUCTURE



OTHER CHARACTERISTICS OF THE SHAREHOLDING STRUCTURE

	Yes/No	% of share capital
Shareholders' agreement in force	No	–
Majority vote	No	–
Shareholding by senior management	Yes	0.04%
Participation threshold for the presentation of lists	Yes	1%

1.3. CORPORATE BODIES AND BOARD COMMITTEES

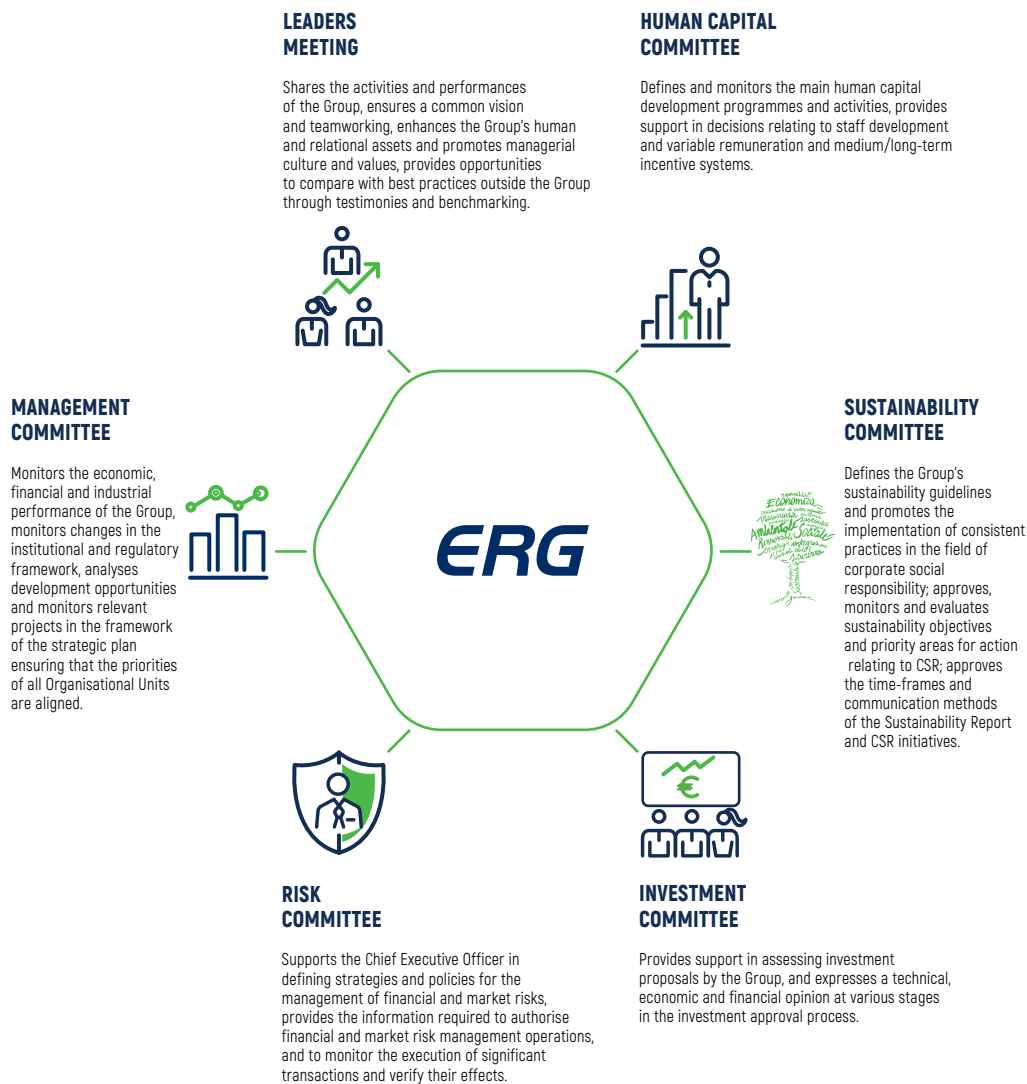


* 4 independent as per the Corporate Governance Code and 3 independent as per the Consolidated Law on Finance ("T.U.F").

** Internal Control and Risk Management System.

*** Responsible for formulating opinions for the purposes of the Procedure for Transactions with Related Parties.

1.4. INTERNAL COMMITTEES



1.5. COMPOSITION OF THE BOARD OF DIRECTORS

STRUCTURE OF THE BOARD OF DIRECTORS:

Director	Office	Role	Independent	M/m*	CRC**	NRC**
Edoardo Garrone	Chairman	Executive	No	M		
Alessandro Garrone	Deputy Chairman	Executive	No	M		
Giovanni Mondini	Deputy Chairman	Non-Executive	No	M		
Luca Bettonte	Chief Executive Officer	Executive	No	M		
Massimo Belcredi	Lead Independent Director***	Non-Executive	Consolidated Finance Law (T.U.F.)	M	C	
Alessandro Careri	Director	Non-Executive	Consolidated Finance Law (T.U.F.)	M		
Mara Anna Rita Caverni	Director	Non-Executive	T.U.F. and Corporate Governance Code	M	x	x
Alessandro Chieffi	Director	Non-Executive	T.U.F. and Corporate Governance Code	m		
Barbara Cominelli	Director	Non-Executive	T.U.F. and Corporate Governance Code	M	x	
Marco Costaguta	Director	Non-Executive	No	M		
Paolo Francesco Lanzoni	Director	Non-Executive	Consolidated Finance Law (T.U.F.)	M		C
Silvia Merlo	Director	Non-Executive	T.U.F. and Corporate Governance Code	M		x

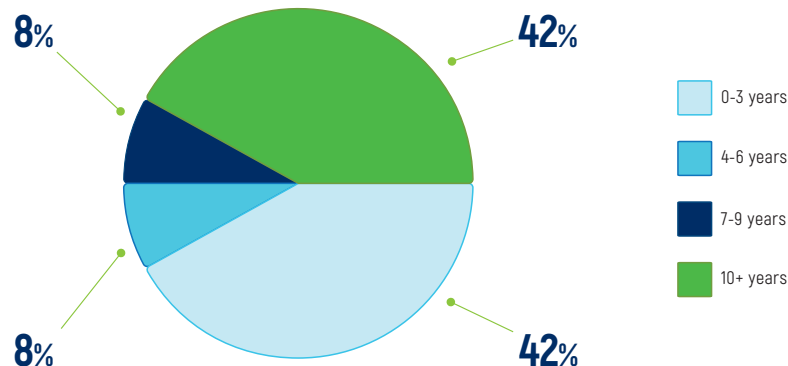
* This column indicates whether the member was elected from the list voted by the majority (M) or by a minority (m).

** CRC: Control and Risk Committee; NRC: Nominations and Remuneration Committee - they provide to the Board of Directors and to the relevant bodies the opinions provided for by the Procedure for Transactions with Related Parties.

*** Elected by the Board of Directors on a voluntary basis.

C: Chairman of the relevant Committee. - x: Member of the relevant Committee.

SENIORITY OF THE DIRECTORS IN THE BOARD OF DIRECTORS (% OF TOTAL DIRECTORS)



CHANGES COMPARED TO THE PREVIOUS MANDATE

	Previous mandate (2012-2014)	Previous mandate (2015-2017)	MID Cap* (last year available)
Number of Directors	12	12	10.7
Directors elected by minority	0	1	1.6
% of the less represented gender in the Board of Directors	8%	25%	29.6
% Independent Directors as per T.U.F.	42%	58%	49.4
% Independent Directors as per T.U.F. and Corporate Governance Code	42%	33%**	46.2
Average age of Directors	61	55**	57.8
Status of Chairman	Executive	Executive	–
Existence of Lead Independent Director	No	Yes	49.2%***

* Source Assonime and CONSOB.

** Change with respect to the years 2015 and 2016 and as a result of the resignation on 20 April 2017 by the Director Luigi Ferraris and the subsequent appointment, on 11 May 2017, pursuant to Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, of Alessandro Careri as new Director of the Company.

*** Companies in which Lead Independent Director is active.

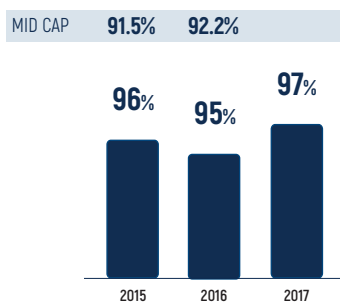
1.6. OPERATION OF THE BOARD OF DIRECTORS

NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND PARTICIPATION RATE

MEETINGS



PARTECIPATION



DIRECTOR OR AUDITOR OFFICES HELD BY DIRECTORS IN OTHER COMPANIES

	Other Group companies	Other listed companies				Other unlisted companies of significant size or financial, banking	
		Executive Director	Non-Executive Director	Independent Director	Auditor	Director or Member of the Management Board	Auditor or Member of the Supervisory Board
Edoardo Garrone	–	–	1	–	–	1	1
Alessandro Garrone	–	–	–	–	–	1	–
Giovanni Mondini	–	–	–	–	–	1	–
Massimo Belcredi	–	–	–	1	–	–	–
Alessandro Careri	–	–	–	–	–	–	–
Mara Anna Rita Caverni	–	–	1	1	–	–	–
Alessandro Chieffi	–	–	1	–	–	3	–
Marco Costaguta	–	–	1	–	–	7	–
Paolo Francesco Lanzoni	–	–	–	–	–	1	–
Silvia Merlo	–	–	–	2	–	1	–

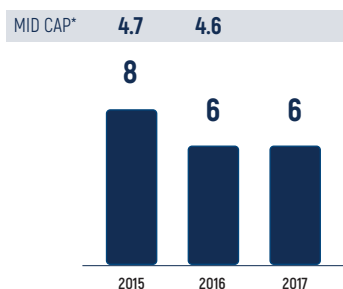
BOARD EVALUATION PROCESS

Board evaluation process carried out	Yes
Evaluating party	The Board of Directors with the support of the Nominations and Remuneration Committee
Self-evaluation procedures	Anonymous questionnaire to the members of the Board of Directors; the Board of Statutory Auditors is also involved in the process

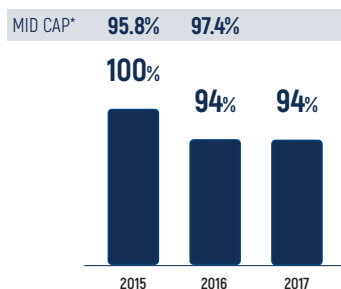
1.7. REMUNERATION

NUMBER OF NOMINATIONS AND REMUNERATION COMMITTEE MEETINGS AND PARTICIPATION RATE

MEETINGS



PARTECIPATION



* Data relating to Remuneration Committee

REMUNERATION POLICY

SHORT-TERM INCENTIVE SCHEMES (MBO)

	No	Yes
Existence of a short-term incentive scheme		x
Existence of a <i>bonus cap</i>		x

LONG-TERM INCENTIVE SCHEMES (LTI)

	No	Yes
Existence of a long-term incentive scheme		x
Existence of a <i>bonus cap</i>		x

LTI VEHICLES

Cash		x
Financial instruments	x	

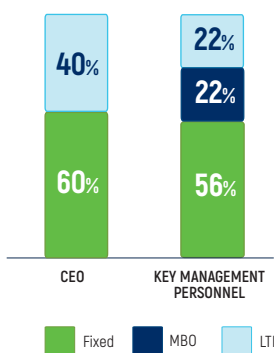
SHORT-TERM INCENTIVE SCHEMES (MBO)

MBO parameters	Weight
EBT Group*	30%
INDIVIDUAL OBJECTIVES e.g. EBITDA, NFP, OPEX, ...	70%

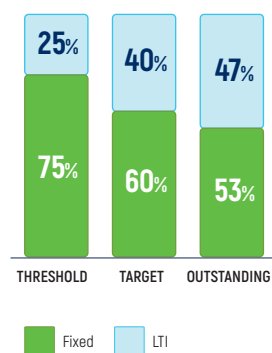
LTI parameters per CEO	Weight
Δ EVA	60%
TSR	40%

* Profit (loss) before IAS taxes at fair value net of income (expenses) arising from shareholding in TotalErg S.p.A.

THEORETICAL PAY MIX FOR CEO AND KEY MANAGEMENT PERSONNEL



REMUNERATION FOR CEO DEPENDING ON ACHIEVEMENT OF TARGETS

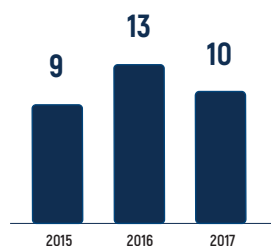


1.8. CONTROL AND RISK SYSTEM

NUMBER OF CONTROL AND RISK COMMITTEE MEETINGS AND PARTICIPATION RATE

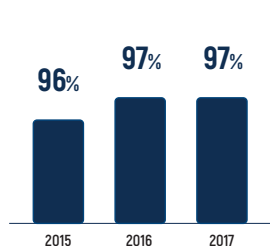
MEETINGS

MID CAP 8.8 7.9



PARTECIPATION

MID CAP 93.8% 94%



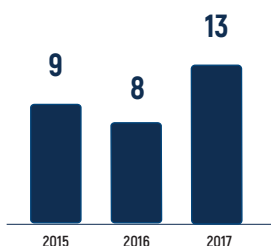
COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Auditors	Office	Independent	Other offices in unlisted companies of significant size or financial, banking or insurance companies
Elena Spagnol	Chairman	X	1
Lelio Fornabaio	Standing	X	5
Stefano Remondini	Standing	X	-
Vincenzo Campo Antico	Alternate	X	
Luisella Bergero	Alternate	X	
Paolo Prandi	Alternate	X	

NUMBER OF MEETINGS OF THE BOARD OF STATUTORY AUDITORS AND PARTICIPATION RATE

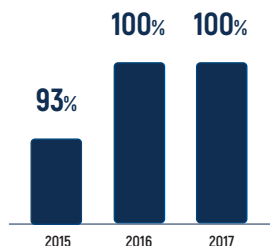
MEETINGS

MID CAP 14.2 12



PARTECIPATION

MID CAP 94.5% 96.4%



MAIN ELEMENTS OF THE CONTROL AND RISK SYSTEM

	Yes/No
Presence of the Risk Management function	Yes
Chief Risk Officer	No
Enterprise Risk Management plan in place	Yes
If yes, has this plan been discussed with the Committee?	Yes

MAIN RISKS

RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
1 - Natural variability of renewable contributions	Production volumes can vary as a result of the natural variability of renewable production sources (water, wind and sun), which may adversely affect the production of renewable plants.	<ul style="list-style-type: none"> Diversification of renewable technologies (Wind, Solar and Hydroelectric) and the geographic location of renewable plants (European scale); Use of as accurate as possible forecasting systems to define the production plan and short-term operating activities; Scheduling of stoppages at renewable plants in periods in which renewable source production is low; Use of industrial control systems (SCADA) for the continuous monitoring of the status of plants which make it possible to intervene promptly in the event of accidental failure and to reduce machinery downtime.
2 - Price Risk	Risk linked to the volatility of prices in the commodities market (in particular EE/Gas), which can significantly affect Group results.	<ul style="list-style-type: none"> Definition and regular monitoring of risk exposure limits; Escalation process in the event that the approved limits are exceeded; Use of financial instruments to hedge price risk only if there is an underlying asset; Contractualisation, where possible, of indexed sales formulae that may allow the risk to be transferred to the customer.
3 - Legislative and regulatory changes	Possible legislative and regulatory changes in the countries in which the Group operates that may negatively impact the achievement of business targets.	<ul style="list-style-type: none"> Legislative and regulatory monitoring through institutional relations, related channels, comparison with operators in the sector, and the specialised press; Active participation in consultations to protect Group interests; Sensitivity Analysis to assess the effect of the main regulatory changes on Group results; Periodic reporting to Management.
4 - Breach of corporate financing covenants	Risk linked to the possibility of not complying with covenant constraints provided for under corporate financing agreements	<ul style="list-style-type: none"> Careful evaluation of each new investment initiative and verification of its sustainability, including in relation to the impacts on the covenant; Periodic and structured monitoring of final and expected results and of the main financial risks that may directly or indirectly affect the covenant; Sensitivity Analysis to assess the suitability of the Plan's assumptions with respect to the financial covenants.
5 - New capital expenditure	Possible uncertain events originating from various factors, for example, scenarios (micro/macro-economic, political, regulatory, business-related), technical, operating, financial or organisational factors which may impact the decision to make new capital expenditure and on its success.	<ul style="list-style-type: none"> Structured processes for selecting capital expenditure that involve a set of successive levels of examination and approval of projects carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses, sustainability models and financial assessment/planning. Detailed analysis for the relevant projects of all the risks associated with them: (i) potential impacts and strategy/actions to contain/eliminate the risk; (ii) follow-up items to monitor the mitigation processes; Periodic updating of the WACC/HR, also through benchmarks, to ensure a suitable return in relation to the expected risk profile.
6 - Cyber-attacks on industrial production systems	Potential cyber-attacks that exploit vulnerabilities may bring industrial production systems to a standstill.	<ul style="list-style-type: none"> Carrying out of security assessments to identify critical issues in the systems and support infrastructure; Definition and implementation of a Security Program to adapt processes, systems and infrastructure to best practices; Development of security awareness and training plans for users; Use of automated tools (e.g. Intrusion Detection Systems) for the prevention, detection and management of incidents; Insurance to cover the risks of cyber-crime.
7 - Failure to protect reputational capital	Internal/external events that may have a negative impact on ERG Group's reputation (including: financial performance, ethics and integrity, social responsibility, HSE Policies, ICT security, crisis management, etc.).	<ul style="list-style-type: none"> Specific information and communication activities aimed at maintaining the Group's strong reputation among stakeholders, including, inter alia, a structured Corporate Social Responsibility process with specific social responsibility initiatives and the dissemination of Non-Financial Information; Active relations with all major stakeholders and the media, and monitoring of stakeholders' perceptions; Communication activities through the website/social media; Structured Reputational Crisis Management process that enables crisis effects to be promptly managed and contained in order to safeguard the reputation of the ERG Group.
8 - Anti-Corruption Compliance Risk	The possibility that one of the companies in the Group and/or a director, representative or employee of the same, could be involved in proceedings for offences committed in breach of anti-corruption laws that may involve the application of sanctions against the aforementioned persons (both physical and legal persons) and negative repercussions in terms of reputation.	<ul style="list-style-type: none"> Adoption of the rules of conduct system (Code of Ethics and Anti-Corruption Policy) valid for the entire Group; Adoption of an "Integrated Anti-Corruption Model", for all companies, in Italy and abroad, in line with best practices; Definition of information flows for the monitoring of the Anti-Corruption System; Training on anti-corruption issues; Definition and implementation of Compliance Programmes to verify compliance with the Anti-Corruption Policy.
9 - Industrial Risks and HSE	Risks related to malfunctioning systems potentially resulting in critical issues during production processes and/or having a negative impact in terms of HSE	<ul style="list-style-type: none"> Implementation of a Business Continuity Management process that ensures the proper maintenance of production assets, through specific risk assessment activities and Business Impact Analyses; Adoption of certified (ISO 14001 and OHSAS 18001) Management Systems and regular training for all staff working within the facilities; Specific levels of insurance coverage for business interruption, property damage and any accidents involving staff.

1.9. SUSTAINABILITY

CO₂ AVOIDED: 2016-2018



Three-year period
2016-2018

TARGET: 9,000 kt

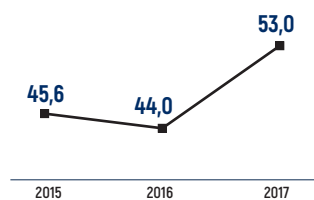
2016-2017

5,894 kt

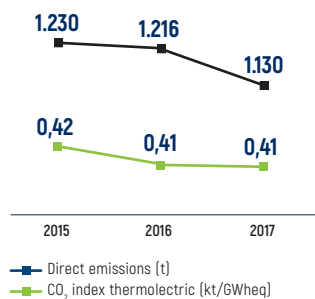
The conversion factor gCO₂/kWh, published by Terna in its annual reports and referring to thermoelectric power generation of each country, is used to calculate the CO₂ avoided.

SUSTAINABILITY INDICATORS

AVERAGE TRAINING PER EMPLOYEE (HOURS/YEAR)



CO₂ EMISSIONS



— Direct emissions (t)
— CO₂ index thermoelectric (kt/GWheq)

2. HISTORY OF THE GOVERNANCE STRUCTURE

The current governance structure of ERG S.p.A. (hereinafter also “ERG” and the “Company”) has evolved over time by gradually introducing rules of conduct that reflect the most advanced and widely recognised principles of Corporate Governance into the ERG corporate approach.

Even prior to the listing of the Company in October 1997, one of the key aspects of the governance structure was a focus on a proper relationship between management and shareholders and balanced corporate management aimed at creating medium to long-term value.

This corporate policy was implemented through:

- the coordinated delegation of powers within ERG’s Board of Directors (the “Board of Directors”) in such a way as to assure the clarity and completeness of executive powers and accountabilities, and the monitoring of the activities carried out and assessment of the results achieved;
- regular and adequate reporting to the Board of Directors on actions taken in the exercise of managerial powers and responsibilities;
- the adoption of an Anti-Corruption System, in accordance with the best international standards (ISO 37001:2016¹), which constitutes an integral part of the internal control and risk management system of the ERG Group;
- an integrated system of enterprise risk management aimed at identifying, evaluating and monitoring all risks that may assume importance in terms of sustainability in the medium-long term with regard to ERG Group operations;
- the use of specific procedures to determine remuneration for directors and management.

Its presence on the stock market has clearly accentuated the company’s propensity to base its conduct on the criteria of transparency and correctness. It has also accelerated the process of adapting both internal regulations and organisation to meet these criteria.

This corporate policy was therefore put into effect by means of:

- amendments to the Articles of Association to bring them into line with the regulatory changes introduced by the Italian company law reform, by law provisions on the matter of shareholders’ rights, on transactions with related parties and, lastly, on gender balance in the composition of corporate bodies;
- the adoption of a Code of Ethics - updated on 14 May 2014 - as a tool for defining and communicating ERG’s duties and responsibilities towards its stakeholders, as well as being an imperative element of an Organisation and Management Model consistent with the requirements of Italian Legislative Decree 231/2001;

¹ Antibribery Management System: provides guidance on internal control and risk management measures that help to prevent and combat the phenomena of corruption in companies and in groups of undertakings.

- adherence to the Italian Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. ("Corporate Governance Code")² since its first edition in 1999;
- the adoption of a Code of Conduct for the Directors of companies of the ERG Group ("Group"), updated on 14 May 2014;
- the appointment of independent directors and non-executive directors to the Board;
- the adoption of a Remuneration Policy for members of the Board of Directors and key management personnel as prescribed by the Corporate Governance Code - most recently updated on 7 March 2018 - to align the interests of management with those of shareholders and strengthen the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- the definition of Guidelines for the identification and execution of significant transactions - most recently updated on 1 January 2017 - and of other governance documents designed to ensure transparent and timely management of the Group's relationship with the market;
- the adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information, most recently approved by the Board of Directors on 9 August 2017;
- the definition of Guidelines for the Internal Control and Risk Management System, updated on 13 July 2016;
- the adoption of an integrated risk management model, with the objective of identifying, as exhaustively as possible, the risks inherent in the Group's full range of business activities;
- adoption of a specific Procedure to assure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG directly or through its subsidiaries, most recently updated on 1 January 2017;
- the definition of a Code of Conduct for Internal Dealing - updated version approved by the Board of Directors on 1 May 2017 - aimed at regulating disclosure obligations in respect of the market, the Company and CONSOB with reference to transactions involving ERG shares/debt instruments issued by ERG or derivatives or other related financial instruments carried out, directly or indirectly, by members of the administrative and control bodies of ERG and of significant subsidiaries, by members of top management of the Group and by persons closely connected with them;
- the adoption of Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within ERG Group companies, approved, in their latest version, on 9 October 2017;
- the adoption of the Anti-Corruption System and Policy with the aim of helping to ensure, together with the Code of Ethics and 231 Models, compliance with the national and international anti-corruption regulations of the countries in which the ERG Group operates.

² On 15 December 2015, the Board of Directors resolved to adhere to the new Corporate Governance Code published in July 2015; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code.

3. INFORMATION ABOUT THE OWNERSHIP STRUCTURE AT 31 DECEMBER 2017 PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED FINANCE LAW OR 'T.U.F.')

Share capital structure at 31/12/2017					
	Number of shares	Amount of subscribed and paid-up share capital	% with respect to share capital	Listed / not listed (market)	Rights and obligations
Ordinary shares	150,320,000	EUR 15,032,000	100	MTA/FTSE Index Italy Mid Cap	–
Shares with limited voting rights	–	–	–	–	–
Shares without voting rights	–	–	–	–	–

Significant equity investments at 31/12/2017			
Declarant	Direct shareholder	% ordinary share capital	% voting share capital
San Quirico S.p.A.	San Quirico S.p.A.	55.628	55.628
San Quirico S.p.A.	Polcevera S.r.l.	6.905	6.905
UniCredit S.p.A.	UniCredit S.p.A.	4.001	4.001
	Finecobank Banca Fineco S.p.A.	0.045	0.045
	UniCredit Bank AG	0.032	0.032

Other disclosures at 31/12/2017			
	Yes	No	No notable disclosures in this regard
Restrictions on the transfer of securities		X	
Restrictions on the right to vote		X	
Shareholders' agreements		X	
Covenants pursuant to Article 123-bis paragraph 1 subsection i) of the T.U.F. ¹	X		

¹ the information in question is contained in the remuneration report published pursuant to Article 123-ter of the T.U.F.

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- with regard to the provisions of Article 123-bis, paragraph 1, subsection h) of the T.U.F., it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which, at least in one case, could involve the reimbursement of the loan in question if there is a change in control at ERG S.p.A. and in particular: (i) the pool loan granted by Banca IMI, as an agent bank in a pool of seven banks,

on 30 November 2015, with an amount outstanding, at 31 December 2017, of EUR 350 million and final payment due in August 2020; (ii) bilateral financing granted by UBI on 26 February 2016, with an amount outstanding, at 31 December 2017, of EUR 100 million and final payment due in February 2021; (iii) bilateral financing granted by Mediobanca on 11 March 2016, with an amount outstanding, at 31 December 2017, of EUR 150 million and final payment due in March 2021; (iv) bilateral financing granted by UniCredit on 21 April 2016, with an amount outstanding, at 31 December 2017, of EUR 75 million and final payment due in April 2021.

- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Association, please refer to the relevant sections of this report (hereinafter also the "Report");
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Shareholders' Meeting held on 20 April 2017 authorised the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months from the date of the related resolution, 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) shares of ERG ordinary 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 held on 20 April 2017 authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for a period of 12 months from the date of the related resolution, to sell, all at once or in several steps, 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.

4. CORPORATE GOVERNANCE

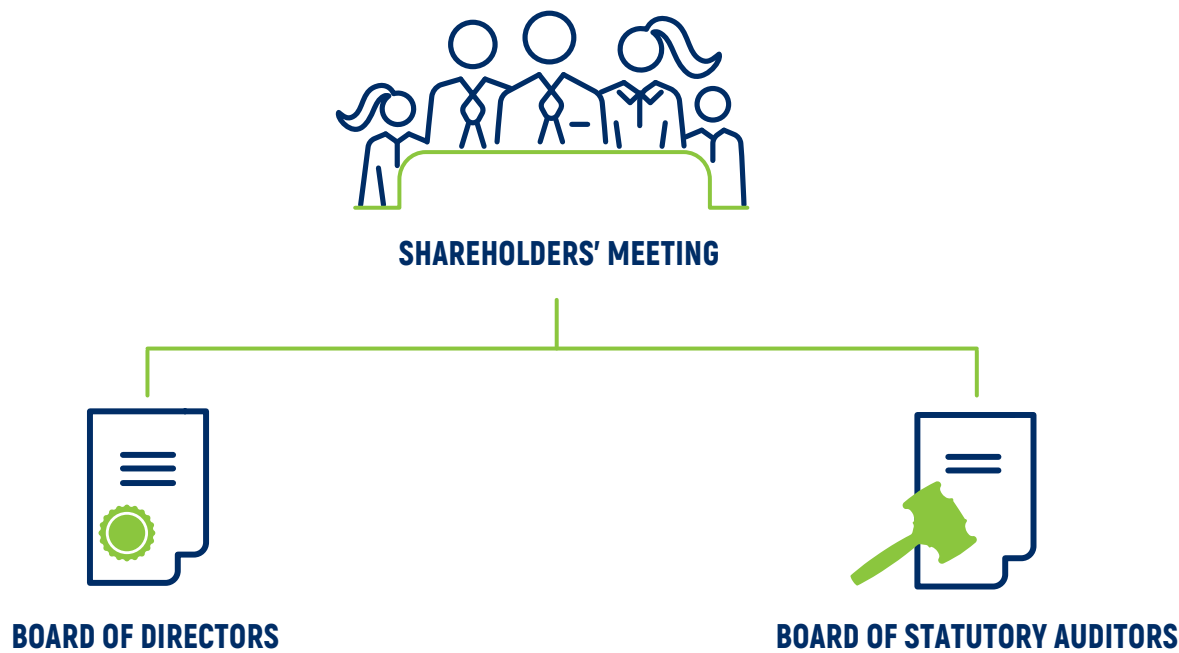
ERG's corporate governance complies with the requirements of the Italian Civil Code and of other specific laws and regulations relating to companies, particularly those contained in the T.U.F., and complies overall with the Italian Corporate Governance Code, and the various revisions that have been made to it over time³. The edition of the Corporate Governance Code to which the Company adheres is available to the public on the Borsa Italiana S.p.A website (www.borsaitaliana.it).

Corporate governance encompasses **statutory bodies**, **board committees** and the **corporate governance documents** that regulate their operation.



³ Please refer to the information provided in Note 2.

5. STATUTORY BODIES



Board of Directors



Edoardo Garrone
Executive Chairman



Alessandro Garrone
Executive Deputy Chairman



Giovanni Mondini
Deputy Chairman



Luca Bettonte
Chief Executive Officer



Massimo Belcredi
Independent Director
Lead Independent Director



Mara Anna Rita Caverni
Independent Director



Alessandro Chieffi
Independent Director



Barbara Cominelli
Independent Director



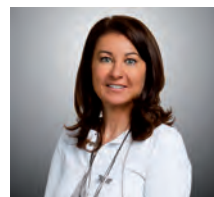
Marco Costaguta
Director



Alessandro Careri
Independent Director



Paolo Francesco Lanzoni
Independent Director



Silvia Merlo
Independent Director

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 24 April 2015⁴; consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2017.

It should be noted that, as a result of the resignation on 20 April 2017 by the Director Luigi Ferraris, the Board of Directors, on 11 May 2017, proceeded to appoint, at the proposal of the Nominations and Remuneration Committee, within the meaning of Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, as new Director of the Company, Alessandro Careri, who will remain in office until the next meeting of the shareholders of ERG S.p.A.

⁴ With reference to the provisions of application criterion 1.C.4. of the Corporate Governance Code, it is noted that the Shareholders' Meeting has not generally and preventively authorised waivers from the competition prohibition set out in Article 2390 of the Italian Civil Code.

For the appointment of the current Board of Directors, two lists of candidates have been presented, one by the shareholder San Quirico S.p.A. and the other by some institutional investors as follows⁵:

San Quirico S.p.A. list

- | | |
|-----------------------|-----------------------------|
| 1. Edoardo Garrone | 7. Paolo Francesco Lanzoni* |
| 2. Alessandro Garrone | 8. Mara Anna Rita Caverni** |
| 3. Giovanni Mondini | 9. Barbara Cominelli** |
| 4. Luca Bettonte | 10. Luigi Ferraris** |
| 5. Massimo Belcredi* | 11. Silvia Merlo** |
| 6. Marco Costaguta | 12. Alessandro Careri |

Institutional investors list

1. Alessandro Chieffi**

* Candidate indicated in the list as fulfilling the independence requirements in accordance with the provisions of the Consolidated Finance Law.

** Candidate indicated in the list as fulfilling independence requirements in accordance with the Consolidated Finance Law and eligible for qualification as independent in accordance with the Corporate Governance Code.

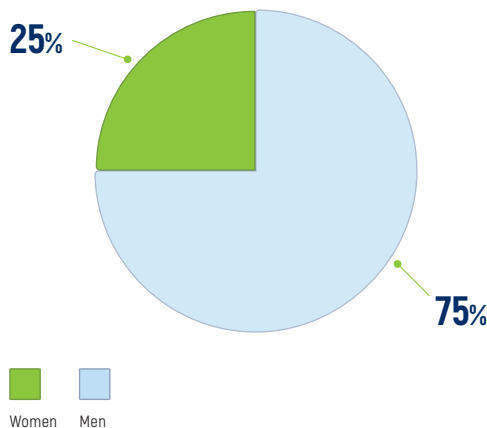
Pursuant to the Articles of Association, the Company is managed by a Board of Directors which, **in compliance with the gender balance criterion** prescribed by current law and regulatory provisions, consists of no fewer than 5 and no more than 15 members.

Directors are appointed on the basis of lists presented by shareholders – in which the candidates shall be listed with a progressive number – which, accompanied by information on the personal and professional characteristics of the candidates and a declaration of whether they meet the independence requirements prescribed by the T.U.F., must be filed, in compliance with Article 147-ter, paragraph 1-bis of the T.U.F., at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made

available to the public at least twenty-one days prior to said Meeting. The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 1%) established in accordance with Article 144-quater of the Regulations implementing the Consolidated Finance Law, adopted by CONSOB with resolution No. 11971 of 14 May 1999 ("Issuers' Regulations")⁶. This share capital percentage is the same for the presentation of lists for the appointment of the Board of Directors in office⁷.

Each shareholder may present or contribute to presenting only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum

BOARD OF DIRECTORS COMPOSITION BY GENDER



It is recalled that in appointing the Board of Directors a share equal to at least one third of the Directors elected should be reserved to the less represented gender.

⁵ For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 24 April 2015, available on the Company's website (www.erg.eu) in the section "Corporate Governance/Shareholders' Meeting 2015".

⁶ In accordance with CONSOB Resolution No. 20273 of 24 January 2018.

⁷ In accordance with CONSOB Resolution No. 19109 of 28 January 2015.

number of directors set out in the first paragraph of Article 15 of the Articles of Association and, with the exception of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.

In accordance with Article 147-ter, paragraph 1-ter of the Consolidated Finance Law, in appointing the Board of Directors the least represented gender must receive a share equal to at least one third of the Directors elected.

The lists indicate which Directors fulfil the independence requirements set by Article 147-ter, paragraph 4 of the Consolidated Finance Law. At least one candidate for each list, or two candidates if the Board of Directors has more than seven members, must fulfil the aforesaid independence requirements.

All candidates must fulfil the integrity requirements set out by current regulations for members of the Supervisory Bodies, as well as adequate professionalism requirements for the office to be held.

Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his/her own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director.

For the purposes of the allotment of the Directors to be elected, no consideration is given to the lists that did not obtain votes representing a percentage of the share capital equal to at least half of the percentage required for the presentation of the lists.

Each person entitled to vote may vote on only one list.

The election of the Directors takes place as follows:

- a) from the list that received the majority of the votes cast are drawn, in the progressive order in which they are listed, a number of Directors equal to the number of members to be elected minus one, subject to the provisions of Article 15, paragraphs 5 and 5-bis of the Articles of Association respectively for the appointment of independent Directors and to compliance with the gender balance criterion in the composition of the Board of Directors;
- b) the remaining Director is drawn from the minority list that received the highest number of votes;
- c) if a single list is presented, or if the required quorum is not reached by the other lists, all Directors shall be elected from the presented list or from the list that reached the quorum, subject to the provisions of Article 15, paragraph 5-bis of the Articles of Association with respect to compliance with the gender balance criterion in the composition of the Board of Directors.

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list⁸.

⁸ For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section "Corporate Governance / Governance Documents".

The Directors in office at the date of approval of the Report are⁹:

Edoardo Garrone	<i>Chairman</i>
Alessandro Garrone ¹⁰	<i>Deputy Chairman</i>
Giovanni Mondini	<i>Deputy Chairman</i>
Luca Bettonte	<i>Chief Executive Officer</i>
Massimo Belcredi	<i>Director</i>
Alessandro Careri	<i>Director</i>
Mara Anna Rita Caverni	<i>Director</i>
Alessandro Chieffi	<i>Director</i>
Barbara Cominelli	<i>Director</i>
Marco Costaguta	<i>Director</i>
Paolo Francesco Lanzoni	<i>Director</i>
Silvia Merlo	<i>Director</i>

Executive Directors

Edoardo Garrone
Alessandro Garrone
Luca Bettonte

Non-executive directors¹¹

Giovanni Mondini
Marco Costaguta

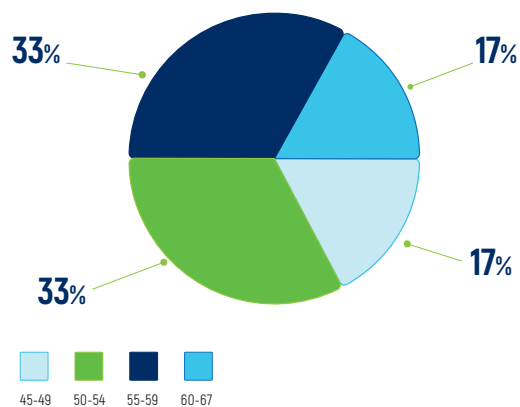
Independent non-executive Directors pursuant to T.U.F.

Massimo Belcredi
Alessandro Careri
Paolo Francesco Lanzoni

Independent Directors pursuant to T.U.F. and the Corporate Governance Code

Mara Anna Rita Caverni
Alessandro Chieffi
Barbara Cominelli
Silvia Merlo

BOARD OF DIRECTORS - COMPOSITION BY AGE



⁹ For the personal and professional qualifications of current members of the Board of Directors, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section "Corporate Governance / Board of Directors".

¹⁰ Covers the role of Director in charge of the Internal Control and Risk Management System.

¹¹ In view of criterion 2.C.1. of the Corporate Governance Code.

Lead independent director¹²

Massimo Belcredi

Secretary

Giovanni Marco Scollo

At the first meeting after the appointment, on 24 April 2015, the Board of Directors confirmed the independence of Directors Massimo Belcredi and Paolo Francesco Lanzoni with reference to Art. 148, third paragraph, of the Consolidated Finance Law (T.U.F.)¹³ and the independence of Directors Mara Anna Rita Caverni, Alessandro Chieffi, Barbara Cominelli, Luigi Ferraris¹⁴

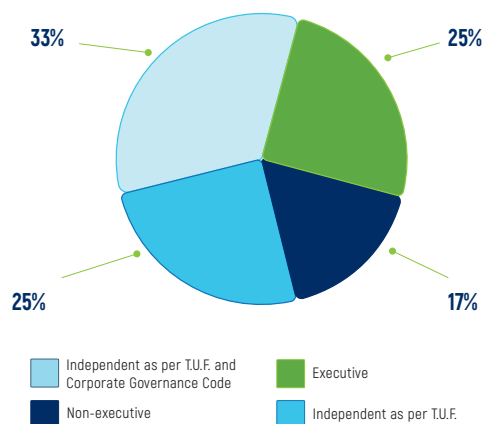
and Silvia Merlo both with reference to Art. 148, third paragraph, of the Consolidated Finance Law, and with reference to the information contained in the current Corporate Governance Code. In the meetings held on 13 July 2016 and 12 July 2017, the Board of Directors confirmed the assessments made on 24 April 2015.

On 11 May 2017, the Board of Directors, following the appointment within the meaning of Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association of the Director Alessandro Careri, confirmed the independence of the latter with reference to the provisions of Article 148, third paragraph, of the Consolidation Finance Law¹⁵.

The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.

On 12 July 2017, the independent Directors held their own meeting, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors. The independent directors put forward proposals and suggestions to the Chairman and the Executive Deputy Chairman as regards issues relating to the governance of the Company. The response was positive with respect to all the proposals made. The Lead Independent Director and Executive Deputy Chairman subsequently reported to the Board of Directors regarding the process followed and the implementation status of the individual proposals.

**BOARD OF DIRECTORS
COMPOSITION BY STATUS**



¹² In the meeting of 12 May 2016, the Board of Directors, in view of the non-occurrence of the conditions set forth in the Corporate Governance Code for the appointment of a lead independent director, and in order to ensure continuity with respect to the skills and experience gained, and for the benefit and support of new independent directors, in consideration of the assessments of independence made by the Board of Directors itself in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the Director Massimo Belcredi, has appointed the latter as lead independent director.

¹³ The Board of Directors, in line with the assessments made during the previous three years, with emphasis on substance rather than form, a principle advocated by the Corporate Governance Code, has confirmed that the Directors Belcredi and Lanzoni do not have, nor have they recently had, directly or indirectly, relations with the Company or related persons, that would impair their autonomy of judgement, in accordance with Principle 3.P.1. Of the current Corporate Governance Code promoted by the Italian Stock Exchange. Moreover, in view of their long tenure, the Board of Directors considered it preferable not to qualify them as independent directors pursuant to the Corporate Governance Code.

¹⁴ Resigned on 20 April 2017.

¹⁵ The Board of Directors, in particular, took the view that the professional relations existing between the Company and the joint venture TotalErg S.p.A. were not such as to compromise his independence in consideration of the fact that the office of Chairman held by him in the Board of Directors of the joint venture TotalErg S.p.A. does not involve the assignment of powers such as to qualify him as executive director, and the remuneration received by him for the aforementioned office, as well as the fee for the annual consultancy agreement, in the context of the oil sector, existing between the company IEC S.r.l. (of which he is a Shareholder and Sole Director) and ERG S.p.A., were not significant or in any case such as to compromise his independence. The aforementioned Director was not considered independent under the Code of Conduct in view of the significance of the fees received, in particular, in financial years 2014 and 2015 by the company IEC S.r.l. against a consultancy contract with ERG S.p.A., again within the context of the oil sector.

Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size at 31 December 2017¹⁶:

Edoardo Garrone	<i>Chairman of the Supervisory Board of San Quirico S.p.A. Director of Il Sole 24 Ore S.p.A. Director of Invitalia Ventures Sgr S.p.A.</i>
Alessandro Garrone	<i>Director of Banca Passadore e C. S.p.A.</i>
Giovanni Mondini	<i>Chairman of the Management Board of San Quirico S.p.A.</i>
Massimo Belcredi	<i>Director of GEDI Gruppo Editoriale S.p.A.</i>
Mara Anna Rita Caverni	<i>Chairman of the Board of Directors of SNAITECH S.p.A. Director of Cerved Information Solutions S.p.A.</i>
Alessandro Chieffi	<i>Director of Intermonte SIM S.p.A. Director of Adriano Lease Sec. S.r.l. Director of Brera Sec S.r.l.</i>
Marco Costaguta	<i>Management Director of San Quirico S.p.A. Director of OTB S.p.A. Director of Goglio S.p.A. Director of Rimorchiatori Riuniti S.p.A. Director of Officine Maccaferri S.p.A. Director of Praesidium Sgr S.p.A. Director of Hat Orizzonte Sgr S.p.A. Director of Innova Italy 1 S.p.A.</i>
Paolo Francesco Lanzoni	<i>Director of Castello Sgr S.p.A.</i>
Silvia Merlo	<i>Director of GEDI Gruppo Editoriale S.p.A. Chief Executive Officer of Merlo S.p.A. Director of Leonardo S.p.A.</i>

Other attendees of Board of Directors meetings

Meetings of the Board of Directors also include representatives from Group management to provide certain specific and timely insights on topics discussed on an as needed basis. In financial year 2017, managers took part in every meeting of the Board of Directors, in several cases in support of the discussion of topics on the agenda.

Directors' fees and remuneration - Evolutionary approach of the Remuneration Policy

On 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors

¹⁶ Other than offices held in Group companies.

approved its Policy for the remuneration of members of the Board of Directors and of Key management personnel, taking into account in particular:

- Article 6 of the Corporate Governance Code;
- the provisions of the Consolidated Finance Law and the Issuers' Regulation on the transparency of the remuneration of the directors of listed companies and of key management personnel;
- the Procedure for Transactions with Related Parties and the principles expressed in the Group's Code of Ethics.

Revisions to the Remuneration Policy, proposed by the Nominations and Remuneration Committee, were made by the Board of Directors as follows:

- on 18 December 2012, to incorporate the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long-Term Incentive System ("LTI System");
- on 11 March 2015, effective as from 2015¹⁷, to incorporate the adhesion of the Company to the current Corporate Governance Code and the general principles of the 2015-2017 LTI system in anticipation of the renewal of the Board of Directors by the Shareholders' Meeting on 24 April 2015¹⁸;
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, effective as from 2018, to incorporate the essential elements of the 2018-2020¹⁹ LTI system.

During 2017, the members of the Nominations and Remuneration Committee submitted to the Board of Directors proposals on the remuneration of Directors (appointed by the Shareholders' Meeting of 24 April 2015) who are executive or vested with particular roles or called to be part of the Strategic Committee²⁰, based on the provisions of the current Remuneration Policy²¹.

17 Since the 2015-2017 LTI system is connected to ERG's share performance, it was submitted for approval to the Shareholders' Meeting held on 24 April 2015, who voted in favour of it.

18 The Shareholders' Meeting held on 3 May 2016 voted in favour of the first section of the Remuneration Report prepared in accordance with Article 123-ter of the Consolidated Finance Law.

19 Since the 2018-2020 LTI System is expected to be based on financial instruments, it will be subject to the approval of the Shareholders' Meeting that will be held to approve the Financial Statements at 31 December 2017.

20 Although not Group employees and with no seat on the Board of Directors.

21 For detailed information on this matter, please refer to the Remuneration Report referred to in Article 123-ter of the Consolidated Finance Law, to be presented to the Shareholders' Meeting convened in April 2018, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

Powers

At the meeting held on 24 April 2015, the Board of Directors assigned the following powers for three years and therefore until the date of the Shareholders' Meeting held to approve the Financial Statements at 31 December 2017:

- to **Chairman Edoardo Garrone**

- the authority to manage, with responsibility for supervision, direction and control, the processes of institutional and external relations, corporate social responsibility and corporate affairs, giving him all the necessary powers for the exercise of the powers granted; on 12 May 2016 the Chairman returned to the Board of Directors some of the powers granted relating to the management, through the tasks of supervision and control, of the processes of institutional and external relations and corporate social responsibility²², whilst retaining the authority to manage, through the tasks of supervision, direction and control, corporate affairs activities, taking into account his role as Chairman of the Board of Directors and that stated in this regard in the Corporate Governance Code²³;

- to **Deputy Chairman Alessandro Garrone**

- the authority to oversee preliminary and functional activities to define the strategic objectives of the Company and the Group and the preparation of the Strategic Plan to be submitted to the Board of Directors for consideration and possible approval; additionally, to provide strategic coordination of the subsidiary companies;
- the authority to oversee and control activities for the preparation of project Budgets to be submitted for review and possible approval by the Board of Directors;
- the authority to provide guidance and supervision for activities related to research, development and negotiation with third parties in mergers and acquisitions transactions and structured finance transactions, which are subject to the approval of the Board of Directors;
- the authority to supervise the definition of the Company's organisational structure up to the second level reporting directly to the CEO, contributing to the decisions regarding the appointment of directors and executives, employee terminations, and remuneration policies and incentives;
- the power to oversee internal audit, risk and compliance activities and processes, through supervision, guidance and control;
- the office of Director in charge of the internal control and risk management system, with powers and responsibilities as outlined in the current Corporate Governance Code in line with the Guidelines for the Internal Control and Risk Management System approved by the Company;

- to **CEO Luca Bettonte** (Chief Executive Officer of the Company)²⁴

- the necessary powers to perform all activities pertaining to corporate activity, except for those reserved to the

²² In line with the organisational structure of the ERG Group, as a result of the decision made by the Chairman, the management of these processes also falls entirely under the responsibility of the Chief Executive Officer.

²³ Commentary on Article 2, fifth paragraph of the Corporate Governance Code.

²⁴ The interlocking directorate situation, set forth in application standard 2.C.5. of the Corporate Governance Code, does not apply.

Board of Directors (by law or by the Articles of Association) or delegated to other Board Members;

- the powers and responsibilities for the protection of health, and maintenance of safety in the workplace and the environment;
- the authority to protect persons and other subjects with regard to the processing of personal data.

In accordance with the Articles of Association, the Chairman has the power to represent the Company pursuant to Article 2384 of the Italian Civil Code. The Chief Executive Officer(s) also has/have such powers, within the limits of the authority vested in them.

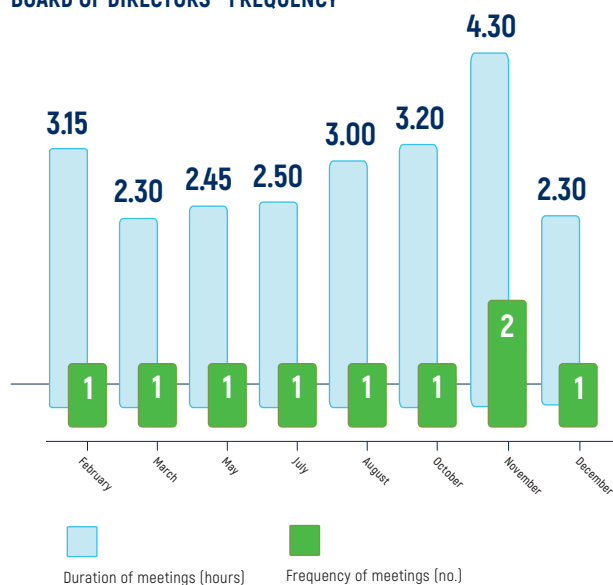
The Board of Directors, in accordance with the recommendations of the Corporate Governance Code, has specified that the powers vested in the Deputy Chairman and in the Chief Executive Officer shall be exercised within the scope of the directives and instructions imparted to them by the Board of Directors which shall retain, in addition to the powers that may not be delegated as prescribed by law or by the Articles of Association, the authority to review and approve significant transactions identified on the basis of the criteria set out in the Guidelines for identifying and carrying out significant transactions, approved by the Board of Directors.

The delegated bodies report to the Board of Directors, on a quarterly basis, on the activities carried out within the scope of the powers vested in them.

Frequency

As prescribed by the Articles of Association, the Board of Directors meets at least once a quarter to inform the Board of Statutory Auditors on the Group's activities and on the most important business, financial and capital transactions undertaken by the company or its subsidiaries, and particularly those where there may be a potential conflict of interests. During the 2017 financial year, the Board of Directors held **9 meetings**, while for the year 2018 there are expected to be no fewer than **9 meetings**.

BOARD OF DIRECTORS - FREQUENCY



In the 2017 meetings, the Board of Directors passed **50 resolutions** pertaining to as many issues (**31** of which were adopted on the basis of a proposal or of an opinion provided by the Board Committees or following a prior assessment by them) and for **46** of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions), said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items on the agenda.

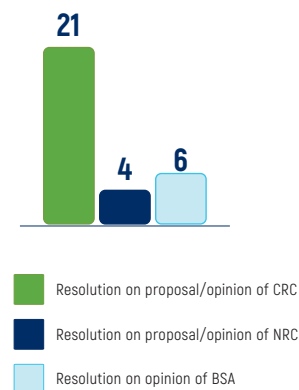
During all Board meetings, with particular reference to those in which, for some of the matters covered, the documentation could not, exceptionally, be sent beforehand, the Chairman ensured that specific and timely insights were guaranteed and, where appropriate, provided by representatives of Group management invited by the Board of Directors to participate.

It is also noted that, of the **4 resolutions** in relation to which Board members and Auditors had not been sent the relevant documentation in advance, 1 resolution concerned the immediate approval of the minutes at the end of the relevant meeting (to which said minutes referred) and 2 resolutions were adopted on the basis of a prior assessment by the Board Committees.

The average duration of the meetings held by the Board of Directors was **around 2 hours and 45 minutes**.

At the date of approval of this document, the Board of Directors had held **2 meetings**.

BOARD OF DIRECTORS RESOLUTIONS PASSED



Activities pursued

Directors made a significant contribution to the work of the Board of Directors and Committees in 2017, in terms of meeting attendance and effective participation in proceedings.

In the course of 2017, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1. of the Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.

The Board of Directors, with respect to the provisions of application criterion 1.C.3. of the Corporate Governance Code, acknowledged that in light of the findings outlined in the document prepared by the Nominations and Remuneration Committee and taking into account the number of directorships and auditorships held by the individual Directors in other listed companies and in financial, banking, or insurance companies or companies of significant size, it does not appear to be necessary to establish a maximum number of directorships and auditorships.

Lastly, with respect to the recommendations of application criterion 5.C.2. of the Corporate Governance Code, the Board of Directors acknowledged, during the meeting held on 24 February 2015, that at present the adoption of a plan for the succession of executive directors was not considered necessary.

The Chairman of the Board of Directors ensured that during the meetings of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of Group management provided all directors with the necessary information to provide adequate knowledge of the industry in which the Group operates, of corporate performance and its trends and of the reference regulatory framework. In all Board meetings held during 2017, the Chief Executive Officer provided a report to the Board of Directors with regard to the exercise of the mandate and the performance of the Company and the Group.

During the year, the Chairman mentioned specific initiatives and events, organised by primary stakeholders and intended for Directors and Auditors of listed companies, which some Directors and Auditors subsequently attended.

Board Performance Review

With regard in particular to subsection g) of criterion 1.C.1. of the Code of Conduct, the Board of Directors, at its meeting of 20 February 2018, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees during 2017, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its Committees. This document was prepared using the assessment criteria already used last year and the results of a self-assessment questionnaire prepared by Corporate Affairs at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors.

Diversity policy in relation to the composition of the administration, management and control bodies

1.1 Objectives

The Board of Directors considers that the presence, within the Board of Directors itself and the Board of Statutory Auditors, of skills, values and points of view that are different yet complementary to each other may in fact be a strength since it makes it possible to analyse the various matters under discussion from different perspectives, it encourages debate and it serves as a basis for well-thought-out, informed and balanced committee decisions.

The presence of varying skills and know-how is also deemed essential and necessary for the purposes of fully understanding and adequately appreciating the different aspects that must be taken into account in the context of the business in which the Company operates.

1.2 Implementation methods

Since the Company's administrative, management and control bodies, in accordance with the provisions of Articles 147-ter and 148 of the Consolidate Finance Law and Articles 15 and 22 of the Articles of Association, are appointed on the basis of lists of candidates submitted by shareholders, the composition of said bodies depends on the decisions made from time to time by the latter during the Shareholders' Meeting, in compliance with the applicable laws and regulations.

Without prejudice to the foregoing, the Board of Directors considers that the Company's policy on diversity in relation to the composition of its administrative, management and control bodies (the "Policy"), in accordance with the provisions of the Corporate Governance Code, can be expressed through **specific recommendations** made by the Board of Directors to the shareholders, from time to time, before the appointment of the Board of Directors and the Board of Statutory Auditors, and explained in the report on matters on the agenda, provided within the meaning of Article 125-ter of the Consolidated Finance Law, and in the report on corporate governance and the ownership structure within the meaning of Article 123-bis of the Consolidated Finance Law.

The Policy proposed by the Board of Directors prescribes, in particular, that each Director, within the scope of the self-assessment process on the functioning of the Board of Directors and its Committees, expresses, before the appointment of the new Board, **his/her recommendations**, in the matter of diversity, on the managerial and professional figures that should be included in the Board, also taking into account factors such as training and professional characteristics, experience, including managerial, gender and age. The outcome of this assessment process will constitute an integral and substantial part of the **recommendations to shareholders**.

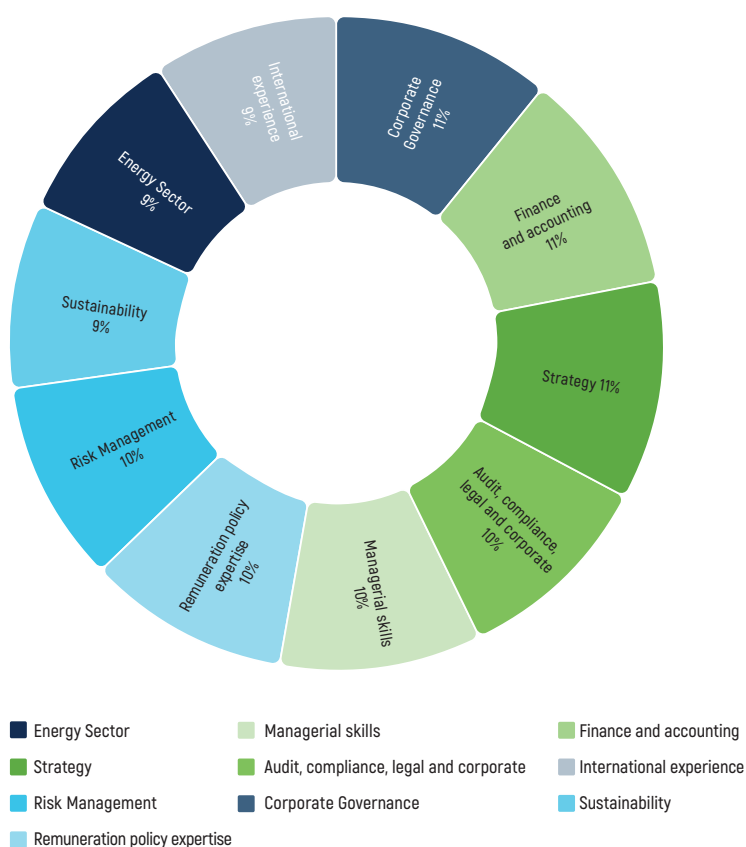
The same assessments will also be required with reference to the members of the Board of Statutory Auditors, prior to the appointment of the new Board. Outgoing members of the Board of Statutory Auditors will also be required to take part in this assessment process.

The results of assessments performed and the **recommendations** of the Board of Directors are set out below.

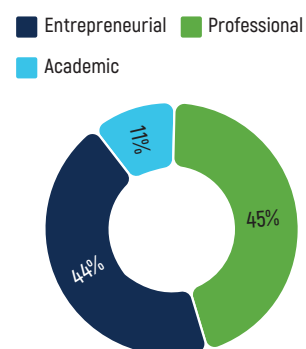
Educational and professional background

With reference **to the skills present in the Board of Directors**, the self-assessment process for financial year 2017 showed a balanced allocation of skills within the Board of Directors, gained mainly through entrepreneurial and professional experiences.

SKILLS CURRENTLY PRESENT IN THE BOARD OF DIRECTORS



EXPERIENCE GAINED



With reference to the **skills that ought to be present in the Board of Directors**, following the self-assessment process for financial year 2017, the Board of Directors recommends that the skills already represented in the current Board of Directors are maintained, and that the weight of the international experience in the energy sector is potentially increased and specific skills in the field of administrative and regulatory law introduced, in line with developments in the existing and future portfolio of Group operations.

SKILLS THAT OUGHT TO BE PRESENT IN THE BOARD OF DIRECTORS



Gender composition

With reference to **gender balance**, the Board of Directors, following the self-assessment process for 2017, does not consider it necessary to recommend more stringent requirements than those laid down by legislation.

It is recalled that in appointing the Board of Directors a share equal to at least one third of the Directors elected should be reserved to the less represented gender.

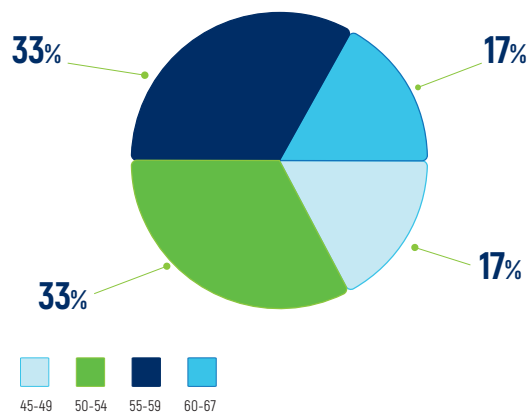
Self-assessment did, however, show that the skills and experience necessary for the purposes of the composition of the new Board of Directors are present across both genders.

Age

With reference to **age**, following the self-assessment process for 2017, it was not considered necessary to make specific recommendations.

The current composition of the Board of Directors, divided according to age group, was however considered balanced.

BOARD OF DIRECTORS - COMPOSITION BY AGE



1.3 Results

The results of the Policy will be assessed following the process to appoint the new Board of Directors by the Shareholders' Meeting called, inter alia, to approve the Financial Statements at 31 December 2018.

Recommendations of the Italian Corporate Governance Committee

In its meeting of 7 March 2018, the Board of Directors, in light of the content of the Report on Corporate Governance and Ownership and the Remuneration Policy, unanimously agreed that the Company is in line with the recommendations made in the letter sent by the Italian Corporate Governance Committee to the chairmen of the management and control bodies of all listed companies concerning (i) transparency on the timeliness, completeness and usability of pre-meeting information; (ii) the functions carried out by the nominations committee, if combined with the remuneration committee (as in the case of the Company); (iii) the process to assess the independence of Directors, (iv) the board performance review; (v) the allocation of a greater weight to long-term variable components; (vi) the introduction of claw-back clauses; and (vii) the definition of criteria and procedures for the allocation of any severance indemnity.

With reference, instead, to the possible adoption of succession plans for executive directors, in view of the expiry of its mandate at the date of the meeting that will be convened for the approval of the financial statements at 31 December 2017, the Board of Directors unanimously resolved to refer any necessary assessment to the new Board of Directors.

Board of Statutory Auditors



Elena Spagnol
Chairman



Lelio Fornabaio
Statutory Auditor



Stefano Remondini
Statutory Auditor

The current Board of Statutory Auditors, comprising 3 statutory auditors and 3 alternate auditors, was appointed by the Shareholders’ Meeting of 3 May 2016; consequently, the appointment to the Board of Statutory Auditors shall expire at the date of the Shareholders’ Meeting held to approve the Financial Statements at 31 December 2018. For the appointment of the Board of Statutory Auditors, two lists of candidates have been presented, one by the shareholder San Quirico S.p.A. and the other by some institutional investors as follows²⁵:

San Quirico S.p.A. list

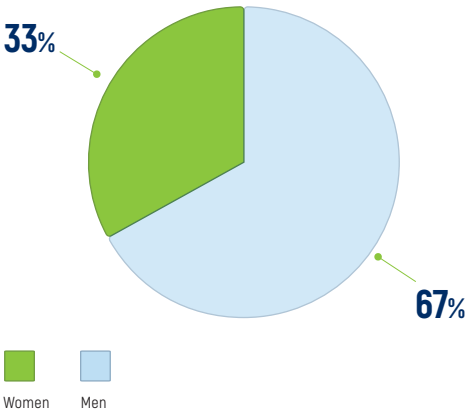
- 1. Lelio Fornabaio
- 2. Stefano Remondini
- 3. Elisabetta Barisone
- 4. Vincenzo Campo Antico
- 5. Mario Lamprati
- 6. Luisella Bergero

Institutional investors list

- 1. Elena Spagnol
- 2. Paolo Prandi

In accordance with the Articles of Association, the Board of Statutory Auditors consists of three standing auditors and three alternate auditors **in compliance with the gender balance criterion** prescribed by current laws and regulations. The Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which, in compliance with Article 147-ter, paragraph 1, of the T.U.F. (Consolidated Finance Law) (referenced by the Article 148, paragraph 2 of the T.U.F.), must be filed at least twenty-five days prior to the date of the Shareholders’ Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

BOARD OF STATUTORY AUDITORS
COMPOSITION BY GENDER



²⁵ For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders’ Meeting of 3 May 2016, available on the Company’s website (www.erg.eu) in the section “Corporate Governance/2016 Shareholders’ Meeting”.

Each list consists of two sections: one for candidates to the office of Standing Auditor and the other for candidates to the office of Alternate Auditor. Each list must contain a number of candidates, listed with a progressive number, not exceeding the maximum number of auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations. Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 1%²⁶. The same percentage ownership is required for the submission of lists for the appointment of Statutory Auditors in office²⁷.

No shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.

The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Association.

Candidates cannot be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, section 3 of the Consolidated Finance Law or if they already serve as Standing Auditor in five listed companies²⁸.

If, at the expiration of the term for the presentation of the lists as indicated above, only one list was filed, or only lists presented by mutually connected shareholders, according to the definition set out in the applicable regulations, were filed, then lists may be presented - in accordance with Article 144-*sexies*, paragraph 5 of the Issuers' Regulations - until the third day after that date. In this case, the thresholds required for presentation of the lists are halved.

Any list presented without compliance with the required prescriptions²⁹ shall be considered not to have been presented.

If no list is presented in spite of the completion of the aforesaid procedure, a majority vote shall be taken in order to ensure that the composition of the Board of Statutory Auditors complies with current laws and regulations and with the Articles of Association. The Shareholders' Meeting appoints the Chairman.

If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation, the candidates of the single list voted. The first person on the list is elected Chairman.

In the event that multiple lists are presented, the following are elected: from the list that received the highest number of votes, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among those

²⁶ In accordance with CONSOB Resolution No. 20273 of 24 January 2018.

²⁷ In accordance with CONSOB Resolution No. 19499 of 28 January 2016.

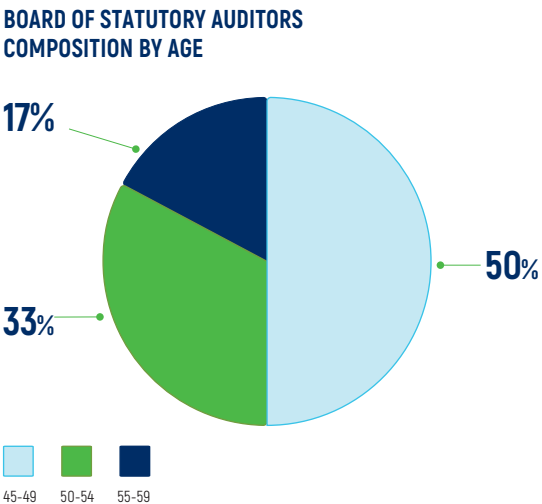
²⁸ It is noted in this regard that the disclosure obligations as per Article 144-*quaterdecies* of the Issuers' Regulations do not apply to those who serve as members of the control body of a single issuer.

²⁹ For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section "Corporate Governance / Governance Documents".

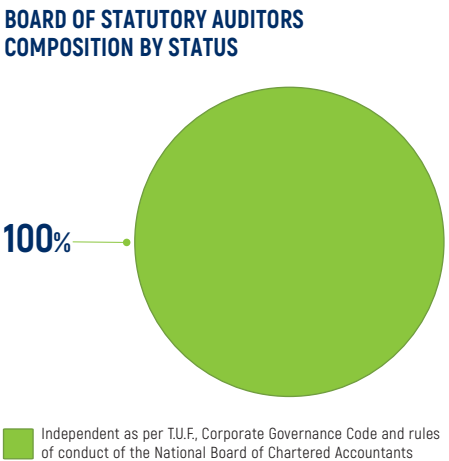
presented and voted by minority shareholders who are not connected - even indirectly - with the shareholders who presented or voted the list that received the highest number of votes, according to current regulations and subject to the provisions of paragraph 13-bis of the Articles of Association pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list is appointed Chairman. If the lists receive an equal number of votes, the candidate of the list that was presented by the shareholders owning the largest share or, subordinately, by the higher number of shareholders is elected.

The Statutory Auditors in office at the date of approval of the Report are the following³⁰:

Elena Spagnol	Chairman
Lelio Fornabaio	Standing Auditor
Stefano Remondini	Standing Auditor
Vincenzo Campo Antico	Alternate Auditor
Luisella Bergero	Alternate Auditor
Paolo Prandi	Alternate Auditor



The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for Directors. The Board of Directors, in light of the information provided in this regard by the members of the Board of Statutory Auditors and of the statements by the Chairman of the Board of Statutory Auditors, during its meeting of 12 May 2016, positively assessed the independence of the members of the Board of Statutory Auditors, both with reference to the provisions of Art. 148, third paragraph, of the Consolidated Finance Law and with reference to the rules of conduct of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants and with the Corporate Governance Code for listed companies promulgated by Borsa Italiana S.p.A.



³⁰ For the personal and professional qualifications of auditor in office, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section "Corporate Governance / Board of Statutory Auditors".

During the meeting of the Board of Directors of 9 August 2017, the Chairman of the Board of Statutory Auditors, within the meaning of the provisions of application criterion 8.C.1. of the Corporate Governance Code, notified the Board of Directors that the Board of Statutory Auditors, which met on 9 May 2017, inter alia assessed and confirmed the independence of its members on the basis of the criteria laid down by the Consolidated Finance Law, by the rules of conduct of the Board of Statutory Auditors drawn up by the National Board of Chartered Accountants and Accounting Experts and by the Corporate Governance Code promoted by Borsa Italiana S.p.A. The Board of Statutory Auditors verified and monitored the independence of the Independent Auditors verifying both compliance with the regulatory provisions on the matter, and the nature and extent of services, other than auditing, performed for the Company and for its subsidiaries by the Independent Auditors and by entities belonging to its network.

The Board of Statutory Auditors also monitored the process of financial disclosure, checked the effectiveness of the internal control, internal audit and risk management systems and monitored the legal auditing of annual accounts and of consolidated accounts.

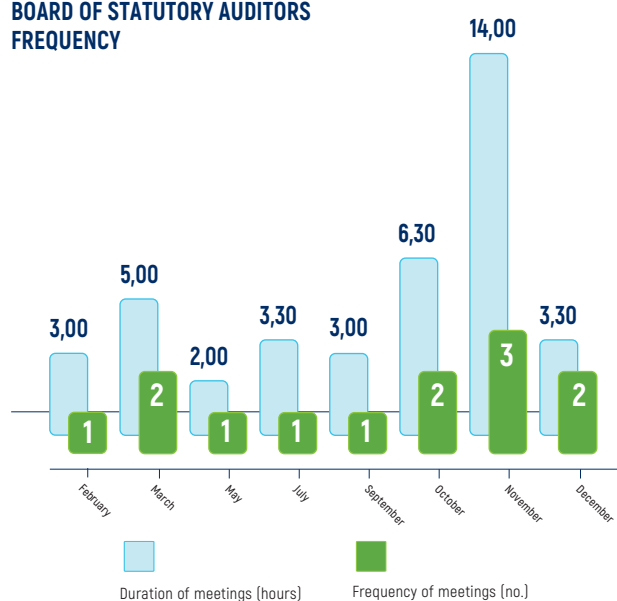
In view of the expiry of the appointment of the Independent Auditors Deloitte & Touche S.p.A. at the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2017, the Board of Statutory Auditors ensured the proper performance of the procedure to select statutory auditors, for which it is responsible within the meaning of Article 19 paragraph 1 of Legislative Decree No. 39/2010 and Article 16, paragraph 3, of EU Regulation No. 537/2014 (the "EU Regulation"), actively participating, together with the Working Group within the Company, in the process to select the Independent Auditors, conducted in line with the provisions of Article 16, paragraph 3, of the EU Regulation, for the purposes of providing a reasoned recommendation pursuant to Article 16, paragraph 2, of the EU regulation. The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit Division, coordinating with the Control and Risk Committee.

During the 2017 financial year the Board of Statutory Auditors held **13** meetings, while for the year 2018 there are expected to be no fewer than **9** meetings.

The average duration of the meetings held by the Board of Statutory Auditors was around **3 hours**.

At the date of approval of this document, the Board of Statutory Auditors had met **3 times**.

BOARD OF STATUTORY AUDITORS FREQUENCY



Other appointments as director or statutory auditor held by the Statutory Auditors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size at 31 December 2017³¹:

Elena Spagnol	<i>Chairman of the Board of Statutory Auditors of Fineco Bank S.p.A.</i>
Lelio Fornabaio	<i>Standing Auditor of Astaldi S.p.A.</i>
	<i>Standing Auditor of Atlantia S.p.A.</i>
	<i>Standing Auditor of Telepass S.p.A.</i>
	<i>Director of Aeroporto di Genova S.p.A.</i>
	<i>Director of Cotral S.p.A.</i>

Shareholders' Meetings

Article 10 of the Articles of Association states that, in compliance with laws and regulations, the holders of voting rights who exhibit a suitable certification issued in accordance with current regulations by the broker and notified to the Company according to the procedures and within the term set by current laws and regulations, are entitled to attend Shareholders' Meetings. Holders of voting rights may be represented by proxy in the Shareholders' Meeting, within the limits and according to the procedures prescribed by current laws and regulations. The proxy may be notified via certified electronic mail in accordance with the procedures indicated in the convening notice or using the different instrument which may be indicated in the notice.

Article 11 of the Articles of Association states that the Shareholders' Meeting must be convened by the governing body at least once a year, no later than one hundred and twenty days from the closing date of the financial year or, if the Company must prepare Consolidated Financial Statements and if required by specific provisions related to the organisation or the purpose of the Company, no later than one hundred and eighty days.

Article 12 of the Articles of Association states that the Shareholders' Meeting is convened by means of notice to be prepared and published within the terms and according to the procedures prescribed by current laws and provisions.

Article 13 of the Articles of Association states that the provisions of law shall apply for the quorum of both Ordinary and Extraordinary Shareholders' Meetings and for the validity of their resolutions.

Meeting regulations

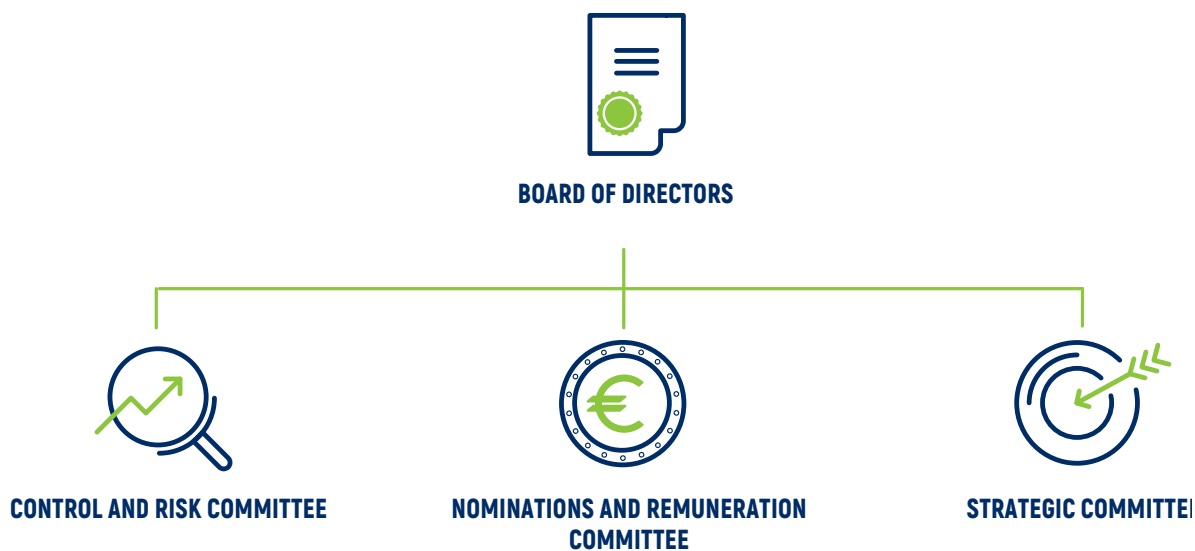
At the Ordinary Shareholders' Meeting, shareholders approved Regulations governing the proceedings of Ordinary and Extraordinary Shareholders' Meetings.

Article 14 of the Articles of Association expressly gives the Ordinary Shareholders' Meeting the possibility of adopting meeting Regulations.

³¹ Other than offices held in Group companies.

5.1. BOARD COMMITTEES

The Board of Directors has set up the **Control and Risk Committee**, the **Nominations and Remuneration Committee** and the **Strategic Committee** to advise it and issue recommendations.





Control and Risk Committee



Massimo Belcredi
Chairman



Mara Anna Rita Caverni
Member



Barbara Cominelli
Member

Members:

Massimo Belcredi – *Chairman*

Mara Anna Rita Caverni

Barbara Cominelli

Giovanni Marco Scollo - *Secretary*

The current Control and Risk Committee is comprised of, in accordance with the provisions of the Corporate Governance Code, three non-executive Directors, all independent as per the Consolidated Finance Law and mostly independent as per the Corporate Governance Code, appointed by the Board of Directors in the meeting of 24 April 2015.

With reference to the provisions of Principle 7.P.4. of the Corporate Governance Code³², it is noted that prior to the first meeting of the Committee held on 6 May 2015, the two independent members, considering the significant change occurred in the composition of the Committee, in order to ensure continuity with respect to the skills and experience acquired³³ through their tenure, as well as for their benefit and support as new members of said Committee, taking into account the assessments of independence made by the Board of Directors in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the non-executive member of the Committee and in view of the fact that the Chairman of the Committee during the vote does not enjoy special privileges over other members - with the abstention of the non-executive member - unanimously resolved to confirm the latter in the position of Chairman of the Control and Risk Committee. During its meeting on 6 May 2015, and subsequently in the meeting of 16 June 2016, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

³² "The control and risk committee is made up of independent directors. Alternatively, the committee may be made up of non executive directors, the majority of which being independent ones; in this case, the chairman of the committee is selected among the independent directors."

³³ It should be noted that the non-executive member of the Committee - qualified on 24 April 2015 by the Board of Directors as an independent director within the meaning of the Consolidated Finance Law but not in accordance with the Corporate Governance Code only due to the long tenure - has been Chairman the Control and Risk Committee since November 2005.

The members of the Committee have adequate accounting, financial and risk management expertise³⁴.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairman of the Board of Directors, the Executive Deputy Chairman, the Director in charge of the Internal control and risk management system, and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Chief Audit Officer, the Manager responsible for preparing the company's financial reports, the General Counsel, the Head of Group Administration, the Head of Group Risk Management & Corporate Finance and the Head of Corporate Affairs.

Employees of Group companies, representatives of the independent auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Head of Internal Audit is invited to attend the meetings in order to report to the Committee, at least once a quarter, on the activity carried out from time to time.

The Manager responsible for preparing the Company's financial reports is invited to attend the meetings in order to inform the Committee, at least quarterly (where interim management statements are published), about the accounting standards applied in the preparation of periodic financial statements and, at least semi-annually, about the activity carried out from time to time in accordance with Article 154-*bis* of the Consolidated Finance Law.

The Head of Group Administration is invited to attend meetings in order to report to the Committee, semi-annually, on the activity carried out from time to time with reference to Compliance with Law 262/05.

The Head of Group Risk Management & Corporate Finance is invited to attend the meetings in order to report to the Committee, at least quarterly, on the activity carried out from time to time with reference to Risk Management.

The Head of Corporate Affairs is invited to attend the meetings in order to report to the Committee, at least semi-annually, on the activity carried out from time to time with reference to Compliance with Legislative Decree 231/01.

The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.

Committee members are provided, with reasonable advance notice with respect to the meeting date (at least 48 hours before the meeting, subject to certain exceptions), with the documentation and information required to enable them to express an informed opinion on the matters under consideration. During meetings, where appropriate, specific and timely insights are also obtained from representatives of Group management, invited to participate for that purpose.

The Committee organises its work in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.

In particular, resolutions are taken without other parties being present.

³⁴ These characteristics were assessed by the Board of Directors at the meeting of 12 May 2016.

Tasks

The Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. Since the date of adherence by the Company to the current Corporate Governance Code³⁵, the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In general, it supports, through adequate investigations, the assessments and decisions of the Board of Directors pertaining to the Internal Control and Risk Management System (also, "ICRM System"), as well as those pertaining to the approval of periodic financial reports.

In particular:

- it assists the Board of Directors in the following tasks prescribed by the Corporate Governance Code: definition of the guidelines of the ICRM System; periodic verification of the adequacy of the actual operation and efficiency of the ICRM System; verification that the main corporate risks are correctly identified, adequately measured, managed and monitored;
- it expresses opinions on specific aspects pertaining to the identification of the main corporate risks as well as to the design, implementation and management of the ICRM System;
- it supports, with adequate investigations, the evaluations and decisions of the Board of Directors relating to the management of risks arising out of prejudicial acts of which the Board of Directors is aware;
- it expresses its own opinion on the appointment and termination of the Head of Internal Audit and on the proposal for his remuneration formulated by the Director in charge of the Internal Control and Risk Management System;
- it monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- it assesses the annual work plan and the related budget prepared by the Head of Internal Audit and his/her periodic audit reports, requesting, where applicable, audits on specific operating areas;
- it examines the results of the activities of the Manager responsible for preparing the company's financial reports;
- it assesses, together with the Manager responsible for preparing the company's financial reports, and having consulted the Independent Auditors and the Board of Statutory Auditors, the correct use of the accounting standards and their consistency for the purposes of drawing up the Consolidated Financial Statements, the draft Financial Statements and the Half-Year Condensed Financial Statements;
- it maintains appropriate relations with the Independent Auditors, the Board of Statutory Auditors, the Director in Charge of the Internal Control and Risk Management System, the Head of Internal Audit, and other departments from within the Group's organisational structure that communicate with these parties, in such a way as to encourage them to carry out their respective activities in common areas of intervention in an effective and coordinated manner;
- it informs the Board of Directors, at least once every six months, upon approval of the Annual and Half-year Financial

³⁵ Since 15 December 2015.

Reports, about the work carried out and the adequacy of the ICRM System;

- it reviews the annual work plan prepared by the Supervisory Committee, established pursuant to the provisions of Legislative Decree 231/01, and the half-year reports;
- it reviews the annual work plan for Compliance with Legislative Decree 231/01 and anti-corruption, and the half-year reports;
- it reviews the annual work plan for Compliance with Law 262/05 and the half-year reports;
- it regularly assesses the adequacy of the company procedure to regulate, in operational terms, the external communication of documents and information pertaining to the Company and the Group, with particular reference to “price sensitive” information;
- it provides the Board of Directors, the Chairman, the Executive Deputy Chairman and the Chief Executive Officer with all other advice and proposals, which the Committee deems necessary or appropriate for them to better carry out their respective duties in the areas of control, risk management and corporate disclosure;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, where applicable being specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Nominations and Remuneration Committee³⁶. If a member of the Committee is the counterparty of the transaction to be evaluated or a related party thereto, the other members of the Committee shall call to participate in the committee another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors;
- it carries out any other duties assigned by the Board of Directors.

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of “Minor Relevance”.

In the performance of its duties, the Committee was able to access the information and made use of the company functions necessary to carry out its tasks.

In 2017, the Committee held **10 meetings** – all duly recorded in minutes – during which, in addition to approving its calendar and organising its work, it addressed issues relating to the following macro-issues:

- Group Governance;
- Internal Control and Risk Management System;
- Obligations as per Legislative Decree 231/01;
- Group administrative and accounting processes.

³⁶ For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager of the Company or otherwise to one of the persons who holds the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions is the Nominations and Remuneration Committee, specifically comprised, where applicable, of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, provided that the aforementioned transactions pursuant to Article 3.2, subsection c) of said Procedure are not excluded from the sphere of application of the same procedure.

The most significant issues covered by the Committee are as follows:

With regard to Group Governance

Guidelines, procedures and standards

- it examined and shared the "Procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services" in the light of new laws and regulations;
- it issued a favourable opinion on the proposal to update the Code of Conduct for Internal Dealing in order to incorporate the new materiality threshold introduced by CONSOB, in accordance with the provisions of the MAR;
- it issued a favourable opinion on the proposals to update the "Procedure for handling and processing privileged information and for the public dissemination of statements and information", with the aim of reflecting the organisational changes relating to the General Counsel and the Chief Business Development Officer.

Specific analysis carried out

- it examined the checks made on the thresholds set forth in the Procedure for Transaction with Related Parties, and acknowledged that they were adequate;
- it examined and shared the method used to prepare the Remuneration Report (sections I and II) for financial year 2016;
- it analysed, in the light of the statement by CONSOB in the consultation document of 24 October 2016, the possible implications, including of an operational nature, arising from the management of periodic financial reporting for the purposes of the legislation on market abuse;
- it examined the main obligations specified by Legislative Decree No. 254/16 with reference to "Non-Financial Information" and the materiality matrix approved by the Sustainability Committee, focusing in particular on diversity policies in relation to the composition of the administration, management and control bodies and the process for defining these;
- it verified the scope of Articles 2497 et seq. of the Italian Civil Code relating to (i) relations between ERG S.p.A. and its parent San Quirico S.p.A.; (ii) the scope of ERG S.p.A.'s management and coordination activities; (iii) the list of companies with which these activities are carried out.

With regard to the Internal Control and Risk Management System

Dealings with the Director in charge of the Internal Control and Risk Management System

- it issued a favourable opinion on the proposal to determine the variable remuneration relating to 2016 and to define the fixed and variable remuneration relating to 2017 for the Chief Audit Officer.

Dealings with Internal Audit

- it examined the quarterly reports on the activities carried out by Internal Audit;
- it examined and shared the proposal to update the mandate of the Internal Audit function following the process to reorganise the Internal Control and Risk Management System and the "One Company" project;
- it examined and issued a favourable opinion on Internal Audit's 2018 activity plan and budget.

Dealings with Group Risk Management & Corporate Finance

- it followed, up to completion, the implementation of the action plan shared with KPMG as part of the reorganisation of the risk management, compliance and internal control processes;
- it examined the half-yearly update on the Enterprise Risk Management process following the activities to assess risk and the main risks that may have an impact on achieving the objectives of the Business Plan;
- it examined the Risk Report on the Business Plan.

Specific analysis carried out

- it requested specific additional information on certain issues dealt with from time to time, and received timely responses in this regard.

Obligations in connection with Italian Legislative Decree 231/01*Dealings with the Supervisory Committee*

- it examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee;
- it examined the schedule of activities and budget of the Supervisory Committee for 2018.

Dealings with the 231 Compliance department

- it analysed the semi-annual reports on activities in relation to compliance with Legislative Decree 231/01 and against corruption abroad;
- it examined the activity plan of the 231 Compliance department for 2018, with the aim of identifying the actions to be carried out for the purposes of compliance with Legislative Decree No. 231/01 as well as with a view to preventing corruption for ERG Group companies.

Guidelines, procedures and standards

- it examined and shared the proposals to update the Organisation and Management Model pursuant to Legislative Decree 231/01 following the "One Company" project and the new risk assessment carried out;
- it examined and shared the proposal to adopt the Anti-Corruption System and Policy and to update the Guidelines for compliance with Legislative Decree 231/01 and with anti-corruption laws within ERG Group companies.

With regard to the Group's administrative and accounting processes

Dealings with the Manager responsible for preparing the company's financial reports

- it examined the implementation of the impairment test procedure for the Financial Statements at 31 December 2016, and the most relevant general issues resulting from its application;
- together with the Manager responsible for preparing the company's financial reports, and having consulted the Independent Auditors Deloitte & Touche S.p.A. and the Board of Statutory Auditors, it assessed the correct use of the accounting standards and their adequacy for the purpose of drawing up periodic financial reports.

Dealings with the 262 Compliance department

- it examined the Risk Assessment for 2017 and the results of the half-yearly update on testing activities pursuant to Law 262/05.

Specific analysis carried out

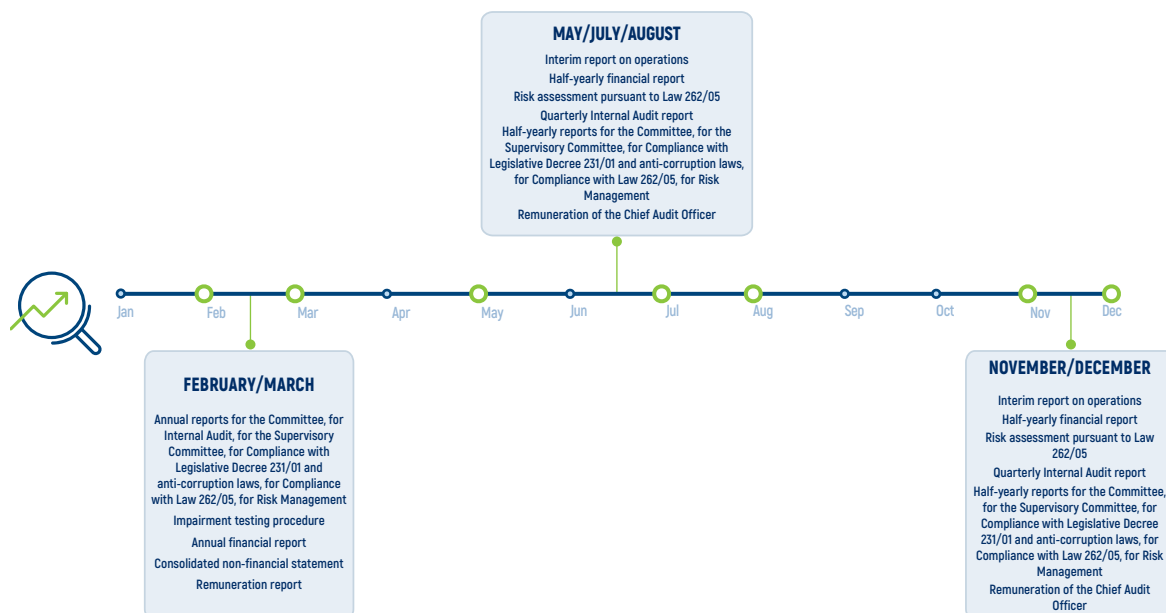
- it examined the main aspects relating to the domestic tax consolidation of ERG S.p.A. and indirect subsidiary ERG Wind Investments Ltd.;
- it examined the methods for renewing the Group VAT liquidation procedure for the 2017 tax year;
- it analysed the main features of the intra-group service agreements for 2017;
- it shared the proposal made to the Board of Directors to continue, on a voluntary basis, to prepare and publish the interim reports on operations (31 March and 30 September) in line with the contents of the interim reports of previous years.

Information flows

Dealings with the Board of Statutory Auditors

- it had regular interaction with the Board of Statutory Auditors, which - inter alia - participated in all the Committee's meetings;
- it analysed the methodology note approved by the Board of Statutory Auditors aimed at regulating the operational aspects of the procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services and received timely updates on the process to assign audit engagements;
- it consulted the Board of Statutory Auditors as part of the process to assess the proper application of accounting principles and their consistency for the purposes of drawing up periodic financial reports.

CONTROL AND RISK COMMITTEE WORKS CALENDAR

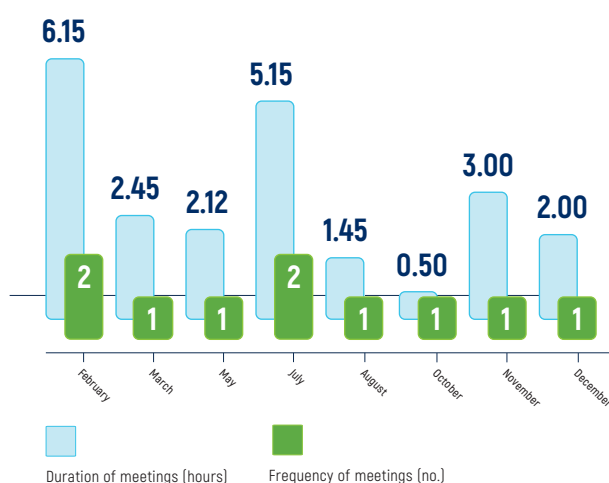


The Committee deemed it possible to confirm, in light of the activities carried out in 2017, its positive assessment with regard to the adequacy of the Internal Control and Risk Management System.

The average duration of the meetings held by the Committee was **around 2 hours and 25 minutes**.

At the date of approval of this document, the Control and Risk Committee had met **3 times**.

CONTROL AND RISK COMMITTEE - FREQUENCY





Nominations and Remuneration Committee



Paolo Francesco Lanzoni
Chairman



Mara Anna Rita Caverni
Member



Silvia Merlo
Member

Members:

Paolo Francesco Lanzoni - *Chairman*

Mara Anna Rita Caverni

Silvia Merlo

Giovanni Marco Scollo - *Secretary*

In accordance with the provisions of the Corporate Governance Code, the current Nominations and Remuneration Committee is comprised of three non-executive Directors, all independent as per the Consolidated Finance Law and mostly independent as per the Corporate Governance Code, appointed by the Board of Directors during the meeting of 24 April 2015.

With reference to the provisions of Principle 6.P.3. of the Corporate Governance Code³⁷, it should be noted that in the first meeting of the Committee, held on 6 May 2015, the two independent members, given the considerable change occurred in the composition of the Committee, in order to ensure continuity with respect to the skills and experience accrued³⁸, as well as for the benefit of new members of the Committee, taking into account the assessments of independence made by the Board of Directors in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the non-executive member of the Committee and in view of the fact that the Chairman of the Committee during the vote does not enjoy special privileges over other members - with the abstention of the non-executive member - unanimously resolved to confirm the latter in the position of Chairman of the Nominations and Remuneration Committee.

During its meeting on 6 May 2015, and subsequently in the meeting of 13 July 2016, the Committee appointed a

³⁷ The Board of Directors shall establish among its members a remuneration committee, made up of independent directors. Alternatively, the committee may be made up of non executive directors, the majority of which to be independent; in this case, the chairman of the committee is selected among the independent directors."

³⁸ It should be noted in this regard that the non-executive member of the Committee - qualified on 24 April 2015 by the Board of Directors as an independent director pursuant to the Consolidated Finance Law (T.U.F.) but not in accordance with the Corporate Governance Code only due to the long tenure - has been Chairman of the Nominations and Remuneration Committee since May 2009.

Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

The members of the Committee have adequate financial and remuneration policy expertise³⁹.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended, upon invitation, by the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations.

Employees of Group companies, representatives of the independent auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.

Committee members are provided, in advance of the meeting date (at least 48 hours before the meeting, subject to certain exceptions), with the documentation and information necessary to express an informed opinion on the matters under its consideration. During meetings, where appropriate, specific and timely insights are also obtained from representatives of Group management, invited to participate for that purpose.

Tasks

The Nominations and Remuneration Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code for the Remuneration Committee⁴⁰. Since the date of adherence by the Company to the current Corporate Governance Code⁴¹, the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In particular:

With reference to the activities of the **Remuneration Committee**:

- it makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions on the Board of Directors and, upon indication by the Chief Executive Officer, regarding the determination of criteria for the remuneration of the Company's top management and for the definition of incentive plans for the Group management;

³⁹ These characteristics were assessed by the Board of Directors at the meeting of 24 April 2015.

⁴⁰ In compliance with the conditions outlined for both Committees in the Corporate Governance Code, without prejudice to what is stated in relation to Principle 6.P3. of the Corporate Governance Code.

⁴¹ Since 15 December 2015.

- it periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Key management personnel;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, being, where applicable, specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, (i) on the Company's interest in carrying out transactions involving the assignment or the increase in remuneration and benefits, in any form, to a member of an administrative or control body of the Company or to a Key Manager thereof or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, and (ii) on the advantageousness and substantial correctness of the relative conditions, and shall comprise members of the Nominations and Remuneration Committee, provided that the said transactions pursuant to Article 3.2, subsection c), of said Procedure, are not excluded from the scope of the procedure itself⁴². If a member of the Committee is the counterparty of the transaction to be evaluated or a related party thereto, the other members of the Committee shall call to participate in the committee another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors.

With reference to the activities of the **Nominations Committee**:

- it proposes to the Board of Directors the candidates for the office of Director in the case provided by Article 2386, first paragraph, of the Italian Civil Code, if it is necessary to replace an Independent Director;
- it assesses, at the specific request of the shareholders who intend to present lists, the independence of candidates for the office of Director to be submitted to the Shareholders' Meeting;
- it provides the Board of Directors, on an annual basis, with an evaluation of the size, composition and operation of the Board itself, and it may express recommendations on the professional profiles that should be included in the Board;
- it expresses recommendations regarding the maximum number of directorships or auditorships in other companies listed on regulated markets in Italy and abroad, in financial, banking, or insurance companies or companies of significant size that can be considered to be compatible with an effective performance of the duties of a directorship in the Company;

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".

42 If the conditions per Article 3.2 subsection c) of the Procedure for Transactions with Related Parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in defining the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted for the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy – subject to the disclosure obligations per Article 154-ter of the Consolidated Finance Law, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties.

Whenever the Committee discusses recommendations for the remuneration of the Chairman, the Executive Deputy Chairman and the Chief Executive Officer, such individuals must leave the meeting.

In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.

During financial year 2017, the Committee held **6 meetings** - all duly recorded in minutes - during which, in addition to approving its calendar and organising its work, it.

With reference to the activities of the **Remuneration Committee**:

- formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors;
- issued opinions on assessing and determining the remuneration of certain key managers⁴³ and the Chairman of a company belonging to the ERG Group, a related party of ERG S.p.A.;
- made decisions, with reference to the MBO system, regarding (i) the definition of the corporate objective (reference target value) for financial year 2017, (ii) the profit achieved in 2016 with respect to the business objective assigned (reference target value);
- analysed the trends of the 2015-2017 LTI System indicators;
- actively participated in the process to update the Company's Remuneration Policy, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- analysed the consultative vote of the shareholders on the first section of the Company's Remuneration Report, concerning financial year 2017;
- assessed the adequacy, overall consistency and practical application of the Company's Remuneration Policy, using the information provided by the Chief Executive Officer and the Executive Deputy Chairman;

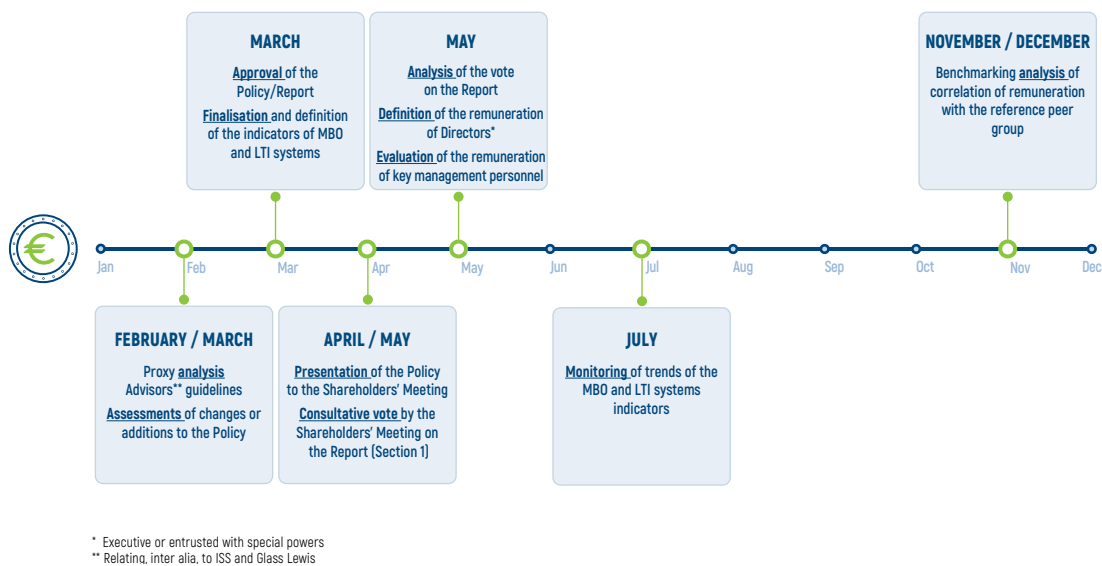
With reference to the activities of the **Nominations Committee**:

- prepared a support document for the assessment of the Board of Directors in relation to the size, composition and operation of the Board and its Committees during financial year 2016 using the valuation criteria used in the previous year and the findings of a self-assessment questionnaire sent to the members of the Board of Directors and the Board of Statutory Auditors;

⁴³ The remuneration of the Chief Audit Officer is determined by the Management Board at the proposal of the Manager responsible for the Internal Control and Risk Management System, with the favourable opinion of the Control and Risks Committee following consultation with the Board of Statutory Auditors.

- examined the personal and professional characteristics of the candidate for the office of Director of ERG S.p.A. and the declaration issued by said candidate confirming possession of the requirements set out by law and the Articles of Association in order to serve as a Director as well as the independence requirements established by Article 148, third paragraph, of the Consolidated Finance Law. Following the assessment process, it proposed his appointment to the Board of Directors of 11 May 2017.

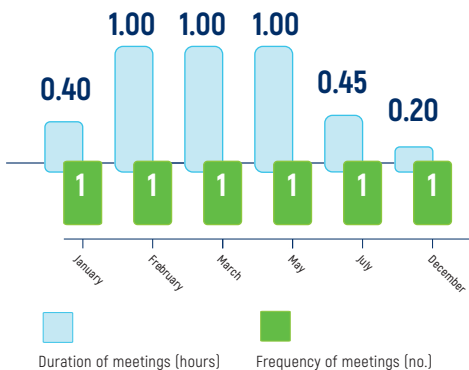
NOMINATIONS AND REMUNERATION COMMITTEE WORKS CALENDAR



The average duration of the meetings held by the Committee was around **50 minutes**.

At the date of approval of this document, the Nominations and Remuneration Committee had met **3 times**.

NOMINATIONS AND REMUNERATION COMMITTEE FREQUENCY





Strategic Committee



Alessandro Garrone
Chairman



Giovanni Mondini
Member



Luca Bettonte
Member



Marco Costaguta
Member

Members⁴⁴:

Alessandro Garrone - *Chairman*

Giovanni Mondini

Luca Bettonte

Marco Costaguta

Paolo Luigi Merli - *Secretary*

The Committee advises and issues recommendations to the Chief Executive Officer and to the Board of Directors of ERG and to the Boards of Directors of the Group's operating companies.

In accordance with the strategies and policies approved by the Board of Directors, the Committee's activities include the definition of strategic business and portfolio guidelines, guidelines and policies on strategic finance and for individual extraordinary financial transactions, and the monitoring of the progress of their implementation over time.

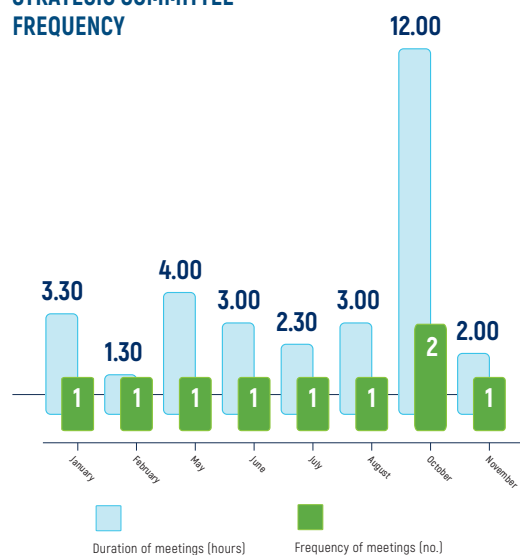
The Committee also examines the long-term strategic plans and capital expenditures budgets of the Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the Group level.

In 2017, the Committee held **9 meetings**.

The average duration of the meetings held by the Committee was **around 3 hours and 30 minutes**.

At the date of approval of this document, the Strategic Committee had met **2 times**.

STRATEGIC COMMITTEE FREQUENCY



⁴⁴ Following the resignation of Luigi Ferraris on 20 April 2017 from the office of Director and member of the Strategic Committee, on 11 May 2017 the Board of Directors resolved not to add to the composition of the Strategic Committee.

ERG

LEADERS MEETING

HUMAN CAPITAL COMMITTEE

MANAGEMENT COMMITTEE

SUSTAINABILITY COMMITTEE

RISK COMMITTEE

INVESTMENT COMMITTEE

The composition of the Internal Committees (non-board committees, composed of Group managers) is aligned with the working model of the Group's organisational structure.



Leaders Meeting

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- shares the activities, characteristics and performances of the Group's businesses;
- ensures a common vision and teamworking;
- enhances the Group's human and relational assets and promotes managerial culture and values;
- provides opportunities to compare with best practices outside the Group through testimonies and benchmarking.



Human Capital Committee

Committee tasked with advising and consulting with respect to the Executive Deputy Chairman and the Chief Executive Officer. In particular it:

- defines and monitors the main human capital development programmes and activities;
- provides support to the Executive Deputy Chairman and the Chief Executive Officer in decisions relating to staff development and variable remuneration and medium/long-term incentive systems, and proposals to be submitted to the Nominations and Remuneration Committee.



Sustainability Committee

Committee tasked with advising and consulting with respect to the Chairman of the Board of Directors. In particular it:

- defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility;
- approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR;
- approves the time-frames and communication methods of the Sustainability Report and CSR initiatives.



Investment Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- provides support to the Chief Executive Officer in assessing investment proposals;
- expresses a technical, economic and financial opinion for the Strategic Committee at various stages in the investment approval process.



Risk Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks;
- provides the Chief Executive Officer with information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

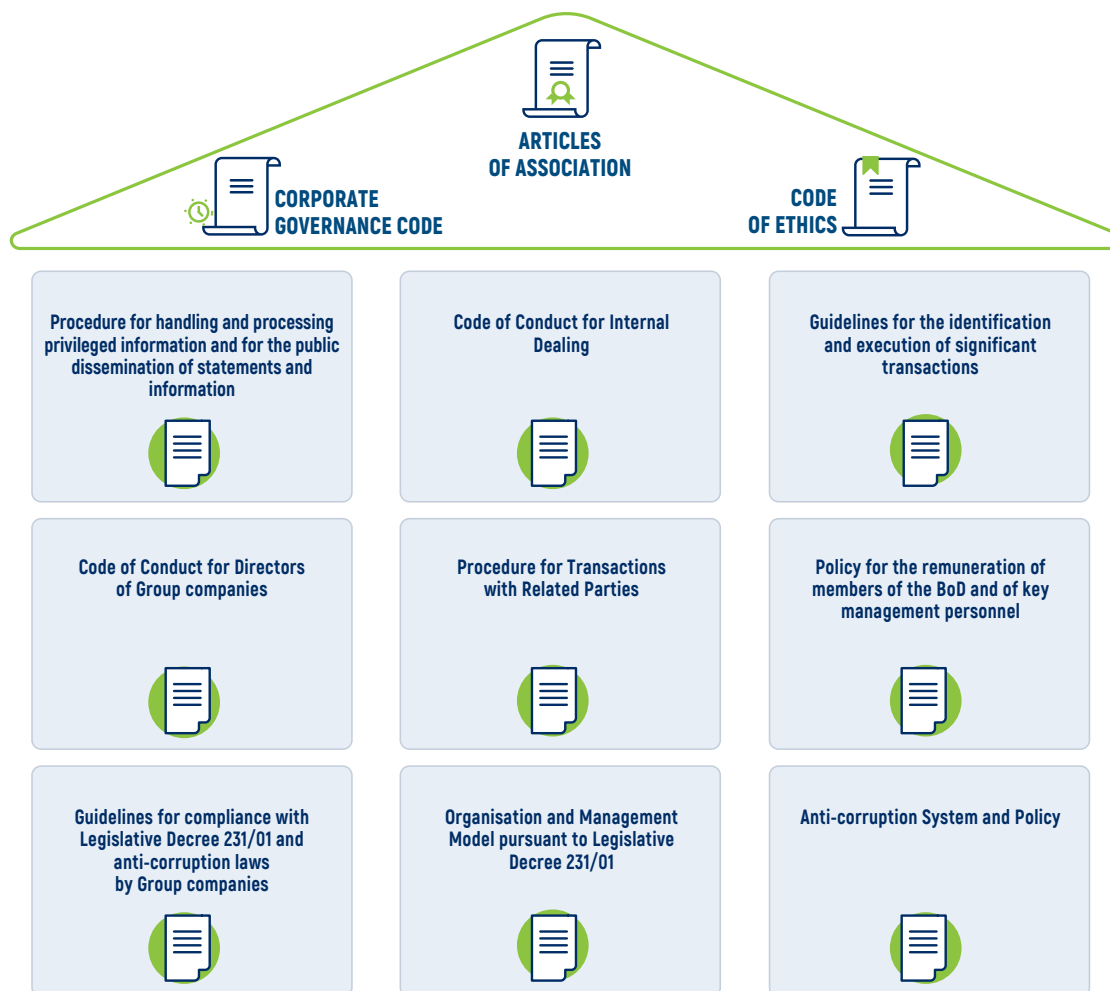


Management Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- monitors the Group's economic, financial and industrial results;
- monitors changes in the institutional and regulatory framework;
- analyses development opportunities and monitors relevant projects in the framework of the strategic plan ensuring that the priorities of all Organisational Units are aligned.

5.3. CORPORATE GOVERNANCE DOCUMENTS



Articles of Association

The Articles of Association, as illustrated in detail in the Report, contain the main rules governing the operation of ERG's corporate bodies and has been recently amended to comply with the changes in laws and regulations on the matter of gender balance in the composition of the administrative and control bodies.

Code of Ethics

The Code of Ethics is an instrument for raising the awareness of all employees and associates and all other stakeholders so that, when carrying out their activities, they adopt correct and accountable conduct in line with the ethical and social values to which ERG aspires. The Code of Ethics is therefore an essential part of the Organisation and Management Model pursuant to Legislative Decree 231/01.

The Code of Ethics was revised in 2014 to take into account regulatory changes (introduction of the offences of bribery among private parties) and to improve the representation and communication of the ethical principles promoted by the Group. The latest revision to the Code of Ethics was approved by ERG's Board of Directors on 14 May 2014.

The Code of Ethics is adopted by all companies in the Group, both Italian and foreign, and it is available in English, French and German.

The Code of Ethics is communicated to associates of the Group not only through its publication on the Group's website, but also through reference in the contractual clauses.

Group employees are provided with both classroom training and an e-learning course, use of which is tracked in the system.

Corporate Governance Code

The Company has adhered to the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the new edition of the Corporate Governance Code published in July 2015.

Procedure for handling and processing privileged information and for the public dissemination of statements and information

The Board of Directors, based on a recommendation made by the Control and Risk Committee, has adopted a procedure for handling and processing privileged information and for the public dissemination of statements and information. The aim is to ensure that all statements and information intended for the market, for CONSOB and for Borsa Italiana S.p.A. are the outcome of a process that guarantees both timeliness and accuracy.

The procedure, most recently approved by the Board of Directors on 9 August 2017, defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the

Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to “price sensitive” events, vis-à-vis the market and the organisations tasked with its supervision.

Code of Conduct for Internal Dealing

The Board of Directors has adopted a Code of Conduct - most recently approved by the Board of Directors on 11 May 2017 - in order to give transparency to financial transactions carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group, have significant decision-making powers or considerable knowledge of corporate strategies which would help them in making investment decisions regarding the financial instruments issued by the Company.

The list of recipients of this Code is published on the Company's website.

Guidelines for the identification and execution of significant transactions

The Board of Directors has defined the guidelines for the identification and execution of significant transactions, the examination and approval of which - as recommended by the Corporate Governance Code - remain the exclusive responsibility of the Board of Directors.

The guidelines - most recently approved by the Board of Directors on 1 January 2017 - set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions). The document also indicates the standards of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries in respect of which ERG performs management and coordination activities in accordance with Article 2497 et seq. of the Italian Civil Code which must be previously examined and approved by the Board of Directors.

Code of Conduct for Directors of Group companies

The Board of Directors has adopted a Code of Conduct - most recently approved by the Board of Directors on 14 May 2014 - for Directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in compliance with Corporate Governance principles.

Procedure for Transactions with Related Parties

The Board of Directors, with its resolution of 11 November 2010, following favourable opinion from the Control and Risk Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution - effective from 1 January 2011 - aimed at ensuring the transparency and substantial and procedural correctness of the transactions with related parties carried out by ERG directly or through its subsidiaries. The Procedure was most recently updated on 1 January 2017 in order to take account of organisational changes.

Policy for the remuneration of members of the Board of Directors and of key management personnel

With its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors adopted a Remuneration Policy for the members of the Board of Directors and for key management personnel, in line with the provisions of the Corporate Governance Code. At the proposal of the Nominations and Remuneration Committee, this policy has been revised as follows:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 LTI System;
- on 11 March 2015, to take into account, with effect from 2015, the Company's adherence to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System⁴⁵;
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, to take into account, with effect from 2018, the essential elements of the general principles of the 2018-2020 LTI System.

Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within ERG Group companies

ERG, with particular reference to the definition of the corporate governance system and within the scope of the management and coordination activities carried out in respect of directly or indirectly controlled Italian and foreign subsidiaries within the meaning of Article 93⁴⁶ of the Consolidated Finance Law (the "Subsidiaries" and, together with ERG, "The ERG Group Companies" or the "ERG Group") - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the ERG Group -, decided to summarise in the Guidelines the general reference principles and rules that Subsidiaries are asked to take into consideration.

In particular, the Guidelines have a general control function over:

- the adoption of the Code of Ethics and the Anti-Corruption Policy by all the Subsidiaries;

⁴⁵ For any additional information in this matter, please refer to the Report on Remuneration per Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2018, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

⁴⁶ "(...) In addition to those laid down in Article 2359, first paragraph, numbers 1 and 2, of the Italian Civil Code, the following are also considered subsidiaries: a) Italian or foreign companies over which a person is entitled, by virtue of a contract or of a statutory provision, to exercise a dominant influence when the applicable law allows such contracts or agreements; b) Italian or foreign companies over which a partner, on the basis of agreements with other shareholders, has alone sufficient votes to exercise a dominant influence in the ordinary shareholders' meeting. (...) the rights pertaining to subsidiaries or exercised through trustees or other parties are also taken into consideration; those exercised on behalf of third parties are not taken into consideration."

- the assessment, by each Italian subsidiary, of activities within which there is the potential risk of offences being committed and the consequent implementation of instruments to achieve compliance with Legislative Decree No. 231/01.

The latest version of the Guidelines was approved by ERG's Board of Directors on 9 October 2017.

Organisation and Management Model pursuant to Legislative Decree 231/01 and Supervisory Committee

The purpose of the 231 Model is to ensure conditions of correctness and transparency in the performance of company activities. It is therefore intended to serve as a valid instrument aimed at preventing the risk of committing the offences sanctioned by Legislative Decree 231/01.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisation, management and control model pursuant to Legislative Decree 231/01 and appointed the Supervisory Committee.

Since initial approval, the 231 Model has been revised and improved to reflect regulatory and legislative changes, as well as organisational changes that have taken place within the Group.

The 231 Model was designed according to Confindustria Guidelines as well as Position Papers issued by the AODV (Italian association of supervisory bodies). In accordance with laws and regulations, the 231 Model includes a disciplinary system aimed at sanctioning any violations of the Model or the Code of Ethics, and the failure to comply with company safeguard procedures. The version of the 231 Model currently in force was approved by the Board of Directors of 12 July 2017. An extract of the document is published in the "Corporate Governance" section of the website www.erg.eu. An English version is also provided.

The 231 Model was developed taking into consideration the main positions expressed by law with respect to the following characteristics:

- **effectiveness:** the adequacy of the set of controls established to prevent the committing of offences;
- **specificity:** the Model takes into account the characteristics and size of the Company and the type of activities carried out, as well as the history of the Company;
- **being up to date:** namely, the ability to reduce the risks of offences in reference to the structural and business characteristics of the company, in cooperation with the Supervisory Committee which keeps it up to date and current over time.

The structure of the 231 Model adopted by ERG includes the following significant components:

- **Code of Ethics**, which expresses the reference principles which must guide the activity of all those who contribute, with their work, to the performance of corporate activities;
- **general part**, which defines the overall structure of the Model, in relation to the provisions of Legislative Decree 231/01 and to the specific decisions made by the Company in its preparation referring to the disciplinary system, to be enforced in the event of violation of the prescribed rules and procedures;
- **specific part**, which defines the rules to be followed in the performance of sensitive activities.

Together with the adoption of the 231 Model, the decision to comply with Legislative Decree No. 231/01 led to the appointment of the Supervisory Committee, tasked with overseeing the observance of the Code of Ethics and assuring the adequacy and actual implementation of the Model, and evaluating whether it is necessary subsequently to update it.

The Committee, appointed by the Board of Directors on 24 April 2015 and subsequently integrated on 12 May 2016, is comprised of:

- an external member, identified as a Statutory Auditor of the Company, acting as Chairman (L. Fornabaio);
- two internal members, identified as the Head of Corporate Affairs (Giovanni Marco Scollo) and the Chief Audit Officer (Gabriello Maggini).

The members of the Supervisory Committee shall remain in office for a period preferably no longer than three years and may be reappointed. In the case of expiry of the Board of Directors which appointed them, they will remain in office until the appointment of new members, or the confirmation of the previous members by the new Board of Directors. The Supervisory Committee carries out its work within the Parent Company ERG, whereas the Subsidiaries, having their own Model, have appointed their own Supervisory Committee.

The synergies between the Code of Ethics and the 231 Model are evidenced by the assignment of the ERG Supervisory Committee as Guarantor of the Code of Ethics. Similarly, each subsidiary has assigned the task of Guarantor of the Code of Ethics to its own Supervisory Committee.

The Supervisory Committees of ERG and of its subsidiaries shall rely, in the preparation of proposals for the updating of the 231 Model, on ERG's "231 Compliance" department, which also handles the activities of technical secretariat of the corporate boards and committees; verification of the adequacy of the 231 Model and compliance with the controls contained therein, as well as with the Code of Ethics, are instead entrusted to the Internal Audit function of ERG.

To increase the effectiveness of the governance and internal control of the Company, information flows are provided to the Supervisory Committee. The primary function of the information flows is to enable the Supervisory Committee to continuously oversee the functionality of the 231 Model and to identify possible steps to amend the Internal Control and Risk Management System. To this end, the Supervisory Committee has adopted a special procedure that identifies the relevant information flows, the timing for transmission, and the individuals responsible. In order to manage communications to the Supervisory Committee, a dedicated e-mail address has been set up in addition to a traditional mail address. With reference to the provisions of the Comment to Article 7 of the Corporate Governance Code⁴⁷, it is specified that the information flows to the Supervisory Committee are made through specific channels and guarantee the anonymity of the informant.

⁴⁷ "The Committee believes that, at least in the issuer companies belonging to the FTSE-MIB index, an adequate internal control and risk management system shall provide for an internal system allowing the company employees to report any irregularity or breach of the applicable laws and internal procedures (so called whistleblowing systems), in accordance with the domestic and international best practices, that ensures a specific and confidential communication channel as well as the anonymity of the reporting person."

The Supervisory Committee prepares an annual supervisory activity plan which is presented to Control and Risk Committee and to the Board of Directors of ERG, and reports regularly to the Control and Risk Committee and to the Board of Directors on the implementation of the Code of Ethics and the 231 Model.

The Supervisory Committee provides training by means of:

- classroom training to all employees (including managers and executives) on issues pertaining to Legislative Decree 231/01, the 231 Model adopted by the Company, the Supervisory Committee and the activities it performs, the information flows to the Supervisory Committee;
- an e-learning course dedicated to the Code of Ethics, expected to be attended by employees and newly hired personnel;
- an e-learning course dedicated to issues relating to Legislative Decree 231/01, intended for newly hired personnel.

In addition, information on specific issues relating to the legislation referred to in Legislative Decree 231/01 is regularly provided to the members of the Board of Directors of ERG and its subsidiaries, as well as to members of the Board of Statutory Auditors.

Anti-Corruption System and Policy

ERG carries out its activities in accordance with the highest national and international standards of good Corporate Governance. In this context, the Group is firmly committed to respecting and applying the principles of integrity, impartiality and transparency.

These principles increase in importance when addressing corruption, a global phenomenon that irreparably destroys the integrity of both public and private enterprises.

In order to further stress that it conducts all aspects of its activity in strict compliance with applicable domestic and international laws and regulations, with respect, inter alia, to anti-corruption, and to further demonstrate its adoption of the values described above, ERG has decided to adopt, in addition to the Code of Ethics, the Anti-Corruption System and Policy. The aim is to prohibit and prevent corrupt behaviour of any kind, in accordance with the 'zero tolerance' principle for corruption. In order to achieve this objective, organisational responsibilities, principles and rules of conduct to be followed have been established so as to ensure compliance with the applicable Anti-Corruption Laws. The Anti-Corruption System and Policy apply to ERG and to all companies of the ERG Group and are addressed to all those who work in Italy and abroad, in the name of or on behalf of the ERG Group.

The Anti-Corruption System and Policy were approved by the Board of Directors of ERG on 9 October 2017. The Anti-Corruption Policy is in the process of being adopted by all other companies of the ERG Group, in Italy and abroad, and has been translated into English, French and German.

6. MANAGEMENT AND COORDINATION

ERG is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

This circumstance is periodically evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee. ERG in turn performs management and coordination in respect of direct or indirect subsidiaries.

The scope of the companies concerned and the content of any activity carried out on each of them are periodically reviewed by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee.

In particular, the Board of Directors, during the meeting held on 12 July 2017, acknowledged that ERG carries out management and coordination activities in respect of direct and indirect subsidiaries - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the Group - including the definition of business strategies, the corporate governance system and the corporate structures, as well as the determination of shared general policies pertaining to human resources, accounting, financial statements, taxation, information & communication technology, procurement, finance, investments, risk management, communication, institutional relations and corporate social responsibility.

7. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The “Guidelines for the Internal Control and Risk Management System”, adopted on 11 March 2014 by the Board of Directors of ERG, were subsequently updated in order to take into account organisational changes and changes resulting from the Company’s adherence with the Corporate Governance Code. The version currently in force was approved on 13 July 2016 and takes into account, inter alia, the reorganisation of the Internal Control and Risk Management System which provided for the establishment of a Risk Management function at Group level.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP: GENERAL GUIDELINES

The Internal Control and Risk Management System of the ERG Group (hereinafter also “ICRM System”) is the combination of measures, organisational structures, regulations and rules whose purpose is, by means of an appropriate process of identification, measurement, management and monitoring of the main risks, and the creation of adequate information flows to ensure the proper flow of information, to allow the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors.

IT complies with the principles contained in the current edition of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. (hereinafter the “Corporate Governance Code”) and, more generally, current national and international level best practices.

IT is defined on the basis of leading national and international practices, and in particular “CoSO Internal Control - Integrated Framework 2013” which identifies a direct relationship between company targets (efficiency and effectiveness of operations, reporting and compliance), the components of the ICRM System and the organisational structure adopted by the Group.

This System, which is an integral part of the company’s business, involves, and therefore applies to, to the entire organisational structure of the ERG Group: from the Board of Directors of ERG and its subsidiaries, to Group Management and the company staff.

The ICRM System Guidelines, approved by the Board of Directors of ERG, lay down the general principles by which the Group’s main risks are managed, in line with the strategic objectives identified, and the coordination arrangements between the parties involved in order to maximise the effectiveness and efficiency of the ICRM System.

Below is a summary of those involved in the ICRM System and their respective responsibilities.

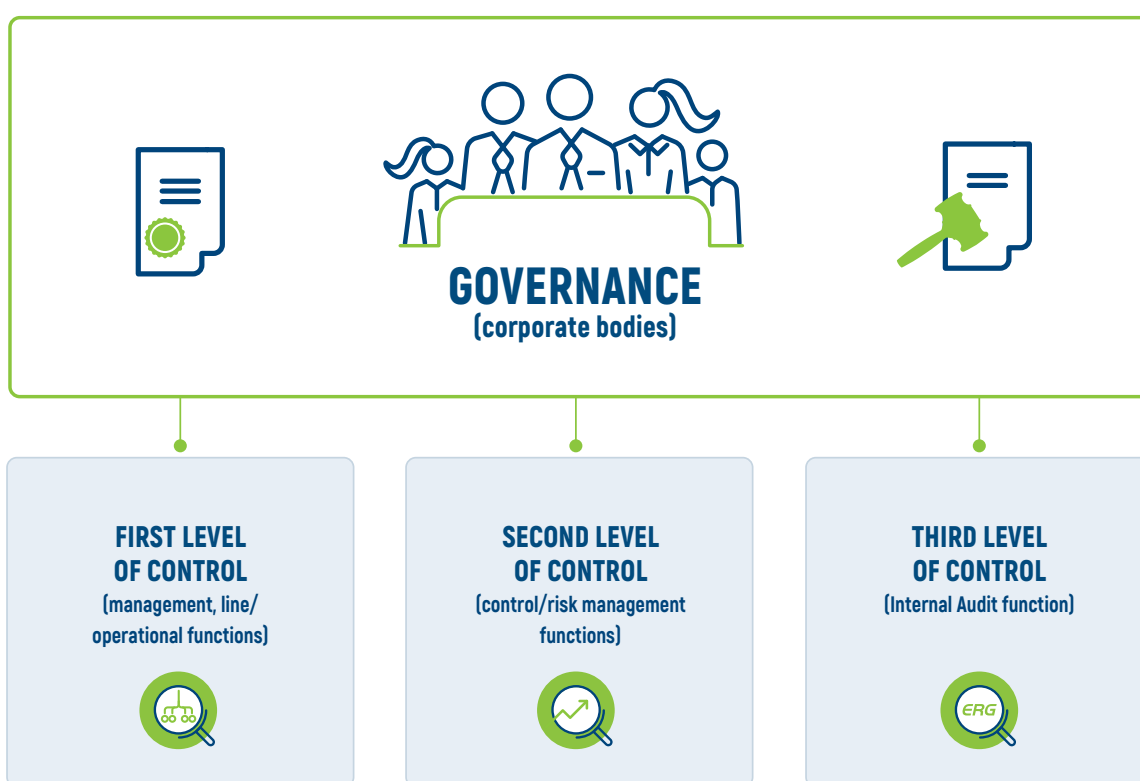
- **Board of Directors:** orients and assesses the adequacy of the ICRM System;
- **Chairman of the Board of Directors:** supervises, directs and controls corporate affairs activities;
- **Executive Deputy Chairman:** supervises, in particular, the Group's strategic decisions and the definition of the organisational macro-structure;
- **Chief Executive Officer:** has the powers necessary to carry out all actions pertaining to corporate activities and is responsible for identifying the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries and, after consulting the Director in charge of the Internal Control and Risk Management System, submitting them periodically to the review of the Board of Directors;
- **Director in charge of the Internal control and risk management system:** delegated by the Board of Directors to oversee - through supervision, guidance and control - internal audit, risk management and compliance activities and processes, and ensures that the functionality and overall adequacy of the ICRM System is maintained;
- **Control and Risk Committee:** advises and makes proposals to the Board of Directors, with the aim of supporting it, through appropriate proceedings, in evaluations and decisions relating to the ICRM System, as well as in relation to the approval of periodic financial reports;
- **Board of Statutory Auditors:** oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, the adequacy of the organisational structure (for aspects under its cognisance) of the ICRM System, as well as that of the administrative and accounting system and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations;
- **Supervisory Committee** pursuant to Legislative Decree 231/01: supervises the observance of the Code of Ethics and verifies the effectiveness and the adequacy of the Organisation and Management Model pursuant to Legislative Decree 231/01;
- **Internal Audit:** responsible for third level control activities and has a significant position in the ICRM System being entrusted with the task of providing an independent assurance on the ICRM System with the aim of improving the efficiency and effectiveness of the organisation. Internal Audit is tasked with verifying that the ICRM System is functional and adequate in relation to the size and operation of the ERG Group, verifying, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. It also verifies whether the risks are managed in accordance with the decisions of the Board of Directors, with external rules and with rules within the Group.

The following relevant parties also play a role: (i) Group Management, which bears prime responsibility for internal control and risk management activities (first control level); (ii) second level control functions with specific control tasks and responsibilities over different areas/types of risk. These functions are autonomous and distinct from operational ones; they are involved in defining risk governance policies and the risk management process: (i) the Manager responsible for preparing the company's financial reports, (ii) the Group Risk Management & Corporate

Finance function, (iii) the Compliance departments, assigned to oversee compliance issues, with particular reference to legal risk and non-compliance, including the risk of committing criminal offences to the detriment or in the interest of the ERG Group, committees, composed of corporate management, acting in an advisory capacity and making proposals regarding specific risk issues.

In line with regulations and reference best practices, the ICRM System is structured over the following levels:

INTERNAL CONTROL SYSTEM



- **First level:** entrusted to individual operating lines, it encompasses the checks carried out by those involved in certain activities and those with supervisory responsibilities; also makes it possible to ensure operational activities are carried out correctly;
- **Second level:** entrusted to structures other than line, it is involved with defining risk measurement methods, identifying, assessing and checking them (Risk Management); it also makes it possible to verify compliance with regulatory obligations (Compliance);
- **Third level:** entrusted to Internal Audit, it serves to assess the functionality of the overall internal control and risk management system and to detect irregularities and violations of procedures and rules.

7.1 STRUCTURE AND OPERATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The Group is aware that an effective Internal Control and Risk Management System allows the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors, by promoting well-informed decisions and contributing to wealth preservation, the efficiency and effectiveness of processes, the reliability of financial reporting, and compliance with standards, the Articles of Association and internal procedures. To promote and maintain an adequate ICRM System, the ERG Group uses organisational, informational and regulatory instruments, which allow the identification, measurement, management and monitoring of the main risks. This system is integrated in the organisational, administrative and accounting structure and, more generally, in the corporate governance structure. It is based on the recommendations of the Corporate Governance Code, which the Group has adopted, taking as references national and international models and best practices, aimed at consolidating overall effectiveness and efficiency.

The System of Rules and Procedures

The definition of the Internal Control and Risk Management System structure and its governing rules takes place through the definition of appropriate internal business standards (Policies, Guidelines, Procedures and Operating Notes) which regulate the processes and activities carried out by ERG and its subsidiaries.

The beneficiaries of each standard are defined below:

- Policies: these are intended for all stakeholders and, based on the values expressed in the Code of Ethics, define the fundamental management principles involved in the performance of corporate activities;
- Guidelines: these are intended mainly for those who must set up operations and manage them, and define the principles for the execution of such activities;
- Procedures: these are intended for the parties involved in the operating processes regulated by them;
- Operating Notes: these are intended for the parties who, at operational level, carry out the activity or stages of activity regulated by the document.

Moreover, a specific procedure was formalised in the Group with the goal of defining a method for the uniform, integrated, effective and efficient management of the corporate rules and for regulating the activities performed by the involved parties, in terms of:

- responsibilities of the parties involved in the process;
- (electronic and hardcopy) communication flows among the various parties involved in the process;
- control activities connected with the operations reported in the process.

The System for Assigning Powers

A correct and effective Corporate Governance system requires a formal assignment of powers consistent with the company's own organisational system.

A correct assignment of powers entails assessing whether the validity requirements exist, determining its limits and identifying matters that can be delegated.

The system adopted in the Group provides for:

- the assignment of powers by the Board of Directors to the Group's various Companies, through Board resolutions, to the Chief Executive Officers for the ordinary management of the Companies;
- the assignment, normally to first-level executives reporting to Chief Executive Officers, of powers of signature, representation and external negotiation;
- the assignment of special powers for the performance of specific, well-defined actions, upon completion of which the validity of the power is voided;
- the assignment to the heads of organisational positions of internal powers related to actions that have no external enforceability.

The system of delegated powers and mandates in place within the Group is structured so as to achieve consistency between the organisational structures, pursuant to the powers granted, and the company's regulatory system (Policies, Guidelines, Procedures, Operating Notes and Job Descriptions), in compliance with the Segregation of Duties ("SoD").

8. INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT A CONSOLIDATED LEVEL

The ways in which the ERG Group has defined its Internal Control and Risk Management System in relation to the process of financial disclosure (henceforth referred to as “the System”) at the consolidated level are illustrated below. The purpose of the System is to significantly mitigate risks in terms of the trustworthiness, reliability, accuracy and timeliness of financial disclosures.

In particular, the Board of Directors of ERG, in the meeting of 11 March 2014, appointed Paolo Luigi Merli, Chief Financial Officer, as Manager responsible for preparing the Company’s financial reports, thereby attributing to him the responsibilities of:

- preparing adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of the procedures;
- issuing to the market the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group’s financial disclosure.

The Manager responsible for preparing the Company’s financial reports shall rely on the support of the 262 Compliance Business Unit in verifying the operation of the administrative and accounting procedures by testing the controls. This organisational structure ensures complete segregation between the activities of preparing the administrative and accounting procedures and the activities of verifying their adequacy and effective application.

In such a context, all personnel of the Group are obliged to cooperate, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting records, but also those in other functions that, directly or indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company’s information systems, and normal operations.

The activity of Compliance pursuant to Law 262/05 has been submitted to the Control and Risk Committee and applies to the companies of the Group, from a logical point of view, in terms of methodology and as regards the principles of control and accuracy of the process.

Role, Appointment and Requirements of the Manager responsible for preparing the Company's financial reports***Role of the Manager responsible for preparing the Company's financial reports***

As already pointed out previously, the main responsibility of the Manager responsible for preparing the financial reports of ERG is to implement the administrative and accounting procedures by which periodic corporate financial reporting should be produced, to monitor their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable.

The figure of Manager responsible for preparing the Company's financial reports fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.

Appointment and requirements of the Manager responsible for preparing the Company's financial reports

The Board of Directors, with the mandatory opinion of the Board of Statutory Auditors, shall appoint the Manager responsible for preparing the Company's financial reports, setting his/her compensation and assigning him/her adequate powers and means. The Manager will be someone who has at least three years of experience in positions of adequate responsibility in the administrative, financial or accounting area of public and private companies or entities, or someone who has adequate knowledge and experience in legal, economic, administrative, accounting or financial matters.

Elements of the System***Methodological approach***

The Group has adopted a working methodology that envisages the following logical steps:

- a. identification and evaluation of the risks applicable to financial reporting;
- b. identification of controls for risks identified both at Company/Group level (entity level) and at process level;
- c. evaluation of controls and management of the monitoring process both in terms of design, and in terms of operation and effectiveness, with the aim of reducing risks to a level considered to be "acceptable" (information flows, gap management, plan for remedial action, reporting system, etc.).

The activity is performed by the 262 Compliance Business Unit and is periodically shared with the Manager responsible for preparing the company's financial reports.

Risk identification and assessment

Risk Assessment is conducted annually with the aim of identifying, on the basis of a quantitative analysis and following evaluations and parameters of a qualitative nature:

1. the companies within the Group consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice

at the international level and recognised within Italy as a reference model by the Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);

3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The Risk Assessment process carried out at the level of Consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other qualitative. As regards the purely quantitative part of the analysis, the following elements are determined:

- large portion (coverage of the consolidated financial statements): this dimension is used to measure the extent of the area within which controls are to be analysed and evaluated, defined on the basis of the weight the dimensions bring to bear on the main items in the financial statements;
- significant account: this refers to the quantitative size that items in the financial statements must have in order to be considered significant after the application of a materiality threshold;
- significant process: by means of account-process matching, processes are identified for which controls should be assessed, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the activity.

Following the quantitative analysis described above, the Risk Assessment process then requires an analysis to be performed based on qualitative elements, with a dual purpose:

- to integrate the exclusively quantitative part of the analysis, so as to include or exclude accounts processes from the activity's scope on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- to define the "level of depth" to which the analysed accounts processes must be taken into consideration within the scope of the activity and at what level the related controls must be mapped, documented and monitored.

The final result of the Risk Assessment process consists of a document that is circulated to the various functions involved, validated by the Manager Responsible and presented to the Control and Risk Committee.

Identification of controls

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified.

In particular, the mapping of accounts processes and related controls constitutes a tool through which:

- significant processes and their main associated risks are represented as defined within the scope of the Risk Assessment, as are the controls that are envisaged for the management of such risks;
- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying financial statements assertion;
- the operation and representation of a control is shared with its owners, as are the risks and control activities;
- monitoring activities, required to support the representations that must be made by the Manager Responsible, are carried out.

The identification of risks and the associated controls is carried out both with regard to controls relating to financial statement assertions and to other control objectives within the scope of financial disclosure, including:

- the observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;
- activities of fraud prevention that have an impact on financial disclosure;
- the security of company information systems and the protection of personal data.

The mapping generated from time to time for a specific process is also used as the basis for periodic testing activities whose goal is to evaluate and monitor both the design and the effectiveness of controls in place.

Assessment of controls and monitoring processes

In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the relevant processes and effective execution of the mapped controls.

The objective of such monitoring is to evaluate the operating effectiveness of the controls - in other words the effective functioning during the period of the controls mapped for the purpose of analysis.

To this end, an annual monitoring (and refining and optimising, where necessary) activity plan is drawn up. The plan is formalised in a document that is presented to the Control and Risk Committee and in which strategies and timing are defined for carrying out monitoring tests.

As part of the activities carried out, the mapping of processes, risks and controls is regularly updated in accordance with Law No. 262/05.

Periodic reports are produced on the results of the activities, providing support on the basis of which the Manager responsible for preparing the company's financial reports releases legal declarations, and the Control and Risk Committee, as regards the most important deadlines for half-year and annual financial reports, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.

9. THE INDEPENDENT AUDITORS

Auditing is carried out in accordance with the law by a company enrolled in the Register of Statutory Auditors maintained by the Italian Ministry of Economy and Finance.

Deloitte & Touche S.p.A. was appointed as independent auditor for the years 2009-2017 by the Shareholders' Meeting held on 23 April 2009; consequently, its mandate shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2017.

During the course of the financial year, the Independent Auditors have the duty to verify:

- that the company accounts are properly maintained and all operations are properly accounted for in the accounting records;
- that the Separate Financial Statements and the Consolidated Financial Statements match the results of the accounting records and of the inspections carried out and comply with the rules that govern them.

Deloitte & Touche S.p.A. is also tasked with performing a limited audit of the half-year condensed consolidated financial statements.

While carrying out its activities, the Independent Auditors have access to all documentary and electronic information and data, as well as the archives and the assets of the Company and of the Companies of the Group.

10. INVESTOR RELATIONS

The company manages relations with its Shareholders, institutional investors and the market through the Investor Relations function, which operates within the Division run by the Chief Financial Officer.

As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the most detailed information possible on its activities and strategies, including by regularly renewing and updating its website. The person in charge of managing investor relations is Emanuela Delucchi.

11. COMMITMENTS

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- to model its business on total compliance with the Group's ethical principles, which are based on a combination of values including personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis Shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2004, the most recent update of which was approved by the Board of Directors on 14 May 2014, to reflect not only the organisational and corporate changes that have taken place in the Group, but also the regulatory changes that have taken place and the changes to reference best practices;
- to ensure, by focusing on constantly developing the Corporate Governance principles, that such principles are observed by the organisation in order to ensure that it operates with transparency and efficiency over time.

The main documents concerning Corporate Governance, to which reference is made in the Report, are available in the Corporate Governance section of our website www.erg.eu.

TABLE 1: Structure of the Board of Directors and Committees

Board of Directors							
Office	Members	Year of birth	In office since	In office until	List (M/m)*	Executive	Non-executive
Chairman	Edoardo Garrone	1961	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Deputy Chairman	Alessandro Garrone	1963	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Deputy Chairman	Giovanni Mondini	1966	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Chief Executive Officer	Luca Bettonte	1963	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Director	Massimo Belcredi	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Alessandro Careri	1950	11/05/17	Appr. Financial Statements 31/12/2017	M		Yes
Director	Mara Anna Rita Caverni	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Alessandro Chieffi	1964	24/04/15	Appr. Financial Statements 31/12/2017	m		Yes
Director	Barbara Cominelli	1970	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Marco Costaguta	1959	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Paolo Francesco Lanzoni	1953	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Silvia Merlo	1968	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Directors who left office during the reference year: 1							
Director	Luigi Ferraris	1962	24/04/15	20/04/2017	M		Yes

Quorum required for list presentation at the time of last appointment: 1%

Number of meetings held during the reference year: BoD 9 - CRC 10 - NRC 6

Notes

- * This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).
- ** This column indicates the percentage of attendance of the Directors in the meetings respectively of the Board of Directors and of the Committees (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).
- *** This column indicates the number of appointments as Director or Statutory Auditor held by the relevant individual in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group.
- **** This column indicates whether the member of the Board of Directors is a Committee member.
- ***** This column indicates the date of first appointment of the Directors starting on 16 October 1997, i.e. the listing date of the Company.

					Control and Risk Committee		Nominations and Remuneration Committee	
Indep. as per Code	Indep. as per T.U.F.	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)	(****)	(**)	(****)	(**)
		100%	3	16/10/97				
		89%	1	16/10/97				
		100%	1	16/10/97				
		100%		15/12/09				
	Yes	100%	1	29/04/03	Yes	100%		
	Yes	100%		11/05/17				
Yes	Yes	89%	2	24/04/15	Yes	90%	Si	100%
Yes	Yes	100%	3	24/04/15				
Yes	Yes	89%		24/04/15	Yes	100%		
		100%	8	20/04/12				
	Yes	100%	1	29/04/03			Yes	100%
Yes	Yes	100%	3	24/04/15			Yes	83%
Yes	Yes	100%		24/04/15				

TABLE 2: Structure of the Board of Statutory Auditors

Board of Statutory Auditors					
Office	Members	Year of birth	In office since	In office until	Lista (M/m)*
Chairman	Elena Spagnol	1968	03/05/2016	Appr. Financial Statements 31/12/2018	m
Statutory Auditor	Lelio Fornabaio	1970	03/05/2016	Appr. Financial Statements 31/12/2018	M
Statutory Auditor	Stefano Remondini	1963	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Vincenzo Campo Antico	1966	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Luisella Bergero	1971	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Paolo Prandi	1961	03/05/2016	Appr. Financial Statements 31/12/2018	m

Statutory Auditors who left office during the reference year: none

Quorum required for list presentation at the time of last appointment: 1%

Number of meetings held during the reference year: 13

Notes

- * This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).
- ** This column indicates the percentage of attendance of the statutory auditors in the meetings of the Board of Statutory Auditors (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).
- *** This column indicates the number of appointments as director or statutory auditor held by the Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group. The full list of the offices held is attached, in accordance with Article 144-*quinquiesdecies* of the CONSOB Issuers' Regulations, to the report on the supervisory activity, prepared by the statutory auditors in accordance with Article 153, paragraph 1 of the Consolidated Finance Law (T.U.F.).
- **** This column indicates the date of first appointment of the Statutory Auditors.

Independence as per Code	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)
Yes	100%	1	03/05/2016
Yes	100%	5	15/04/2010
Yes	100%	–	03/05/2016
Yes	–	–	15/04/2010
Yes	–	–	23/04/2013
Yes	–	–	03/05/2016



Board of Directors' Proposal

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BOARD OF DIRECTORS' PROPOSAL

Dear Shareholders, in relation to the results achieved, we invite you to resolve as follows:

- to approve the Annual Financial Statements for your company for the year ended 31 December 2017, which closes with a net profit of EUR 23,969,998.60;
- to resolve upon the payment to the Shareholders of a dividend of EUR 1.15 per share, including a non-recurring component of EUR 0.40 per share, which it is proposed be distributed following the completion of the process to change the structure of the Group by exiting the Oil business and entering the Solar Power business. The dividend will be paid in respect of each share having dividend rights outstanding at the ex-date, excluding the company's treasury shares, in accordance with Article 2357 ter of the Italian Civil Code, by distribution of the year's earnings and for the residual part by use of retained earnings;
- to release part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" for an amount equal to EUR 20,216,282.00 corresponding to the change in value of the equity investment in TotalErg S.p.A. for the purposes of the application of IFRS 5, net of the related tax effects. It should be mentioned, in fact, that at the time of approving the 2010 Financial Statements, an unavailable reserve was allocated pursuant to Article 6, paragraph 1, subparagraph a) of Italian Legislative Decree no. 38/2005, using a part of the profit amounting to EUR 346,403,569.83 corresponding to the unrealised portion, net of tax charges, of the capital gain deriving from incorporation of the TotalErg Joint Venture, and that part of the unavailable portion of the Reserve, for a total of EUR 229,450,160.55, had already been released at the time of approving the 2012 Financial Statements and the 2013 Financial Statements as a result of the write-down of the shareholding performed in the corresponding financial years;
- to make the dividend payable starting from 23 May 2018, with an ex-dividend date as of 21 May 2018 and record date of 22 May 2018.

Genoa, Italy, 7 March 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION⁽¹⁾

(EUR thousand)	Notes	31/12/2017	31/12/2016
Intangible fixed assets	1	634,569	676,613
Goodwill	2	125,932	125,932
Property, plant and equipment	3	2,181,860	2,360,338
Equity investments:	4	21,173	170,225
<i>carried at equity</i>		12,787	164,826
<i>other investments</i>		8,385	5,398
Other non-current financial assets	5	40,369	39,099
<i>of which towards related parties</i>	40	2,630	–
Deferred tax assets	6	132,861	160,045
Other non-current assets	7	47,308	45,615
Non-current assets		3,184,073	3,577,867
Inventories	8	20,597	20,365
Trade receivables	9	255,534	292,978
<i>of which towards related parties</i>	40	2,631	3,449
Other current receivables and assets	10	97,573	104,437
<i>of which towards related parties</i>	40	24,546	13,556
Current financial assets	11	29,407	108,763
<i>of which towards related parties</i>	40	8,613	8,490
Cash and cash equivalents	12	812,992	427,195
Current assets		1,216,103	953,738
Assets held for sale	27	261,069	–
TOTAL ASSETS		4,661,245	4,531,605
Group Shareholders' Equity	13	1,877,466	1,729,099
Shareholders' Equity		1,877,466	1,729,099
Employees' severance indemnities	14	6,403	6,733
Deferred tax liabilities	15	265,257	274,357
Provisions for non-current liabilities and charges	16, 26	127,801	125,258
Non-current financial liabilities	17	1,788,714	1,934,060
Other non-current liabilities	18	40,950	37,771
Non-current liabilities		2,229,124	2,378,179
Provisions for current liabilities and charges	19, 26	53,242	46,682
Trade payables	20	126,796	152,680
<i>of which towards related parties</i>	40	110	60
Current financial liabilities	21	287,651	159,098
<i>of which towards related parties</i>	40	171	–
Other current liabilities	23	84,808	65,865
<i>of which towards related parties</i>	40	5,951	16,600
Current liabilities		552,497	424,325
Liabilities held for sale	27	2,156	–
TOTAL LIABILITIES AND EQUITY		4,661,245	4,531,605

(1) The Statement of Financial Position at 31 December 2017 is represented as determined by IFRS 5, with the exclusion of the equity investment in the joint venture TotalErg S.p.A. and the assets and liabilities relating to the subsidiary Brockaghboy Windfarm Ltd. The impacts of the aforementioned exclusion, indicated separately under the item "Assets held for sale" and "Liabilities held for sale", are described in more detail in **Note 27 - Assets and liabilities held for sale**.

CONSOLIDATED INCOME STATEMENT ⁽¹⁾

(EUR thousand)	Notes	2017	2016
Revenues from ordinary operations	28	1,053,552	1,025,489
of which towards related parties	40	12,853	12,176
Other revenues and income	29	10,581	16,312
of which towards related parties	40	816	1,265
Change in inventory	30	(624)	1,905
Costs for purchases	31	(355,196)	(332,136)
of which towards related parties	40	(250)	(138)
Costs for services and other operating costs	32	(182,020)	(195,897)
of which towards related parties	40	(10,634)	(11,446)
of which non-recurring items	39	(7,146)	(916)
Personnel costs	33	(68,698)	(62,260)
of which non-recurring items	39	(5,274)	(1,159)
EBITDA		457,595	453,412
Amortisation, depreciation and write-downs of fixed assets	34	(250,937)	(253,654)
EBIT		206,658	199,759
Financial expenses	35	(89,794)	(105,094)
of which towards related parties	40	–	–
of which non-recurring items	39	–	(7,700)
Financial income	35	24,496	21,600
of which towards related parties		44	15
of which non-recurring items	39	–	–
Net financial income (expenses)	35	(65,297)	(83,494)
Net income (loss) from investments carried at equity	36	119	141
Other net income (loss) from equity investments	36	(1,291)	11,754
of which non-recurring items	39	–	11,036
Income (loss) from equity investments	36	(1,171)	11,895
PROFIT (LOSS) BEFORE TAXES		140,189	128,160
Income taxes	37	(32,958)	(28,831)
of which non-recurring items	39	3,108	1,768
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		107,232	99,329
Net profit (loss) from assets held for sale	38	99,583	25,556
of which non-recurring items	39	74,506	11,630
NET PROFIT (LOSS) FOR THE PERIOD		206,815	124,884
Minority interests		–	(2,425)
of which non-recurring items	39	–	491
GROUP SHARE OF NET PROFIT		206,815	122,459

(1) the income statements for the years 2017 and 2016 are represented as determined by IFRS 5, with the exclusion of the results of the TotalErg S.p.A joint venture and of the subsidiary Brockaghboy Windfarm Ltd., which is consolidated on a line-by-line basis. The impacts of the aforementioned exclusions, indicated separately under the item "Net profit (loss) from assets held for sale", are described in more detail in **Note 38 - Net profit (loss) from assets held for sale**.

(EUR)	2017	2016
Basic earnings per share from continuing operations	0.721	0.689
Diluted earnings per share from continuing operations	0.721	0.689
Group basic earnings per share	1.390	0.850
Group diluted earnings per share	1.390	0.850

OTHER COMPREHENSIVE INCOME

(EUR thousand)	2017	2016
Net profit (loss) for the year	206,815	124,884
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	(41)	(367)
Income taxes referred to the change in the employees' severance indemnities provision	9	104
	(32)	(263)
Changes that will be reclassified in the income statement		
Changes in the cash flow hedge reserve	22,323	(3,239)
Income taxes referred to the change in the cash flow hedge reserve	(5,358)	777
	16,966	(2,461)
Changes in the translation reserve	(1,597)	(4,521)
Income taxes referred to the change in the translation reserve	564	38
	(1,033)	(4,483)
Other components of comprehensive income after tax	15,901	(7,207)
Comprehensive net income (loss) for the year	222,716	117,677
Minority interests	–	(2,425)
Comprehensive net income (loss) pertaining to the Group	222,716	115,252

STATEMENT OF CASH FLOWS ⁽¹⁾

(EUR thousand)	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES (A)			
Net profit (loss) for the year		206,815	124,884
- Amortisation, depreciation and write-downs of fixed assets	34	252,227	253,658
- Net change in provision for liabilities and charges	16, 19	8,837	(5,528)
- Net change in deferred tax assets and liabilities	6, 15	8,408	(3,186)
- Write-down of receivables and current assets	9	1,641	1,055
- Income/loss from equity investments	36	(98,396)	(26,872)
- Net change in employees' severance indemnities	14	(330)	1,221
Cash flows before changes in working capital		379,200	345,232
- Change in other operating assets and liabilities:			
- Change in inventories	8	(233)	870
- Change in trade receivables	9	34,730	53,568
- Change in trade payables	20	(26,066)	(12,360)
- Net change in other receivables/payables and other assets/liabilities	7, 10, 18, 23	12,760	(5,434)
		21,191	36,645
CASH FLOWS FROM OPERATING ACTIVITIES (A)		400,391	381,876
CASH FLOWS FROM INVESTING ACTIVITIES (B)			
Acquisitions of intangible fixed assets and goodwill	1, 2	(3,606)	(3,920)
Acquisition of property, plant, and equipment	3	(50,819)	(55,622)
Acquisition of equity investments and other non-current financial assets	4	(5,204)	(4,405)
Net change in other increases/decreases in fixed assets	1, 2, 3	(6,025)	21,049
Dividends received from TotalErg		70,983	-
Collection of balance from acquisition of ERG Hydro S.r.l.		-	10,510
Disposals of intangible fixed assets and goodwill	1, 2	243	13
Disposals of property, plant and equipment and related capital gains/losses	3	1,275	2,028
Disposals of equity investments and other non-current financial assets	4, 5	349	5,225
CASH FLOWS FROM INVESTING ACTIVITIES (B)		7,197	(25,122)
CASH FLOWS FROM FINANCING ACTIVITIES (C)			
New non-current loans	17	222,723	367,000
Repayment of non-current loans	17, 21	(350,788)	(688,887)
Net change in short-term bank borrowings	21	79,737	(255,508)
Net change in other current financial assets/liabilities	11, 21	3,977	64,529
Collection Credit Linked Notes	11	80,000	-
Collection advance payment from Api Group	23	14,231	-
Dividends paid to shareholders	43	(74,408)	(142,800)
Other changes in shareholders' equity		15,960	(6,246)
CASH FLOWS FROM FINANCING ACTIVITIES (C)		(8,567)	(661,912)
CHANGE IN THE SCOPE OF CONSOLIDATION (D)		(11,930)	(38,212)
NET CASH FLOW FOR THE YEAR (A+B+C+D)		387,091	(343,369)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12	427,195	770,564
NET CASH FLOWS FOR THE YEAR		387,091	343,369
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		814,285	427,195

1) the cash flow statement also includes the overall flows of Assets and liabilities held for sale, details of which are provided in [Note 27](#)

	2017	2016
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	814,285	427,195
Cash and cash equivalents at end of year Brockaghboy Windfarm Ltd.	(1,293)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR CONTINUING OPERATIONS	812,992	427,195
Additional cash flow statement information		
Income taxes paid	23,161	14,230
Interest paid	28,720	40,168

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	1,625,958	50,338	1,676,297
Allocation of 2015 profit	–	20,626	(20,626)	–	–	–
Dividends	–	(142,800)	–	(142,800)	–	(142,800)
Exchange of treasury shares	–	76,964	–	76,964	–	76,964
Reclassification of result minority interests vs Group	–	–	52,763	52,763	(52,763)	–
Other changes	–	961	–	961	–	961
Net profit (loss) for 2016	–	–	122,459	122,459	2,425	124,884
Actuarial change in employees' severance indemnities provision	–	(263)	–	(263)	–	(263)
Changes in the cash flow hedge reserve	–	(2,461)	–	(2,461)	–	(2,461)
Change in the translation reserve	–	(4,483)	–	(4,483)	–	(4,483)
Comprehensive net income (loss)	–	(7,207)	122,459	115,252	2,425	117,677
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)	–	–	–
Distribution of dividends	–	(74,408)	–	(74,408)	–	(74,408)
Other changes	–	59	–	59	–	59
Net profit (loss) for 2017	–	–	206,815	206,815	–	206,815
Actuarial change in employees' severance indemnities provision	–	(32)	–	(32)	–	(32)
Changes in the cash flow hedge reserve	–	16,966	–	16,966	–	16,966
Change in the translation reserve	–	(1,033)	–	(1,033)	–	(1,033)
Comprehensive net income (loss)	–	15,901	206,815	222,716	–	222,716
BALANCE AT 31/12/2017	15,032	1,655,619	206,815	1,877,466	–	1,877,466

NOTES TO THE 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 Consolidated Financial Statements at and for the year ended 31 December 2017 have been prepared, without any waiver or exception, in accordance with the Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

The Consolidated Financial Statements, expressed in thousands of euros, were prepared under the general historical cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivative instruments, which were measured at fair value.

The Consolidated Financial Statements at and for the year ended 31 December 2017 were audited by the independent auditor Deloitte & Touche S.p.A. in accordance with CONSOB regulations.

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERG classifies its income statement using the “nature of expense” method, a form deemed more representative than a classification using the “function of expense” method. The form chosen is in fact consistent with internal and management reporting procedures. With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1.

The structure of the statement of cash flows is based on the indirect method.

Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not occur frequently in the ordinary course of business have been indicated separately in the income statement. These items are commented upon in a dedicated note.

Also pursuant to the aforementioned CONSOB resolution, balances or transactions with related parties have been entered separately in the statement of financial position and in the income statement. These items are commented upon in a dedicated note.

ACCOUNTING STANDARDS AND CONSOLIDATION PRINCIPLES

SUMMARY OF SIGNIFICANT ACCOUNTING STANDARDS

Significant accounting standards adopted for the preparation of the Consolidated Financial Statements at and for the year ended 31 December 2017 are described below. They are the same as for the previous year, except for the differences described in the paragraph “Accounting principles, amendments and interpretations applied from 1 January 2017”.

Intangible fixed assets

Intangible fixed assets are recorded as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general, intangible fixed assets are amortised over a maximum period of 5 years, with the exception of surface rights and authorisations and concessions for the wind farms and the hydroelectric assets, which are amortised in relation to the concession duration.

There are no intangible fixed assets with an indefinite useful life or development costs.

Research costs are expensed directly in the income statement in the period in which they are incurred.

Other intangible fixed assets recognised following a business combination are presented separately from goodwill if their fair value can be measured reliably.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the purchaser to the former owners of the acquiree, the liabilities incurred by the purchaser for such subjects and the equity interests issued by the purchaser. The costs related to the acquisition are recognised as expenses in the periods in which they are incurred.

Goodwill is recognised at the date of acquisition of control of an acquired entity and is estimated as the difference between the sum of:

- the consideration transferred, the amount of any minority interest in the acquiree measured in accordance with IFRS 3 (fair value of the pro-rata share of net assets related to minority interests), in a business combination achieved in stages the fair value at the date of purchase of the interest previously held by the purchaser;
- the net value of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed, measured at fair value.

If the fair value of the net identifiable assets acquired is higher than the consideration transferred, the difference that emerges, after having checked if the fair value of the identifiable assets and liabilities acquired is correct, is recognised in the income statement at the date of acquisition. The profit is allocated to the purchaser.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in the income statement. If in prior reporting periods the acquirer had recognised changes in the value of its equity interest in the acquiree in other comprehensive income, the amount shall be posted in the income statement on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, provisional amounts are reported. Adjustments to the provisional amounts recognised at the acquisition date are accounted for retrospectively so as to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the amounts recognised at that date. The measurement period lasts for 12 months from the acquisition date.

When the consideration transferred includes a component of contingent consideration, the acquisition-date fair value of the contingent is recorded as part of the consideration transferred in exchange for the acquiree.

Goodwill

Goodwill acquired in a business combination is not amortised, but is subjected to impairment tests pursuant to the procedures provided for in IAS 36 - Impairment of Assets every year, or more frequently if specific events or changes in circumstances indicate the possibility that there may have been any impairment.

For the purposes of the impairment test, goodwill on the acquisition date is allocated to each of the buyer's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the entity acquired are assigned to these units or groups of units.

If the recoverable amount of the unit (or groups of units) to which the goodwill is allocated is less than its carrying value, an impairment loss is recognised in the following order: first, to reduce the carrying amount of goodwill to the cash-generating unit, and then to the other assets of the unit (or group of units) in proportion to the carrying amount of each asset in the unit (or group of units).

If the goodwill has been allocated to a cash-generating unit and the unit is disposed of or transferred, goodwill is included in the carrying amount of the asset when determining the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are recognised at the cost of acquisition or production.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Cyclical maintenance costs are recognised as assets in the statement of financial position as a separate component of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.

The cost of the assets, where there are present obligations to do so, includes charges for dismantling, removal of assets and site restoration to be incurred at the time facilities are abandoned, which are presented as a contra-asset in a specific provision. These charges are recognised starting on the date when they can be reliably estimated for those assets for which future disposal, and the time when this will happen, is foreseeable.

Capitalised charges are allocated to the income statement via depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible asset consists of several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the historical cost less the expected residual value, if material and reliably measurable.

Land is not depreciated, even if acquired together with a building. Assets revertible free of charge are depreciated over the estimated life of the asset or the duration of the concession, whichever is shorter.

The capital gains allocated to property, plant and equipment as a result of IFRS 3 - Business Combinations are depreciated on the basis of the concession duration.

There were no significant finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%
Industrial and commercial buildings	2,5 - 7,34
Fixed hydraulic works	1
Pressurised pipelines	2,5
Hydraulic and electrical machinery	3,3
Automation and control systems	10
Equipment and machinery	5
Digital control facilities	10
Remote transmission facilities	10
Transport lines	5
Lightweight constructions	10
General plant	8,45 - 10,0
CCGT plant *	6,09
Digital control and remote transmission facilities	10
Motor vehicles, furniture and furnishings, sundry assets	8,38 - 25,0
Building leases and other civil works	3,5
Other assets	from 10 to 20

* average rates

With regard to wind turbines, depreciation rates are determined taking into account the different economic useful lives of each component of the wind farm (Component Analysis).

Impairment of assets (impairment test)

At least once a year, the Group subjects its intangible assets and property, plant and equipment to an impairment test to determine whether there are indications that they may be impaired. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

Equity investments

Joint ventures

These are companies on whose activity the Group has joint control as defined by IFRS 11 - Joint Arrangements. The Consolidated Financial Statements include the Group's share of the results of the joint venture, measured under the equity method, starting from the date when joint control starts until the time when it ceases to exist.

If the Group's share of the losses of the joint ventures exceeds the carrying value of the investment in the consolidated financial statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

Associates

These are companies in which the Group exercises significant influence, but not control or joint control, over financial and operating policies, as defined by IAS 28 - Investments in associates and joint ventures. The Consolidated Financial Statements include the Group's share of the results of the associates, measured under the equity method, starting from the date when significant influence starts until the time when it ceases to exist. If the Group's share of the associate's losses exceeds the carrying value of the investment in the consolidated financial statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

Financial assets

IAS 39 envisages classification of financial assets according to the following categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Held-to-maturity investments (HTM);
- Loans & receivables (L&R);
- Available-for-sale financial assets (AFS).

Initially, all financial assets are recognised at their fair value, increased, in the case of assets other than those classified as FVTPL, by ancillary costs.

At the time of underwriting, an assessment is made as to whether a contract contains embedded derivatives. Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group classifies its financial assets after initial recognition and, when appropriate and allowable, reviews this classification at the end of each year.

Financial assets at fair value through profit or loss (FVTPL)

This category comprises:

- Assets held for trading (HFT);
- Assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments. Gains and losses on assets held for trading are recognised in the income statement.

At 31 December 2017, no financial asset had been designated as FVTPL.

Held-to-maturity (HTM) investments

Non-derivative financial assets with fixed or determinable payments are classified as “held-to-maturity (HTM) investments” whenever the Group intends and has the ability to hold them to maturity.

After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the income statement when the investment is derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

At 31 December 2017, the Group held no investments classified as HTM.

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Following initial recognition, these assets are measured at amortised cost using the effective interest method, net of allowances, if any.

Gains and losses are recognised in the income statement when loans & receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

Trade receivables are recognised at their fair value, which corresponds to their face value, and are subsequently reduced to account for uncollectible receivables, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

Available-for-sale (AFS) financial assets

Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.

Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within shareholders' equity.

AFS financial assets include equity investments in companies other than subsidiaries and associates in which ERG's direct or indirect ownership percentage is less than 20%.

When fair value cannot be reliably measured, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from equity investments".

When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement. The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

IAS 39 prescribes the following measurement methods: fair value and amortised cost method.

Fair value

In the case of securities widely traded in regulated markets, fair value is determined with reference to market prices at the close of trading on the financial statements' date.

Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

- Prices of recent arm's length transactions;
- Current fair market value of a substantially similar instrument;
- Discounted cash flow (DCF) analysis;
- Option pricing models.

Amortised cost method

"Investments held to maturity" and "Loans and receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions or allowances, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest rate and transaction costs.

Impairment of financial assets

At each consolidated financial statements' date, the Group verifies whether a financial asset or group of financial assets has suffered impairment.

If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows discounted at the asset's original effective interest rate.

The carrying value of the asset is reduced via accrual of a provision. The impairment amount is recognised in the income statement. The Group assesses the existence of factual evidence of impairment on an asset-by-asset basis. If the amount of impairment subsequently decreases and this reduction can objectively be attributed to an event occurring after recognition of impairment, the value previously reduced can be reinstated. Any subsequent write-backs of value are recognised in the income statement, to the extent that the asset's carrying value does not exceed the amortised cost at the write-back date.

In the case of trade receivables, an allowance for uncollectible receivables is recognised when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that the Group will be unable to recover the amounts owed according to the original conditions. The carrying value of the receivable is reduced via use of a specific provision. Receivables are derecognised if they are deemed unrecoverable.

Cash and cash equivalents

Cash and cash equivalents are presented, according to their nature, at face value.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

Financial liabilities

IAS 39 envisages classification of financial liabilities according to the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL);
- Other financial liabilities.

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.

After initial recognition, loans are measured at amortised cost using the effective interest method.

Every gain or loss is recognised in the income statement when the liability is settled, as well as via the amortisation process.

Financial liabilities at FVTPL include "liabilities held for trading".

"Liabilities held for trading" (HFT) are acquired for the purpose of short-term sale and comprise derivatives - including separated embedded derivatives - unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the income statement.

At 31 December 2017, financial liabilities of immaterial amounts had been designated at FVTPL.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and has transferred substantially all risks and rewards of ownership of the financial asset, or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of same.

In cases where the Group has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in Group accounts to the extent of the Group's residual involvement in such asset.

A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or settled.

Derivative financial instruments and hedging transactions

Derivative financial instruments are initially recognised at their fair value on the date when they are stipulated. This fair value is then subject to periodic revaluation.

They are presented as assets when their fair value is positive and as liabilities when it is negative.

ERG carries out transactions with derivative instruments to hedge the risk stemming from the fluctuations in raw material and product prices, foreign currency exchange and interest rates.

Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.

When derivatives hedge the risk of fluctuations in the fair value of the underlying hedged asset (fair value hedge), they are measured at their fair value and the effects are presented in the income statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.

When the derivative hedges the risk of fluctuations in the cash flows associated with the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently presented in the income statement matching the economic effects produced by the hedged transaction.

Changes in the fair value of derivatives that do not have the formal requisites to qualify as hedges under IAS/IFRS are presented in the income statement.

Treasury shares

Treasury shares are presented as a reduction of shareholders' equity. 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.

Inventories

Inventories, relating to spare parts, are measured at cost, determined using the weighted average cost method, or market value (replacement cost), whichever is lower.

Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the financial statements' date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date except in the case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are presented in the income statement under financial income and expenses.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation of a reporting entity are recognised in the income statement of the separate financial statements of the reporting entity or the individual financial statements of the foreign operation. In financial statements that include the foreign operation and the reporting entity, such exchange differences are recognised initially in Other comprehensive income and reclassified from equity to the profit or loss for the financial year at the disposal of the net investment.

Provisions for liabilities and charges

ERG records provisions for liabilities and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in estimates are reflected in the income statement in the period in which they occur.

When the financial effect of time is significant and the dates of settlement of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the income statement under "Financial income (expenses)".

When the liability relates to tangible assets (for example dismantling and restoration of sites), the provision is presented as a contra asset against the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

Employee benefits

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for the provision were amended by Italian Law no. 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 and not yet liquidated as of the date of the separate financial statements, whereas after said date it is deemed akin to a defined contribution plan. The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled at the reporting date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.

Actuarial gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the income statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

Revenue recognition

Revenues from sales and services are recognised when the actual transfer of risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or upon completion of the services.

Revenues stemming from partially provided services are recognised as earned pro rata over completion, provided that it is possible to determine their level of completion reliably and there are no significant uncertainties as to the amount and existence of revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.

Revenues are presented net of returns, discounts, rebates and allowances, as well as of any directly related taxes.

If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Since exchanges of goods or services of a similar nature and value do not constitute sales transactions, they do not give rise to recognition of revenues and costs.

Revenues relating to the **Feed-In Premium** (formerly green certificates) are recognised based on production in the period and are calculated on the basis of the legal regulations and prevailing resolutions of the Italian Electricity Authority during the year, also taking into account the prevailing pro tempore equalising regulations.

Grants related to assets are recognised at the time when a formal assignment is made and any possible restriction on their collection is removed and they are recognised in the income statement over the useful life of the related assets, with the purpose of matching their economic-technical depreciation.

Dividends

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

Financial income and expenses

These are recognised under the accrual basis of accounting in the consolidated income statement based on the interest due on the net value of financial assets and liabilities, utilising the effective interest rate.

Taxes

Current taxes are accrued based on the estimated tax burden for the year, also taking into account the effects relating to participation of most Group companies in Tax Consolidation.

Income taxes are presented in the income statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is also directly presented under shareholders' equity.

Furthermore, pursuant to the accrual basis of accounting, the Consolidated Financial Statements include deferred-tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' separate financial statements in application of the Group's uniform accounting standards, as well as from temporary differences between the statutory values and related tax values.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits.

Deferred tax assets are only recognised in the financial statements if their future recovery is probable.

With regard to deferred tax assets related to tax losses that can be carried forward, please see the following paragraph.

Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

With regard to deferred tax assets related to Italian investees' tax losses, regulations provide for a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the income produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to the parent company's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the year.

To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all dilutive potential ordinary shares.

ENVIRONMENTAL CERTIFICATES

White certificates (Energy Efficiency Certificates) are recognised by the GSE upon achievement of energy savings achieved in end uses through the use of appropriate technologies and the implementation of efficient systems.

White certificates are accounted for on an accrual basis and recognised among other current assets, at the rate of one certificate for each TOE (Tonne of Oil Equivalent) actually saved during the year.

Their value is measured on the basis of the price agreed in the bilateral agreement for the sale of the Energy Efficiency Certificates (TEE) or in the negotiation sessions of the GME (energy markets operator) platform, taking into account that the certificates are made available in the operator account, by the financial year subsequent to the reference year. In the event of failure to sell in the year, the value is measured on the basis of the definitive tariff contribution calculated on the basis of the weighted average of the TEE prices on the GME platform relative to the last twelve months of market.

As regards the **Feed-In Premium** (FIP), the incentives are calculated on a monthly basis, based on the electricity fed into the network from the plant, and are issued to the operator account quarterly by the GSE no later than the last working day of the second quarter following that in which the electricity was produced.

With Resolution 29/2016/R/EFR of 28 January 2016, the Italian Regulatory Authority for Energy Networks and the Environment fixed the 2016 withdrawal price for the feed-in premium (FIP) at 100.08 EUR/MWh.

With Resolution 31/2017/R/EFR of 26 January 2017, the Italian Regulatory Authority for Energy Networks and the Environment fixed the 2017 withdrawal price for the feed-in premium (FIP) at 107.34 EUR/MWh.

With regard to the incentive schemes in force in foreign countries where the Group is active, please refer to the relevant sections in the Report on Operations.

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 thermoelectric business;
- 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;
- the impairment test for intangible and tangible assets and for other equity investments, described in detail in the **Impairment test** paragraph, implies - in the estimation of the value in use - the utilisation of the investee companies' Business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

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 remained to be collected.

In **August 2017** the balance of the 2016 reintegration was requested from AEEGSI in accordance with Article 65.28 of the 111/06 resolution;

On **30 November 2017**, EUR 12.6 million were collected by way of settlement for 2015. Of a total of EUR 77.7 million requested by the Company for 2015, EUR 0.7 million was not granted to the company by the AEEGSI, an amount that was consequently removed from the 2017 income statement;

On **30 December 2017**, EUR 9 million were received as a further advance for 2016. With regard to the item in question, therefore, a receivable of EUR 3.9 million was posted relating to 2016 only.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2017

The following accounting standards, amendments and IFRS interpretations were applied for the first time by the Group starting on 1 January 2017:

- Amendment to **IAS 7 - "Disclosure Initiative"** (published on 29 January 2016). The document aims to provide clarifications to improve information on financial liabilities. In particular, the changes require that information is provided that enables users of the financial statements to understand the changes in liabilities arising from loan transactions.
- Amendment to **IAS 12 - "Recognition of Deferred Tax Assets for Unrealised Losses"** (published on 19 January 2016). The document aims to provide clarifications on how to account for deferred tax assets for unrealised losses in the measurement of financial assets in the "Available for Sale" category upon the occurrence of certain circumstances, and on the estimation of taxable income for future years. The adoption of these amendments had no effect on the Group's consolidated financial statements.

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 31 DECEMBER 2017

IFRS 15 - Revenue from Contracts with Customers (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which 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 is effective from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers were approved by the European Union on 6 November 2017.

IFRS 15 - Revenues from Contracts with Customers defines a single model that companies will have to use for the accounting treatment of revenues arising from contracts with customers. In this regard, the basic hypothesis of the Standard is that each company recognises revenues so as to accurately represent the process of transfer of control of goods and services to customers and to such an extent that it shows the consideration that it expects to obtain in exchange for the goods and services provided.

The application of the Standard requires a careful analysis of the sales contracts with customers in order to go through the five phase method:

1. identification of the contract with customers;
2. identification of individual performance obligations within the contract;
3. determination of the sale amount deriving from the contract;
4. allocation of sales proceeds to individual performance obligations on the basis of the stand alone selling price of the latter;
5. recognition of revenue in the accounts in line with the fulfilment of individual performance obligations.

Analysis activities to identify the areas affected by the new provisions and to determine the relevant impacts were largely completed in financial year 2017.

On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will not have a significant impact on the amounts recognised in revenues and on the related information reported in the consolidated financial statements.

Among the cases identified by the standard which could lead to revenues being accounted for differently than they would be by applying IAS 18 is Gross or net presentation (Principal vs Agent). In some contracts ERG is identified as "agent", requiring revenues to be presented at net values to show only the brokering margin, for values however immaterial.

Final Version of **IFRS 9 - Financial Instruments** (published on 24 July 2014). 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 financial liabilities (together with the assessment of non-substantial modifications of financial 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.

IFRS 9 - Financial Instruments which will replace IAS 39 provides a single model for the classification of financial assets, based on the characteristics of the cash flows arising from the instrument and from the business model used by the entity, shown below:

Category	Business model	Characteristics of the cash flows
Amortised cost	The financial asset is held in order to collect its contractual cash flows	The cash flows are represented solely by the payment of interest and the repayment of principal
Fair Value through OCI (FVTOCI)	The asset is held in order to collect its contractual cash flows, and those deriving from the possible sale of such assets	The cash flows are represented solely by the payment of interest and the repayment of principal
Fair Value through PL (FVTPL)	Other than that envisaged for amortised cost and for FVTOCI	Other than that envisaged for amortised cost and for FVTOCI

The standard, moreover, introduces a new method for the write-down of receivables which takes account of the expected credit losses, and amends the provisions relating to hedge accounting and in respect of modifications of financial liabilities that do not lead to the derecognition of the debt.

IFRS 9 must be applied starting from financial years beginning on or after 1 January 2018 (first financial statements drawn up in application of IFRS 9 at 31 December 2018).

The standard generally proposes a retrospective application of accounting procedures, providing certain exemptions however, including the possibility of not performing a restatement of the comparative balances of previous years.

In the latter case there will be a restatement of profits/losses brought forward in order to recognise the effects relating from the first application of the standard, on the date of its first application (1 January 2018).

The areas impacted by the new standard essentially concern, as mentioned above, (i) the adoption of the expected credit loss model for the impairment of receivables which involves recognising the write-down of said receivables on the basis of a predictive approach, based on the probability of default by the counterparty and the recovery capacity

in the event that the default event occurs (loss given default); and (ii) for minority shareholdings, the reclassification from equity investments available for sale and held for trading to equity investments at fair value with transfer from the income statement.

In the course of financial year 2017, activities were completed to define and implement the methodology for the impairment of loans, which essentially envisages:

- (i) the use of official and/or internal ratings, already used for the purposes of customer credit lines, for determining the probability of default of counterparties;
- (ii) identification of the capacity of recovery in the event of default by the counterparty on the basis of past experience and of the various recovery methods that can be put into action.

During first application, the effects of adopting the new accounting standard in relation to the measurement of receivables, quantified in a negative amount less than EUR 1 million, will be recognised in equity at 1 January 2018.

It should be noted that in terms of hedge accounting, IFRS 9 provides for prospective application only from 1 January 2018.

Finally, on the subject of modifications of financial liabilities that do not lead to the derecognition of debt, the previous IAS 39 did not foresee the recognition of any effects in the income statement, since these are not substantial changes in the financial liabilities.

IFRS 9, however, does not allow the economic effects of renegotiation (and the related costs) to be spread over the residual life of the debt by modifying the effective interest rate of the debt at that date.

According to the standard, the modification or exchange of a financial liability, which would not qualify for derecognition/ extinguishment (and the consequent accounting of a new liability at fair value), should be treated as a revision of future cash flows arising from the instrument itself. With the application of IFRS 9, this involves accounting for a profit or an immediate loss at the date of the modification of the liability, instead of incorporating the changes in future cash flows by modifying the effective interest rate of the debt and therefore within interest expenses accounted for along the remaining useful life of the liability, as required by IAS 39.

During first application, the effects of the adoption of the new accounting standard in relation to modifications of financial liabilities that do not lead to the derecognition of debt, are quantified in a positive amount that is not significant for the years 2015, 2016 and 2017 that will be recognised in equity at 1 January 2018.

IFRS 16 - Leases (published on 13 January 2016), intended to replace IAS 17 - Leases, as well as IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of leases and introduces a criterion based on the control (right of use) of an asset to distinguish leasing contracts from contracts for services, identifying as distinguishing features: the identification of the asset, the right of substitution of the same, the right to obtain substantially all the economic benefits arising from the use of the asset and the right to direct the use of the asset underlying the contract.

The standard establishes a single model for lessees for the recognition and measurement of lease contracts which provides for the inclusion of assets subject to lease arrangements, including operating leases, in assets with simultaneous recognition of a financial lease payable, whilst also providing the possibility of not recognising as leases contracts regarding “low-value assets” and leases with a contract term less than or equal to 12 months. On the contrary, the Standard does not include significant changes for lessors.

The standard applies as from 1 January 2019, but earlier application is permitted for Companies that have already applied IFRS 15 - Revenue from Contracts with Customers.

The directors expect that the application of IFRS 16 may have a significant impact on the amounts and on the related information reported in the Group’s consolidated financial statements. It is not possible, however, to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the relevant contracts.

“Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” document (published on 12 September 2016). For entities whose business is predominantly made up of insurance activities, the changes aim to clarify the concerns arising from the application of the new IFRS 9 (from 1 January 2018) to financial assets, before the IASB replaces the current IFRS 4 with the new standard currently being prepared, on the basis of which financial liabilities are measured.

The directors do not expect the adoption of these amendments to have a significant effect on the Group’s consolidated financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the reference date of this document, 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 17** - Insurance Contracts.
- **Amendments to IFRS 2** - Classification and measurement of share-based payment transactions.
- Document “Annual Improvements to IFRSs: 2014-2016 Cycle”.
- IFRIC 22 interpretation “Foreign Currency Transactions and Advance Consideration”.
- **Amendments to IAS 40** - Transfers of Investment Property.
- Interpretative document IFRIC 23 “Uncertainty over Income Tax Treatments”.
- **Amendments to IFRS 9** - Prepayment Features with Negative Compensation.
- **Amendments to IAS 28** - Long-term Interests in Associates and Joint Ventures.
- “Annual Improvements to IFRSs 2015-2017 Cycle” document.
- Amendments to IFRS 10 and IAS 28 “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”.
- **IFRS 14** - Regulatory Deferral Accounts.

CONSOLIDATION PRINCIPLES

Scope of consolidation

The 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 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.

Investments in consolidated companies

The financial statements of subsidiaries used for consolidation purposes were drawn up at 31 December 2017 based on the same accounting standards and policies adopted by the Group and expressed in Euros.

When preparing the Consolidated Financial Statements, the assets, liabilities, revenues and costs of the consolidated companies are included line by line for their full amount, attributing to minority shareholders, under separate headings of the consolidated statement of financial position and income statement, their portion of shareholders' equity and profit or loss for the year. The portion of shareholders' equity pertaining to minority interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them.

The carrying value of investments is eliminated against the corresponding portion of shareholders' equity of the investee companies, attributing to individual assets and liabilities their fair values at the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill"; if negative, it is recognised in the consolidated income statement as prescribed by IFRS 3 (Business Combinations).

Intra-group transactions

Application of the "line-by-line" method, aimed at eliminating the effects of all intra-group transactions on the consolidated statement of financial position and income statement, results in elimination of reciprocal receivables and payables among the companies included in the scope of consolidation, as well as revenues and costs, income and expenses, gains and losses, if significant, originating from sales of products and assets.

Translation of financial statements drawn up in currencies other than the Euro

ERG's Consolidated Financial Statements have been drawn up in euros, which is the functional currency of the parent company ERG S.p.A. and of all companies included in the scope of consolidation, with the exception of:

- the Polish subsidiaries of ERG Power Generation S.p.A.;
- the Romanian subsidiary of ERG Power Generation S.p.A.;
- the Bulgarian companies directly controlled by ERG Bulgaria S.p.A.;
- the UK company directly controlled by ERG Power Generation S.p.A.

Foreign currency exchange differences resulting from the translation of initial shareholders' equity items at year-end rates, compared with those in force at the end of the previous year, are charged directly to Consolidated shareholders' equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in Other comprehensive income and reclassified from equity to the profit or loss for the financial year at the disposal of the net investment.

A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the net investment in the foreign operation.

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 companies **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%	100,000	1,843,656
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	737,640
ERG Power S.r.l.	Genoa	100%	100%	5,000	170,798
Brockaghboy Windfarm Ltd. ⁽³⁾	Belfast (UK)	100%	100%	3	15,244
Corni Eolian S.A.	Constanta (Romania)	100%	100%	152,000	123,913
CSO Energy GmbH	Leisnig (Germany)	100%	100%	210	597
CSO Energy S.a.r.l.	Paris (France)	100%	100%	1,415	239
ERG Eolica Adriatica S.r.l.	Genoa	100%	100%	10	28,464
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	3,203
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	3,689
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	132
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	51,326
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	6,622
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	23,161
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(963)
ERG Eolica S. Cireo S.r.l.	Genoa	100%	100%	3,500	22,522
ERG Eolica S. Vincenzo S.r.l.	Genoa	100%	100%	3,500	20,524
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	22
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	21,625	26,435
ERG Wind 105 GmbH	Leisnig (Germany)	100%	100%	1	(527)
ERG Wind Bulgaria S.p.A.	Genoa	100%	100%	50	30,105
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	202,310
ERG Wind Neunte GmbH	Leisnig (Germany)	100%	100%	25	84
ERG Wind Park Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	570
ERG Wind RE Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	18
EW Orneta 2 Z.O.O.	Warsaw (Poland)	100%	100%	32,675	29,612
Green Vicari S.r.l.	Camporeale	100%	100%	119	18,153
EW Orneta 2 Z.O.O.					
Blachy Pruszyński-Energy SP.Z.O.O.	Warsaw (Poland)	100%	100%	3,000	699
Hydro Inwestycje SP.Z.O.O.	Warsaw (Poland)	100%	100%	5	(784)

(1) data referring to the latest approved financial statements

(2) data expressed in thousands of euros with the exception of companies with registered office in Poland, UK and Romania whose data is shown in the respective local currencies

(3) the consolidation of Brockaghboy Windfarm Ltd. is represented in the these consolidated financial statements in accordance with IFRS 5. For more details please refer to **Note 38 - Net profit (loss) from assets held for sale** and to **Note 27 - Assets and liabilities held for sale**

	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)
S.a.s Société d'Exploitation 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'Exploitation du Parc Eolien Le Nouvion Sas	Paris (France)	100%	100%	37	(256)

(1) data referring to the latest approved financial statements

(2) data expressed in thousands of euros with the exception of companies with registered offices in Bulgaria whose data are given in local currency

	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	485,408
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	50,111
ERG Wind Energy S.r.l.	Genoa	100%	100%	1,000	61,311
ERG Wind Leasing 4 S.r.l.	Genoa	100%	100%	10	293
ERG Wind Sardegna S.r.l.	Genoa	100%	100%	77	44,267
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	100%	77	32,397
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	39,387
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	100%	77	12,335
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	100%	77	18,082
ERG Wind 2000 S.r.l.	Genoa	100%	100%	77	25,262
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	100%	77	48,260
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	100%	77	30,038
ERG Wind Park Beteiligungs GmbH					
ERG Wind 117 GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(585)
Voltwerk Energy Park 8 GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(1,966)
Voltwerk Windpark Worbzig GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	889
Voltwerk Windpark Beesenstedt GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	1,873
Windpark Cottbuser Halde GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(6,034)
Windpark Achmer Vinte GmbH & Co. KG	Leisnig (Germany)	100%	100%	7,500	(2,247)
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 **measured using the equity method of accounting:**

	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)	Book value at 31/12/2017
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (3)	Melilli	23.7%	23.7%	28,100	54,113	12,787
Associates						12,787

(1) data referring to the latest approved financial statements

(2) EUR thousand

(3) 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:**

	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)	Book value at 31/12/2017
ERG S.p.A.						
ERG Petroleos S.A. (3)	Madrid (Spain)	100%	100%	3,050	(5,708)	–
Subsidiaries						–
ERG Power Generation S.p.A.						
Creggan Wind Farm Limited	Seebeck House (UK)	100%	100%	–	–	–
Eolico Troina S.r.l. in liquidazione	Palermo	99%	99%	20	250	25
ERG Development France S.a.s. (4)	Paris	100%	100%	n.d.	n.d.	10
ERG UK Holding Ltd. (5)	Belfast (UK)	100%	100%	–	–	3,802
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(217)	123
Longburn Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	–	313
Sandy Knowe Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	–	398
WP France 6 S.a.s.	Puteaux (France)	100%	100%	6	(4)	2,986
Subsidiaries						7,658
ERG Power Generation S.p.A.						
Rigghill Wind Farm Ltd.	Seebeck House (UK)	50%	50%	–	–	236
Joint ventures						236
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.	Barcelona (Spain)	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
TOTALE						8,385

(1) data referring to the latest approved financial statements

(2) EUR thousand

(3) in view of the negative shareholders' equity of ERG Petroleos, a provision for risks on equity investments of approximately EUR 6 million has been allocated

(4) on 15 December 2017 ERG, via its subsidiary ERG Eolienne France S.a.s, formed the company under French law ERG Development France S.a.s.

(5) on 28 November 2017, the company Evishagaran Wind Farm Ltd. changed its name to ERG UK Holding Ltd.

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. In July 2017, registration of the acquisition by ERG Power Generation S.p.A. of all the shares of the UK company Evishagaran Wind Farm Ltd. with the competent UK authorities was completed.
- On **6 September 2017**, the Shareholders' Meeting of Emittenti Titoli S.p.A. - in whose capital ERG S.p.A. holds a share equal to 0.51% - resolved to proceed with early dissolution and liquidation of the company. The company is recognised in these Consolidated Financial Statements using the cost method.
- Total Italia S.r.l. was formed on **22 September 2017** as part of the **TotalErg Transaction**. ERG S.p.A. and Total Marketing Services SA are holders of a stake respectively equal to 51% and 49% of the share capital of Total Italia S.r.l. The company was sold in January 2018. For further information, reference is made to **Note 27 - Assets and liabilities held for sale**.
- On **11 October 2017** ERG, through its subsidiary ERG Eolienne France S.a.s, executed with Vent d'Est S.a.s, a company of the French Grand Est region with industrial competencies in the management and development of wind farms and strong relationships with local communities, an agreement for the acquisition of 75% of the share capital of two companies owning two parks for a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s of 12 MW, which started operating in 2007 and Parc Eolienne d'Epense S.a.s of 4.25 MW, which started operating in 2005). The remaining 25% is held by Renvico France S.a.s.

The enterprise value of the acquisition, base 100%, amounted to EUR 12.9 million. The closing, subordinated inter alia to the minority shareholders' waiving of the right of first bid, is expected by the first quarter of 2018. The transaction also provides the stipulation of a co-development agreement with Vent d'Est S.a.s for an early-stage pipeline of approximately 300 MW of projects, also located in France, in areas where wind speeds are very high.

The agreement will then make it possible to start a greenfield development activity in France as well, of which ERG will have the leadership in the technical definition of the projects and in the management of the costs.

With this acquisition, consistent with the Plan objectives of geographic diversification and growth abroad, ERG brings its installed capacity to approximately 270 MW in France, where a plan of progressive in-sourcing of wind farm management activities has already been launched.

- On **11 December 2017**, ERG, via its subsidiary ERG Power S.r.l., sold to Syndial S.p.A. and ISAB S.r.l., a total of 213,560 shares of Priolo Servizi S.C.p.A., equal to 0.76% of its equity investment in the aforesaid company. As from the above date, therefore, ERG Power S.r.l. has a 23.65% interest in the share capital of Priolo Servizi S.C.p.A. The company is consolidated in these Consolidated Financial Statements using the shareholders' equity method.
- On **15 December 2017** ERG, via its subsidiary ERG Eolienne France S.a.s, formed the company under French law ERG Development France S.a.s.
- On 3 November 2017, ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the Api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

On **10 January 2018**, the closing with the Api Group for the sale of its own 51% share in TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining, was completed, as was the closing with Total Marketing Services S.A. for the sale of its share (51%) in the company Total Italia S.r.l., owner of the branch of the company related to the field of lubricants previously owned by TotalErg S.p.A. The transaction was concluded, as communicated on 3 November 2017, following approval by the relevant Antitrust Authority and the completion of the demerger of the above-mentioned TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l. For additional details, please see the section **TotalErg Transaction**.

- On 16 November 2017 ERG, via its subsidiary ERG Power Generation S.p.A., signed an agreement with VEI Green S.r.l., an investment holding company controlled by PFH S.p.A. and owned by leading Italian institutional investors, for the acquisition of 100% of ForVei S.r.l., the ninth largest photovoltaic operator in Italy. ForVei, a joint venture between VEI Green and Foresight formed in 2011, owns and manages 30 photovoltaic plants, which entered into operation between 2010 and 2011 and are located in 8 regions between the north and the south of Italy. They have an installed capacity of 89 MW and an annual production of approximately 136 GWh, equal to approximately 77 kt of CO₂ emissions avoided. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030. The enterprise value of the transaction was equal to EUR 336 million; annual EBITDA for 2017 was forecast at approximately EUR 35 million. The assets are currently financed through non-recourse Project Financing for an amount of approximately EUR 180 million, and lease contracts for an amount of approximately EUR 60 million.

On **12 January 2018** ERG, via its subsidiary ERG Power Generation S.p.A., completed the acquisition from

VEI Green S.r.l., an investment holding company controlled by PFH S.p.A. and owned by leading Italian institutional investors, of 100% of ForVei S.r.l., the ninth largest photovoltaic operator in Italy with a total installed capacity of 89 MW. The transaction, which obtained the approval of the Antitrust Authority and the lending banks, marks the entry of ERG into solar power and represents a further important step in the strategy for technological diversification in production from renewable sources.

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 PLN 50 million and PLN 40 million. 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.

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 PLN 132 million (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 PLN 148 million, 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.

- Note that, with effect from **1 January 2018**:
 - the assets belonging to the French branch of ERG Power Generation S.p.A. were transferred to CSO Energy S.a.r.l., which, on the same date, consequently increased its share capital to EUR 2,000,000.00 and changed its name to ERG France S.a.r.l.;

- the assets belonging to the German branch of ERG Power Generation S.p.A. were transferred to CSO Energy GmbH, which, on the same date, changed its company name to ERG Germany GmbH.

As a result of the above transactions, with effect from 2 January 2018, these branches of ERG Power Generation S.p.A. were closed.

With regard to the existence of restrictions and guarantees on the equity investments held by the Group, please refer to **Note 25 - Covenants and negative pledges**.

TotalErg Transaction

On **3 November 2017**, ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the Api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery.

The transaction was completed on **10 January 2018**, following approval by the Antitrust Authority and the completion of the demerger of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A. entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The amount relating to the sale of assets is EUR 194 million, EUR 14 million of which was already collected in advance payments in 2017, EUR 144 million was collected in 2018 at the time of closing and EUR 36 million was collected as a deferred component regulated by a vendor loan agreement with a maturity of 5 and a half years, signed with Api S.p.A. The overall value linked to the equity value of the transaction is EUR 273 million which includes, in addition to the consideration indicated above, the extraordinary dividends distributed by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017), the interest that will accrue in the context of the vendor loan agreement and the related tax effects.

It is recalled that in the "Half-Year Condensed Consolidated Financial Statements at 30 June 2017", the equity investment is recognised and indicated in application of the requirements of IFRS 5.

The application of this Standards in the Consolidated Financial Statements resulted in:

- at the date of first classification of the equity investment as held for sale (30 June 2017), the Group ceased to apply the equity method as a method of recognising the equity investment subject to sale. The book value at 30 June 2017 was equal to EUR 142.9 million, inclusive of a result of the first half of 2017 recognised in profit or loss for EUR 12 million;
- comparison of the book value calculated in this way with the aforementioned selling price (EUR 194 million) net of

the related charges (EUR 15 million). This comparison shows evidence of a partial reversal of previous write-downs, equal to EUR 37 million with a balancing entry in the income statement;

- the recognition in the income statement of dividends distributed by TotalERG S.p.A. to ERG S.p.A. subsequent to 30 June 2017 for an amount equal to EUR 51 million.

Application of the above resulted in the equity investment being recognised in the 2017 Consolidated Financial Statements under the item "Assets held for sale" at the value of EUR 179.5 million (the sale price net of the related costs), and EUR 99 million of income being recognised under the item "Net profit (loss) from assets held for sale".

Brockaghboy Windfarm Ltd.

At the end of financial year 2017, a process was started to sell the subsidiary Brockaghboy Windfarm Ltd., a company incorporated under UK law which owns a wind farm in Northern Ireland that entered into operation during the fourth quarter of 2017. The sales process is expected to be completed within the first quarter of 2018.

In view of the above, in the Notes to the Consolidated Financial Statements the accounting results relating to the assets being sold are listed separately in application of the requirements of IFRS 5.

For clearer disclosure, the results of the ordinary operations of the assets being sold are shown and commented on in this Report.

For the reconciliation of these values, please refer to the section "Alternative Performance Indicators".

Bond issue

On 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.

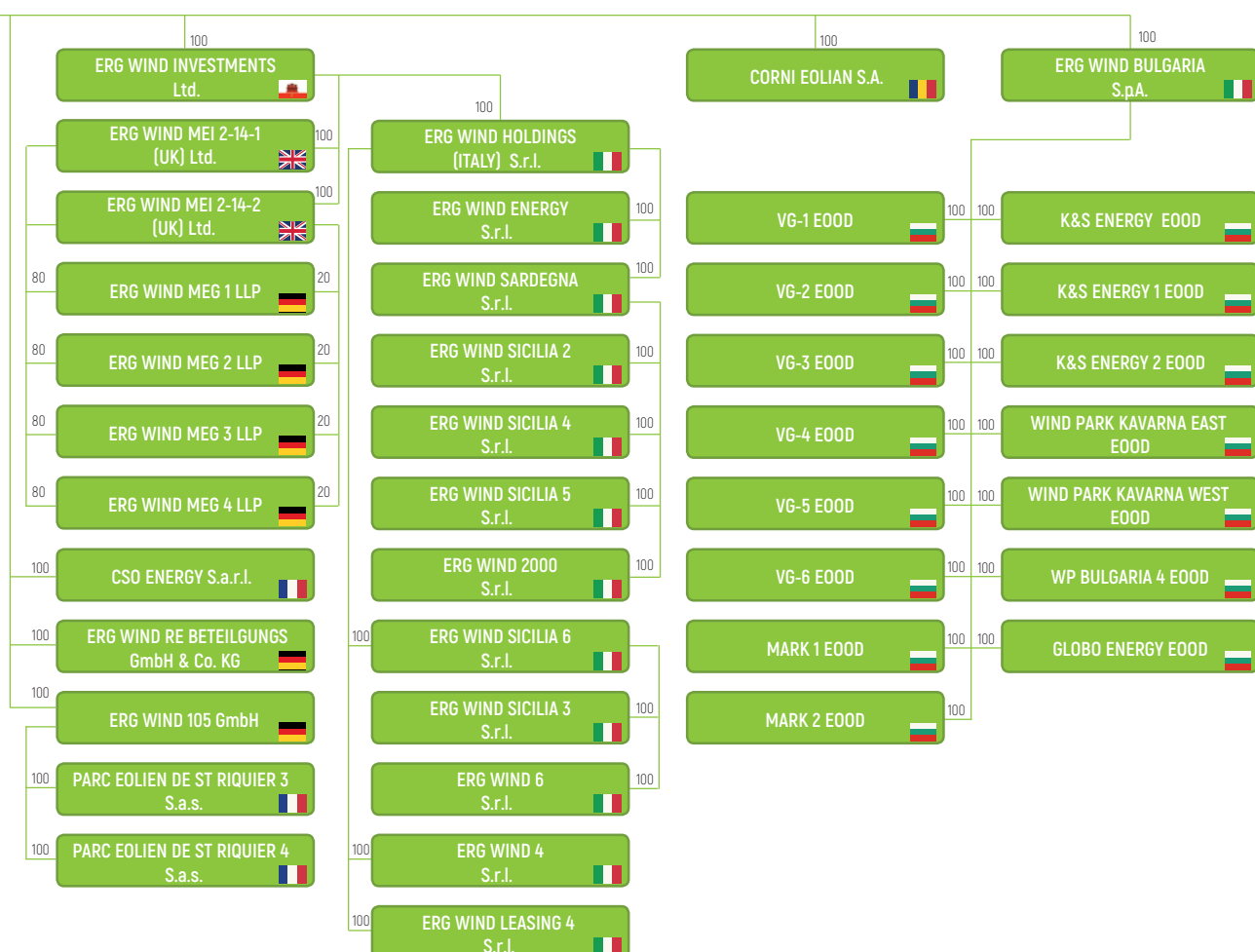
The bonds are unrated and are not subject to financial covenants and will be reimbursed in a one-off payment in January 2023.

The bonds were issued at a price equal to 100% of their nominal value and bear interest at a fixed rate equal to 2.175%. Interest will be paid on a deferred annual basis. The issue lengthens the duration of indebtedness, reduces the average cost and diversifies the sources of financing of the Group.

The bond issue was recorded at the nominal value and the related ancillary costs (EUR 0.6 million) were presented as a reduction of the payable and spread over the duration of the loan in accordance with the amortised cost method.

SCOPE OF CONSOLIDATION AT 31 DECEMBER 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.

These Consolidated Financial Statements reflect 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 actual consolidation date to the closing 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 0.5 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 accounting treatment for the acquisition has been confirmed;

(EUR thousands)	German companies "DIF"	Adjustment to the acquisition situation	German companies "DIF" Adjusted
Intangible fixed assets	–	12,420	12,420
Goodwill	–	–	–
Property, plant and equipment	37,679	–	37,679
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	–	–	–
Other non-current assets	–	–	–
Non-current assets	37,679	12,420	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	41,624	(2,162)	39,462
Shareholders' Equity	6,512	(6,512)	–
Employees' severance indemnities	–	–	–
Deferred tax liabilities	5,192	4,350	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	34,185	4,350	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	41,624	(2,162)	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 equipment: 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 2017

In the time interval between the date of first consolidation (1 January 2017) and the reporting date of this Annual Financial Report, the companies acquired contributed to the Group's income statement with revenues of EUR 7 million and a break-even net income.

JOINT VENTURES

TotalErg S.p.A.

At 31 December 2017, ERG S.p.A. held 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.

It should be noted that as from the Half-Year Condensed Consolidated Financial Statements at 30 June 2017, the shareholding is shown in "Assets held for sale", in accordance with IFRS 5, in view of the process to sell 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. (23.65%), ISAB S.r.l. (38.63%) and by the other members of the Versalis S.p.A. Group (33.11%) and Syndial S.p.A. (4.61%).

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 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 25 - Covenants and negative pledges**.

The consequences of the changes in the equity investments in subsidiaries that took place in 2015 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 25 - 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 paragraphs **List of Group companies**, **Joint Ventures** and **Equity investment in TotalErg**.

In view of the Group’s 51% share in TotalErg S.p.A., sold on 10 January 2018, it was considered a joint venture by virtue

of the shareholders' agreements that provided for equally shared governance. For the summary of the economic and financial data of the Joint Ventures and associates, please see the following tables:

(EUR thousand)	TOTALERG		PRIOLO SERVIZI	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Property, plant and equipment	473,060	481,709	74,291	79,838
Intangible fixed assets and Goodwill	32,347	37,244	5	64
Equity investments and Other non-current financial assets	68,226	67,603	38	36
FIXED ASSETS	573,633	586,556	74,335	79,939
Inventories	305,628	304,248	1,350	1,454
Trade receivables	563,572	549,871	5,182	7,179
Trade payables	532,170	648,346	10,196	13,917
Excise duties payable to tax authorities	215,827	122,348	–	–
NET WORKING CAPITAL	121,203	83,425	3,664	5,283
Employees' severance indemnities	7,386	7,990	457	571
Other assets	152,112	141,193	1,859	3,198
Other liabilities	346,722	271,460	2,284	3,473
NET INVESTED CAPITAL	492,840	531,724	69,789	73,810
Group Shareholders' Equity	270,784	287,404	54,069	53,872
Financial indebtedness	222,056	244,320	15,720	19,938
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	492,840	531,724	69,789	73,810
	2017	2016	2017	2016
Revenues from ordinary operations	2,240,424	3,940,783	48,887	52,824
Other revenues and income	17,624	74,952	3,001	2,730
Costs for purchases	(1,934,406)	(3,373,704)	(1,196)	(1,407)
Change in inventory	1,130	26,439	(102)	(59)
Costs for services and other operating costs	(207,613)	(425,050)	(32,234)	(34,862)
Personnel costs	(37,554)	(74,512)	(9,083)	(8,906)
EBITDA	79,605	168,908	9,273	10,320
Amortisation, depreciation and write-downs of fixed assets	(39,546)	(73,032)	(7,976)	(8,260)
EBIT	40,059	95,876	1,297	2,059
Net financial income (expenses)	(3,527)	(14,924)	(563)	(682)
Income (loss) from equity investments	674	1,827	–	–
PROFIT (LOSS) BEFORE TAXES	37,206	82,779	734	1,375
Income taxes	(13,213)	(30,984)	(232)	(802)
NET PROFIT	23,992	51,795	502	574

RECONCILIATION WITH THE CARRYING VALUE OF THE EQUITY INVESTMENT

(EUR thousand)	TOTALERG		PRIOLO SERVIZI	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Share attributable to ERG Group	51%	51%	24%	24%
Share of Group shareholders' equity	138,100	146,576	12,787	13,150
Other adjustments	41,438	5,100	–	–
Carrying value of the equity investment	179,538	151,676	12,787	13,150

IMPAIRMENT TEST

This section provides a description of the impairment tests on the Group's main assets, as required by IAS 36. In particular, it should be specified that in testing the recoverable value of production plants with defined useful life, the value in use was considered, as calculated on estimated cash flows through the useful life of the assets.

In particular, the following were taken into account for the determination of the cash flows:

- for the explicit period, the data contained in the financial plan drawn up by the Group ("2018-2022 Plan"), approved on 7 March 2018, excluding the initiatives of Repowering, Business Development and Merger & Acquisition as impact scenarios, however favourable;
- for the years subsequent to the explicit period, the data processed on the basis of models simulating the macroeconomic and energy scenario and assuming a steady production trend.

With regard to equity investments, which by nature have indefinite useful life, their specific features were taken into account; please therefore refer to the respective paragraphs for an explanation of the approach used.

WIND SEGMENT IMPAIRMENT TESTS

The Group has completed a series of acquisitions over the years in the Wind segment. The main acquisitions are summarised as follows:

- acquisition of the Enertad Group (now ERG Renew S.p.A.), starting from 2006 with subsequent step acquisitions concluded with the acquisition of 100% of ERG Renew S.p.A., completed through the Takeover Bid in 2011;
- acquisition of five French companies owning as many wind farms located in France. The transaction was completed through the transfer of the equity investments from Theta Energy to EnerFrance S.a.s. (now ERG Eolienne France), a wholly owned subsidiary, specifically incorporated as a sub-holding of the wind power segment for the assets located in France;
- acquisition of ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 s.r.l.), owner of two operational wind farms in Molise and in Puglia;
- acquisition of 100% of ERG Eolica Campania (formerly IVPC Power 3 S.p.A.), owner of five wind farms, operational since 2008, between the provinces of Avellino and Benevento, with a total installed capacity of approximately 112 MW;
- acquisition of 80% of the capital of IP Maestrale Investments Ltd. (now ERG Wind Investment Limited), a primary operator in Italy in the segment of renewable energy from wind power. On 13 April 2016, ERG Renew S.p.A. completed the acquisition from International Power Consolidated Holding Limited of the remaining 20% of the equity investment in ERG Wind Investment Limited following the exercise of a call option by ERG Renew S.p.A. which has held all shares of the investee company since that date;
- acquisition of 100% of the capital of ERG Renew Operations & Maintenance S.r.l., a company dedicated to the operation and maintenance of the Italian wind farms of ERG Wind.

- acquisition of 100% of Hydro Inwestycje SP. Z.O.O. and Blachy Pruszyński Energia SP. Z.O.O., a Polish company owning the authorisations required for the construction of wind farms in Poland (operational since the beginning of 2016);
- acquisition of 100% of the capital of four French companies that directly and indirectly own six wind farms in France, with a total installed capacity of 63.4 MW, commissioned between 2005 and 2008 (Martel business combination);
- winding up of the joint venture LUKERG Renew GmbH with subsequent acquisition of control of all of the wind farms in Romania and Bulgaria;
- acquisition of 100% of the capital of 15 French companies that directly and indirectly own eleven wind farms in France, with a total installed capacity of 124 MW (Impax France business combination);
- acquisition of 100% of the capital of 10 German companies that directly and indirectly own six wind farms in Germany, with a total installed capacity of 82 MW (Impax Germany business combination);
- 2017 business combinations discussed previously in the section **Changes in the scope of consolidation**.

In reference to these acquisitions, it should be noted that the values recognised in the initial recording of the net identifiable assets and the goodwill attributable to the acquisitions made in 2017 have not been subjected to tests for impairment losses since they are the result of recent transactions.

The acquisitions were recognised and measured pursuant to IFRS 3 on business combinations, by allocating the cost of the acquisition to the acquired assets and assumed liabilities, including those not recognised prior to the acquisition. Following the impairment tests in the 2008, 2009 and 2010 financial statements, the values of the Enertad acquisitions had been partially written down. On the occasion of the 2010 financial statements, the capital gains relating to the acquisitions of the French companies were partially written down.

The residual value of the higher values¹ allocated upon purchase price allocation before the 2017 impairment test was as follows:

- approximately EUR 416 million allocated to permits and preliminary agreements for wind farms in operation, of which EUR 110 million referred to wind farms of the ERG Wind Group;
- approximately EUR 126 million to goodwill, divided among the different business combinations:
 - EUR 96 million referred to ERG Wind (Italy and Germany);
 - EUR 19 million referred to ERG Eolica Campania and ERG Eolica Adriatica (Italy);
 - EUR 10 million referred to ERG Renew Operations & Maintenance (Italy).

In consideration of the goodwill values posted in the financial statements, for these Financial Statements their recoverable value was verified and the measurement values used in the previous tests of the values associated with the aforesaid business combinations were revised.

¹ Values relating to business combinations from previous years. They do not include the allocations relating to transactions in 2017 since they have not been subjected to impairment tests, as discussed in more detail in the previous paragraph.

The Group then estimated the recoverable value of the aforesaid assets. According to IAS 36, the recoverable value of an asset or of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The recoverable value of cash generating units ("CGUs") is tested by determining their value in use. The main assumptions used to calculate value in use pertain to the discount rate, the growth rate and the expected changes in the sale prices of energy and of direct costs during the period selected for the calculation. The Group then adopted an after-tax discount rate that reflects current market measurements of the cost of capital and of the specific risk connected with the CGUs. The growth rates used are based on growth forecasts for the Group's industry, taking into account the Group's market share. Changes in sale prices and in direct costs are determined on the basis of past experience and on future market expectations.

In determining the discount rate, the financial parameters considered were the Beta and Debt/Equity ratios derived from panels of comparable companies, in order to consider both the market risk of companies operating in the same industry and a market-based financial structure. With regard, instead, to the cost of equity (k_e), this includes the rate of return of risk-free assets and it is identified as the rate of return of German ten-year Government bonds.

"EnerTAD" (Italy) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (4.1%) was used to compute the present value of expected cash flows.

"ERG Eolica Campania and ERG Eolica Adriatica" (Italy) business combination

The value of Goodwill was determined by identifying two Cash Generating Units (CGUs) connected with the wind farms on which goodwill is allocated, i.e. ERG Eolica Adriatica and ERG Eolica Campania.

In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated. the terminal value is estimated as an extension of the explicit period for ten years.

A discount rate equal to the industry WACC (4.1%) was used to compute the present value of expected cash flows.

“EnerFrance” (France) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (3.2%) was used to compute the present value of expected cash flows.

“ERG Wind GmbH” (Bulgaria and Romania) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (5.0% for Bulgaria and 5.3% for Romania) was used to compute the present value of expected cash flows.

“ERG Wind” (Italy and Germany) business combination

With reference to the values related to Authorisations:

- in line with the methodology used to determine the purchase price, two Cash Generating Units (CGUs), corresponding with the CGU that comprises the wind farms located in Italy and the CGU that comprises the wind farms located in Germany, were identified. The capital gains identified when accounting for the acquisition were allocated to these CGUs;
- in particular within the CGU in Italy, the capital gains were allocated with reference to each point of sale of energy to the national grid, grouping the related wind farms connected to the same point of sale;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;

- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (4.1% for Italy and 3.2% for Germany) was used to compute the present value of expected cash flows.

The goodwill acquired in the “ERG Wind” business combination was allocated, at the acquisition date, to the cash generating units from which benefits connected with the combination are expected; consequently, the same Cash Generating Units as those selected to determine the recoverable value of the Authorisations and preliminary agreements.

In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated. the terminal value is estimated as an extension of the explicit period for ten years.

A discount rate equal to the industry WACC (4.1% for Italy and 3.2% for Germany) was used to compute the present value of expected cash flows.

“ERG Renew Operations & Maintenance” business combination

With reference to the value of Goodwill, a Cash Generating Unit (CGU) belonging to the same company was identified.

In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the O&M contracts with the other companies of the Group was estimated. the terminal value is estimated as an extension of the explicit period for ten years.

A discount rate equal to the industry WACC (4.1%) was used to compute the present value of expected cash flows.

Poland business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (5.6%) was used to compute the present value of expected cash flows.

“Martel” (France) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (3.2%) was used to compute the present value of expected cash flows.

“Impax” business combination (France and Germany)

With reference to the values related to Authorisations:

- in line with the methodology used to determine the purchase price, two Cash Generating Units (CGUs), corresponding with the CGU that comprises the wind farms located in France and the CGU that comprises the wind farms located in Germany, were identified. The capital gains identified when accounting for the acquisition were allocated to these CGUs;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (3.2% for France and 3.2% for Germany) was used to compute the present value of expected cash flows.

Group Management has deemed that the assumptions used to identify the recoverable value of tangible and intangible assets and goodwill connected with the different CGUs of the Wind segment are reasonable, and no impairment emerged for any of the identified CGUs on the basis of the aforementioned assumptions.

Lastly, the value in use of the different CGUs that characterise and comprise the Wind segment is determined according to measurement parameters that are extraneous from the logic of negotiation; instead, it is based on industry parameters that, as such, lead to a definition of value that takes on a distinct meaning from the concept of “price”.

Sensitivity analysis

The result of the impairment test derives from information available to date and from reasonable estimates on future changes in the following variables: wind strength, energy price and interest rates.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable value of the carrying amounts allocated to the "Renewable" segment, and it also carried out a sensitivity analysis on the recoverable amount of the different CGUs. This analysis assumed that total revenues from energy sales (i.e. energy remuneration and generation) could undergo upward or downward fluctuations, to an extent that can be estimated at 10% relative to the values estimated for the Plan.

In the event of a reduction in revenues equal to 10%, persisting throughout the time interval of the plan, the recoverable amount would decrease by approximately EUR 209 million, not entailing any write-down of the carrying values.

Lastly, we point out that an increase of 1.0% in the discount rate would result in a decrease in the recoverable value of around EUR 198 million, without any write-downs to the carrying amounts.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the consolidated financial statements.

ERG Power S.r.l.'s CCGT plant impairment test

In April 2010, ERG Power's new CCGT plant, with approximately 480 MW of installed power, started full commercial operations; the plant supplies utilities and electrical energy to the industrial customers of the Priolo site, placing the remainder of the generated electricity on the market.

As a result of the impairment tests carried out, in the 2011 financial statements the productive assets were written down by EUR 95 million before the tax effect. Therefore, goodwill was entirely written down (EUR 1.5 million) in the 2011 financial statements and the residual write-down (EUR 94 million) reduced the value of the tangible fixed assets referred to the CCGT plant.

The carrying amount of the plant at 31 December 2017, net of the aforesaid write-downs (EUR 54 million at 31 December 2017) and depreciations, amounts to approximately EUR 251 million.

In preparing these Financial Statements, the recoverability of the carrying value of the aforesaid plant was verified, in view of the persistence, for 2016 as well, of uncertainties and variability (or volatility) of the scenario which characterises the domestic electric market.

For impairment test purposes, the CGU comprises the tangible fixed assets attributable to the CCGT plant of ERG Power and the cash flows generated by the Power Business Unit (since 1 July 2014, ERG Power Generation) which operates the plant through a tolling agreement and sells the energy produced on the free market.

The analysis was carried out by identifying the recoverable value, i.e. the value in use, of the Cash-Generating Unit. The basis for the calculation was the projection of the operating cash flows associated to the CGU for its useful life, contained in the financial forecast prepared by the Group and pertaining to a twenty-year time span; additionally, a

residual value (or “terminal value”) was assumed, calculated with a further 10-year extension of the measurement period. The expected changes in sale prices and direct costs during the year assumed for the calculation are determined on the basis of past experience, corrected by future market expectations. In particular, the hypotheses used take account of a reduction in the profitability of site agreements expiring after 2025 (deadline year) by as much as 50% of the fixed quotas recognised.

Projected cash flows were discounted using a discount rate (WACC after tax) of 5.0%.

The impairment test was set up by updating the assumptions used for the test performed for the 2017 financial statements; in particular, the estimates of the electricity market scenario, of the zone bonus in Sicily, of the profitability of the plant in the Dispatching Services Market and of the modulation activities were updated.

Group management deems the assumptions used to identify the recoverable value of the CCGT plant of ERG Power to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

It should be noted that the value in use resulting from the impairment test shows a positive difference relative to the carrying amount. Taking into account that this difference is mainly due to temporary phenomena and also connected to the current level of discount rates, Management did not reverse previous write-downs.

Sensitivity analysis

The result of the impairment test derives from information available to date and from reasonable estimates on future changes in the following external variables: energy price, raw materials price and interest rates.

The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the CCGT plant and it also carried out a sensitivity analysis on the recoverable value of the CGU. This analysis showed that in the event of a reduction of 5% in unit contribution margins, the recoverable value, determined according to the evaluation model adopted, would decrease by approximately EUR 37 million, not entailing any write-down of the carrying values.

Lastly, with a 1.0% increase in the discount rate, recoverable value would decrease by approximately EUR 34 million, not entailing any write-down of the carrying value.

The Directors will continue to systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

Impairment testing on hydroelectric power generation plants

On 30 November 2015, the Group finalised the purchase, through the subsidiary ERG Power Generation S.p.A., of ERG Hydro S.r.l. (formerly Hydro Terni S.r.l.), a company that owns hydroelectric energy production plants in Umbria, Marche and Lazio with a total power of 527 MW.

In the 2015 Financial Statements (provisionally) and in the 2016 Financial Statements (definitively), as prescribed by IFRS 3, the Purchase Price Allocation procedure had been carried out: the higher price was allocated to Concessions in the amount of approximately EUR 219 million, before the related tax effect recognised among “Deferred tax liabilities” for EUR 69 million, and to Tangible fixed assets in the amount of EUR 235 million, before the related tax effect recognised among “Deferred tax liabilities” for EUR 74 million. For more details, please refer to the comments provided in the 2016 Financial Statements.

The residual value of the higher values allocated upon purchase price allocation before the 2017 impairment test was as follows:

- approximately EUR 185 million allocated to Concessions;
- approximately EUR 198 million allocated to Tangible fixed assets.

In preparing these Financial Statements, the recoverability of the carrying value of the aforesaid plants was verified. For the purposes of the impairment test, the CGU comprises the asset portfolio acquired in 2015, specifically 16 plants, 7 dams, 3 reservoirs and a pumping station.

The analysis was carried out by identifying the recoverable value, i.e. the value in use, of the Cash-Generating Unit. The basis for the calculation was the projection of the operating cash flows associated to the CGU until 2029, the date of expiry of the Authorisations. Additionally, a residual value (or “terminal value”) was assumed, corresponding to the estimation of a fee to the outgoing transferee, calculated on the basis of compliance with current regulations. Projected cash flows were discounted using a discount rate (WACC after tax) of 4.1%.

Group management deems the assumptions used to identify the recoverable value of the hydroelectric plants to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

Sensitivity analysis

The result of the impairment test derives from information available to date and from reasonable estimates on future changes in the following variables: wind strength, energy price and interest rates.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable value of the carrying amounts allocated to the “Hydro” segment, and it also carried out a sensitivity analysis on the recoverable amount of the different CGUs. This analysis assumed that total revenues from energy sales (i.e. energy remuneration and generation) could undergo upward or downward fluctuations, to an extent that can be estimated at 10% relative to the values estimated for the Plan.

In the event of a reduction in revenues equal to 10%, persisting throughout the time interval of the plan, the recoverable amount would decrease by approximately EUR 61 million, not entailing any write-down of the carrying values.

Lastly, we point out that an increase of 1.0% in the discount rate would result in a decrease in the recoverable value of around EUR 69 million, without any write-downs to the carrying amounts.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the consolidated financial statements.

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, depreciation and write-downs	(149,172)	(45,245)	–	(194,417)
BALANCE AT 31/12/2016	668,295	7,355	964	676,613
Assets held for sale	(7,069)	–	–	(7,069)
Changes during the year:				
Change in the scope of consolidation	12,420	–	–	12,420
Capital expenditure	–	3,149	457	3,606
Capitalisation and reclassification	–	–	–	–
Disposals and divestments	–	(243)	–	(243)
Amortisation and depreciation	(44,869)	(4,484)	–	(49,353)
Write-downs	–	–	–	–
Other changes	(1,068)	(318)	(19)	(1,405)
Historical cost	821,984	54,941	1,402	878,327
Amortisation, depreciation and write-downs	(194,275)	(49,483)	–	(243,758)
BALANCE AT 31/12/2017	627,709	5,458	1,402	634,569

The concessions balance at 31.12.2017, equal to EUR 627,709 thousand, refers in the amount of EUR 442,567 thousand to wind power business concessions (purchased or arising from PPA) and in the amount of EUR 185,142 thousand to hydroelectric business concessions.

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.

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

The amounts reclassified to **“Assets held for sale”** relate to assets of Brockaghboy Windfarm Ltd. as described in the relative paragraph. It should be noted that the amount reclassified refers to the opening balance.

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 12,420 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 **Report on Operations**.

NOTE 2 - GOODWILL

"Goodwill", equal to EUR 125,932 thousand (EUR 125,932 thousand 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 the occasion of this Report, the test required by Paragraph 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
Amortisation, 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
Assets held for sale	–	–	–	(42,262)	(42,262)
Changes during the year:					
Change in the scope of consolidation	–	37,679	–	–	37,679
Capital expenditure	2,222	5,648	1,082	13,194	22,146
Capitalisation and reclassification	14	2,312	348	(2,674)	(0)
Disposals and divestments	(35)	(1,214)	(26)	–	(1,275)
Amortisation and depreciation	(9,642)	(190,565)	(1,375)	–	(201,582)
Write-downs	–	–	–	–	–
Other changes	2,327	4,597	67	(174)	6,817
Historical cost	238,210	4,041,428	25,320	28,879	4,333,837
Amortisation, depreciation and write-downs	(117,181)	(2,017,243)	(17,553)	–	(2,151,977)
BALANCE AT 31/12/2017	121,029	2,024,185	7,767	28,879	2,181,860

The property, plant and equipment total at 31.12.2017, equal to EUR 2,181,860 thousand, refers in the amount of EUR 1,252,035 to wind power business plants, in the amount of EUR 251,220 thousand to thermoelectric sector plants and in the amount of EUR 667,286 thousand to hydroelectric sector plants.

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

The amounts reclassified to **"Assets held for sale"** relate to assets of Brockaghboy Windfarm Ltd. as described in the relative paragraph. It should be noted that the amount reclassified refers to the opening balance.

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 37,679 thousand. For more information, please refer to the section **Scope of consolidation**.

Investments relate mainly to works to develop the Brockaghboy Windfarm Ltd. wind farm in Northern Ireland. For a more detailed analysis of acquisitions, please refer to the **Investments** section in the **Report on Operations**.

Other changes include the net change due to the exchange rate effect relating to the conversion into euros of financial statements in foreign currencies, to increases recognised for decommissioning charges relating to the Northern Ireland wind farm entered into operation in 2017, and to capitalised interest of EUR 1,042 thousand.

For information on the existence of restrictions on the assets held by the Group, please refer to **Note 25 - 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
Measurement TotalErg equity method 1 st half-year 2017	–	(8,760)	–	–	(8,760)
Assets held for sale	–	(142,916)	–	–	(142,916)
Changes during the period:					
Acquisitions/share capital increases/increases	3,898	32	–	–	3,929
Reclassifications	–	–	–	–	–
Write-downs/use of provision to cover losses	(943)	–	–	–	(943)
Disposals and divestments	–	–	(349)	–	(349)
Measurement of investments using the equity method	–	–	(13)	–	(13)
BALANCE AT 31/12/2017	7,658	236	12,787	491	21,173

The item **"Assets held for sale"** refers to the equity investment in TotalErg as described in the section **TotalErg Transaction**.

Acquisitions relate to the acquisition of UK company Evishagaran Wind Farm Ltd. (now ERG UK Holding Ltd.), the incorporation of the French company ERG Development France S.a.s, noted in the section **Scope of consolidation** and for the remaining EUR 85 thousand to capitalised charges on the value of the equity investment.

Write-downs relate to the equity investment in Creggan Wind Farm Limited (UK) by virtue of the conditions prevailing at the time of preparing this document.

Disposals and divestments relate to the sale of part of the share (0.76%) held by the subsidiary ERG Power S.r.l. in Priolo Servizi S.C.p.A. to Syndial S.p.A. and ISAB S.r.l.

The EUR 13 thousand negative change arising from **measurement under the equity method of accounting** is due to the results for the year of the investee company Priolo Servizi S.C.p.A.

IFRS 5 reclassification represents the value of the equity investment in TotalErg at 31 December 2016.

Equity investments owned at 31 December 2017 were as summarised below:

	Measured at Shareholders' equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated on a line-by-line basis	–	7,658	7,658
- in joint ventures	–	236	236
- in associated companies	12,787	–	12,787
- in other businesses	–	491	491
Total	12,787	8,385	21,173

A breakdown of the equity investments is provided in the section **List of Group companies**.

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2017	31/12/2016
Financial receivables due from investee companies	2,630	1,335
Other financial receivables	37,739	37,764
Total	40,369	39,099

"Other non-current financial assets" amounting to EUR 40,369 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 no. 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**).

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% - 5.57%).

Deferred tax assets amounting to EUR 132,861 thousand (EUR 160,045 thousand at 31 December 2016), were mainly recognised over derivative financial instruments and provisions for liabilities and charges.

In addition, deferred tax assets relating to excess interest expenses that can be carried forward, amounting to approximately EUR 41 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 47,308 thousand (EUR 45,615 thousand at 31 December 2016) mainly comprise:

- the portion still to be collected, equal to EUR 22 million, of the receivables for grants per Italian Law no. 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**);
- receivables of EUR 10 million by way of indemnification of the liability tied to interest and revaluations on the contributions under Italian Law no. 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**;
- tax receivables relative to VAT of EUR 5 million.

NOTE 8 - INVENTORIES

Raw materials inventories, equal to EUR 20,597 thousand (EUR 20,365 thousand at 31 December 2016) relating mainly 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.

Inventories are recorded net of the related provision for depreciation equal to EUR -5,060 thousand (EUR -4,308 at 31 December 2016). It should be noted that some components were prudentially written down during the financial year in the amount of approximately EUR 1,704 thousand.

NOTE 9 - TRADE RECEIVABLES

Receivables are summarised as follows:

	31/12/2017	31/12/2016
Customer trade receivables	144,350	194,956
Receivables for incentives	115,646	101,668
Receivables due from Group companies not consolidated line-by-line	2,631	3,460
Bad debt provision	(7,093)	(7,106)
Total	255,534	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 site 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 40 -**

Related parties.

The bad debt provision changed as follows:

	31/12/2017	Increases	Decreases	Change in the scope of consolidation	31/12/2016
Bad debt provision	7,093	1,645	(1,658)	–	7,106
Total	7,093	1,645	(1,658)	–	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 **increases** relate in particular to provisions for doubtful trade receivables related to the wind power business.

The **decreases** mainly relate to usage relating to the thermoelectric business.

The bad debt provision is deemed to be sufficient to address the risk of potential non-collectability of overdue receivables. Below is a breakdown of trade receivables outstanding at year-end.

	31/12/2017	31/12/2016
Receivables not yet due	240,459	266,112
Receivables past due:		
within 30 days	9,383	17,638
within 60 days	1,569	–
within 90 days	480	–
beyond 90 days	3,643	9,227
Total	255,534	292,978

NOTE 10 - OTHER CURRENT RECEIVABLES AND ASSETS

	31/12/2017	31/12/2016
Tax receivables	38,661	48,039
Group VAT receivables due from TotalErg	1,279	9,238
IRES tax consolidation receivables due from TotalErg	21,671	2,909
Sundry receivables	35,962	44,251
Total	97,573	104,437

Tax receivables mainly comprise VAT and income taxes receivables.

"Sundry receivables" comprise, inter alia, receivables from Group companies not consolidated line by line and the portions of deferred costs in subsequent periods.

The decrease in the value of other receivables refers in particular to the reclassification from current to non-current of EUR 10 million of receivables by way of indemnification of the liability tied to interest and revaluations on the contributions under Italian Law no. 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

	31/12/2017	31/12/2016
Financial receivables due from investee companies	8,613	8,581
Securities	137	80,137
Other short-term financial receivables	20,656	20,045
Total	29,407	108,763

The net decrease of the item is mainly due to the collection, equal to EUR 80 million, of the investment in Credit Linked Notes, short-term certificates of deposit;

NOTE 12 - CASH AND CASH EQUIVALENTS

	31/12/2017	31/12/2016
Bank and postal deposits	812,989	427,187
Cash and notes on hand	4	9
Total	812,992	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 companies belonging to the ERG Renew Group according to the restrictions on use set forth in the relative Project Financing.

For an analysis of the increase of cash and cash equivalents, please refer to the **Statement of Cash Flows**.

For information on restricted liquidity, please refer to **Note 25 - Covenants and negative pledges**.

At 31 December 2017, the liquidity subject to the different restrictions prescribed by Project Financing agreements amounted to approximately EUR 138 million (EUR 164 million at 31 December 2016).

NOTE 13 - GROUP SHAREHOLDERS' EQUITY

Share Capital

Fully paid-in share capital at 31 December 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 31 December 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.r.l. held 10,380,060 shares, i.e. 6.905%;
- UniCredit S.p.A. holds 6,129,557 shares, i.e. 4.078%.

At 31 December 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

This item, totalling EUR 6,403 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.

Illustrated below are the main assumptions used to calculate the present value of the liability relating to employees' severance indemnities and the relative change in the year. The discount rate was determined on the basis of a panel of AA-rated corporate securities with at least 10-year maturity.

	2017	
Discount rate	1.3%	
Inflation rate	1.0%	
Average turnover rate	3.0%	
Average rate of salary increase	1.5%	
Average age	45	

	31/12/2017	31/12/2016
BALANCE AT BEGINNING OF YEAR	6,733	5,512
Change in the scope of consolidation	–	–
Increases in the year	2,900	2,694
Decreases in the year	(3,231)	(1,473)
BALANCE AT END OF YEAR	6,403	6,733

The increases relate to accrual for the period and decreases to employee departures and advances to staff.

The following table shows the impact on the liability of a change of +/-0.5% in the discount rate:

	2017
+0.5% change in discount rate: minor liabilities	(232)
-0.5% change in discount rate: major liabilities	255

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% - 5.57%).

Deferred tax liabilities at 31 December 2017 of EUR 265,257 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

	31/12/2017	Increases	Decreases	Reclassifications	Change in the scope of consolidation	31/12/2016
Provision for decommissioning costs	36,454	819	–	–	1,414	34,221
Priolo site provision	80,883	–	(72)	(116)	–	81,071
Provision for non-current tax risks	10,042	798	(114)	(82)	–	9,440
Provision for non-current institutional risks	263	–	–	–	–	263
Other provisions for non-current liabilities and charges	159	–	(125)	–	22	262
Total	127,801	1,617	(311)	(198)	1,436	125,258

For clearer disclosure, the provisions for non-current liabilities and charges were reclassified by type and comprise mainly liabilities linked 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 26 - Contingent liabilities and disputes**, resulting mainly from the exit from the Oil sector;
- tax risks linked to possible disputes.

The increases relate mainly to the recognition of the provision for decommissioning costs on the Windfarm Brockaghboy Ltd. wind farm, which entered into operation during the third quarter of 2017, and to the impact of the updating of existing provisions.

Reclassifications 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

The breakdown of this item is as shown below:

	31/12/2017	31/12/2016
Medium/long-term mortgages and loans	770,020	668,439
- current portion of medium/long-term loans	(58,625)	–
	711,395	668,439
Medium/long-term Project Financing	1,114,706	1,275,580
- current portion of Project Financing	(143,815)	(151,906)
	970,891	1,123,674
Other medium/long-term financial payables	106,428	141,947
Total	1,788,714	1,934,060

Medium/long-term mortgages and loans

Mortgages and loans at 31 December 2017 totalled EUR 770 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);
- liability deriving from the issue of the non convertible bond (EUR 99 million at 31 December 2017) made in July 2017, directed at raising additional funds for new capital expenditure in the sector of renewable energies and to refinance the capital expenditure made on hydroelectric plants in Italy.

The loans are presented net of commission cost and other ancillary costs for an initial value of EUR 10.6 million. These costs were recognised according to the cost method.

Medium/long-term Project Financing

The following tables show the main characteristics of existing Project Financing at 31 December 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	ERG Wind Group wind farms	381,759	460,337	Project Financing	2008	2022	IRS: average fixed rate 4.46%
ERG Eolica Adriatica	Rotello - Ascoli Satriano (CB/FG)	119,716	104,262	Project Financing	2009	2022	IRS: fixed rate 4.85%
ERG Eolica Fossa del Lupo	Fossa del Lupo (CZ)	103,273	77,305	Project Financing	2017	2027	IRS: fixed rate 2.26%
ERG Eolica Campania	Bisaccia 2 - Foiano - Molinara - Baseliace - Lacedonia 2 (AV/BN)	79,679	34,383	Project Financing	2009	2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Ginestra (BN)	57,176	27,889	Project Financing	2010	2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Amaroni (CZ)	29,821	21,368	Project Financing	2017	2027	IRS: fixed rate 1.68%
Green Vicari	Vicari (PA)	17,142	8,529	Project Financing	2008	2019	Partly fixed variable-rate loan
ERG Eolica Faeto	Faeto (FG)	11,977	14,662	Project Financing	2007	2021	IRS: fixed rate 2.13%
Eoliennes du Vent Solaire	Plogastel Saint Germaine (France)	3,669	3,434	Project Financing	2011	2025	fixed rate loan
Parc Eolien les Mardeaux	Les Mardeaux (France)	2,020	2,248	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil	Hetomesnil (France)	2,035	1,652	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus	Lihus (France)	2,143	1,454	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de la Bruyere	La Bruyere (France)	1,948	1,140	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien du Carreau	Carreau (France)	1,626	1,481	Project Financing	2005	2019	Variable-rate loan
ERG Eolica Basilicata	Palazzo San Gervasio (PZ)	36,354	34,028	Project Financing	2017	2027	IRS: fixed rate 1.46%
EW Ornet 2 SP Z.O.O.	Radziejów (Poland)	49,371	37,611	Project Financing	2015	2029	IRS: fixed rate 2.47% (wibor)
K & S Energy Eood	Kavarna/Hrabovo	1,544	19,656	Project Financing	2012/13	2018	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
ERG Wind France 1	Various French	44,920	28,292	Project Financing	2016	2025	IRS: fixed rate -0.065%
ERG Power	CCGT plant	305,367	62,415	Project Financing	2010	2021	IRS: fixed rate 2.77%
Parc Eolien Du Patis S.a.s	Jallais (France)	6,889	6,859	Project Financing	2013	2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Secqueville S.a.s	Caen Garcelles (France)	6,206	6,018	Project Financing	2007	2023	IRS: fixed rate 3.75%
S.a.s Société de exploitation du P.E. de la Souterraine	La Souterraine (France)	6,286	6,700	Project Financing	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur S.a.s	Oyré (France)	11,050	9,793	Project Financing	2014	2029	fixed rate loan for 40%
Parc Eolien St Riquier 1 S.a.s	St Riquier 1 (France)	8,247	10,042	Project Financing	2009	2027	Fixed rate loan
ERG Wind 117 GmbH & Co. KG	Frehne I & II (Germany)	15,507	12,369	Project Financing	2013	2030	Fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Achmer Vinte (Germany)	2,572	5,523	Project Financing	2006	2021	Fixed rate loan
Windpark Cottbus Halde GmbH & Co. KG	Cottbus (Germany)	21,846	19,603	Project Financing	2007	2025	Fixed rate loan
Parc Eolien Chaude Vallée SARL	Chaude Vallée (France)	10,957	12,002	Project Financing	2011	2027	Fixed rate loan for 85%
Parc Eolien Hauts Moulins S.ar.l.	Hauts Moulins (France)	11,846	11,656	Project Financing	2012	2028	Fixed rate loan for 86%
Parc Eolien de Morvillers S.ar.l.	Morvillers (France)	11,829	12,231	Project Financing	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S.ar.l.	Moulins des Champs (France)	11,761	11,530	Project Financing	2012	2028	Fixed rate loan for 85%
Parc Eolien de St Riquier 3 S.a.s.	St Riquier 3 (France)	12,611	13,200	Project Financing	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	St Riquier 4 (France)	10,839	11,236	Project Financing	2014	2028	Fixed rate loan
ERG Wind Dobberkau GmbH & Co. KG	Dobberkau (Germany)	10,138	13,851	Project Financing	2014	2025	IRS: fixed rate 0.949%
ERG Wind Hermersberg GmbH & Co. KG	Hermersberg (Germany)	267	691	Project Financing	2016	2024	Fixed rate loan
ERG Wind Ober Kostenz GmbH & Co. KG	Ober Kostenz (Germany)	897	2,573	Project Financing	2016	2024	Fixed rate loan
ERG Wind WB GmbH & Co. KG	Waldfishbach Burgalben (Germany)	1,964	3,119	Project Financing	2016	2024	Fixed rate loan
ERG Wind Welchweiler GmbH & Co. KG	Welchweiler (Germany)	3,079	1,111	Project Financing	2016	2024	Fixed rate loan
ERG Wind Weselberg GmbH & Co. KG	Weselberg (Germany)	3,079	2,450	Project Financing	2016	2024	Fixed rate loan
Total			1,114,706				

For further details on the new Project Financing compared to those described in the 2016 Annual Financial Report, please see **Note 25 - Covenants and negative pledges**.

At 31 December 2017, the weighted average interest rate on mortgages, loans and Project Financing was 1.48% (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 31/12/2018	58,625	143,815
Due by 31/12/2019	179,750	152,654
Due by 31/12/2020	299,125	157,474
Due by 31/12/2021	133,055	141,333
Due by 31/12/2022	–	392,858
Due beyond 31/12/2022	99,465	126,573
Total	770,020	1,114,706
	31/12/2017	31/12/2016
Secured by Group tangible assets		
with maturities up to December 2026	1,114,706	1,275,580
Not secured		
with maturities up to August 2020	770,020	668,439
Total	1,884,726	1,944,020

For details on Covenants and negative pledges relating to the bank loans, please refer to **Note 25**.

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 106 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	
				31/12/2017	31/12/2016
ERG Wind Investments Ltd.	IntesaSanpaolo	IRS	31/12/22	(37,618)	(49,186)
ERG Wind Investments Ltd.	IntesaSanpaolo	IRS	31/12/22	(28,163)	(36,826)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(5,870)	(7,920)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(5,870)	(7,920)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(5,870)	(7,920)
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(1,968)	(2,623)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(1,692)	(2,256)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(1,299)	(1,731)
ERG Eolica Fossa del Lupo S.r.l.	Credit Agricole	IRS	31/12/27	(51)	–
ERG Eolica Campania S.p.A.	UniCredit	IRS	31/05/20	(684)	(1,113)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(977)	(1,313)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(977)	(1,313)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(977)	(1,313)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(518)	(697)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/26	(518)	(697)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/27	(5)	–
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(289)	(444)
ERG Eolica Faeto S.r.l.	UniCredit	IRS	31/12/21	(289)	(444)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(53)	(110)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(55)	(114)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(50)	(103)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(52)	(108)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(51)	(106)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(53)	(110)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(54)	(111)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(56)	(115)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30/06/31	(713)	(937)
ERG Eolica Basilicata S.r.l.	Credit Agricole	IRS	30/06/31	(713)	(937)
K & S Energy Food	Raiffeisen Bank	IRS	31/12/18	(169)	(346)
K & S Energy Food	Raiffeisen Bank	IRS	31/12/18	(43)	(86)
ERG Power S.r.l.	BNP Paribas BNL	IRS	31/12/21	(1,125)	(1,805)
ERG Power S.r.l.	IntesaSanpaolo	IRS	31/12/21	(1,125)	(1,805)
ERG Power S.r.l.	Credit Agricole	IRS	31/12/21	(902)	(1,446)
ERG Power S.r.l.	Santander	IRS	31/12/21	(179)	(287)
ERG Power S.r.l.	Centrobanca	IRS	31/12/21	(179)	(287)
ERG Power S.r.l.	ING	IRS	31/12/21	(179)	(287)
ERG S.p.A.	ING	IRS	06/08/20	(395)	(504)
ERG S.p.A.	BNP Paribas BNL	IRS	06/08/20	(381)	(484)
ERG S.p.A.	UniCredit	IRS	06/08/20	(398)	(508)
ERG S.p.A.	Barclays	IRS	06/08/20	(376)	(477)
ERG S.p.A.	IntesaSanpaolo	IRS	06/08/20	(396)	(505)
ERG S.p.A.	Credit Agricole	IRS	06/08/20	(403)	(515)
ERG S.p.A.	Natixis	IRS	06/08/20	(398)	(508)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(101)	(98)
ERG S.p.A.	Mediobanca	IRS	15/03/21	(1,218)	(2,089)
ERG S.p.A. ⁽¹⁾	UniCredit	IRS	21/04/21	–	(194)
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	02/08/27	(231)	(308)
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	30/07/27	(236)	(313)
Parc Eolien de Garcelles Secqueville S.a.s.	Nord LB	IRS	30/06/23	(555)	(783)
S.a.s Société de exploitation du P.E. de la Souterraine	Credit Cooperatif	IRS	29/12/28	(580)	(767)
Parc Eolien de Oyre Saint Sauveur S.a.s.	Natixis	IRS	01/07/29	(375)	(486)
Parc Eolien St Riquier 1 S.a.s.	Saar	IRS	31/12/24	(165)	(181)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/29	(301)	(302)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/30	(98)	(98)
ERG Wind Dobberkau GmbH & Co. KG	Nord LB	IRS	31/12/25	(429)	(681)
Total				(106,428)	(141,947)

(1) the balance at 31 December 2017 of the derivative instrument in question was positive and classified in financial assets

NOTE 18 - OTHER NON-CURRENT LIABILITIES

	31/12/2017	31/12/2016
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	2,141	2,313
Payables due to employees	2,134	1,066
Other minor entries	8,260	5,977
Total	40,950	37,771

Other non-current liabilities, equal to EUR 40,950 thousand (EUR 37,771 thousand at 31 December 2016) are largely in line with the previous year.

NOTE 19 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	31/12/2017	Increases	Decreases	Reclassifications	Change in the scope of consolidation	31/12/2016
Provision for charges for coverage of investees' losses	6.011	203	(9)	–	–	5.818
Provision for current environmental risks	78	–	(21)	–	–	99
Provision for current tax risks	6.392	1.223	(1.223)	194	–	6.198
Provision for current institutional risks	24.216	38	–	–	–	24.178
Provision for current legal risks	11.256	5.444	(190)	(112)	–	6.114
Other provisions for current liabilities and charges	5.290	3.535	(2.849)	116	211	4.276
Total	53.242	10.442	(4.292)	198	211	46.682

Provisions for current liabilities and charges amounted, at 31 December 2017, to EUR 53,242 thousand (EUR 46,682 thousand at 31 December 2016) and are composed as follows:

The “**Provision for coverage of investee companies' losses**” relates to the subsidiary ERG Petroleos, no longer operational, which is being liquidated.

The “**Provision for current institutional risks**” comprises:

- the provision for expenses tied to interest and revaluations on the contributions under Italian Law no. 488/1992 (EUR 15.2 million), included in the provisions for institutional risks, relating to wind farms acquired within the scope of the ERG Wind transactions and revoked by the Ministry of Economic Development as discussed 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 provision for contingent risks of foreign companies (EUR 9 million) refers to contingent risk concerning Romania.

The **increases** relate mainly to:

- items relating to the thermoelectric business (EUR 3.3 million);
- costs of reorganising the asset portfolio (EUR 1.1 million);
- charges related to uncertainty on the outcome of projects mainly related to the wind farm business (EUR 1.6 million);
- probable charges related to the hydroelectric business (EUR 0.8 million);
- a contractual dispute which began in 2010 against a wholesaler customer (EUR 0.7 million).

The **decreases** relate mainly to:

- EUR 0.7 million for the "Italian Carbon Fund" provision due to the payment of allowances allocated in 2017. It is recalled that the provision was allocated to ERG S.p.A. to meet potential write-downs on CO₂ quotas still to be credited by the Italian Carbon Fund;
- EUR 0.9 million for the restructuring and similar provisions relating to the costs of restructuring the asset portfolio;
- EUR 1.2 million for tax risk provisions.

Reclassifications were recognised against provisions for non-current liabilities and charges.

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

NOTE 20 - TRADE PAYABLES

	31/12/2017	31/12/2016
Trade payables	126,716	152,525
Payables due to Group companies not consolidated line by line	80	156
Total	126,796	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

	31/12/2017	31/12/2016
Short-term bank borrowings	82,958	2,270
Other short-term financial payables:		
Current portion of medium/long-term bank borrowings	58,625	–
Current portion of medium/long-term bank Project Financing	143,815	151,906
Other financial payables	2,253	4,922
	204,693	156,828
Total	287,651	159,098

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

- at 31 December 2017, short-term borrowings amounted to 16% 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;
- at 31 December 2017 there were drawdowns on short-term credit lines in the amount of EUR 83.7 million, not present at 31 December 2016.

The current portion of medium/long-term loans toward banks refers to the Corporate loans described in **Note 17 - Non-current financial liabilities**.

NOTE 22 - NET FINANCIAL POSITION

(EUR thousand)	Note	31/12/2017	31/12/2016
Medium/long-term mortgages and loans	17	770,020	668,439
- current portion of mortgages and loans	17, 21	(58,625)	–
Fair value of derivatives hedging interest rates	17	106,428	141,947
Total		817,823	810,386
Medium/long-term Project Financing	17	1,114,706	1,275,580
- current portion of Project Financing	17, 21	(143,815)	(151,906)
Total		970,891	1,123,674
Medium/long-term financial indebtedness/ (Medium/long term financial assets)		1,788,714	1,934,060
Short-term bank borrowings	21	141,583	2,270
Short-term financial debts	21	2,253	4,922
Total		143,836	7,192
Cash and cash equivalents	12	(675,203)	(263,328)
Securities and other short-term financial receivables	11	(29,407)	(108,763)
Total		(704,610)	(372,090)
Short-term Project Financing	17, 21	143,815	151,906
Cash and cash equivalents	12	(137,789)	(163,868)
Total		6,026	(11,962)
Net short-term financial indebtedness/ (Short-term financial assets)		(554,748)	(376,860)
NET FINANCIAL POSITION CONTINUING OPERATIONS		1,233,966	1,557,200
Cash and cash equivalents Brockaghboy Windfarm		(1,293)	–
Net financial position Report on Operations		1,232,673	1,557,200

Net financial position amounted to EUR 1,233 million, down by EUR 325 million compared to 31 December 2016, mainly by effect of the following impacts:

- 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 the scope of consolidation**;
- EUR +74 million relating to the distribution of dividends to Shareholders;
- EUR -264 million in collections of incentives (feed-in tariff Italy, green certificates past years Italy, white certificates Italy);
- EUR -71 million in collections of dividends from TotalErg S.p.A.;
- EUR -22 million in collections for the Mucchetti amendment, discussed in detail in the corresponding section;
- EUR -14 million in collections from the Api Group by way of advance payment on the disposal of the equity investment in TotalErg, described in the relative section;
- EUR -66 million of cash flow during the year 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 106 million (EUR 142 million at 31 December 2016).

NOTE 23 - OTHER CURRENT LIABILITIES

	31/12/2017	31/12/2016
Tax payables	32,201	19,764
Payables due to employees	11,193	8,765
Payables due to social security institutions	6,028	4,438
Payables due to TotalErg S.p.A. for tax consolidation	5,951	16,600
Portions of deferred revenue in subsequent periods	50	1,642
Other current liabilities	29,385	14,656
Total	84,808	65,865

"Tax payables" mainly refer to the estimate of income taxes owed for the year and VAT payable.

In 2017, taxes, net of offsetting, of approximately EUR 23 million were paid to the tax authorities in settlement of 2017 and as an advance for 2018.

NOTE 24 - GUARANTEES, COMMITMENTS AND RISKS (EUR 115,030 THOUSAND)

Sureties given (EUR 113,731 thousand)

Sureties given mainly concern the guarantees granted for use of Group VAT receivables and generally in favour of Public Entities.

Other guarantees given (EUR 1,299 thousand)

The other guarantees given pertain to sureties on bank loans.

NOTE 25 – COVENANTS AND NEGATIVE PLEDGES

Corporate acquisition loan ERG S.p.A.

ERG S.p.A. has the following loans outstanding:

Syndicated corporate acquisition loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays);

- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The loan agreements indicated above provide for the following financial covenant, the failure to comply with which constitutes an “event of default” pursuant to the relative financing agreements.

The net financial indebtedness and gross operating margin (Net Debt/EBITDA) ratio referring to the Consolidated Financial Statements of the ERG Group must be lower than or equal to 4.25 from 31 December 2017, with values progressively decreasing up to the final value of 3.75 at 31 December 2020, according to the following scale which corresponds to the respective calculation dates:

- 4.25 at 31 December 2017 and 30 June 2018;
- 4.00 at 31 December 2018 and 30 June 2019;
- 3.75 at 31 December 2019, 30 June 2020 and 31 December 2020.

In the event that the covenants are not complied with, the agreements provide the borrower with the possibility of intervening with an “equity cure” which will be taken under consideration as a reduction of the net financial indebtedness.

The agreements also provide for a standard negative pledge for loan agreements of a similar type, prohibiting the usage of any third party lenders’ assets as guarantees.

ERG Power S.r.l. Project Financing

In December 2009, the Company stipulated, with a group of international banks (Banca IMI, BNP Paribas, Banco Santander, Crédit Agricole Corporate and Investment Bank, Centrobanca, ING Bank, MPS Capital Services, UniCredit Mediocredito Centrale, WestLB) a limited recourse Project Financing for EUR 330 million.

The project Agent is UniCredit Mediocredito Centrale.

The loan was disbursed in April 2010, following the fulfilment of all conditions precedent set out in the loan agreement. The agreement, granting a loan for the repowering of a CCGT plant, required as guarantee for the payment of amounts and fulfilment of all obligations resulting from the lending agreement:

- the creation of a mortgage loan in favour of the lending financial institutions, covering the property owned by the Company and the property subjected to a building lease of the Company;

- the creation of a special lien covering the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods above certain monetary thresholds;
- the creation of a lien on the receivables deriving from the main project agreements and on ERG Power's project deposit accounts;
- the monitoring of incoming and outgoing cash flows relating to financial management by the financial institutions.

The guarantees given also entail, among others, the pledge on 100% of the Company's share capital and on the Company's restricted bank accounts (EUR 16.5 million as of 31 December 2017).

The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, in principle, ERG Power may not issue further guarantees, with the standard exceptions for transactions of this kind. The guarantees' duration is tied to the repayment of the loan agreement. The loan is also subject to the following covenants:

- Historical and Prospective Annual 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 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 1.15, ERG Power S.r.l. 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 company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees;
- Loan Life Cover Ratio (LLCR): the Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of debt - of operating cash flows projected by the company in the periods between the date of calculation and the debt's maturity year and the amount of debt existing at the calculation date. If it is below 1.20, ERG Power S.r.l. may not proceed with the distribution of 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.

In relation to the Project Financing for ERG Power S.r.l., starting on 30 June 2011 compliance with the following covenants, to be calculated on a half-yearly basis on the consolidated financial statements of the ERG Group, is expected.

- Ratio between Consolidated Adjusted Net Financial Position and Consolidated Adjusted EBITDA (Adjusted NFP/Adjusted EBITDA): if greater than 4.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.

- Ratio between Consolidated Adjusted EBITDA and Consolidated Adjusted Financial Income and Expenses: if it is lower than 3.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.

Failure to comply with the aforesaid covenants for three consecutive times entails the partial early repayment of the loan for an amount equal to the excess cash flow defined contractually and restricted in dedicated bank accounts in the three previous periods.

At year-end, the Company's covenants had all been complied with.

Project Financing of ERG Power Generation S.p.A. and its subsidiaries

Loan taken out in June 2007 by ERG Eolica Faeto S.r.l. (formerly Eos 4 Faeto S.r.l.).

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 5.4 million at 31 December 2017), as well as a letter of patronage from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:

- Historical Debt-Service Coverage Ratio: the HDSCR is calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the amounts paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts. If the DSCRS is less than 1.10, ERG Eolica Faeto S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, 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, ERG Eolica Faeto S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out in August 2007 by Green Vicari S.r.l.

The guarantees issued include a mortgage on real estate, a special lien on properties, a pledge on 100% of the company's share capital and on the company's receivables and bank accounts (EUR 6.6 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Average Debt Service Coverage Ratio (ADSCR): calculated on 30 June and 31 December of each year as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the base credit line, for the two previous half-years, and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the subsidised loan, 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 ADSCR is less than 1.10, Green Vicari S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, 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, Green Vicari S.r.l. may not issue further guarantees on its assets.

Loan for construction of the five wind farms located in France. Parc Eolien de Lihus, Hetomesnil, Bruyère, Carreau, Mardeaux

The guarantees issued include a mortgage on real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 0.4 million at 31 December 2017). The loan is subject to the following financial covenant pertaining to dividend distribution.

- Historical Debt-Service Coverage Ratio: the HDSCR is calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the amounts paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts. If it is less than 1.10, the French companies may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions;
- The contract also provides for a negative pledge safeguarding the creditor's rights over the assets pledged by the debtor as guarantee for loan repayment. Therefore, the French companies may not issue further guarantees on their assets.

Loan taken out by Eoliennes Du Vent Solare S.a.s for the construction of a wind farm located in France

The guarantees issued include a mortgage on real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 0.3 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Debt Service Coverage Ratio: the DSCR is calculated as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment 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. If the DSCR is less than 1.15 Eoliennes du Vent Solaire S.a.s. may not proceed with the distribution of 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, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

It should be noted that at 31 December 2017, borrowings for Project Financing were prudentially reclassified in the short term in view of the possible failure to comply with one of the contractual covenants.

Loan taken out in January 2010 by ERG Eolica Ginestra S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 4.1 million at 31 December 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 project's cash flow after the VAT flows and the total amount of debt repayment 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 Historic and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra S.r.l. 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 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 less than 1.20, ERG Eolica Ginestra S.r.l. may not proceed with the distribution of 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, ERG Eolica Ginestra S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out in October 2009 by ERG Eolica Adriatica S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 9.7 million at 31 December 2017).

The base credit line of 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 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, ERG Eolica Adriatica S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not affect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- Balloon Cover Ratio (BLCR): calculated as the ratio between the net present value, discounted at the weighted average cost of debt, of the operating cash flows forecast by the company in the periods between the last repayment date and 60 subsequent months and the amount of the last instalment of the loan (Balloon). If it is less than 1.50, ERG Eolica Adriatica S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions;
- 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, ERG Eolica Adriatica S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out in October 2007 by ERG Eolica Campania (formerly IVPC POWER 3 S.p.A.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10.2 million at 31 December 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 project's cash flow after the VAT flows and the total amount of debt repayment 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 1.15, ERG Eolica Campania S.p.A. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not affect 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, ERG Eolica Campania S.p.A. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loans issued in March 2012 to the company ERG Eolica Fossa del Lupo S.r.l., in April 2013 to the company ERG Eolica Amaroni S.r.l. and in 2014 to the company 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, and a pledge on 100% of the share capitals and on the restricted bank accounts (EUR 13.6 million at 31 December 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 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.

Loan granted in 2008 to ERG Wind Investments Ltd.

The loan is subject to the following covenants and negative pledges:

- Covenants

The main financial covenant is the HDSCR (Historical Debt Service Cover Ratio), which is calculated once every six months, with reference to the cash flows generated in the previous 12 months, in relation to the payment of the financial debt (principal, interest, fees and swaps) of that period.

If the DSCR was lower than 1.05, there would be a Project Finance default event. A DSCR above 1.15 is required for the distribution of dividends.

- Security Package

To secure the commitments made in accordance with the loan agreement, security contracts governed by the regulations prescribed by different jurisdictions had to be executed.

The security documents indicated in the loan agreement include, inter alia, pledges on equity investments, pledges on stocks, transfer of the receivables serving as collateral (also pertaining to insurance receivables), pledges on current accounts (EUR 37.2 million at 31 December 2017).

The loan issued in November 2015 to EW Orneta 2 SP. Z O.O.

The guarantees issued entail the mortgage of real estate, a special lien on assets, and a pledge on 100% of the share capital of EW Orneta 2 SP. Z O.O. and 100% of the share capital of Blachy Pruszyński - Energy 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. (EUR 3.8 million at 31 December 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 project's cash flow after the VAT flows and the total amount of debt repayment 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 distribute 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 affect 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.

Loan (project multiborrower) issued in April 2012 and September 2013 to the Bulgarian company

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1.2 million at 31 December 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 project's cash flow after the VAT flows and the total amount of debt repayment 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, ERG Wind Bulgaria 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 affect 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, ERG Wind Bulgaria may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan granted in August 2016 to ERG Wind France 1

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 8.3 million at 31 December 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 project's cash flow after the VAT flows and the total amount of debt repayment 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, ERG Wind France 1 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 affect 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, ERG Wind France 1 may not issue further guarantees on its assets except in the event of guarantees required by law.

Loans acquired as part of the Impax Asset Management Group business combination

Loan taken out by Parc Eolien de Garcelles-Secqueville S.a.s. from Norddeutsche Landesbank on 19 March 2007, expiring on 30 June 2023

- Calculation of a specific financial covenant is not envisaged.
- 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.

- As no calculation is envisaged for a specific financial covenant, the only condition required in order to proceed to the distribution is that the DSRA (Debt Service Reserve Account) be fully constituted.

Loan taken out by Parc Eolien de la Chaude Vallée S.ar.l. from Natixis and Bpfrance on 7 October 2011, expiring on 30 September 2027

- The main financial covenant is the DSCR (debt service coverage ratio) which historically must exceed 1.05. Failure to comply with the minimum DSCR value constitutes a default event 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.
- A main condition underlying distribution is that the DSCR be higher than 1.15.

Loan taken out by Parc Eolien Hauts Moulins S.ar.l. from Landesbank Baden-Württemberg on 13 June 2012, expiring on 30 November 2028

- The main financial covenant is the DSCR (debt service coverage ratio) which historically must be 1.05. Failure to comply with the minimum DSCR value constitutes a default event 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.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by Parc Eolien du Pâtis S.a.s from Le Crédit Coopératif on 14 June 2013, expiring on 31 July 2027

- The main financial covenants are:
 - the DSCR (debt service coverage ratio) which historically must exceed 1.05;
 - the outstanding debt/equity ratio (shareholders' equity + shareholder loans) which must be higher than or equal to 4.

Failure to comply with either covenant constitutes a default event 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;
- the main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by S.a.s. Societe d'Exploitation du Parc Eolien de La Souterraine from BP France on 11 October 2013, expiring on 31 December 2028

- The main financial covenants are:
 - the DSCR (debt service coverage ratio) which historically must exceed 1.05;

- the outstanding debt/equity ratio (shareholders' equity + shareholder loans) must be higher than or equal to 82.35/17.65.

Failure to comply with either covenant constitutes a default event 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.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by Parc Eolien de Morvillers S.ar.l. from Natixis and Bpfrance on 23 August 2012, expiring on 30 November 2027

- The main financial covenant is the DSCR (debt service coverage ratio) which historically must exceed 1.05. Failure to comply with the minimum DSCR value constitutes a default event 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.
- A main condition underlying distribution is that the DSCR be higher than 1.15.

Loan taken out by Parc Eolien Moulins des Champs S.ar.l. from Landesbank Baden-Württemberg on 13 June 2012, expiring on 30 November 2028

- The main financial covenant is the DSCR (debt service coverage ratio) which historically must exceed 1.05. Failure to comply with the minimum DSCR value constitutes a default event 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.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by Parc Eolien de Oyré Saint Sauveur S.a.s from Natixis on 24 April 2014, expiring on 30 June 2029

- The main financial covenants are:
 - the DSCR (debt service coverage ratio) which historically must exceed 1.05;
 - the outstanding debt/equity ratio (shareholders' equity + shareholder loan) must not exceed a ratio of 85/15 up to 1 June 2019, 90/10 between 1 June 2019 and 1 June 2024 and 95/5 between 1 June 2024 and 1 June 2029.

Failure to comply with either covenant constitutes a default event 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.
- A main condition underlying distribution is that the DSCR be higher than 1.15.

Loan taken out by Parc Eolien de Saint Riquier 1 from Landesbank Saar on 31 March 2009, expiring on 30 December 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.40 in order for distribution to be allowed. Distributions are in any case not allowed between 2014 and 2018 and from 2024 to 2026.
- 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.

Loan taken out by Parc Eolien de Saint Riquier 3 S.a.s. from HSH Nordbank AG on 31 March 2014, expiring on 30 December 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- 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.
- The main conditions for distribution are: DSCR higher than 1.10; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by Parc Eolien de Saint Riquier 4 S.a.s. from HSH Nordbank AG on 31 March 2014, expiring on 30 December 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- 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.
- The main conditions for distribution are: DSCR higher than 1.10; fully constituted DSRA account - Debt Service Reserve Account.

It should be noted that at 31 December 2017, borrowings for Project Financing were prudentially reclassified in the short term in view of the possible failure to comply with one of the contractual covenants.

Loans taken out by Windpark Achmer Vinte GmbH & Co. KG with DKB Deutsche Kreditbank on 14 February 2006 and 23 February 2006, expiring on 31 December 2021

- Calculation of a specific financial covenant is not envisaged.
- 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.
- As no calculation is envisaged for a specific financial covenant, the only condition required in order to proceed to the distribution is that the DSRA (Debt Service Reserve Account) be fully constituted. Furthermore, explicit approval by the lending bank is required for distribution.

Loans taken out by Windpark Cottbuser Halde GmbH & Co. KG with DKB Deutsche Kreditbank on 27 October 2007 and 09 November 2006, expiring on 31 December 2025

- Calculation of a specific financial covenant is not envisaged.
- 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.
- As no calculation is envisaged for a specific financial covenant, the only condition required in order to proceed to the distribution is that the DSRA (Debt Service Reserve Account) be fully constituted.

Loan taken out by ERG Wind 117 GmbH & Co. KG with Commerzbank on 6 August 2013, expiring on 30 December 2030

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05 and prospectively 1.10. Failure to comply with the minimum DSCR value constitutes a default event 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.
- The main conditions for distribution are: historic DSCR higher than 1.05; prospective DSCR higher than 1.10; Debt Service Reserve Account (DSRA) fully constituted.

NOTE 26 - 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 31 December 2017). 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 instance ruling was challenged within the deadline by the Italian Revenue Agency 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 instance ruling 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 no. 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%).

On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l., ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and has therefore been contested before the administrative courts. ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL.

- 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 these Consolidated Financial Statements, 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 31 December 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 appealed 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. appealed 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. appealed to the competent Regional Tax Commission on 27 December 2017.

In relation to the issues described above, it is recalled that the joint venture agreement with Total foresaw an adequate mutual system of guarantees that have remained valid even after the sale to Api - anonima petroli italiana S.p.A. of the equity investment in TotalErg (the disputes in question have remained the responsibility of the sellers ERG and Total Marketing Services SA (Retained Matters)).

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 Revenue Agency at Siracusa – Noto office (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 demanded the rectification of 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 goodwill (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 Siracusa Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded.

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

On 16 May 2017, the Siracusa 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 Siracusa 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, requesting the suspension of the effects of the first instance ruling.

On 9 September 2017, the Regional Tax Commission rejected the application for suspension referred to above.

The merit hearing was held on 15 January 2018, and on 24 January 2018 the Siracusa Regional Tax Commission (sub-office) ordered the appointment of Sebastiano Truglio from Catania to court-appointed expert.

On 13 October 2017, the Provincial Division of the Revenue Agency at Siracusa issued a specific settlement notice, settling a higher registration tax of EUR 5.1 million, sanctions for EUR 5.1 million and interest as at 10/10/2017 of EUR 0.6 million.

This same notice was served on 11 November 2017 to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.

On 27/10/2017, an appeal was filed against the aforementioned settlement notice and, at the same time, an application was made for judicial suspension of the tax collection.

On 23 November 2017, the Siracusa Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the relevant hearing for 17 January 2018.

We are awaiting the decision. At the hearing, the judge stated that this decision depends on the outcome of the proceedings pending with the Regional Tax Commission (as referred to above).

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 Division 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 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 no. 488/92 contributions by ERGWind

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 no. 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 no. 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 2 March 2018.

Despite the pending proceedings, in March and April 2014 the companies that were the recipients of the incentives pursuant to Law no. 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). The tax assessment appeal proceedings are pending and the next hearing for the examination of the results of the investigations is set for 10 April 2018.

The proceedings subsequent to the filing of the extraordinary appeals to the Head of State are also still pending and, despite the reminders filed by the applicants, the decision on the appeal and on the merits was not delivered during 2017. Ideally the appeals will be decided upon in 2018.

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 no. 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 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 no. 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 withholding on interest paid to non-resident individuals as part of the existing Project Financing of EUR 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.

On 27 October 2017, the Italian Revenue Agency appealed to the competent Regional Tax Commission.

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

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 payment of the instalments in question is underway.

The merit hearing was held on 27 September 2017 at the competent Tax Commission and we are awaiting the decision. On 31 October 2017, ERG Wind Investments Limited received an assessment notice for the 2012 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties for EUR 1.9 million, plus a penalty of EUR 2.1 million and interest at 20/10/2017 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.

We are waiting for the date of the hearing for the judicial suspension of the tax collection to be set, as well as that of the merit hearing.

The Group does not consider that it will lose the disputes in question and therefore no liabilities have been recognised to this end.

It is furthermore noted that against the tax assessment in question, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees 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"² 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).

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.

As a result of the assessment notice dated 31 October 2017 for the 2012 tax period, ERG Power Generation took action against Engie and obtained the qualification of "Seller Driven Matter" for said dispute (limited to this case and for the 2012 tax period).

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 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.

² Engie recognises its liability based on the aforementioned Share and Purchase Agreement.

The merit hearing was held on 12 July 2017 at the Rome Provincial Tax Commission.

On 31 January 2018, the Rome Provincial Tax Commission rejected the appeal put forward by the company.

ERG Wind Holdings (Italy) S.r.l. will appeal to the Rome Regional Tax Commission within the terms prescribed by law.

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

It is furthermore noted that against the tax assessment in issue, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees 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".

Notice of settlement of registration tax for the purchase of the ERG Hydro S.r.l. equity investment

On 3 July 2017, ERG Power Generation S.p.A. and E.ON Italy received a notice from the Genoa Provincial Division of the Italian Revenue Agency informing them of its intention to requalify the transaction to sell all the interests in Hydro Terni S.r.l. (now ERG Hydro S.r.l.) put in place on 30 November 2015 from 'disposal of equity investment' (post-partial demerger of the hydro business by E.ON Produzione S.p.A.) to 'sale of company' and, consequently, highlighting the non-payment on the declared price (approximately EUR 950 million) of the relative proportional registration tax.

On 21 July 2017, the companies met with officials from the Genoa Revenue Agency in order to provide their first observations. As agreed with the Office, on 21 September 2017 the companies submitted to the Revenue Agency a note providing further information in order to illustrate the willingness of the parties, the particular technical and legal features underlying the civil lawsuit of the disposal of the equity investment with respect to the "impracticable" sale of the business, as well as the main regulatory issues at the base of the groundlessness of the behaviour of the Agency. It is recalled in this respect that for ERG, as a result of detailed technical and legal studies that it carried out, the acquisition of the equity investment in ERG Hydro S.r.l. (post-partial demerger of the hydro business by E.ON Produzione S.p.A.) was the only transaction concretely realisable within the terms and in the manner required to keep that investment economically sustainable. In particular, the issues that prevented a different transaction from being possible (i.e. transfer of a company) were: (i) the complexity and uncertain timing of obtaining authorisation from the authorities in regard to the transfer of concessions, (ii) planning/land discrepancies for some hydroelectric assets, and (iii) the incompatibility of an acquisition of a branch of the company with the structure of the ERG Group, within which each individual business is managed by a specific company appointed for said purpose.

Despite ERG Power Generation and E.ON Italia presenting a note providing further information (supplemented with further information on 26 October 2017) and the meeting with officials of the Genoa Revenue Agency held on 17 October 2017, on 27 October 2017 the Genoa Provincial Division of the Italian Revenue Agency issued a settlement notice for higher registration tax equal to approximately EUR 28.8 million plus interest for EUR 1.9 million (no penalties were imposed).

On 24 November 2017, an appeal and an application were filed for judicial suspension of the tax collection.

On 14 December 2017, the judicial suspension of the tax collection was ordered.

The merit hearing will take place on 14 March 2018 and we are awaiting the decision.

NOTE 27 - ASSETS AND LIABILITIES HELD FOR SALE

The Statement of Financial Position at 31 December 2017 is represented as determined by IFRS 5, with the exclusion of the equity investment in the joint venture TotalErg S.p.A. and the assets and liabilities relating to the subsidiary Brockaghboy Windfarm Ltd. The impacts of the aforementioned exclusion are indicated separately under the item "Assets held for sale" and "Liabilities held for sale".

For additional details, please see the sections **TotalErg Transaction** and **Brockaghboy Windfarm Ltd.**

(EUR thousand)	31/12/2017			
	Brockaghboy Windfarm Ltd.	TotalErg S.p.A.	Total Italia S.r.l. ⁽¹⁾	Assets and liabilities held for sale
Intangible fixed assets	6,998	–	–	6,998
Goodwill	–	–	–	–
Property, plant and equipment	70,329	–	–	70,329
Equity investments	–	179,538	5	179,543
Other non-current financial assets	–	–	–	–
Deferred tax assets	67	–	–	67
Other non-current assets	–	–	–	–
Non-current assets	77,394	179,538	5	256,936
Inventories	–	–	–	–
Trade receivables	1,940	–	–	1,940
Other receivables and current assets	899	–	–	899
Current financial assets	–	–	–	–
Cash and cash equivalents	1,293	–	–	1,293
Current assets	4,132	–	–	4,132
TOTAL ASSETS HELD FOR SALE	81,526	179,538	5	261,069
Group Shareholders' Equity	–	–	–	–
Minority interests	–	–	–	–
Shareholders' Equity	–	–	–	–
Employees' severance indemnities	–	–	–	–
Deferred tax liabilities	(67)	–	–	(67)
Provisions for non-current liabilities and charges	1,381	–	–	1,381
Non-current financial liabilities	–	–	–	–
Other non-current liabilities	–	–	–	–
Non-current liabilities	1,314	–	–	1,314
Provisions for current liabilities and charges	–	–	–	–
Trade payables	703	–	–	703
Current financial liabilities	–	–	–	–
Other current liabilities	139	–	–	139
Current liabilities	842	–	–	842
TOTAL LIABILITIES HELD FOR SALE	2,156	–	–	2,156

(1) Total Italia S.r.l. was formed on 22 September 2017 as part of the **TotalErg Transaction**. At 31 December 2017, ERG S.p.A. and Total Marketing Services SA were holders of a stake respectively equal to 51% and 49% of the share capital of Total Italia S.r.l. The company was sold in January 2018.

The column **Brockaghboy Windfarm Ltd.** is broken down as follows:

(EUR thousand)	31/12/2017		TOTAL
	Brockaghboy Windfarm Ltd.	Intercompany transactions	
Intangible fixed assets	6,998	–	6,998
Goodwill	–	–	–
Property, plant and equipment	70,329	–	70,329
Equity investments	–	–	–
Other non-current financial assets	–	–	–
Deferred tax assets	67	–	67
Other non-current assets	–	–	–
Non-current assets	77,394	–	77,394
Inventories	–	–	–
Trade receivables	1,940	–	1,940
Other receivables and current assets	899	–	899
Current financial assets	–	–	–
Cash and cash equivalents	1,293	–	1,293
Current assets	4,132	–	4,132
TOTAL ASSETS HELD FOR SALE	81,526	–	81,526
Group Shareholders' Equity	–	–	–
Minority interests	–	–	–
Shareholders' Equity	–	–	–
Employees' severance indemnities	–	–	–
Deferred tax liabilities	(67)	–	(67)
Provisions for non-current liabilities and charges	1,381	–	1,381
Non-current financial liabilities	–	–	–
Other non-current liabilities	–	–	–
Non-current liabilities	1,314	–	1,314
Provisions for current liabilities and charges	–	–	–
Trade payables	703	–	703
Current financial liabilities	56,088	(56,088)	(0)
Other current liabilities	139	–	139
Current liabilities	56,930	(56,088)	842
TOTAL LIABILITIES HELD FOR SALE	58,244	(56,088)	2,156

RECOMMENDATIONS ON THE INFORMATION TO BE REPORTED IN THE FINANCIAL REPORTS AND IN THE PRESS RELEASES OF LISTED COMPANIES OPERATING IN THE RENEWABLE ENERGY SECTOR

Pursuant to CONSOB Recommendation no. DIE/0061493 of 18 July 2013 concerning information to be reported in the financial reports and press releases of listed companies operating in the renewable energy sector, here below the relevant table schedules.

Reconciliation with amount of property, plant and machinery in the balance sheet

(Thousands of euros)	Net accounting value as of 31/12/2017	
Plants in operation	2,238,784	(a)
Not yet operational plants	2,086	(b)
Other intangible fixed assets	11,319	
TOTAL BEFORE IFRS 5	2,252,189	
Discontinued Operations (Brockaghboy Windfarm Ltd.)	(70,329)	
Continuing Operations	2,181,860	

Information on energy production plants in operation as of 31 December 2017

Company	Plant	Associated financial debt				
		Book value of financial liability	Technical form	Delivery / Expiry		Coverage
ERG Power S.r.l.	C.C.G.T (Combine Cycle Gas Turbine)	62,415	Project Financing	2010	2021	IRS: fixed rate 2,77%
Thermoelectric		62,415				
ERG Hydro S.r.l.	Hydroelectric power plant	n.a.	n.a.	n.a.	n.a.	n.a.
Hydroelectric						
ERG Eolica S. Vincenzo S.r.l.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
ERG Eolica S. Cireo S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Eolica Faeto S.r.l.		14.662	Project Financing	2007	2021	IRS fixed rate 2,13%
ERG Eolica Ginestra S.r.l.		27.889		2010	2025	IRS: fixed rate 3,27%
Green Vicari S.r.l.		8.529		2008	2019	Floating-rate and partly fixed-rate financing
ERG Eolica Basilicata S.r.l.		34.028		2017	2027	IRS: fixed rate 1,46%
ERG Eolica Fossa del Lupo S.r.l.		77.305		2017	2027	IRS: fixed rate 2,26%
ERG Eolica Amaroni S.r.l.		21.368		2017	2027	IRS: fixed rate 1,68%
ERG Eolica Adriatica S.r.l.		104.262		2009	2022	IRS: fixed rate 4,85%
ERG Eolica Campania S.p.A.		34.383		2009	2020	IRS: fixed rate 4,37%
ERG Wind Investments Ltd.		460.337	Project Financing	2008	2022	IRS: medium fixed rate 4,46%
ERG Wind Sardegna S.r.l.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sicilia		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind 4 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind 6 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sicilia 2 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sicilia 3 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sicilia 4 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sicilia 5 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind 2000 S.r.l.		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind MEG 1 LLP		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind MEG 2 LLP		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind MEG 3 LLP		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind MEG 4 LLP		n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien du Carreau S.a.s.		1.481	Project Financing	2005	2019	Floating rate financing
Parc Eolien de la Bruyère S.a.s.		1.140		2005	2019	IRS: medium fixed rate 5,77%
Parc Eolien les Mardeaux S.a.s.		2.248		2005	2019	IRS: medium fixed rate 5,77%
Parc Eolien de Lihus S.a.s.		1.454		2005	2019	IRS: medium fixed rate 5,77%
Parc Eolien de Hetomesnil S.a.s.		1.652		2005	2019	IRS: medium fixed rate 5,77%
Eoliennes du Vent Solaire S.a.s.		3.434		2011	2025	Fixed rate financing
ERG Wind France 1 S.a.s.		28.292	Project Financing	2016	2025	IRS: fixed rate -0,065%
Ferme Eolienne de Teterchen S.a.s.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien du Bois de l'Arche S.a.s.		n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien du Bois de Bigot S.a.s.		n.a.	n.a.	n.a.	n.a.	n.a.
Cepe Pays de Montbeliard S.n.c.		n.a.	n.a.	n.a.	n.a.	n.a.
Cepe de Saint Florentin S.n.c.		n.a.	n.a.	n.a.	n.a.	n.a.
Cepe de Murat S.n.c.		n.a.	n.a.	n.a.	n.a.	n.a.

Geographical location	Ownership %	Installed capacity (MW)	Energy produced by the plant in the period (GWh)	Net accounting value as of 31/12/2017 (thousands of euros)
Italy	100%	480	2,453	251,220
	100%	480	2,453	251,220
Italy	100%	527	1,144	667,286
	100%	527	1,144	667,286
Italy	100%	545	1,120	469,026
Italy	100%	645	1,151	271,862
Germany	100%			
France	100%	64	108	13,441
France	100%	64	136	44,920

Associated financial debt

Company	Plant	Book value of financial liability	Technical form	Delivery / Expiry		Coverage
Parc Eolien de St Riquier 3 S.a.s.	Wind Farm	13,200	Project Financing	2014	2028	Fixed rate financing
Parc Eolien de St Riquier 4 S.a.s.		11,236	Project Financing	2014	2028	Fixed rate financing
Parc Eolien de la Chaude Vallee Sarl		12,002	Project Financing	2011	2027	85% Fixed rate financing
Parc Eolien de Morvilers Sarl		12,231	Project Financing	2012	2027	Fixed rate financing
SEPE du Nouvion S.a.s		n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien de Garcelles-Sacqueville S.a.s.		6,018	Project Financing	2007	2023	IRS: fixed rate 3,75%
Parc Eolien du Patis S.a.s.		6,859	Project Financing	2013	2027	IRS: fixed rate 2,025%
Parc Eolien Hauts Moulins Sarl		11,656	Project Financing	2012	2028	86% Fixed rate financing
Parc Eolien Moulins des Camps (La Chapelle) Sarl		11,530	Project Financing	2012	2028	85% Fixed rate financing
Parc Eolien de St Riquier 1 S.a.s.		10,042	Project Financing	2009	2027	Fixed rate financing
Parc Eolien de la Souterraine S.a.s.		6,700	Project Financing	2013	2028	IRS: fixed rate 2,01%
Parc Eolien de Oyre Saint Sauveur S.a.s.		9,793	Project Financing	2014	2029	40% Fixed rate financing
Globo Energy EOOD	Wind Farm	19,656	Project Financing	2012/13	2018	IRS: fixed rate 1,16% IRS: fixed rate 1,56%
Mark 1 EOOD						
Mark 2 EOOD						
WP Bulgaria 4 EOOD						
K&S Energy EOOD						
K&S Energy 1 EOOD						
K&S Energy 2 EOOD						
VG-1 EOOD						
VG-2 EOOD						
VG-3 EOOD						
VG-4 EOOD						
VG-5 EOOD						
VG-6 EOOD						
Wind Park Kavarna East EOOD	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Wind Park Kavarna West EOOD						
Corni Eolian SA						
EW Ornet 2 SP. Z O.O.	Wind Farm	37,611	Project Financing	2015	2029	IRS: fixed rate 2,47% (wibor)
Hydro Inwestycje SP. Z O.O.		n.a.	n.a.	n.a.	n.a.	n.a.
Blachy Pruszyński-Energy SP. Z O.O.		n.a.	n.a.	n.a.	n.a.	n.a.
Brockaghboy Windfarm Ltd.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Voltwerk Energy Park 8 GmbH	Wind Farm	n.a.	Project Financing	n.a.	n.a.	n.a.
Voltwerk Windpark Worzig GmbH		n.a.		n.a.	n.a.	n.a.
Voltwerk Windpark Beesenstedt GmbH		n.a.		n.a.	n.a.	n.a.
Windpark Cottbuser Halde GmbH		19,603		2007	2025	Fixed rate financing
WP Achmer Vinte GmbH		5,523		2006	2021	Fixed rate financing
Epuron Energy Park 117 (Frehne) GmbH		12,369		2013	2030	Fixed rate financing
ERG Wind Dobberkau GmbH & Co. KG		13,851		2014	2025	IRS: fixed rate 0,949%
ERG Wind Hermersberg GmbH & Co. KG		691		2016	2024	Fixed rate financing
ERG Wind Ober Kostenz GmbH & Co. KG		2,573		2016	2024	Fixed rate financing
ERG Wind WB GmbH & Co. KG		3,119		2016	2024	Fixed rate financing
ERG Wind Welchweiler GmbH & Co. KG		1,111		2016	2024	Fixed rate financing
ERG Wind Weselberg GmbH & Co. KG		2,450		2016	2024	Fixed rate financing
Wind		1,052,290				

Plants in operation

1,114,706

Geographical location	Ownership %	Installed capacity (MW)	Energy produced by the plant in the period (GWh)	Net accounting value as of 31/12/2017 (thousands of euros)
France	100%	125	248	127,068
Bulgaria	100%	54	157	46,335
Romania	100%	70	201	79.459
Poland	100%	82	248	100,022
UK	100%	48	29	70.329
Germany	100%	130	214	97,817
	100%	1,814	3,613	1,320,278
	100%	2,821	7,211	2,238,784

a)

Information on energy production not yet operational plants as of 31 December 2017

Plant	Geographical location	Company	Ownership %	Installed capacity (MW)	Work in progress status	Net accounting value as of 31/12/2017 (thousands of euros)
Evishagaran	UK	ERG UK Holding Ltd.	100%	40	Authorized but not yet under construction	–
Rigghill		Rigghill Wind Farm Limited	50%	n.d.	Not yet authorized and not under construction	–
Longburn	UK	Longburn Wind Farm Ltd.	100%	23	Not yet authorized and not under construction	–
Sandy Knowe		Sandy Knowe Wind Farm Ltd.	100%	48	Authorized but not yet under construction	–
Vallée de l'Aa2	France	WP France 6 S.a.s.	100%	13	Authorized and under construction	2,086
Wind				124		2,086
NOT YET OPERATIONAL PLANTS				124		2,086

b)

As regards the commitments and guarantees given to the lenders of the plants referred to in the tables above, reference should be made to the note in **Note 25 Covenants and negative pledges** of the **Notes to the Consolidated**.

INCOME STATEMENT ANALYSIS

NOTE 28 - REVENUES FROM ORDINARY OPERATIONS

	2017	2016
Revenues from sales	1,040,560	1,018,514
Revenues from services	12,992	6,974
Total	1,053,552	1,025,489

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

	2017	2016
Wind power sector	442,454	422,850
Thermoelectric sector	473,294	479,323
Hydroelectric sector	136,589	122,165
Corporate	1,212	1,151
Total	1,053,552	1,025,489

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 of the wind farms in operation and to the hydroelectric plants. In Italy, the valuation of the incentives was calculated at the price of 107.3 EUR/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 Annual Financial Report herein.

The following table shows the breakdown of revenues from sales:

	2017	2016
Sales to third parties	1,029,142	1,007,685
Sales to Group companies not consolidated line by line	11,418	10,829
Total	1,040,560	1,018,514

NOTE 29 - OTHER REVENUES AND INCOME

	2017	2016
Indemnifications	1,590	3,150
Expense recoveries	296	259
Capital gains on disposals	1	294
Non-recurring income	316	2,598
Other revenues	8,378	10,011
Total	10,581	16,312

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 30 - CHANGES IN 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 EUR -0.6 million (EUR 1.9 million in 2016). It should be noted that some components were prudentially written down during the financial year in the amount of approximately EUR 1,704 thousand.

NOTE 31 - COSTS FOR PURCHASES

Costs for purchases for 2017 amounted to EUR 355 million (EUR 332 million in 2016) and refers mainly to the purchase of electricity from GME and gas from Edison, ENI and Gazprom S.p.A.

NOTE 32 - COSTS FOR SERVICES AND OTHER OPERATING COSTS

	2017	2016
Costs for services	124,555	145,964
Rents and leases	30,201	30,001
Write-downs of receivables	1,641	1,055
Accruals of provisions for liabilities and charges	10,033	3,889
Duties and taxes	10,742	7,749
Other operating expenses	4,848	7,237
Total	182,020	195,897

Costs for services are broken down as follows:

	2017	2016
Commercial, distribution and transportation costs	14,193	31,885
Repairs and maintenance	25,996	28,258
Utilities and supplies	4,399	6,289
Insurance	8,841	9,316
Consulting services	14,990	14,674
Advertising and promotions	1,124	1,221
Other services	55,013	54,322
Total	124,555	145,964

- The **commercial**, distribution and transportation costs refer to ancillary costs relative to the distribution of electricity. The decrease is mainly due to the reduction 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 consortium company Priolo Servizi to the ERG Power CCGT plant at the industrial site of Priolo Gargallo, bank expenses, general overheads and ancillary personnel costs.

The item **Rents and leases** mainly includes state fees for water derivations, royalties to municipalities on the basis of agreements signed, leasing instalments to the owners of the land on which the Group's wind farms exercise their activities and rental expenses relating to offices.

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.

Provisions for risks and charges relate mainly to:

- items relating to the thermoelectric business (EUR 3.3 million);
- costs of reorganising the asset portfolio (EUR 1.1 million);
- charges related to uncertainty on the outcome of projects mainly related to the wind farm business (EUR 1.6 million);
- probable charges related to the hydroelectric business (EUR 0.8 million);
- a contractual dispute which began in 2010 against a wholesaler customer (EUR 0.7 million).

NOTE 33 – PERSONNEL COSTS

	2017	2016
Salaries and wages	48,159	42,459
Social security contributions	14,135	12,532
Employees' severance indemnities	2,803	2,694
Other personnel costs	3,601	4,574
Total	68,698	62,260

The other costs include additional employees' severance indemnities.

The increase with respect to financial year 2016 is due to non-recurring remuneration linked to extraordinary transactions.

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

	2017	2016
Executives	39	41
Managers	162	163
Staff	342	344
Workmen	173	168
Total	716	717

At 31 December 2017, the total number of employees was 714.

NOTE 34 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2017	2016
Amortisation of intangible fixed assets	49,353	46,295
Depreciation of tangible fixed assets	201,582	205,048
Write-downs of fixed assets	–	2,310
Total	250,937	253,654

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 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.

NOTE 35 - NET FINANCIAL INCOME (EXPENSES)

	2017	2016
Income		
Foreign currency exchange gains	653	783
Interest income on bank accounts	4,615	2,069
Other financial income	19,228	18,749
	24,496	21,600
Expenses		
Foreign currency exchange losses	(980)	(238)
Interest on short-term bank borrowings	(5)	(545)
Interest on medium/long-term bank borrowings	(28,715)	(39,623)
Other financial expenses	(60,094)	(64,689)
	(89,794)	(105,094)
Total	(65,297)	(83,494)

The higher interest income primarily reflects the increase in cash and cash equivalents.

The decrease on bank borrowings 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.

Other financial income and 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 36 - NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The income and loss from equity investments of EUR -1,171 thousand (EUR 11,895 thousand in 2016) mainly include:

In **2017**

- the impact of consolidation using the shareholders' equity method of the associate Priolo Servizi S.C.p.A., equal to EUR 0.1 million;
- the expense deriving from the adjustment of the provision for charges on the company ERG Petroleos in liquidation, equal to EUR -0.2 million;
- the write-down of the equity investment in the subsidiary Creggan Wind Farm Limited in the amount of EUR -0.9 million.

In **2016**

- income deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A. (now ERG Power Generation S.p.A.), equal to EUR 11 million;
- the income from the sale of the equity investment in ERG Eolica Lucana (EUR 1 million).

NOTE 37 - INCOME TAXES FOR THE PERIOD

	2017	2016
Current income taxes	43,686	33,970
Taxes from previous years	712	625
Deferred taxes	(11,440)	(5,764)
Total	32,958	28,831

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 11.8 million (EUR 12.9 million in 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 no. 208 of 28 December 2015 (the 2016 Stability Law) provided for the reduction of the IRES rate from 27.5% to 24% beginning 1 January 2017. Note, therefore, that the rate used for the calculation of the prepaid taxes is the same as 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 - Aid to Economic Growth], 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).

It should also be noted that 2017 benefited from the positive impact of approximately EUR 4 million resulting from the reduction of Corporate Income Tax in France (28% in 2017 compared to the rate of 33% applied in 2016).

Reconciliation between reported and theoretical tax charges

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

IRES (Corporate tax)	
Profit (loss) before taxes	240,510
Theoretical IRES taxation at 24%	57,722
Impact of consolidation adjustments not relevant to the calculation of taxes	(20,780)
Impact of ACE (aid to economic growth)	(7,879)
Impact delta rate France	(4,241)
Impact of permanent tax changes	(1,385)
Current and deferred IRES	23,437
IRAP (Regional tax)	
EBIT	207,728
Write-down of receivables	1,641
Total	209,369
Theoretical IRAP at 5%	10,468
Effect stemming from IRAP rate increase for some companies	(2,711)
Impact of permanent differences and consolidation adjustments not relevant to the calculation of income taxes	1,789
Current and deferred IRAP	9,547
Total theoretical taxes	68,191
Total IRES and IRAP in the financial statements	32,984
Taxes from previous year	712
Substitute taxes	-
Impact of assets and liabilities held for sale	(738)
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS	32,958

NOTE 38 - NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE

The 2016 and 2017 income statements are presented in accordance with IFRS 5, which prescribes how to report the income and expenses of discontinued operations, with the exclusion therefore of:

- the result of the joint venture TotalErg S.p.A.;
- the result of the subsidiary Brockaghboy Windfarm Ltd., consolidated on a line-by-line basis.

The impacts of the aforementioned exclusions are indicated separately under the item "Net profit (loss) from assets held for sale".

For additional details, please see the sections [TotalErg Transaction](#) and [Brockaghboy Windfarm Ltd.](#)

(EUR thousand)	FY 2017		
	Brockaghboy Windfarm Ltd.	TotalErg S.p.A.	Net profit (loss) from assets held for sale
Revenues from ordinary operations	2,910	–	2,910
Other revenues and income	–	–	–
Changes in inventories	–	–	–
Costs for purchases	–	–	–
Costs for services and other costs	(579)	–	(579)
Personnel costs	–	–	–
EBITDA	2,331	–	2,331
Amortisation, depreciation and write-downs of fixed assets	(1,261)	–	(1,261)
Net financial income (expenses)	(317)	–	(317)
Net income (loss) from equity investments	–	99,568	99,568
PROFIT (LOSS) BEFORE TAXES	753	99,568	100,321
Income taxes	(129)	(610)	(738)
Net profit (loss) from assets held for sale	625	98,958	99,583

(EUR thousand)	FY 2016		
	Brockaghboy Windfarm Ltd.	TotalErg S.p.A.	Net profit (loss) from assets held for sale
Revenues from ordinary operations	(0)	–	(0)
Other revenues and income	–	–	–
Changes in inventories	–	–	–
Costs for purchases	–	–	–
Costs for services and other costs	(105)	–	(105)
Personnel costs	–	–	–
EBITDA	(105)	–	(105)
Amortisation, depreciation and write-downs of fixed assets	(5)	–	(5)
Net financial income (expenses)	(357)	25,847	25,491
Net income (loss) from equity investments	–	–	–
PROFIT (LOSS) BEFORE TAXES	(466)	25,847	25,381
Income taxes	175	–	175
Net profit (loss) from assets held for sale	(292)	25,847	25,556

The column **Brockaghboy Windfarm Ltd.** is broken down as follows:

(EUR thousand)	FY 2017		
	Brockaghboy Windfarm Ltd.	Intercompany transactions	TOTAL
Revenues from ordinary operations	2,910	–	2,910
Other revenues and income	–	–	–
Changes in inventories	–	–	–
Costs for purchases	–	–	–
Costs for services and other costs	(579)	–	(579)
Personnel costs	–	–	–
EBITDA	2,331	–	2,331
Amortisation, depreciation and write-downs of fixed assets	(1,261)	–	(1,261)
Net financial income (expenses)	(843)	526	(317)
Net income (loss) from equity investments	–	–	–
PROFIT (LOSS) BEFORE TAXES	227	526	753
Income taxes	(29)	(100)	(129)
Net profit (loss) from assets held for sale	198	426	625

(EUR thousand)	FY 2016		
	Brockaghboy Windfarm Ltd.	Intercompany transactions	TOTAL
Revenues from ordinary operations	(0)	–	(0)
Other revenues and income	–	–	–
Changes in inventories	–	–	–
Costs for purchases	–	–	–
Costs for services and other costs	(105)	–	(105)
Personnel costs	–	–	–
EBITDA	(105)	–	(105)
Amortisation, depreciation and write-downs of fixed assets	(5)	–	(5)
Net financial income (expenses)	(357)	–	(357)
Net income (loss) from equity investments	–	–	–
PROFIT (LOSS) BEFORE TAXES	(466)	–	(466)
Income taxes	175	–	175
Net profit (loss) from assets held for sale	(292)	–	(292)

NOTE 39 - NON-RECURRING ITEMS

(EUR thousand)	2017		2016	
Revenues from ordinary operations		–		–
Other revenues		–		–
Costs for purchases		–		–
Changes in inventories		–		–
Costs for services and other costs	1)	(7.146)	1)	(916)
Personnel costs	2)	(5.274)	2)	(1.159)
Amortisation, depreciation and write-downs of fixed assets		–		–
Net financial income (expenses)		–	3)	(7.700)
Net income (loss) from equity investments		–	4)	11.036
Income taxes	3)	3.108	5)	1.768
Net profit (loss) non-recurring items (continuing operations)		(9.311)		3.029
Net profit (loss) non-recurring items (assets held for sale)	4)	74.506	6)	11.630
Net profit (loss) non-recurring items		65.194		14.658
Minority interests		–	7)	491
Group net profit (loss) non-recurring items		65.194		15.150

In 2017

- 1) Costs for services and other costs relate to payments to directors for extraordinary transactions and other ancillary charges for extraordinary transactions;
- 2) Personnel costs relate to bonuses awarded to employees for extraordinary transactions;
- 3) Income taxes refer to the tax effect of the above-mentioned items;
- 4) For more details on TotalErg's non-recurring items, please refer to the **"Alternative performance indicators"** section of the Report on Operations.

In 2016

- 1) Costs for services and other costs refer to non-recurring remuneration to directors linked to extraordinary transactions;
- 2) Personnel costs refer mainly to non-recurring remuneration to employees linked to extraordinary transactions and to the staff redundancy procedure pursued in 2016;
- 3) The net financial expenses mainly refer to the early closing of the Corni Eolian Project Financing;
- 4) Expenses from equity investments refer to effects linked to minorities options;
- 5) Income taxes refer to the tax effect of the above-mentioned items;
- 6) Net profit (loss) non-recurring items assets held for sale relates mainly to TotalErg inventory gains;
- 7) 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 40 - 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.	–	2,148	–	18	–	–	–
TotalErg S.p.A.	–	242	23,111	19	5,951	–	–
ISAB Energy Solare S.r.l.	271	–	–	–	–	–	–
San Quirico S.p.A.	–	–	1,409	–	–	–	–
ERG Petroleos S.A.	–	–	–	–	–	8,613	–
Sandy Knove Wind Farm Ltd.	347	–	–	–	–	–	–
ERG UK Holding Ltd.	617	–	–	–	–	–	–
WP France 6	1,394	–	–	–	–	–	–
Other	–	241	25	73	–	–	171
Total	2,630	2,631	24,546	110	5,951	8,613	171
<i>% of the total item</i>	<i>7%</i>	<i>1%</i>	<i>25%</i>	<i>0%</i>	<i>7%</i>	<i>29%</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.	11.787	–	–	(10.072)	–	–
TotalErg S.p.A.	1.025	783	(250)	(21)	44	–
San Quirico S.p.A.	–	–	–	(30)	–	–
Edoardo Garrone Foundation	–	–	–	(100)	–	–
Other	41	33	–	(411)	–	–
Total	12.853	816	(250)	(10.634)	44	–
<i>% of the total item</i>	<i>1%</i>	<i>8%</i>	<i>0%</i>	<i>6%</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 Cireo S.r.l. and ERG Eolica Ginestra S.r.l.

It is also noted that on 05/10/2017, following the disposal of the equity investment, the domestic tax consolidation with Totalgaz Italia S.r.l. was discontinued, taking effect from the beginning of the financial year in which the disposal of the equity investment took place. Finally it is noted that on 10/01/2018, following the disposal of the equity investments,

the domestic tax consolidation with the companies TotalErg S.p.A., Eridis S.r.l., Raffineria di Roma S.p.A. and Gestioni Europa S.p.A. was discontinued, taking effect from the beginning of the financial year in which the disposal of the equity investments took place.

Costs for services also include EUR 404 thousand 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 41 - EARNINGS PER SHARE

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

	2017	2016
Group share of net profit ⁽¹⁾	206,815	122,459
Average number of shares outstanding ⁽²⁾	148,816,800	144,142,788
Basic earnings per share from continuing operations ⁽³⁾	0.721	0.689
Diluted earnings per share from continuing operations ⁽³⁾	0.721	0.689

(1) EUR thousand

(2) Unit

(3) EUR unit

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

Reconciliation with ERG S.p.A. shareholders' equity and net income

	Shareholders' Equity		Profit (loss) for the year	
	31/12/2017	31/12/2016	2017	2016
ERG S.p.A. Shareholders' equity and net income for the year	1,642,817	1,692,102	23,970	11,473
Elimination of the effects of transactions among consolidated companies:				
Elimination of intra-group profits on inventories and fixed assets	(3,961)	(7,328)	–	–
Elimination of intra-group dividends	–	–	(20,177)	(104,189)
	(3,961)	(7,328)	(20,177)	(104,189)
Deferred taxes				
Deferred taxes on consolidation adjustments	–	(11,911)	–	17,070
Elimination of the carrying value of equity investments				
Difference between the carrying value and the pro rata value of shareholders' equity	215,489	(134,524)	–	–
Adjusted pro rata profits of investee companies			203,021	200,530
Recognition of Assets and Liabilities from business combinations	23,121	190,760	–	–
	238,610	56,236	203,021	200,530
Shareholders' equity and net income for the year	1,877,466	1,729,099	206,815	124,884
Minority share of shareholders' equity and net income for the year	–	–	–	(2,425)
ERG Group consolidated shareholders' equity and net income for the year	1,877,466	1,729,099	206,815	122,459

NOTE 42 - INFORMATION BY SEGMENT AND GEOGRAPHICAL AREA

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	Thermo-electric power	Hydro-electric power	Corporate	TOTAL recurring	Non-recurring items	TOTAL reported	Net profit (loss) from assets held for sale	TOTAL Continuing operations
2017									
Total revenues	445.4	473.3	136.6	37.9	1.093.2				
Intra-segment revenues	–	–	–	(36.7)	(36.7)				
Net revenues from ordinary operations	445.4	473.3	136.6	1.2	1.056.5	–	1.056.5	(2.9)	1.053.6
EBITDA	316.2	78.4	93.6	(15.9)	472.3	(12.4)	459.9	(2.3)	457.6
Amortisation, depreciation and write-downs	(160.0)	(30.8)	(58.4)	(3.0)	(252.2)	–	(252.2)	1.3	(250.9)
EBIT	156.3	47.6	35.1	(18.9)	220.1	(12.4)	207.7	(1.1)	206.7
Capital expenditure in fixed assets	35.3	9.9	6.3	2.9	54.4	–	54.4	(28.7)	25.7
2016									
Total revenues	422.8	479.3	122.2	32.2	1.056.5				
Intra-segment revenues	–	–	–	(31.1)	(31.1)				
Net revenues from ordinary operations	422.8	479.3	122.2	1.2	1.025.5	–	1.025.5	–	1.025.5
EBITDA	307.6	77.4	83.6	(13.2)	455.4	(2.1)	453.3	0.1	453.4
Amortisation, depreciation and write-downs	(162.9)	(30.2)	(58.0)	(2.6)	(253.7)	–	(253.7)	–	(253.7)
EBIT	144.8	47.2	25.6	(15.8)	201.7	(2.1)	199.6	0.1	199.8
Capital expenditure in fixed assets	43.6	9.6	3.6	2.7	59.5	–	59.5	–	59.5

Information by geographical area

	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL recurring	Non-recur- ring items	TOTAL reported	Net profit (loss) from assets held for sale	TOTAL Continuing operations
(EUR million)												
2017												
Revenues from ordinary operations	925.6	46.2	37.6	11.8	12.9	19.4	2.9	1,056.5	–	1,056.5	(2.9)	1,053.6
EBITDA	396.6	29.6	24.8	4.7	6.0	8.3	2.3	472.3	(12.4)	459.9	(2.3)	457.6
Amortisation, depreciation and write-downs	(195.1)	(21.3)	(18.9)	(6.1)	(4.2)	(5.3)	(1.3)	(252.2)	–	(252.2)	1.3	(250.9)
EBIT at replacement cost	201.6	8.3	5.9	(1.4)	1.7	2.9	1.1	220.1	(12.4)	207.7	(1.1)	206.6
Capital expenditure in fixed assets	22.0	2.4	0.0	1.1	0.0	0.2	28.7	54.4	–	54.4	(28.7)	25.7
2016												
Revenues from ordinary operations	913.9	45.5	26.1	9.7	12.5	17.8	(0.0)	1,025.5	–	1,025.5	–	1,025.5
EBITDA	383.2	31.8	18.2	5.7	8.1	8.5	(0.1)	455.4	(2.1)	453.3	0.1	453.4
Amortisation, depreciation and write-downs	(197.8)	(25.1)	(14.8)	(6.4)	(4.2)	(5.4)	(0.0)	(253.7)	–	(253.7)	–	(253.7)
EBIT at replacement cost	185.4	6.8	3.4	(0.7)	3.9	3.1	(0.1)	201.7	(2.1)	199.6	0.1	199.8
Capital expenditure in fixed assets	22.3	0.1	–	0.8	0.3	–	36.2	59.5	–	59.5	–	59.5

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

NOTE 43 - DIVIDENDS

The dividends paid by ERG S.p.A. in 2017 (EUR 74.4 million) and in 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.

On 7 March 2018, the Board of Directors proposed the payment to the Shareholders of a dividend of EUR 1.15 per share, including a non-recurring component of EUR 0.40 per share, which it proposed be distributed following the completion of the process to change the structure of the Group by exiting the Oil business and entering the Solar Power business.

The dividend will be made payable starting from 23 May 2018, with an ex-dividend date as of 21 May 2018 and a record date of 22 May 2018.

NOTE 44 - FINANCIAL INSTRUMENTS

31/12/2017

	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	HTM	Derivatives	Other liabilities	Total	of which non-current	Fair value
Equity investments	–	501	–	–	–	–	501	–	–
Financial receivables	–	40,369	–	–	–	–	40,369	40,369	–
Derivative financial instruments	–	–	–	–	19,688	–	19,688	–	19,688
Trade receivables	–	255,534	–	–	–	–	255,534	–	–
Financial securities classified as current assets	–	–	137	–	–	–	137	–	–
Other receivables	–	277,742	–	–	–	–	277,742	180,169	–
Cash and cash equivalents	–	812,992	–	–	–	–	812,992	–	812,992
Total assets	–	1,387,138	137	–	19,688	–	1,406,963	220,538	832,680
Mortgages and loans	–	–	–	99,465	–	670,555	770,020	711,395	–
Non-recourse Project Financing	–	–	–	–	–	1,114,706	1,114,706	970,891	–
Short-term bank borrowings	–	–	–	–	–	82,958	82,958	–	–
Financial payables	–	–	–	–	–	2,111	2,111	–	–
Derivative financial instruments	–	–	–	–	106,570	–	106,570	106,428	106,570
Trade payables	–	–	–	–	–	126,796	126,796	–	–
Other payables	–	–	–	–	–	123,962	123,962	40,905	123,962
Total liabilities	–	–	–	99,465	106,570	2,121,089	2,327,124	1,829,619	230,532

31/12/2016

	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	AFS ⁽³⁾	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	–	18,526	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	–	1,069,545	80,137	–	18,526	–	1,168,208	245,110	445,055
Mortgages and loans	–	–	–	–	–	668,439	668,439	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	–	–	–
- HTM	–	–	–
- Hedging derivatives	19,124	564	–
Total	19,124	564	–
Financial liabilities			
- FVTPL	–	–	–
- AFS	–	–	–
- HTM	99,465	–	–
- Hedging derivatives	–	106,570	–
Total	99,465	106,570	–

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 - Implied volatility rates	- 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
		Black & Scholes	- Zero coupon curves of the reference currencies	- Reuters	Level 2
	FX Option	Edgeworth Expansion	- ECB Spot rates		
		Monte Carlo Simulation	- Exchange rate implicit volatility		
Commodity derivatives	Commodity Swap	Discounted Cash Flow	- Official spot quotes on reference commodities	- Platt's	Level 2
	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 45 - DISCLOSURE ON RISKS

The following are the main risks identified and actively managed by the ERG Group:

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Market risk: deriving from exposure to fluctuations in currency exchange rates, mainly between the Euro and US dollar and interest rates, as well as changes in the prices of products sold and raw material purchased (commodity price volatility risk);
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

The ERG Group attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. In line with this objective, an advanced Risk Management system has been adopted that guarantees identification, measurement and control at a centralised level for the entire Group of exposure to individual risks, in accordance with existing policies.

The Group Risk Finance & Corporate Finance department ensures compliance with the assigned limits and, via its own analyses, provides appropriate support for strategic decisions both to individual subsidiaries and to the Risk Committee as well as to top management at the Parent Company.

Credit risk

Exposure to credit risk, i.e. the likelihood that a given counterparty is not able to meet its contractual obligations, is managed through appropriate analysis and assessments, assigning to each counterparty an Internal Based Rating, a summary indicator of the creditworthiness assessment. The rating provides an estimate of the likelihood of default of a given counterparty on which the level of credit assigned depends, which is regularly monitored and must never be exceeded. The choice of counterparties for both industrial and financial transactions is subject to the decisions of the Credit Committee, whose decisions are supported by the credit rating analysis.

The risk of concentration, in terms of both customers and segments, is also monitored continuously, with no 'alert' situations having ever occurred.

The following table provides information on the ERG Group's exposure to credit risk at year-end, by a classification of credits that are not overdue (see **Note 9 - Trade receivables**) according to the corresponding creditworthiness reflecting the internal ratings assigned.

	2017	2016
AAA Rating	–	–
AA+ / AA- Rating	5,402	12,577
A+ / A- Rating	–	–
BBB+ / BBB- Rating	151,590	193,603
BB+ / BB- Rating	21,840	9,382
B+ / B- Rating	–	508
CCC- Rating	–	5,486
Receivables due from Group companies	2,631	3,449
Not assigned	58,995	41,107
Total	240,459	266,112

Liquidity risk

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. Today, with its cash flow generation and the availability of lines of credit made available by various counterparties, the ERG Group ensures adequate coverage of its financial requirements.

The following tables summarise the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016, based on undiscounted contractual payments.

31/12/2017

	Payables by maturity				
(EUR thousand)	On demand	Under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	2,953	67,055	646,354	102,223
Non-recourse Project Financing	–	5,651	159,318	910,388	222,629
Short-term bank borrowings	80,039	–	–	–	–
Derivative financial instruments	–	1,230	31,733	72,476	840
Trade payables	90,556	36,241	–	–	–
Total liabilities	170,595	46,074	258,106	1,629,218	325,692

31/12/2016

	Payables by maturity				
(EUR thousand)	On demand	Under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	3,040	36,281	792,552	–
Non-recourse Project Financing	–	4,799	121,964	607,487	637,090
Short-term bank borrowings	302	–	–	–	–
Derivative financial instruments	–	993	35,791	94,382	10,214
Trade payables	68,457	84,194	31	–	–
Total liabilities	68,758	93,026	194,067	1,494,421	647,304

Market risk

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the Group's Policy and internal procedures of the Finance department. Furthermore, for the Power & Gas business specific risk management policies and procedures, based on industry best practice, were developed for the continuous measurement of risk exposure levels with respect to a Risk Capital value allocated by the parent company.

Interest rate risk

Interest rate risk identifies the fluctuation in future interest rate trends that could determine higher costs for the Group. Interest rate risk is hedged by using derivative contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-1% change in interest rate, with all other variables kept constant.

Impact on Consolidated Income Statement

(EUR million)	2017	2016
Shock-up (interest rate variation +1%)	3.0	0.4
Shock-down (interest rate variation -1%)	(0.7)	(0.9)

Impact on Shareholders' Equity

(EUR million)	2017	2016
Shock-up (interest rate variation +1%)	39.1	59.0
Shock-down (interest rate variation -1%)	(33.9)	(48.5)

Commodity Risk

Commodity price risk consists in unexpected fluctuations in the prices of raw materials, of procurement of services, of finished products and services provided for sale on the open market.

With regard to the management of the price risk tied to trading activities, the internal policies prescribe hedging the flat price (price risk tied to any different periods of accrual of the price between each single purchase and its corresponding resale).

The objective defined in the Risk Management Policy is to target the margin for trade at the risk of market price fluctuations.

In order to achieve the trade margin and to hedge the flat price, the Group uses derivative instruments such as Futures and Commodity Swaps with underlying crude oil and petroleum products.

The following table considers the derivative financial instruments tied to different categories of commodities, oil and energy, and shows, in view of reasonable changes in price, - with all other variables kept constant - the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities) and Group shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-25% change in the price of commodities.

Impact on Consolidated Income Statement

(EUR million)	2017	2016
Shock-up (variation in commodities price +25%)	2.0	0.1
Shock-down (variation in commodities price -25%)	(2.0)	(0.1)

Impact on Shareholders' Equity

(EUR million)	2017	2016
Shock-up (variation in commodities price +25%)	(8.0)	(9.4)
Shock-down (variation in commodities price -25%)	8.1	9.4

Derivative financial instruments used

The main types of derivative financial instruments used to manage financial risks, with the sole purpose of hedging, are the following:

Options: a contract whereby one of the parties, on payment of a sum to the other (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying asset) at an established price (exercise or strike price);

Forward contracts: contracts for the purchase or sale between two parties of a certain financial instrument (the underlying asset) at a future date and at a price fixed at the time the contract is stipulated; this category also includes futures contracts, which unlike forward contracts are standardised, negotiated in lots and for predetermined maturity dates within regulated markets.

Swaps: contracts which establish an exchange of payment flows between two parties on certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The underlying financial instrument can be of various types and significantly influences the characteristics of the contract which, in practice, can take on different forms.

The derivative instruments entered into by ERG and aiming to mitigate exposure to financial risks existing at 31 December 2017 are as follows:

Interest rate derivatives

- Interest Rate Options that fix upper (cap) and lower (floor) limits to be applied to fluctuations in interest rates on variable rate loans;
- Interest Rate Swaps entered into to confine fixed- and floating rate loans to the most appropriate risk profile. Interest Rate Swaps provide for the exchange between the counterparties of interest flows calculated with reference to pre-agreed fixed rates or variable rates and to pre-defined face value and timing.

Commodity derivatives

- CfD (Contracts for Differences) instruments are used to hedge the risk of electricity price fluctuations; via this instrument it is possible to buy or sell block quantities of electricity by paying on maturity the difference between the price agreed to in the contract and the market price reported in the reference period.

Summary of derivative instruments used

The derivative financial instruments arranged by ERG, designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks were as follows at 31 December 2017:

Type	Hedged risk	Underlying financial instruments	Fair Value at 31/12/2017
(EUR thousand)			
Cash Flow Hedging Instruments			
A Interest rate swaps and interest rate caps	Economic interest rate risk	1,521 EUR million	(105,643)
B Gas price risk swaps	Commodity transaction risk	1.065 thousands of MWh	509
C Electricity price risk hedging futures	Commodity transaction risk	809 thousands of MWh	(1,474)
D Electricity price risk hedging CFD		119 thousands of MWh	(142)
Total cash flow hedging instruments			(106,750)
Non Hedge Accounting Instruments			
B Gas price risk swaps	Commodity transaction risk	53 thousands of MWh	17
D Electricity price risk hedging CFD	Commodity transaction risk	164 thousands of MWh	38
C Electricity price risk hedging futures	Commodity transaction risk	852 thousands of MWh	753
Total Non Hedge Accounting instruments			808
TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS			(105,942)

Cash Flow Hedging Instruments

A Interest Rate Swaps and Interest Rate Caps and Collars

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 wind power business.

At 31 December 2017, there was a total net negative fair value in the amount of EUR 105.6 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 31 December 2017, there was a total positive fair value in the amount of EUR 0.5 million. The change is recognised in the Cash Flow Hedge reserve.

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 31 December 2017, there was a total negative fair value in the amount of EUR 1.5 million. The change is recognised in the Cash Flow Hedge reserve.

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 31 December 2017, there was a total negative fair value in the amount of EUR 0.1 million. The change is recognised in the Cash Flow Hedge reserve.

Non Hedge Accounting Instruments

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 31 December 2017 there was a total positive fair value of an immaterial amount. The change is recognised in profit or loss.

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 31 December 2017, there was a total positive fair value in the amount of EUR 0.8 million. The change is recognised in profit or loss.

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 31 December 2017 there was a total positive fair value of an immaterial amount. The change is recognised in profit or loss.

NOTE 46 - INDEPENDENT AUDIT FEES

In accordance with Article 149-*duodécies* of the Issuers' Regulations, set out below are the costs for 2017 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's main independent auditor, and by the companies belonging to its network.

The prospectus is prepared in line with the "Procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services".

Auditing services include the full audit of the annual separate and consolidated financial statements and the audit of the company's reporting package for the purposes of preparing the Consolidated Financial Statements of the parent company.

Services other than statutory auditing refer mainly to:

- certification services for EUR 91 thousand pertaining to the conformity review of the separate yearly accounts for the purposes of AEEG resolution no. 11/2007 and EUR 25 thousand for the signing of tax declarations for the purposes of the repayment of tax receivables;
- the limited audit of the half-yearly financial statements of the parent company for EUR 29 thousand and the limited audit of the company's half-year reporting package for the purposes of preparing the half-yearly financial statements of the parent company for EUR 113 thousand;
- other services for EUR 124 thousand provided by Deloitte & Touche to the parent company relating to voluntarily agreed-upon audit procedures requested on the quarterly data of subsidiaries.

Type of service	Party that delivered the service	Recipient	2017 fees (EUR thousands)
External auditing	Auditor of the parent company	Parent company	118
	Auditor of the parent company	Subsidiaries	879
	Network of the auditor of the parent company	Subsidiaries	242
Total Auditing services			1,238
Services other than Auditing	Tax advice services	Subsidiaries	–
	Auditor of the parent company	Parent company	239
	Network of the auditor of the parent company	Parent company	–
	Network of the auditor of the parent company	Subsidiaries	–
	Auditor of the parent company	Subsidiaries	231
Total Services other than Auditing			470
Total			1,708

NOTE 47 - OTHER DISCLOSURES

Disclosures on significant events occurring after the reporting period are provided in the relevant section of the **Report on Operations**.

NOTE 48 - PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 7 March 2018, the Board of Directors of ERG S.p.A. authorised the publication of the Financial Statements together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, Italy, 7 March 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone



REPRESENTATIONS ON THE 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, paragraphs 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 Consolidated Financial Statements in the period between 1 January 2017 and 31 December 2017.
2. In this regard, the following is pointed out:
 - the suitability of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements the ERG Group at 31 December 2017 was verified by the assessment of the Financial Reporting internal control system. 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 Consolidated Financial Statements of the ERG Group:
 - 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 Report on Operations contains a reliable analysis of the operating performance and results, as well as the financial position of the issuer and the group of companies included in its consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, Italy, 7 March 2018

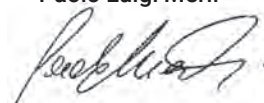
Chief Executive Officer

Luca Bettonte



Manager responsible for preparing
the company's financial reports

Paolo Luigi Merli



BOARD OF STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

Dear Shareholders,

the Consolidated Financial Statements of ERG S.p.A. for the year 2017 were delivered to us within the terms prescribed by law, together with the Report on Operations, and they were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and adopted by the European Union.

Pursuant to Legislative Decree no. 39 of 27 January 2010, in the reformulated version following the reform of statutory audit implemented through Legislative Decree 135/2016 and art. 41 paragraph 2 of Legislative Decree no. 127 of 9 April 1991, the duty of verifying compliance of the Consolidated Financial Statements with the law and its agreement with the accounting records and consolidation entries rests with the Independent Auditors. Our supervisory activity was carried out in compliance with the standards of behaviour of the Board of Statutory Auditors promulgated by the National Board of Chartered Accountants and in particular, it concerned:

- verification of the existence and adequacy, within the organisation of ERG S.p.A., of a function responsible for relations with subsidiaries and affiliates;
- examination of the Group's composition and equity interests, in order to assess the scope of consolidation and its change compared to the previous financial statements;
- obtaining information on the activity carried out by the subsidiaries and on the most significant transactions in financial and economic terms within the Group, through the information received from ERG S.p.A. Directors, from the Independent Auditors and from the Statutory Auditors of the subsidiaries.

Following the supervisory activity on the Consolidated Financial Statements, we state that:

- the determination of the scope of consolidation and the selection of the principles whereby investee companies are consolidated are in accordance with IFRS;
- the laws regulating the preparation and arrangement of the Financial Statements and of the Report on Operations were complied with;
- we verified the adequacy of the instructions given by the relevant function of ERG S.p.A. for obtaining the flow of data necessary for consolidation, viewing the information provided by the subsidiaries, subject to regulatory verification by their respective Boards of Statutory Auditors;
- the Financial Statements agree with the facts and information of which we became aware in the performance of our supervisory duties and in the exercise of our oversight and inspection powers;
- the Notes to the Consolidated Financial Statements include the information required by IAS 36 - Impairment of assets, on the application of which Document no. 4 of 3 March 2010 issued by the Bank of Italy/CONSOB/Isvap

expressed its views. The Board of Statutory Auditors acknowledges having examined the documents containing the analyses carried out and the results obtained in the impairment test activity. The Board of Statutory Auditors deemed the procedure correct and the main assessment hypotheses reasonable, and therefore approved the results thereof;

- the Group's Report on Operations is consistent with the data and figures of the Consolidated Financial Statements and it provides extensive information on the Group's economic-financial performance and on the risks to which the Group is exposed, as well as on significant events occurred in the year and after the financial year end, and on the Group's outlook;
- the Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the certification, in accordance with art. 81-ter of Consob Regulation no. 11971/1999 and subsequent amendments and additions and with art. 154-bis of Legislative Decree 58/1998 (T.U.F.).

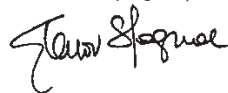
On 27 March 2018, the Independent Auditors issued their Audit Report in accordance with articles 14 and 16 of Legislative Decree 39/2010 and art. 10 of EU Regulation 537/2014 which states that the Consolidated Financial Statements at 31 December 2017 are in accordance with the IFRS, and with the regulations promulgated to implement Article 9 of Italian Legislative Decree no. 38/2005, and they are prepared clearly and give a true and fair view of the equity and financial situation, the economic result and the cash flows of the ERG Group for the financial year ended on that date.

On 27 March 2018 the Independent Auditors presented the Board of Statutory Auditors with the Additional Report required by art. 11 of EU Regulation no. 537/2014, which reveals that there are no significant deficiencies in the internal control system in relation to the financial disclosure process deserving to be brought to the attention of the managers in charge of governance activities.

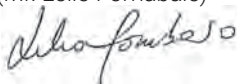
Genoa, 29 March 2018

The Board of Statutory Auditors

(Ms. Elena Spagnol)



(Mr. Lelio Fornabaio)



(Mr. Stefano Remondini)



AUDITORS' REPORT



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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
ERG S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of the ERG Group (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of ERG S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of Group non-current assets

Description of the key audit matter

The Group operates in the production and sale of electricity from renewable sources both non-programmable (wind) and programmable (thermoelectric and hydroelectric). With regard to the activities carried out across the different business areas, the Group recognizes significant amounts relating to concessions, goodwill and plants as non-current assets.

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Concessions and goodwill mainly represent 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. Plants mainly refer to the investments made for the acquisition or construction of assets for the production of energy from wind, thermoelectric and hydroelectric sources.

The Group has the following break-down of non-current assets relating to its businesses:

Wind segment

Concessions EUR 442,567 thousands
Goodwill EUR 125,932 thousands
Plants EUR 1,252,035 thousands

Thermoelectric segment

Plants EUR 251,220 thousands

Hydroelectric segment

Concessions EUR 185,142 thousands
Plants EUR 667,286 thousands

To evaluate the recoverable amount of the above-mentioned non-current assets, Management carries out an impairment test with the value in use method starting from a complex process to determine expected cash flows which is based on assumptions concerning, among others, the assets useful life, the future energy prices on the reference market, the value of possible incentives and the volume of productions, in addition to a specific discount rate (WACC) and the estimation of the terminal value.

Cash Generating Units (CGUs) of the wind segment have been identified as individual wind park, or as a combination of wind parks located in the same geographical area in line with the methodology used to determine the purchase price. Cash Generating Units of the thermoelectric and hydroelectric segments consist, respectively, of the asset portfolio used for the production of energy from hydroelectric sources in Umbria, Marche and Lazio and of the tangible assets attributable to the CCGT thermoelectric power plant.

Given the significance of the amounts recognized in the consolidated financial statements for each of the three segments, the level of subjectivity in the estimates used to determine the cash flows particularly with regard to the estimates of productions, the high volatility of the electric power scenario and other key variables in the valuation model, we have considered the recoverability of non-current assets to be a key audit matter in our audit of the consolidated financial statements.

The notes to the consolidated financial statements in paragraph "Impairment test", in "Note 1 - Intangible fixed assets", in "Note 2 - Goodwill" and in "Note 3 - Property, plant and equipment" provide information on accounting policies adopted by the Group, on the composition of the mentioned items and on the CGUs identified.

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Audit procedures

We have primarily analyzed the methods used by Management to determine the value in use of the CGUs identified for the three business segments, examining the methods and assumptions used by Management to develop the impairment test.

As part of our tests we have performed, among others, the following procedures, also with the support of experts:

- understanding of relevant procedures and controls put in place by Management in order to evaluate the recoverable amount of non-current assets;
- analysis of reasonableness of the main assumptions adopted in the preparation of cash flows forecast, also by examining assumptions made by industry analysts on the trend of electric power scenario and obtaining information from Management;
- analysis of actual data with respect to the original plans in order to evaluate the nature of deviations and the reliability of the plans preparation process;
- assessment of the reasonableness of the discount rate (WACC);
- verification of the clerical accuracy of the model used to determine the value in use of the identified CGUs relating to the three business segments;
- analysis of correct determination of the book value of the identified CGUs relating to the three business segments;
- analysis of the sensitivities prepared by Management.

Furthermore, we have examined the adequacy of the disclosures provided by the Company on the impairment test and its compliance with IAS 36.

Assessment of the adequacy of the non-current provisions for risks and charges in relation to liabilities related to the Industrial site of Priolo

Description of the key audit matter

In recent years the Group has completed a fundamental transformation from leading Italian private oil operator to leading independent operator in the production and sale of energy from renewable sources.

In 2013, the sale of the last shareholding in ISAB S.r.l. led to the definitive exit from the Coastal Refining business; however, certain contingent liabilities connected with the Priolo Gargallo industrial site are still outstanding today, originating from previous years and not yet fully defined.

In particular, there is still a dispute with Tax Authorities about the application of harbor duties for the years 2001 and 2006, potential liabilities arising from environmental risks mainly related to the North Site depending on the dual guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site) and the agreement executed with Lukoil (new owner) and some minor positions related to the commercial relations of the site.

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In consideration of the uncertainty inherent in 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, Management has made a comprehensive assessment of the risk associated with the issues commented above and decided the allocation of a specific risk provision called "Priolo Site Provision".

At the time of preparation of these consolidated financial statements, Management, assisted by the competent corporate departments and with the formal opinions 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, consequently presenting in the consolidated financial statements a provision for EUR 81 million as at December 31, 2017.

Given the uncertainties and difficulties associated with the estimation of risk provisions for environmental issues, we have considered the adequacy of Priolo Site Provision to be a key audit matter in our audit of the consolidated financial statements.

The note "Accounting standards and consolidation principles" and the paragraph "Priolo Site" of "Note 26 - Contingent liabilities and disputes", provide information on the accounting policies adopted by the Company and the composition of the item.

Audit procedures

As part of our tests we have, among others, performed the following procedures:

- understanding of relevant procedures and controls put in place by Management in order to evaluate the reasonableness of the value of Priolo Site Provision;
- understanding of the method used by Management in making the accounting estimate and verification of the underlying data;
- analysis of the reasonableness of the main assumptions adopted by Management;
- request of information from the ERG Group's external legal advisors and internal legal department;
- analysis of subsequent events up to the date of this report.

We have furthermore examined the adequacy of the disclosures provided by the Company on the Priolo Site Provision and on non-current expenses and its compliance with IAS 37.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;



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- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of ERG S.p.A. has appointed us on April 23, 2009 as auditors of the Company for the years from December 31, 2009 to December 31, 2017.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of ERG S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of ERG Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.



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We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of ERG Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of ERG Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of ERG S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
March 27, 2018

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



Notes to the Separate Financial Statements

SEPARATE STATEMENT OF FINANCIAL POSITION⁽¹⁾

(EUR)	Notes	31/12/2017	31/12/2016
Intangible fixed assets	1	3,233,885	47,276
Goodwill		–	–
Property, plant and equipment	2	10,554,196	2,554,415
Equity investments	3	1,736,097,938	1,946,260,296
Other financial assets	4	98,760,411	93,004,734
<i>of which towards related parties</i>	36	98,688,900	93,004,734
Deferred tax assets	5	16,099,870	12,203,231
Other non-current assets	6	2,977,459	3,426,871
Non-current assets		1,867,723,759	2,057,496,824
Inventories		–	–
Trade receivables	7	3,306,295	13,936,728
<i>of which towards related parties</i>	36	433,091	5,235,748
Other receivables and current assets	8	80,427,777	64,581,627
<i>of which towards related parties</i>	36	52,342,008	39,330,556
Current financial assets	9	11,103,879	245,863,282
<i>of which towards related parties</i>	36	8,489,730	165,025,649
Cash and cash equivalents	10	661,970,401	247,648,671
Current assets		756,808,352	572,030,307
Assets held for sale	22	179,543,276	–
<i>of which towards related parties</i>		–	–
TOTAL ASSETS		2,804,075,387	2,629,527,131
Shareholders' Equity	11	1,642,817,211	1,692,088,874
Employees' severance indemnities	12	1,628,466	573,530
Deferred tax liabilities	13	1,464,921	1,633,143
Provisions for non-current liabilities and charges	14	81,493,010	82,117,261
Non-current financial liabilities	15	715,461,338	674,320,349
Other non-current liabilities	16	10,243,482	6,424,343
<i>of which towards related parties</i>	36	–	–
Non-current liabilities		810,291,217	765,068,627
Provisions for current liabilities and charges	17	8,036,877	7,291,259
Trade payables	18	58,585,322	52,784,854
<i>of which towards related parties</i>	36	2,833,877	1,535,370
Current financial liabilities	19	190,698,056	61,600,522
<i>of which towards related parties</i>	36	49,181,525	59,353,174
Other current liabilities	21	93,646,704	50,692,995
<i>of which towards related parties</i>	36	34,804,364	37,469,069
Current liabilities		350,966,959	172,369,630
Liabilities held for sale	22	–	–
<i>of which towards related parties</i>		–	–
TOTAL LIABILITIES AND EQUITY		2,804,075,387	2,629,527,131

1) The Statement of Financial Position at 31 December 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 22 - Assets held for sale and net profit (loss)**.

SEPARATE INCOME STATEMENT ⁽¹⁾

(EUR)	Notes	2017	2016
Revenues from ordinary operations	26	37,938,503	16,628,719
<i>of which towards related parties</i>	36	37,779,731	16,623,888
<i>of which non-recurring items</i>		–	–
Other revenues and income	27	2,043,261	5,365,436
<i>of which towards related parties</i>	36	1,098,994	546,355
<i>of which non-recurring items</i>		–	–
Changes in product inventories		–	–
Changes in raw materials inventories		–	–
Costs for purchases	28	(230,675)	(115,825)
<i>of which towards related parties</i>	36	(77,821)	(41,310)
Costs for services and other costs	29	(33,931,758)	(24,521,886)
<i>of which towards related parties</i>	36	(154,730)	(6,024,800)
<i>of which non-recurring items</i>	35	(5,044)	–
Personnel costs	30	(32,058,423)	(11,896,382)
<i>of which non-recurring items</i>	35	(5,274)	–
EBITDA		(26,239,091)	(14,539,939)
Amortisation, depreciation and write-downs of fixed assets	31	(2,980,495)	(170,702)
Income (expenses) from sale of business unit			
<i>of which non-recurring items</i>		–	–
Financial income		8,316,004	22,428,151
<i>of which towards related parties</i>	36	2,649,038	19,460,205
Financial expenses		(12,865,220)	(24,171,709)
<i>of which towards related parties</i>	36	(19,772)	(5,515)
Net financial income (expenses)	32	(4,549,216)	(1,743,558)
<i>of which non-recurring items</i>		–	(12,469,005)
Net income (loss) from equity investments	33	(166,574)	27,381,544
<i>of which non-recurring items</i>		–	–
Other net income (loss) from equity investments		–	–
Net income (loss) from equity investments	33	(166,574)	27,381,544
PROFIT (LOSS) BEFORE TAXES		(33,935,376)	10,927,345
Income taxes	34	8,235,811	545,295
<i>of which non-recurring items</i>	35	3,051	354,088
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		(25,699,564)	11,472,640
Net profit (loss) from assets held for sale	22	49,669,563	–
<i>of which towards related parties</i>		–	–
<i>of which non-recurring items</i>		–	–
NET PROFIT (LOSS) FOR THE YEAR		23,969,999	11,472,640

1) The income statement for 2017 is represented as determined by IFRS 5, with the exclusion of the results of the joint venture TotalErg S.p.A. 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 22 - Net profit (loss) from assets held for sale**.

OTHER COMPREHENSIVE INCOME

(EUR)	2017	2016
NET PROFIT (LOSS) FOR THE YEAR	23,969,999	11,472,640
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	(35,319)	(18,327)
Income taxes referred to the change in the employees' severance indemnities provision	8,477	5,040
Total	(26,843)	(13,287)
Changes that will be reclassified in the income statement		
Change in the cash flow hedge reserve	1,121,136	(2,236,916)
Income taxes related to the change in the cash flow hedge reserve	(269,073)	706,394
Total	852,063	(1,530,522)
Other components of comprehensive income after tax	825,220	(1,543,809)
Comprehensive net income (loss)	24,795,218	9,928,831

STATEMENT OF CASH FLOWS ⁽¹⁾

	Notes	31/12/2017	31/12/2016
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Net profit (loss) from continuing operations		23,970	11,473
- Amortisation, depreciation and write-downs of fixed assets	31	2,980	171
- Net change in provision for liabilities and charges	14, 17	(115)	(3,108)
- Net change in deferred tax assets and liabilities	5, 13	(3,938)	917
- Write-down of receivables		-	-
- Net capital gain/loss on sale of non-current assets		-	-
- Net write-downs of financial fixed assets		20,462	-
- Net revaluations of financial fixed assets		-	-
- Net change in employees' severance indemnities	12	610	510
Cash flows before changes in working capital		43,969	9,963
- Change in other operating assets and liabilities:			
- Change in inventories		-	-
- Change in trade receivables	7	11,880	444
- Change in trade payables	18	2,171	(4,345)
- Net change in other receivables/payables and other assets/liabilities	7, 8, 18, 16	29,726	(647)
		43,777	(4,548)
Total		87,746	5,415
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisitions of intangible fixed assets and goodwill	1	(2,301)	-
Acquisition of property, plant, and equipment	2	(545)	(4)
Acquisitions of equity investments	3	(5)	(777,173)
Disposals of intangible fixed assets	1	-	-
Disposals of property, plant and equipment	2	-	-
Disposals of equity investments	3	-	4,250
Change in non-current other financial assets		(5,714)	-
Total		(8,564)	(772,927)
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
New non-current loans		(99,465)	(325,000)
Repayment of non-current loans		-	350,000
Net change in other non-current financial assets/liabilities	4, 15	140,606	684,352
Net change in short-term bank borrowings	19	133,067	(49,388)
Net change in other current financial assets	9	234,760	(193,273)
Share capital increases/repayments		-	-
Dividends		(74,408)	(142,804)
Other changes in shareholders' equity	11	579	74,718
Total		335,139	398,605
CASH FLOWS FROM DISCONTINUED OPERATIONS (D):			
CASH FLOW MERGED COMPANY (E)			
NET CASH FLOWS FOR THE YEAR (A+B+C+D+E)		414,321	(368,907)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10	247,649	616,554
NET CASH FLOWS FOR THE YEAR		414,321	(368,907)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	661,970	247,649
RECLASSIFICATION OF ASSETS/LIABILITIES HELD FOR SALE		-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	661,970	247,649

1) The changes for 2017 were drawn up on the basis of the proforma balances at 31 December 2016 inclusive of the contribution made by the merger of ERG Services S.p.A.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Reserves	Net profit (loss) for the year	Total shareholders' equity
BALANCE AT 31/12/2015	15,032	1,731,643	2,028	1,748,702
Allocation of 2015 profit	–	2,028	(2,028)	–
Dividends	–	(142,804)	–	(142,804)
Sale of treasury shares	–	76,964	–	76,964
Net profit (loss) for 2016	–	–	11,473	11,473
Change in the cash flow hedge reserve	–	(2,237)	–	(2,237)
Actuarial change in employees' severance indemnities provision	–	(13)	–	(13)
Other changes	–	5	–	5
BALANCE AT 31/12/2016	15,032	1,665,585	11,473	1,692,089
	Share Capital	Reserves	Net profit (loss) for the year	Total shareholders' equity
BALANCE AT 31/12/2016	15,032	1,665,585	11,473	1,692,089
Allocation of 2016 profit	–	11,473	(11,473)	–
Distribution of dividends	–	(74,408)	–	(74,408)
Merger surplus	–	587	–	587
Net profit (loss) for 2017	–	–	23,970	23,970
Change in the cash flow hedge reserve	–	852	–	852
Actuarial change in employees' severance indemnities provision	–	(273)	–	(273)
Other changes	–	–	–	–
BALANCE AT 31/12/2017	15,032	1,603,816	23,970	1,642,817

THE COMPANY

ERG S.p.A., a company listed on the Stock Exchange since 1997, operates, including through its subsidiaries, as 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.

ERG SERVICES S.P.A. MERGER

On 21 December 2016, the deed of merger by incorporation of ERG Services S.p.A. into ERG S.p.A. was drawn up. The merger took effect from 1 January 2017. Consequently, as from said date the corporate bodies are no longer in office and all authorisations issued in the name of the same have ceased. In addition, ERG S.p.A. has universally replaced the merged company in all legal receivable and payable positions. The value of the equity investment was therefore written off.

The following table shows the effect on the statement of financial position of ERG S.p.A. at 1 January 2017 resulting from the merger of ERG Services S.p.A. and the related intercompany eliminations:

(EUR thousand)	ERG S.p.A. 01/01/2017	ERG Services S.p.A. 01/01/2017	Adjustments IAS	Merger adjustments	ERG S.p.A. proforma
Intangible fixed assets	47	2,866			2,914
Property, plant and equipment	2,554	8,454			11,009
Equity investments	1,946,260	–		(10,162)	1,936,098
Other financial assets	93,005	42			93,046
Deferred tax assets	12,203	126			12,330
Other non-current assets	3,427				3,427
Non-current assets	2,057,497	11,489		(10,162)	2,058,824
Inventories	–	–			
Trade receivables	13,937	1,538		(289)	15,186
Other receivables and current assets	64,582	326		341	65,249
Current financial assets	245,863	3,970		(3,970)	245,864
Cash and cash equivalents	247,649	–			247,649
Current assets	572,030	5,834		(3,918)	573,947
Assets held for sale	–				
TOTAL ASSETS	2,629,527	17,323		(14,080)	2,632,770
Shareholders' Equity	1,692,089	10,514	235	(10,162)	1,692,676
Employees' severance indemnities	574	679	(235)		1,018
Deferred tax liabilities	1,633				1,633
Provisions for non-current liabilities and charges	82,117				82,117
Non-current financial liabilities	674,320				674,320
Other non-current liabilities	6,424				6,424
Non-current liabilities	765,069	679	(235)	–	765,513
Provisions for current liabilities and charges	7,291	237			7,528
Trade payables	52,785	3,918		(289)	56,414
Current financial liabilities	61,601			(3,970)	57,631
Other current liabilities	50,693	1,975		341	53,009
Current liabilities	172,370	6,130		(3,918)	174,582
Liabilities held for sale	–				
TOTAL LIABILITIES AND EQUITY	2,629,527	17,323	–	(14,080)	2,632,770

The "Merger adjustments" column mainly reflects the following phenomena:

- elimination of intra-group items;
- removal of the value of the equity investment of ERG Services S.p.A. for an amount equal to EUR 10,162 thousand;
- eliminations of the shareholders' equity of the merged company.

At 31 December 2017 the merger surplus amounted to EUR 587 thousand.

MERGER BY INCORPORATION OF ERG RENEW OPERATIONS & MAINTENANCE S.R.L. AND ERG RENEW S.p.A. INTO ERG POWER GENERATION S.p.A.

On 21 December 2016, the deed of merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. (a subsidiary of ERG S.p.A.) into ERG Power Generation S.p.A. (a subsidiary of ERG S.p.A.) was drawn up. The merger took effect from 1 January 2017.

Consequently, as from said date, the companies ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. no longer exist, the relevant corporate bodies are no longer in office and all authorisations issued in the name of the same have ceased. In addition, ERG Power Generation S.p.A. has universally replaced the merged companies in all legal receivable and payable positions.

From 1 January 2017, the share capital of ERG Power Generation S.p.A. increased from EUR 6,000,000.00 to EUR 100,000,000.00.

In the Separate Financial Statements of ERG S.p.A., the transaction, which was carried out with accounting continuity, resulted in an increase in the value of the equity investment in ERG Power Generation S.p.A. for an amount equal to the carrying value of the equity investment in ERG Renew S.p.A. (EUR 765 million).

DISPOSAL OF THE EQUITY INVESTMENT IN TOTALERG S.p.A.

On **3 November 2017**, ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the Api Group directed at the sale of 100% of the shares of TotalErg S.p.A., a company that is active in the distribution of petroleum products and in refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery.

The transaction was completed on **10 January 2018**, following approval by the Antitrust Authority and the completion of the demerger of the TotalErg S.p.A. business unit relating to the lubricants sector in favour of Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A., also on 3 November, entered into a binding agreement that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.

The amount relating to the sale of assets is EUR 194 million, EUR 14 million of which was already collected in advance payments in 2017, EUR 144 million was collected in 2018 at the time of closing and EUR 36 million was collected as a deferred component regulated by a vendor loan agreement with a maturity of 5 and a half years, signed with Api S.p.A. The overall value linked to the equity value of the transaction is EUR 273 million which includes, in addition to the consideration indicated above, the extraordinary dividends distributed by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remainder on 26 October 2017), the interest that will accrue in the context of the vendor loan agreement and the related tax effects.

It is noted that in the Financial Statements at 31 December 2017, the equity investment in TotalErg is recognised and indicated in application of the requirements of IFRS 5.

In accordance with the International Accounting Standards adopted in drawing up the Separate Financial Statements of ERG S.p.A. at and for the year ended 31 December 2017, and, more specifically, in accordance with IFRS 5, the disposal of the equity investment in TotalErg S.p.A. is classified as "current assets held for sale". In accordance with this principle, the following were therefore performed:

- reclassification at 31 December 2017¹ of the value of the equity investment in TotalERG to the item "Assets held for sale";
- comparison of the book value (EUR 200 million) with the aforementioned selling price (EUR 194 million) net of the related charges (EUR 15 million);
- reclassification to the 2017 income statement under the item "Net profit (loss) from assets held for sale" of income statement items relating to the equity investment in TotalERG.

Application of the above resulted in the equity investment being recognised in the 2017 Separate Financial Statements under the item "Assets held for sale" at the value of EUR 180 million, corresponding to the sale price net of the related costs and tax charges, and EUR 50 million of income being recognised under the item "Net profit (loss) from assets held for sale".

For details on the amounts reclassified, please refer to **Note 22 - Assets held for sale and net profit (loss)**.

BOND ISSUE

On 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 bear interest at a fixed rate equal to 2.175%. Interest will be paid on a deferred annual basis. The issue lengthens the duration of indebtedness, reduces the average cost and diversifies the sources of financing of the Group.

The bond issue was recorded at the nominal value and the related ancillary costs (EUR 0.6 million) were presented as a reduction of the payable and spread over the duration of the loan in accordance with the amortised cost method.

¹ The separate presentation of non-current assets and disposal groups in the statement of financial position pursuant to IFRS 5 is not applied retrospectively.

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Separate Financial Statements at and for the year ended 31 December 2017 have been prepared, without any waiver or exception, in accordance with the Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

The Separate Financial Statements, expressed in euros, were prepared under the general historical cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivative instruments, which were measured at fair value.

For clearer disclosure, it was deemed preferable to show in the notes 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 Separate Financial Statements at and for the year ended 31 December 2017 have been audited by the independent auditors Deloitte & Touche S.p.A. using the procedures prescribed by CONSOB regulations.

FORM AND CONTENTS OF THE SEPARATE FINANCIAL STATEMENTS

ERG S.p.A. classifies its income statement using the “nature of expense” method, a form deemed more representative than a classification using the “function of expense” method. The form chosen is in fact consistent with internal and management reporting procedures.

With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1.

The structure of the statement of cash flows is based on the indirect method.

Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not occur frequently in the ordinary course of business have been indicated separately in the income statement. These items are commented upon in a dedicated note.

Also pursuant to the aforementioned CONSOB resolution, balances or transactions with related parties have been entered separately in the statement of financial position and in the income statement. These items are commented upon in a dedicated note.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

Below we provide a summary of the significant accounting policies adopted for the preparation of the Separate Financial Statements at and for the year ended 31 December 2017.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general, intangible fixed assets are amortised over a maximum period of 5 years, with the exception of authorisations and surface rights for the wind farms, amortised in relation to the contractual term.

There are no intangible fixed assets with an indefinite useful life or development costs.

Research costs are expensed directly in the income statement in the period in which they are incurred.

Other intangible fixed assets recognised following a business combination are presented separately from goodwill if their fair value can be measured reliably.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at the cost of acquisition or production.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Land is not depreciated, even if acquired together with a building. Assets revertible free of charge are depreciated over the estimated life of the asset or the duration of the concession, whichever is shorter.

There were no significant finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%
Industrial buildings	2.75 - 5.5
General plant	10
Office furniture and fittings	12
Electronic machinery	20
Equipment	25
Incremental expenses	8 - 25

IMPAIRMENT OF ASSETS (IMPAIRMENT TEST)

At least once a year, the Group subjects its tangible and intangible fixed assets to an impairment test to determine whether there are indications that they may be impaired. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

EQUITY INVESTMENTS

Equity investments in subsidiaries, joint ventures and associates are recognised at their acquisition or subscription cost, written down to reflect any permanent impairment losses.

The positive difference, at the time of acquisition, between the acquisition cost and the share of the subsidiary's or associate's shareholders' equity attributable to the Company is therefore included in the carrying value of the equity investment.

Where the book value of equity investments exceeds the corresponding portion of shareholders' equity based on the latest approved financial statements, this value is maintained if it does not constitute a permanent impairment.

Equity investments in other companies are carried at fair value with changes presented in shareholders' equity.

When fair value cannot be measured reliably, equity investments are measured at cost, written down for permanent impairment losses, if any, and dividends from such companies are included in "Net income from equity investments".

When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement.

The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

FINANCIAL ASSETS

IAS 39 envisages classification of financial assets according to the following categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Held-to-maturity investments (HTM);
- Loans & receivables (L&R);
- Available-for-sale financial assets (AFS).

Initially, all financial assets are recognised at their fair value, increased, in the case of assets other than those classified as FVTPL, by ancillary costs.

At the time of underwriting, an assessment is made as to whether a contract contains embedded derivatives.

Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group classifies its financial assets after initial recognition and, when appropriate and allowable, reviews this classification at the end of each year.

Financial assets at fair value through profit or loss (FVTPL)

This category comprises:

- Assets held for trading (HFT);
- Assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments. Gains and losses on assets held for trading are recognised in the income statement.

At 31 December 2017, no financial asset had been designated as FVTPL.

Held-to-maturity (HTM) investments

Non-derivative financial assets with fixed or determinable payments are classified as "held-to-maturity (HTM) investments" whenever the Group intends and has the ability to hold them to maturity.

After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the income statement when the investment is derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

As at 31 December 2017, the Company held no investments classified as HTM. Specifically, this is a non-convertible bond of a nominal value of EUR 100 million made in July 2017.

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Following initial recognition, these assets are measured at amortised cost using the effective interest method, net of allowances, if any.

Gains and losses are recognised in the income statement when loans & receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

Trade receivables are recognised at their fair value, which corresponds to their face value, and are subsequently reduced to account for uncollectible receivables, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

Available-for-sale (AFS) financial assets

Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.

Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within shareholders' equity.

AFS financial assets include equity investments in companies other than subsidiaries and associates in which ERG's direct or indirect ownership percentage is less than 20%.

When fair value cannot be reliably measured, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from equity investments".

When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement.

The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

At 31 December 2017, the Group held investments classified as "Available-for-sale".

IAS 39 prescribes the following measurement methods: fair value and amortised cost method.

Fair value

In the case of securities widely traded in regulated markets, fair value is determined with reference to market prices at the close of trading on the financial statements' date.

Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

- prices of recent arm's length transactions;
- current fair market value of a substantially similar instrument;
- discounted cash flow (DCF) analysis;
- option pricing models.

Amortised cost method

"Held-to-maturity investments" and "Loans and receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions or allowances, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest rate and transaction costs.

IMPAIRMENT OF FINANCIAL ASSETS

At each financial statements' date, the Group verifies whether a financial asset or group of financial assets has suffered impairment.

If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows discounted at the asset's original effective interest rate.

The carrying value of the asset is reduced via accrual of a provision. The impairment amount is recognised in the income statement.

The Group assesses the existence of factual evidence of impairment on an asset-by-asset basis.

If the amount of impairment subsequently decreases and this reduction can objectively be attributed to an event occurring after recognition of impairment, the value previously reduced can be reinstated. Any subsequent write-backs of value are recognised in the income statement, to the extent that the asset's carrying value does not exceed the amortised cost at the write-back date.

In the case of trade receivables, an allowance for uncollectible receivables is recognised when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that the Group will be unable to recover the amounts owed according to the original conditions.

The carrying value of the receivable is reduced via use of a specific provision. Receivables are derecognised if they are deemed unrecoverable.

The Group has applied the provisions of IFRS 2 commencing on 1 January 2005 and therefore to all stock option plans implemented after that date.

At 31 December 2017, there were no extant stock option plans.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are presented, according to their nature, at face value.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

FINANCIAL LIABILITIES

IAS 39 envisages classification of financial liabilities according to the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL);
- Other financial liabilities.

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.

After initial recognition, loans are measured at amortised cost using the effective interest method.

Every gain or loss is recognised in the income statement when the liability is settled, as well as via the amortisation process.

Financial liabilities at FVTPL include "liabilities held for trading".

"Liabilities held for trading" (HFT) are acquired for the purpose of short-term sale and comprise derivatives - including separated embedded derivatives - unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the income statement.

At 31 December 2017, no financial liabilities had been designated as FVTPL.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- The Group has transferred the right to receive cash flows from the asset and has transferred substantially all risks and rewards of ownership of the financial asset, or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of same.

In cases where the Group has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in Group accounts to the extent of the Group's residual involvement in such asset.

A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or settled.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative financial instruments are initially recognised at their fair value on the date when they are stipulated. This fair value is then subject to periodic revaluation.

They are presented as assets when their fair value is positive and as liabilities when it is negative.

Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand

and periodically, is high.

When derivatives hedge the risk of fluctuations in the fair value of the underlying hedged asset (fair value hedge), they are measured at their fair value and the effects are presented in the income statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.

When the derivative hedges the risk of fluctuations in the cash flows associated with the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently presented in the income statement matching the economic effects produced by the hedged transaction.

Changes in the fair value of derivatives that do not have the formal requisites to qualify as hedges under IAS/IFRS are presented in the income statement.

TREASURY SHARES

Treasury shares are presented as a reduction of shareholders' equity. 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.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recognised at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the financial statements' date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date except in the case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are presented in the income statement under financial income and expenses.

PROVISIONS FOR LIABILITIES AND CHARGES

ERG S.p.A. records provisions for liabilities and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in estimates are reflected in the income statement in the period in which they occur.

When the financial effect of time is significant and the dates of settlement of the obligations can be estimated, the

provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the income statement under "Financial income (expenses)".

When the liability relates to tangible assets (for example dismantling and restoration of sites), the provision is presented as a contra asset against the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the separate financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

EMPLOYEE BENEFITS

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for the provision were amended by Italian Law no. 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 and not yet liquidated at the date of the separate financial statements, whereas after said date it is deemed akin to a defined contribution plan.

The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled at the reporting date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.

Actuarial gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the income statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

REVENUE RECOGNITION

Revenues from sales and services are recognised when the actual transfer of risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or upon completion of the services.

Revenues stemming from partially provided services are recognised as earned pro rata over completion, provided that it is possible to determine their level of completion reliably and there are no significant uncertainties as to the amount and existence of revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.

Revenues are presented net of returns, discounts, rebates and allowances, as well as of any directly related taxes.

If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Since exchanges of goods or services of a similar nature and value do not constitute sales transactions, they do not give rise to recognition of revenues and costs.

DIVIDENDS

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

FINANCIAL INCOME AND EXPENSES

These are recognised under the accrual basis of accounting based on the interest due on the net value of financial assets and liabilities utilising the effective interest rate.

TAXES

Current taxes are accrued based on the estimated tax burden for the period, also taking into account the effects relating to participation of most Group companies in Tax Consolidation.

Income taxes are presented in the income statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is also directly presented under shareholders' equity.

Furthermore, pursuant to the accrual basis of accounting, the Financial Statements include deferred-tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' separate financial statements in application of the Group's uniform accounting standards, as well as from temporary differences between the statutory values and related tax values.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits.

Deferred tax assets are only recognised in the financial statements if their future recovery is probable.

With regard to deferred tax assets related to tax losses that can be carried forward, please see the following paragraph.

Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

With regard to deferred tax assets related to Italian investees' tax losses, regulations provide for a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the income produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Preparation of the Financial Statements and explanatory notes pursuant to IFRSs 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:

- 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;
- the impairment test for intangible and tangible fixed assets and for other equity investments, described in detail in the paragraph **Impairment test on equity investments** - in the estimation of the value in use - the utilisation of the investee companies' Business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

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.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2017

The following accounting standards, amendments and IFRS interpretations were applied for the first time by the Group starting on 1 January 2017:

- Amendment to **IAS 7 "Disclosure Initiative"** (published on 29 January 2016). The document aims to provide clarifications to improve information on financial liabilities. In particular, the changes require that information is provided that enables users of the financial statements to understand the changes in liabilities arising from loan transactions.
- Amendment to **IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"** (published on 19 January 2016). The document aims to provide clarifications on how to account for deferred tax assets for unrealised losses in the measurement of financial assets in the "Available for Sale" category upon the occurrence of certain circumstances, and on the estimation of taxable income for future years.

The adoption of these amendments had no effect on the Company's financial statements.

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 31 DECEMBER 2017

- **IFRS 15 - Revenue from Contracts with Customers** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which 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 is effective from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers were approved by the European Union on 6 November 2017.

On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will not have a significant

impact on the amounts recognised in revenues and on the related information reported in the company's financial statements.

- Final Version of **IFRS 9 - Financial Instruments** (published on 24 July 2014). The document includes the results of the IASB project to replace IAS 39:
 - it introduces the new criteria for the classification and measurement of financial assets and financial liabilities (together with the assessment of non-substantial modifications of financial 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.

On the basis of the analyses carried out, the directors expect that the application of IFRS 9 will not have a significant impact on the amounts and on the related information reported in the Company's financial statements.

- **IFRS 16 - Leases** (published on 13 January 2016), intended to replace IAS 17 - Leases, as well as IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of leases and introduces a criterion based on the control (right of use) of an asset to distinguish leasing contracts from contracts for services, identifying as distinguishing features: the identification of the asset, the right of substitution of the same, the right to obtain substantially all the economic benefits arising from the use of the asset and the right to direct the use of the asset underlying the contract.

The standard establishes a single model for lessees for the recognition and measurement of lease contracts which provides for the inclusion of assets subject to lease arrangements, including operating leases, in assets with simultaneous recognition of a financial lease payable, whilst also providing the possibility of not recognising as leases contracts regarding "low-value assets" and leases with a contract term less than or equal to 12 months.

On the contrary, the Standard does not include significant changes for lessors.

The principle applies as from 1 January 2019, but earlier application is permitted for Companies that have already applied IFRS 15 - Revenue from Contracts with Customers.

The directors do not expect the adoption of these amendments to have a significant effect on the company's financial statements.

- **"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"** document (published on 12 September 2016). For entities whose business is predominantly made up of insurance activities, the changes aim to clarify the

concerns arising from the application of the new IFRS 9 (from 1 January 2018) to financial assets, before the IASB replaces the current IFRS 4 with the new standard currently being prepared, on the basis of which financial liabilities are measured.

The directors do not expect the adoption of these amendments to have a significant effect on the company's financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of these Separate Financial Statements, 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 17** - Insurance Contracts.
- **Amendments to IFRS 2** - Classification and measurement of share-based payment transactions.
- "Annual Improvements to IFRSs: 2014-2016 Cycle" document.
- IFRIC 22 interpretation "Foreign Currency Transactions and Advance Consideration".
- **Amendments to IAS 40** - Transfers of Investment Property.
- Interpretative document IFRIC 23 "Uncertainty over Income Tax Treatments".
- **Amendments to IFRS 9** - Prepayment Features with Negative Compensation.
- **Amendments to IAS 28** - Long-term Interests in Associates and joint ventures.
- "Annual Improvements to IFRSs 2015-2017 Cycle" document.
- Amendments to IFRS 10 and IAS 28 "Sales or Contribution of Assets between an Investor and its Associate or joint venture".
- **IFRS 14** - Regulatory Deferral Accounts.

Impairment test on equity investments

ERG Power Generation S.p.A.

On 21 December 2016, the deed of merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. (a subsidiary of ERG S.p.A.) into ERG Power Generation S.p.A. (a subsidiary of ERG S.p.A.) was drawn up. The merger took effect from 1 January 2017.

Consequently, as from said date the companies ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. no longer exist, the relevant corporate bodies are no longer in office and all authorisations issued in the name of the same have ceased. In addition, ERG Power Generation S.p.A. has universally replaced the merged companies in all legal receivable and payable positions.

From 1 January 2017, the share capital of ERG Power Generation S.p.A. increased from EUR 6,000,000.00 to EUR 100,000,000.00.

In the Separate Financial Statements of ERG S.p.A., the transaction, which was carried out with accounting continuity,

resulted in an increase in the value of the equity investment in ERG Power Generation S.p.A. for an amount equal to the carrying value of the equity investment in ERG Renew S.p.A. (EUR 765 million).

In view of the above, the value of the equity investment in ERG Power Generation S.p.A. is equal to EUR 1,736 million.

The change in the carrying values of the two equity investments prior to the aforementioned merger is summarised below.

ERG Renew S.p.A.

In 2009 and 2010, mainly as a result of the worsened economic scenario and the delayed commissioning of some wind farms under construction, the equity investment in ERG Renew S.p.A. (now merged into ERG Power Generation S.p.A.) had been written down by a total amount of EUR 73 million.

In the 2013 Financial Statements, in consideration of the values recognised by UniCredit for the share capital increase of January 2014 as well as broker consensus assessments and internal assessments developed with the Discounted Cash Flow method at the time of approval of the aforementioned transaction, an excess recoverable value had emerged, i.e. fair value, relative to the carrying value of the ERG Renew equity investment in the financial statements of ERG S.p.A., subjected to previous write-downs.

The recovery of value from EUR 615 million to EUR 650 million (EUR +35 million) was recognised as an increase in value of the equity investment and an increase in income from equity investments in the income statement.

In the 2014 Financial Statements, the value in use resulting from the impairment test showed a positive difference compared to the book value, in line with indications from broker consensus valuations. In consideration of these values, the value of the equity investment was recovered by the amount of the residual devaluation at 31 December 2014 (EUR +39 million) with matching income statement entry.

In 2016, the value of the equity investment in ERG Renew S.p.A. increased from EUR 689 million to EUR 785 million as a result of the transaction with UniCredit.

ERG Power Generation S.p.A.⁽²⁾

In April 2010, ERG Power's new CCGT plant, with approximately 480 MW of installed power, started full commercial operations; the plant supplies utilities and electrical energy to the industrial customers of the Priolo site, placing the remainder of the generated electricity on the market.

A CGU was identified that consists of the cash flows generated by ERG Power Generation S.p.A. which operates the CCGT plant through a tolling agreement and sells on the open market the energy thus generated.

In the preparation of the 2011 Separate Financial Statements, these values were verified in view of the increased weighted average cost of capital (WACC), of the higher Robin Tax rates for 2011-2012-2013 and of the lower profitability as a result of the worsening scenario that characterised the domestic electricity market.

This verification resulted in an impairment of EUR 63 million, net of the tax effect. This resulted in the allocation of a provision to deal with lower revenues estimated.

2 On 15 May 2014, the investee ERG Nuove Centrali S.p.A. changed its name to ERG Power Generation S.p.A.

This provision was then transferred to ERG Power Generation on 1 July 2014, the latter being the company through which the group carries out sales of electricity on the market.

For the 2017 Financial Statements, the carrying amount of the equity investment in ERG Power Generation S.p.A. was tested.

In this regard, an assessment was performed by determining the recoverable value, i.e. the value in use, based on the "sum of parts" methodology; hence, the value of the equity investment was determined by adding the equity values of the Cash Generating Units that comprise ERG Power Generation S.p.A.'s assets in the new post-merger organisational structure.

In particular, the following CGUs were identified:

- CGU Wind corresponding to wind farms;
- CGU Thermo corresponding to the CCGT thermoelectric power generation plant;
- CGU Hydro corresponding to hydroelectric power generation plants.

For additional details on the calculation of the equity values of the Cash Generating Units, reference is made to the Financial Statements.

The projection of the operating cash flows associated with the CGU for its useful life was taken into consideration for the calculation of the value in use. In particular:

- for the explicit period, the data contained in the financial plan drawn up by the Group ("2018-2022 Plan"), approved on 7 March 2018, excluding the initiatives of Repowering, Business Development and Merger & Acquisition as impact scenarios, however favourable;
- for the years subsequent to the explicit period, the data processed on the basis of models simulating the macroeconomic and energy scenario and assuming a steady production trend.

Additionally, a residual value (or "terminal value") was assumed, calculated with the following methods:

- for the Wind CGUs, with a further 10-year extension of the measurement period.
- for the Thermo CGU, with a further 10-year extension of the measurement period. The hypotheses used take account of a reduction in the profitability of site agreements expiring after 2025 (deadline year) by as much as 50% of the fixed quotas recognised;
- for the Hydro CGU, taking into consideration in the year the concessions end (2029) the estimation of a fee to the outgoing transferee, calculated on the basis of compliance with current regulations.

Projected cash flows were discounted using a conservative estimate of the discount rate (WACC after tax): for additional details, reference is made to the Consolidated Financial Statements.

The value in use resulting from the impairment test shows a positive difference relative to the carrying value. These considerations are supported by broker consensus evaluations.

In consideration of the above, there were no write-downs of the value of the equity investment.

ANALYSIS OF THE SEPARATE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE FIXED ASSETS

	Other intangible fixed assets	Assets in progress	Total
BALANCE AT 31/12/2016	36	11	47
Changes during the year:			
Acquisitions	2,549	(173)	2,376
Capitalisation/reclassification	(75)		(75)
Disposals and divestments	(0)	–	(0)
Merger of ERG Services	1,680	1,187	2,866
Amortisation	(1,981)	–	(1,981)
Other changes	–	–	–
BALANCE AT 31/12/2017	2,209	1,025	3,233

To enhance understandability, changes during the year relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation and write-downs. "Other intangible fixed assets" mainly consisted of application software and the consulting services provided during the implementation of such software.

The increase is mainly due to the incorporation of fixed assets from ERG Services S.p.A. and investments for the year.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Other assets	Assets under construction	Total
Historical cost	2,090	3	1,424	4	3,521
Depreciation and write-downs	(920)	(3)	(43)	–	(966)
BALANCE AT 31/12/2016	1,170	–	1,381	4	2,554
Changes during the year					
Acquisitions	–	47	465	12	525
Capitalisation/reclassification			75		75
Disposals and divestments	(28)	–	(26)	–	(54)
Merger of ERG Services	6,831	225	1,250	149	8,454
Other changes	–	–	–	–	–
Depreciation	(488)	(42)	(470)	–	(1,000)
Historical cost	16,475	818	10,711	165	28,170
Depreciation and write-downs	(8,990)	(589)	(8,036)	–	(17,615)
BALANCE AT 31/12/2017	7,485	229	2,675	165	10,554

To enhance understandability, changes during the year relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and write-downs. "Land and buildings" include land on the Priolo Gargallo site. "Other assets" mainly consist of equipment, furniture, fixtures and works of art.

The increase is mainly due to the incorporation of fixed assets from ERG Services S.p.A. And, in particular, to the restructuring of the Company's offices.

NOTE 3 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiary companies	Joint ventures	Associates	Other companies	Total
Historical cost	1,865,932	433,810	–	491	2,300,233
Write-downs	(120,163)	(233,810)	–	–	(353,973)
BALANCE AT 31/12/2016	1,745,769	200,000	–	491	1,946,260
Changes during the year:					
Acquisitions/share capital increases/revaluations	–	5	–	–	5
Disposals and divestments	–	–	–	–	–
Merger of ERG Services	(10,162)	–	–	–	(10,162)
Adjustment of the value of interests in TotalERG	–	(20,462)	–	–	(20,462)
Other changes	–	–	–	–	–
IFRS 5 reclassification	–	(179,543)	–	–	(179,543)
Historical cost	1,855,770	–	–	491	1,856,261
Write-downs	(120,163)	–	–	–	(120,163)
BALANCE AT 31/12/2017	1,735,607	–	–	491	1,736,098

There were no significant **acquisitions/capital increases**.

Following the merger of ERG Services S.p.A., the carrying value of the equity investment, equal to EUR 10,162 thousand, was written down to zero.

As a result of the sale of the equity investment in TotalErg S.p.A., a value adjustment was made to the equity investment in order to align it with the sale value net of the related charges.

In application of IFRS 5, the equity investments in TotalErg S.p.A. and Total Italia S.r.l. were reclassified to "Assets held for sale".

In order to provide further information, the main transactions carried out during the year are summarised below:

- 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;

- On **21 December 2016**, the deed of merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. in ERG Power Generation S.p.A. was drawn up. The merger took effect from 1 January 2017. Consequently, as from said date the companies ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. no longer exist, the relevant corporate bodies are no longer in office and all authorisations issued in the name of the same have ceased. In addition, ERG Power Generation S.p.A. has universally replaced the merged companies in all legal receivable and payable positions.
- On **12 September 2017**, the company Emittenti Titoli owned by ERG S.p.A. in the amount of EUR 25 thousand was placed in liquidation.

Below is a list of the equity investments together with the data required by Article 126 of CONSOB Resolution No. 11971 and subsequent revisions.

(EUR thousand)	Registered Office	Share Capital	%	Shareholders' equity ⁽¹⁾	Our stake in shareholders' equity ⁽¹⁾	Carrying value
Subsidiary companies						
ERG Power Generation S.p.A.	Genoa	100,000	100%	1,843,675	1,843,675	1,735,607
ERG Petroleos S.A.	Madrid (Spain)	3,050	100%	(5,910)	(5,910)	–
Total subsidiaries						1,735,607
Other companies						
CAF Interregionale Dipendenti S.r.l.	Vicenza	276	0%	1,029	–	–
Emittenti Titoli S.p.A.	Milan	4,264	1%	11,888	61	26
Meroil S.A.	Barcelona (Spain)	19,077	1%	62,442	543	310
R.U.P.E. S.p.A.	Genoa	3,058	5%	3,065	149	155
Total Other companies						491
TOTAL EQUITY INVESTMENTS						1,736,098

(1) 2017 data for subsidiaries and joint ventures; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies

It is also recalled that in view of the negative shareholders' equity of ERG Petroleos S.A. in liquidation, a provision for risks on equity investments of EUR 5.9 million has been allocated, of which EUR 202 thousand was set aside in 2017. For the valuation of the equity investment in ERG Power Generation S.p.A., please see the paragraph **Impairment test on equity investments**.

In application of IFRS 5, the equity investments in TotalErg S.p.A. and Total Italia S.r.l. were reclassified to "Assets held for sale".

For a complete list of the Group's equity investments, please see the Notes to the Consolidated Financial Statements.

NOTE 4 - OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2017	31/12/2016
BALANCE AT BEGINNING OF YEAR	93,005	822,996
Changes during the year		
Disbursements and interest	31,684	13,943
Waiver for capital contribution		(700,000)
Repayments	(26,000)	(24,000)
ERG Renew minorities option		(11,181)
Reclassifications		(8,753)
Other changes	72	–
BALANCE AT END OF YEAR	98,760	93,005

“Other non-current financial assets” amounted to EUR 99 million at 31 December 2017 and included the receivable from the subsidiary ERG Power S.r.l. relating to the Project Sponsor Subordinated Loan Agreement for the residual construction work on the CCGT after plant completion and the work to revamp the water demineralisation plant that supplies treated waters for the processes of the Priolo production site. EUR 26 million were repaid in 2017.

The other changes include assets deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 72 thousand.

NOTE 5 - DEFERRED TAX ASSETS

	31/12/2017		31/12/2016	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Provisions for liabilities and charges	36,700	10,615	33,300	9,211
Bad debt provision	1,750	420	1,850	444
Tax losses and other temporary differences	27,011	4,584	7,467	1,798
Derivatives	3,126	481	3,127	750
Total		16,100		12,203

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.

Italian Law no. 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.

It should be noted that in 2017 the Company adjusted IRAP deferred tax assets to the actual rate applied of 5.57% (from 3.9% applied previously for the estimation of deferred taxes).

It should therefore be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporate tax) rate of 24%, increased, where so prescribed, by the IRAP (regional tax) rate (5.57%).

Deferred tax assets at 31 December 2017, i.e. EUR 16.0 million (EUR 12.2 million at 31 December 2016), are mainly recognised on allocations to provisions for liabilities and charges.

NOTE 6 - OTHER NON-CURRENT ASSETS

	31/12/2017	31/12/2016
Medium/long-term receivables from the tax authorities	1,913	1,913
Other medium/long-term receivables	1,065	1,514
Total	2,977	3,427

Medium/long-term receivables from the tax authorities amounted to EUR 1,913 thousand and primarily refer to VAT receivables.

Other medium/long-term receivables mainly include (EUR 654 thousand) the receivable relating to a deferred portion of price of the sale of ERG Oil Sicilia S.r.l., which took place in December 2014, which was reclassified in "Other current assets" for the short-term portion, and others relating to security deposits for lease agreements.

NOTE 7 - TRADE RECEIVABLES

Receivables are summarised as follows:

	31/12/2017	31/12/2016
Customer trade receivables	4,463	10,549
Receivables due from Group companies	433	5,238
Bad debt provision	(1,590)	(1,850)
Total	3,306	13,937

The item "Customer trade receivables" mainly includes trade receivables in the amount of EUR 3,296 thousand and invoices to be issued in the amount of EUR 1,167 thousand.

The item consists, for the most part, of inherited trade receivables deriving mainly from relationships with clients in the energy, thermoelectric and petroleum sector originally concerning companies merged into ERG S.p.A. in 2015 and in previous years. These include, in particular, demurrage charges relating to ERG Supply & Trading S.p.A.'s activities (EUR 500 thousand), receivables relating to prior year Refining items (EUR 1,015 thousand), and receivables relating to the electricity retail business sold in 2012, covered by the bad debt provision.

The significant decrease is mainly due to the collection in January 2017 of receivables from GSE for the reimbursement of Green Certificates for 2014 production relating to the activities of ISAB Energy S.r.l. (merged into ERG S.p.A. in 2015) for an amount equal to EUR 4,572 thousand, the collection of receivables for the previous business of approximately EUR 1.8 million and the collection of receivables from the subsidiary ERG Power Generation related to the charge back of the acquisition costs of ERG Hydro in the amount of approximately EUR 4.6 million.

The item "Receivables due from Group companies" includes mainly receivables from jointly controlled entities for EUR 241 thousand, receivables from subsidiaries of EUR 66 thousand, receivables from associates of EUR 94 thousand and receivables from parent companies of EUR 31 thousand.

Finally, the Group assesses the existence of objective indications of impairment for each individual significant position. The aforesaid analyses are validated 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 overdue receivables.

The bad debt provision changed as follows:

	31/12/2017	Allocations	Usage	Other changes	31/12/2016
Bad debt provision	1,590	–	(260)	–	1,850
Total	1,590	–	(260)	–	1,850

2017 usage relates to the removal of receivables deemed to be irrecoverable from parties declared bankrupt or subjected to other insolvency procedures relating to the electricity retail business of the former ERG Power & Gas S.p.A., merged into ERG S.p.A. following the 2010 merger.

	31/12/2017	31/12/2016
Receivables from third parties not past due and intercompany receivables	543	10,846
Receivables from third parties past due		
within 30 days	–	–
within 60 days.	–	–
within 90 days	–	–
beyond 90 days	2,763	3,090
Total	3,306	13,937

NOTE 8 - OTHER CURRENT RECEIVABLES AND ASSETS

	31/12/2017	31/12/2016
Tax receivables	20,107	19,087
Indemnifications to be received	–	40
Other receivables due from Group companies	52,342	42,240
Sundry receivables	7,978	3,215
Total	80,428	64,582

Tax receivables relate mainly to receivables due from tax authorities for consolidated IRES (EUR 6,736 thousand), advances on electricity and gas excise duties (EUR 280 thousand), IRAP (EUR 269 thousand), receivables for group VAT (EUR 7,468 thousand) and other receivables due from the tax authorities in the amount of EUR 4,829 thousand in relation to IRES and IRAP rebates and tax payments made on a provisional basis pending judgement.

“Other receivables due from Group companies” consist of receivables from subsidiaries and jointly controlled companies for tax consolidation IRES.

The item “Sundry receivables” mainly includes deferrals relating to costs for extraordinary transactions not yet finalised at the financial statements’ date.

NOTE 9 - CURRENT FINANCIAL ASSETS

	31/12/2017	31/12/2016
Securities	136	80,136
Financial receivables from subsidiaries and associates	8,490	165,026
Other short-term financial receivables	2,478	701
Total	11,104	245,863

The item "Securities" refers only to guarantee deposits for short-term securities. The significant decrease is attributable to the settlement of the investment in Credit Linked Notes for an amount equal to EUR 80 million.

"Financial receivables from subsidiaries and associates" comprise receivables for the centralised treasury agreement with ERG Petroleos (EUR 8,490 thousand). The significant decrease equal to EUR 156,535 thousand is in large part due to the zeroing of the amount of the credit line toward ERG Renew S.p.A. (EUR 150,314 thousand in 2016), merged by incorporation in ERG Power Generation S.p.A.

"Other short-term financial receivables" consist entirely of the item "Financial accrued income" and include the portion of interest accrued on liquidity.

NOTE 10 - CASH AND CASH EQUIVALENTS

	31/12/2017	31/12/2016
Bank and postal deposits	661,970	247,646
Cash and notes on hand	–	3
Total	661,970	247,649

For an analysis of the increase of cash and cash equivalents, please refer to the [Statement of Cash Flows](#).

NOTE 11 - GROUP SHAREHOLDERS' EQUITY

Share Capital

Fully paid-in share capital at 31 December 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 31 December 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.r.l. held 10,380,060 shares, i.e. 6.905%;
- Unicredit S.p.A. holds 6,129,557 shares, i.e. 4.078%.

At 31 December 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 24 April 2015, 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 24 April 2015, 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 24 April 2015, 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 and in any case no lower than the per-share value of the Company's equity as reported by the latest approved financial statements.

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.

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

As a result of the transaction, at 31 December 2016 ERG holds 1,503,200 ordinary ERG treasury shares, equal to 1% of its share capital. No change was noted at 31 December 2017.

Reserves

	31/12/2017	31/12/2016
Paid-in capital in excess of par	64,207	64,207
Legal reserve	3,236	3,236
Reserve for first-time adoption of IAS/IFRS and retained earnings	651,145	714,080
Cash flow hedge reserve	(1,524)	(2,376)
2010 merger surplus	250,563	250,563
2015 Isab Energy merger surplus	361,755	361,755
Other reserves	274,434	274,120
Total	1,603,815	1,665,585

- **"Paid-in capital in excess of par"** consists of the share premium paid by shareholders to purchase shares related to the share capital increases carried out on 14 October 1997, 2 July and 5 August 2002. This reserve was used for:
 - the purchase of treasury shares in 2006 for an amount of EUR 11,210 thousand;
 - the purchase of treasury shares in 2008 for an amount of EUR 14,779 thousand;
 - the purchase of treasury shares in 2012 for an amount of EUR 25,672 thousand;
 - the sale of treasury shares in 2016 for an amount of EUR 41,343 thousand as part of the transaction to convert the ERG Renew S.p.A. shares held by the minority shareholder into ordinary shares of ERG S.p.A.
- The **"Reserve for first-time adoption of IAS/IFRS and retained earnings"** consists of adjustments made to the Financial Statements of ERG S.p.A. at the time of conversion (mainly for the derecognition of dividends maturing at the end of the year) and retained earnings.
- At 31 December 2017, the **"Cash flow hedge reserve"** was negative in the amount of EUR 1,524 thousand and reflects the effect of derivatives hedging current loans.
- The **"ISAB Energy merger surplus"** includes the surplus generated by the merger by incorporation of the company ISAB Energy S.r.l., which took place in 2015 and amounts to EUR 361,755 thousand.

The item **"Other reserves"** is composed mainly of monetary revaluation reserves; the item was increased in 2015 as a result of the reconstitution of the former ISAB Energy S.r.l. from the monetary realignment reserve pursuant to Italian Law no. 266/05 for an amount equal to EUR 28,709 thousand. This reserve may be subject to distribution to the Shareholders, in which case it will be included as part of the Company's taxable income, or may be used to cover losses, in which case the Company will not be able to proceed to the distribution of dividends, without first having recovered the amount. The Company has not allocated deferred tax liabilities on these reserves as it does not envisage their use for purposes that could require taxation. Moreover, the surplus generated by the 2010 merger by incorporation of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A., amounting to EUR 446 million, was partly allocated to the "2010 merger surplus" reserve (EUR 251 million) and partly to reconstitute specific tax-deferred shareholders' equity reserves (EUR 195 million), i.e. reserves that become taxable upon distribution.

The change for the year is linked to the increase due to the surplus generated by the merger by incorporation of ERG Services S.p.A. equal to EUR 587 thousand and a decrease due to the actuarial change in the employees' severance indemnities provision in the amount of EUR 272 thousand.

The following table lists shareholders' equity items, indicating for each of them the possible utilisation, as well as any tax restrictions.

	Amount	Possible use	Amount available for distribution	Amount subject to tax on distribution
Share Capital	15,032	–	–	15,032
Paid-in capital in excess of par	64,207	A B C	64,207	–
Legal reserve	3,236	B	–	–
Reserve for first-time adoption of IAS/IFRS and retained earnings	651,145	A B C	534,192	–
Cash flow hedge reserve	(1,524)	–	–	–
Other reserves and merger surpluses	886,751	A B C	886,751	255,070
Net profit (loss) for the year	23,970	A B C	23,970	–
Total	1,642,816		1,509,120	270,102

Key
A – for share capital increase
B – to cover losses
C – for distribution to shareholders

Following off-balance sheet tax deductions taken pursuant to the previously-in-force version of Article 109, paragraph 4 subsection b) of the Italian Unified Income Tax Act (TUIR), still provisionally applicable (including those taken by the merged companies), in the event of distribution of the year's earnings and/or reserves, the amount of shareholders' equity reserves and retained earnings must not fall below the total remaining amount of off-balance sheet tax deductions taken. Net of the deferred tax provision, this is estimated to be EUR 10.4 million. Should this occur, the amount of reserves and/or profit for the year distributed beyond the minimum level will form part of the Company's taxable income. The unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings", equal to EUR 116,953 thousand, refers to the amount remaining in the unavailable reserve³ allocated by the Shareholders' Meeting of 14 April 2011 to include part of the earnings of the year 2010, equal initially to EUR 346,404 thousand, constituting the unrealised portion, net of the related tax expense, of the capital gain deriving from the incorporation of the TotalErg S.p.A. Joint Venture. Following approval of the 2012 and 2013 Financial Statements, a part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" was released, i.e. a total of EUR 229,450,160.55 corresponding to the write-downs, net of the related tax effects, carried out in the corresponding years, of the share in the TotalErg S.p.A. Joint Venture.

Following the approval of the 2017 Financial Statements, a part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" for an amount equal to EUR 20,216,282.00 corresponding to the change in value of the equity investment in TotalErg S.p.A. for the purposes of the application of IFRS 5, net of the related tax effects, will be released.

The remaining unavailable portion will be released in full in 2018 following the sale of the equity investment.

Following approval of the 2016 Financial Statements, the unavailable reserve, recorded in 2015 pursuant to Article 6, paragraph 1, subparagraph a) of Italian Legislative Decree no. 38/2005 for an amount of EUR 11,181,413.00 and corresponding to the unrealised expense resulting from the cancellation of the value of the option on the minority

³ In accordance with Article 6, paragraph 1, subparagraph a) of Italian Legislative Decree no. 38/2005.

shares of ERG Renew S.p.A., was released. This release was attributed to the increase of the "Reserve for first-time adoption of IAS/IFRS and retained earnings".

NOTE 12 - EMPLOYEES' SEVERANCE INDEMNITIES

	31/12/2017	31/12/2016
BALANCE AT BEGINNING OF YEAR	574	63
Increases	5,106	1,036
Decreases	(4,051)	(526)
Other changes	–	–
BALANCE AT END OF YEAR	1,629	574

This item includes the estimated liability, determined on the basis of actuarial procedures, relating to severance indemnities payable to employees when they terminate their employment.

The changes shown in the table do not include the portion of employees' severance indemnities accrued and transferred to the Italian National Social Security Institute ("INPS") Treasury fund.

The following are the main assumptions used to calculate the actuarial value of the liability relating to employees' severance indemnities. The discount rate was determined on the basis of a panel of AA-rated corporate securities with at least 10-year maturity.

	2017
Discount rate	1.3%
Inflation rate	1.0%
Average turnover rate	3.0%
Average rate of salary increase	1.5%
Average age	45

The following table shows the impact on liabilities of a change of +/-0.5% in the discount rate.

(EUR thousand)	2017
+0.5% change in discount rate: minor liabilities	(33)
-0.5% change in discount rate: major liabilities	36

NOTE 13 - DEFERRED TAX LIABILITIES

	31/12/2017		31/12/2016	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Actuarial valuation of employees' severance indemnities	704	88	596	142
Unrealised foreign exchange gains	797	35	454	109
Other deferred tax liabilities	6,210	1,342	5,776	1,382
Total		1,465		1,633

Deferred tax liabilities are recognised on taxable temporary differences between the financial reporting value of assets and liabilities and their value for tax purposes. The tax rate used to calculate deferred tax assets is the same as the theoretical IRES (corporate taxation) rate (24%) and the theoretical IRAP (Regional tax) rate (5.57%).

Deferred tax liabilities at 31 December 2017 amount to EUR 1,465 thousand (EUR 1,633 thousand at 31 December 2016).

NOTE 14 - PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

The value of provisions for non-current liabilities and charges amounted to EUR 81,493 thousand (EUR 82,117 thousand at 31 December 2016). The item mainly refers to provisions allocated to meet possible future liabilities and charges relating to the Priolo Site, including as a result of the exit from the refining business for an amount equal to EUR 80,882 thousand.

For more information on the Priolo Site provision, please refer to **Note 25 - Contingent liabilities and disputes**. No significant movements were seen in the year.

This item also includes the "Italian Carbon Fund" provision, in the amount of EUR 363 thousand, allocated to meet potential write-downs on CO₂ quotas still to be credited by the Italian Carbon Fund. The decrease of the ICF provision compared to the previous year is due to the payment of certain quotas allocated in the course of 2017.

NOTE 15 - NON-CURRENT FINANCIAL LIABILITIES

	31/12/2017	31/12/2016
Medium and long-term mortgages and loans	711,395	668,439
Financial payables due beyond 12 months for derivatives	4,066	5,881
Other medium and long-term financial payables	–	–
Total	715,461	674,320

Mortgages and loans at 31 December 2017 total EUR 715,461 thousand and 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);
- liability deriving from the issue of the non convertible bond (EUR 99 million at 31 December 2017) made in July 2017, directed at raising additional funds for new capital expenditure in the sector of renewable energies and to refinance the capital expenditure made on hydroelectric plants in Italy.

The loans are presented net of commission cost and other ancillary costs for an initial value of EUR 9.7 million. These costs were recognised according to the amortised cost method in application of IAS 39 against an amount of EUR 2.2 million.

At 31 December 2017 the weighted average interest rate on mortgages and loans was 1.1% (1.1% at 31 December 2016). The rate indicated does not take into account interest rate hedges.

The item "Financial payables due beyond 12 months" equal to EUR 4,066 thousand includes liabilities deriving from the fair value measurement of the derivatives hedging interest rates.

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

	Mortgages and loans
Due by 31/12/2018	58,625
Due by 31/12/2019	179,750
Due by 31/12/2020	299,125
Due by 31/12/2021	133,055
Due beyond 31/12/2021	99,465
Total	770,020

The above-mentioned loan agreements require compliance with a financial covenant. For further details, please see **Note 24 - Covenants**.

Financial payables due beyond 12 months for derivatives refer to the negative fair value of interest rate swap derivatives on these loans.

NOTE 16 - OTHER NON-CURRENT LIABILITIES

The value at 31 December 2017, i.e. EUR 10,243 thousand (EUR 6,424 thousand at 31 December 2016), mainly refers to payables to employees and Directors.

NOTE 17 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	31/12/2017	Increases	Decreases	Other changes	31/12/2016
Provision for coverage of investees' losses	5,910	202	–	–	5,708
Provision for environmental risks	–	–	–	–	–
Provision for legal risks	231	–	–	–	231
Other provisions	1,896	1,100	(794)	237	1,353
Total	8,037	1,302	(794)	237	7,291

The value of the provisions for liabilities and charges at 31 December 2017 is deemed sufficient to meet possible future liabilities and charges.

The "Provision for coverage of investees' losses" refers to the fund for the equity investment in ERG Petroleos and was increased by EUR 202 thousand at end-2017 to cover the alleged losses for the negative shareholders' equity

of the company itself.

The “increases” column of other provisions includes provisions for litigation with personnel in relation to discontinued operations, while the “other changes” column shows the provision received by ERG Services S.p.A. following the merger by incorporation and in relation to the estimation of the reorganisational and restructuring costs from previous years.

The decrease of EUR 794 thousand refers mainly to the following:

- EUR 137 thousand for use of the provision for demurrage charges;
- EUR 101 thousand for use of the provision for miscellaneous expenses relating to costs for the restructuring of ERG Services S.p.A.;
- EUR 129 thousand for use of the San Quirico refinery provision for liabilities;
- EUR 426 thousand for use of the restructuring provision in relation to the costs of the merger of ERG Supply & Trading S.p.A.

NOTE 18 - TRADE PAYABLES

	31/12/2017	31/12/2016
Trade payables	55,751	51,233
Payables due to Group companies	2,834	1,552
Total	58,585	52,785

Trade payables stem from commercial transactions with domestic and foreign suppliers and are payable within the next year.

Trade payables include mainly payables relating to previous years' Oil supplies in addition to other payables for third party services and advisory services.

Payables to group companies include mainly payables for the provision of services and advice.

NOTE 19 - CURRENT FINANCIAL LIABILITIES

	31/12/2017	31/12/2016
Short-term bank borrowings		
Short-term bank borrowings in euros	141,513	2,244
Short-term bank borrowings in foreign currency	–	–
	141,513	2,244
Other short-term financial payables		
Short-term portion of medium-long term bank borrowings	–	–
Short-term Project Financing	–	–
Financial payables due to Group companies	49,182	59,353
Other short-term financial payables	4	4
	49,185	59,357
Total	190,698	61,601

The item "Short-term bank borrowings" amounts to EUR 141,513 thousand. The increase with respect to 2016 is mainly due to the reclassification of short-term portion of mortgages for an amount equal to EUR 58,625 thousand and a further EUR 80 million of short-term borrowings. The item includes EUR 2,852 thousand relating to interest on existing loans. "Financial payables to Group companies", which amounted to EUR 49,182 thousand, mainly include the payables resulting from the financial management of ERG Power Generation S.p.A. (EUR 49,162 thousand).

NOTE 20 - NET FINANCIAL POSITION

	Notes	31/12/2017	31/12/2016
Medium/long-term mortgages and loans	15	711,395	668,439
- current portion of mortgages and loans		-	-
Fair value of derivatives hedging interest rates	15	4,066	5,881
Total		715,461	674,320
Medium/long-term Project Financing		-	-
- current portion of Project Financing		-	-
Total		-	-
Medium/long-term financial indebtedness/ (Medium/long-term financial assets)		715,461	674,320
Short-term bank borrowings	19	141,513	2,244
Short-term financial debts	19	49,185	59,357
Total		190,698	61,601
Cash and cash equivalents	10	(661,970)	(247,649)
Securities and other short-term financial receivables	9	(11,104)	(245,863)
Total		(673,074)	(493,512)
Short-term Project Financing		-	-
Cash and cash equivalents		-	-
Total		-	-
Net short-term financial indebtedness/ (Short-term financial assets)		(482,376)	(431,911)
NET FINANCIAL POSITION		233,085	242,409

Short-term bank borrowings include the portion to be repaid on Corporate loans (EUR 59 million) provided in 2018, as well as short-term credit lines (EUR 80 million). Short-term financial payables and receivables vis-à-vis subsidiaries mainly comprise the balances on the centralised treasury accounts operated with other Group companies as part of centralised management of the Group's finance function.

The significant increase in cash and cash equivalents is mainly due to the return on the investment in Credit Linked Notes expired at the end of 2017 for EUR 80 million, the collection of dividends from TotalErg for EUR 71 million, the collection resulting from the issuance of the non-convertible bond loan for an amount equal to EUR 99 million, and the cash flow generated in the year.

NOTE 21 - OTHER CURRENT LIABILITIES

	31/12/2017	31/12/2016
Taxes payables	26,343	7,960
Payables due to employees	8,889	3,672
Payables due to social security institutions	3,441	1,256
Other current liabilities	54,974	37,805
Total	93,647	50,693

"Tax payables" mainly relate to Group IRES payables for EUR 24,625 thousand net of an advance on excise duties equal to EUR 30 thousand.

"Payables due to employees" refer to sums owed for the year but not yet paid and include vacation days, unused time off "in lieu", productivity bonuses, and bonuses linked to the Management Compensation Plan.

"Payables due to social security institutions" relate to the social contributions to be paid on December 2017 wages and salaries.

"Other current liabilities" include other short-term payables to subsidiaries (EUR 28,853 thousand) and other payables to jointly controlled entities (EUR 5,951 thousand), mainly in relation to "Tax Consolidation".

NOTE 22 - ASSETS HELD FOR SALE AND NET PROFIT (LOSS)

As noted in the Introduction, the section **Disposal of the equity investment in TotalErg S.p.A.**, describes in detail the data reclassified for the purposes of IFRS 5 in the 2017 Income Statement and Statement of Financial Position.

In accordance with the International Accounting Standards adopted in drawing up the Separate Financial Statements of ERG S.p.A at and for the year ended 31 December 2017, and, more specifically, in accordance with IFRS 5, the disposal of the equity investment in TotalErg S.p.A. is classified as "current assets held for sale". In accordance with this principle, the following were therefore performed:

- reclassification at 31 December 2017⁴ of the value of the equity investment in TotalErg to the item "Assets held for sale";
- reclassification to the 2017 income statement under the item "Net profit (loss) from assets held for sale" of income statement items relating to the equity investment in TotalErg S.p.A. and in particular to the dividends paid by TotalErg S.p.A. to ERG S.p.A. in 2017 in addition to the effects linked to the valuation of the equity investment, as below discussed.

⁴ The separate presentation of non-current assets and disposal groups in the statement of financial position pursuant to IFRS 5 is not applied retrospectively.

(EUR thousand)	2017
Equity investment	179,543
Non-current assets held for sale	179,543
Trade receivables	–
Other receivables and current assets	–
Current assets held for sale	–
Total assets held for sale	179,543
Trade payables	–
Other payables	–
Current liabilities held for sale	–
Total liabilities held for sale	–

It should be noted that the value of the equity investment in TotalErg S.p.A. and in Total Italia S.r.l., prior to application of IFRS 5, totalled EUR 200 million.

At the time of reclassification, the Standard requires a comparison of the book value (EUR 200 million) with the selling price (EUR 194 million)⁵ net of the related ancillary charges (EUR 15 million): at 31 December 2017 the equity investment was therefore posted at the value of EUR 180 million.

NOTE 23 - GUARANTEES, COMMITMENTS AND RISKS

	31/12/2017	31/12/2016
Sureties in favour of Group companies	328,407	429,915
Sureties in favour of third parties	27	–
Our commitments to third parties	9,910	11
Total	338,344	429,926

The sureties in favour of Group companies were mainly for guarantees provided in favour of subsidiaries with respect to loan agreements.

Commitments to third parties are mainly commitments for the management of the information systems, in particular pertaining to the finance area.

Lastly, ERG S.p.A. issued Parent Company Guarantees in favour of Group Companies related mainly to the wind farm business and amounting to approximately EUR 146 million.

⁵ For more details on the amount, reference is made to the section **Disposal of the equity investment in TotalErg S.p.A.**

NOTE 24 - COVENANTS

ERG S.p.A. has the following loans outstanding:

- syndicated corporate acquisition loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The loan agreements indicated above provide for the following financial covenant, the failure to comply with which constitutes an "event of default" pursuant to the relative financing agreements.

The net financial indebtedness and gross operating margin (Net Debt/EBITDA) ratio referring to the Consolidated Financial Statements of the ERG Group must be lower than or equal to 4.25 from 31 December 2017, with values progressively decreasing up to the final value of 3.75 at 31 December 2020, according to the following scale which corresponds to the respective calculation dates:

- 4.25 at 31 December 2017 and 30 June 2018;
- 4.00 at 31 December 2018 and 30 June 2019;
- 3.75 at 31 December 2019, 30 June 2020 and 31 December 2020.

In the event that the covenants are not complied with, the agreements provide the borrower with the possibility of intervening with an "equity cure" which will be taken under consideration as a reduction of the net financial indebtedness.

The agreements also provide for a standard negative pledge for loan agreements of a similar type, prohibiting the usage of any third party lenders' assets as guarantees.

At year-end, the Company's covenants had all been complied with.

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 have significant negative effects on ERG S.p.A.

Priolo Site

As indicated in the 2013 Financial Statements, on 30 December 2013 ERG S.p.A. had 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 were not due, declaring them from 2007 onwards. The first instance ruling was challenged within the deadline by the Inland Revenue Agency 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 no. 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 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%).

On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l., ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and

has therefore been contested before the administrative courts. ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL;

- 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 these Separate Financial Statements, 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 31 December 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 appealed 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. appealed 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. appealed to the competent Regional Tax Commission on 27 December 2017.

In relation to the issues described above, it is recalled that the joint venture agreement with Total foresaw an adequate mutual system of guarantees that have remained valid even after the sale to Api - anonima petroli italiana S.p.A. of the equity investment in TotalErg (the disputes in question have remained the responsibility of the sellers ERG and Total Marketing Services SA, so-called Retained Matters).

Such litigation matters have been taken into account in the estimate of ancillary charges related to the TotalErg transaction.

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 - Noto office (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 demanded the rectification of 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 Siracusa Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded. The relevant hearing was held on 15 November 2016 at the Siracusa Provincial Tax Commission.

On 16 May 2017, the Siracusa 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 Siracusa 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, requesting the suspension of the effects of the first instance ruling.

On 9 September 2017, the Regional Tax Commission rejected the application for suspension referred to above.

The merit hearing was held on 15 January 2018, and on 24 January 2018 the Siracusa Regional Tax Commission (sub-office) ordered the appointment of Sebastiano Truglio from Catania to court-appointed expert.

On 13 October 2017, the provincial division of the Italian Revenue Agency at Siracusa issued a specific settlement notice, settling a higher registration tax of EUR 5.1 million, sanctions for EUR 5.1 million and interest as at 10 October 2017 of EUR 0.6 million.

This same notice was served on 11 November 2017 to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.

On 27 October 2017, an appeal was filed against the aforementioned settlement notice and, at the same time, an application was made for judicial suspension of the tax collection.

On 23 November 2017, the Siracusa Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the relevant hearing for 17 January 2018.

We are awaiting the decision. At the hearing, the judge stated that this decision depends on the outcome of the proceedings pending with the Regional Tax Commission (as referred to above).

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

INCOME STATEMENT ANALYSIS

NOTE 26 - REVENUES FROM ORDINARY OPERATIONS

	2017	2016
Revenues from sales	–	–
Revenues from services	37,939	16,629
Total	37,939	16,629

Revenues from services refer mainly to charges for services rendered to subsidiaries. The significant increase is due to the merger of ERG Services into ERG S.p.A. and the incorporation of all the services that were previously supplied by the latter.

The structure of the service agreements is based on the allocation of part of the costs incurred by the Company and on the application of a single weighted driver for the allocation of all the costs identified. The company's margin is guaranteed by the application of a mark up deemed suitable to ensure adequate profitability.

NOTE 27 - OTHER REVENUES AND INCOME

	2017	2016
Other revenues from Group companies	1,099	1,359
Expense recoveries	170	224
Other revenues	775	3,783
Total	2,043	5,365

"Other revenues from Group companies" essentially refer to other recoveries and charges to Group companies, relating to sundry consulting services and special projects.

NOTE 28 - COSTS FOR PURCHASES

	2017	2016
Costs for purchases	231	116
Total	231	116

NOTE 29 - COSTS FOR SERVICES AND OTHER COSTS

	2017	2016
Costs for services	26,173	20,923
Rents and leases	3,427	618
Write-downs of receivables	161	–
Accruals of provisions for liabilities and charges	1,118	60
Duties and taxes	816	551
Other operating expenses	2,237	2,370
Total	33,932	24,522

Costs for services are broken down as follows:

	2017	2016
Utilities and supplies	802	27
Insurance	822	1,089
Consulting services	4,161	3,084
Advertising and promotions	1,053	1,104
Emoluments paid to Directors and Statutory Auditors	12,613	6,470
Other services	6,722	9,149
Total	26,173	20,923

This item mainly includes consulting costs and emoluments to Directors and Statutory Auditors.

Other services include services supplied by other Group companies, EDP services from third parties, personnel services and other services.

The increase of the item “Rents and leases” derives from the merger of the company ERG Services into ERG S.p.A.

The increase in the item “Emoluments paid to Directors and Statutory Auditors” with respect to the year 2016 is due to non-recurring remuneration linked to extraordinary transactions.

NOTE 30 - PERSONNEL COSTS

	2017	2016
Salaries and wages	22,735	8,226
Social security contributions	6,370	2,091
Employees’ severance indemnities	1,298	562
Other costs	1,656	1,016
Total	32,058	11,896

The increase in labour costs reflects the increase in the number of staff in the company ERG S.p.A. following the merger of ERG Services. In 2017 the item also reflects an increase due to non-recurring remuneration linked to extraordinary transactions.

The following table shows the breakdown of ERG S.p.A. personnel (average headcount during the year):

	2017	2016
Executives	23	17
Managers	101	41
Staff	100	22
Total	224	80

NOTE 31 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2017	2016
Amortisation of intangible fixed assets	1,980	59
Depreciation of tangible fixed assets	1,000	111
Write-downs of fixed assets	–	–
Total	2,980	171

The increase in the item “Amortisation” was due to incorporation of the assets of ERG Services S.p.A. following the merger of the company.

NOTE 32 - NET FINANCIAL INCOME (EXPENSES)

	2017	2016
Income:		
Foreign currency exchange gains	66	374
Interest income on bank accounts	4,562	1,981
From receivables recorded under non-current financial assets	2,789	2,789
Other financial income	899	17,284
	8,316	22,428
Expenses:		
Foreign currency exchange losses	(31)	73
From subsidiaries	(20)	(6)
Interest on short-term bank borrowings	(4)	(70)
Interest on medium/long-term bank borrowings	(7,819)	(7,346)
Other financial expenses	(4,992)	(16,823)
	(12,865)	(24,172)
Total	(4,549)	(1,744)

Other net financial income and financial expenses relate to interest on cash accounts and cash pooling relationships with Group companies.

Interest income on bank accounts relates to the investment of available cash in deposit accounts and current accounts. The increase is due both to the increase of cash and cash equivalents invested and improved remuneration recognised by the banking market.

The item "Other financial expenses" also includes the effects of derivatives hedging against the risk of interest rate fluctuation for around EUR 2.8 million and expenses arising from the measurement at amortised cost of mortgages for an amount of EUR 2.1 million.

NOTE 33 - NET INCOME (LOSS) FROM EQUITY INVESTMENTS

	2017	2016
Dividends and other income from subsidiaries	(0)	27,188
Dividends and other income from other entities	36	353
Write-downs and capital losses from equity investments	(203)	(159)
Total	(167)	27,382

The items relating to the equity investment in TotalErg S.p.A. were reclassified to "Net profit (loss) from assets held for sale".

The item "Dividends and other income from other entities" refers to the dividends distributed by the companies Emittenti Titoli and Meroil.

The item "Write-downs" includes the adjustment of the provision for charges on equity investments in the amount of EUR 202 thousand relating to the company ERG Petroleos, in view of its negative equity, as discussed in detail in the section Equity Investments.

NOTE 34 - INCOME TAXES

	2017	2016
IRES for the year	3,990	5,192
Taxes from previous year	(41)	(3,062)
Benefit from tax consolidation and deferred tax assets	4,287	(1,585)
Total	8,236	545

Taxes for the year - positive by EUR 8,236 thousand - include negative tax effects resulting from the tax loss assessment carried out as part of ERG's tax consolidation and the allocation of deferred tax liabilities/assets to other income components for a net balance of EUR 4,287 thousand.

Below is a summary of financial balances resulting from the tax consolidation regime:

	31/12/2017	31/12/2016
Receivables from Group companies (payable to Tax Authorities)	48,272	29,006
Payables to Group companies (receivable from Tax Authorities)	(19,302)	(32,532)
ERG SPA debt position	(24,625)	5,192
Total	4,344	1,666

Reconciliation between reported and theoretical tax charges ¹

The reconciliation between the tax charge reported in the financial statements and the theoretical tax charge before the application of the IFRS 5 is shown below.

	Taxable income	Tax
IRES (Corporate tax)		
Profit (loss) before taxes	23,970	
Theoretical taxation (24%)		5,753
Permanent tax changes	(50,043)	
Taxable income	(26,073)	
IRES rate (24%)		(6,258)
Derecognition of IRES deferred tax assets/other changes		
IRES taxes from previous years		
IRAP (Regional tax)		
Difference between production costs and revenues	(29,279)	
Costs and revenues not relevant for IRAP purposes	26,946	
Theoretical taxable income for IRAP purposes	(2,333)	
Theoretical tax charge (tax rate 5.57%)		(130)
Permanent tax changes	(10,455)	
Theoretical taxable income (IRAP)	(12,788)	
Theoretical IRAP in the financial statements		(712)
Adjustment of IRAP deferred tax assets/Changes in deferred tax assets without current taxes		(576)
Negative IRAP		785
Consolidated income interest expense transferred		(664)
Taxes from previous years		41
Total income taxes reported in the financial statements before IFRS 5 reclassification		(7,384)
IFRS 5 reclassification		(852)
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS		(8,236)

(1) Permanent differences mainly consist of dividends paid by subsidiaries and write-downs of equity investments.

NOTE 35 - NON-RECURRING ITEMS

The non-recurring items of 2017 before the tax effect refer to non-recurring remuneration linked to extraordinary transactions.

NOTE 36 - RELATED PARTIES

The tables below show the details of the assets, liabilities, income and expenses to/from related parties.

2017 – STATEMENT OF FINANCIAL POSITION - ASSETS

	Other financial assets	Trade receivables	Other current receivables and assets	Current financial assets
ERG Power Generation S.p.A.		53		
Priolo Servizi S.c.a.r.l.		94		
San Quirico S.p.A.		30	1,409	
ERG Eolica San Vincenzo S.r.l.			1,514	
ERG Eolica San Ciro S.r.l.			1,627	
ERG Eolica Faeto S.r.l.			334	
ERG Eolica Ginestra S.r.l.			91	
Green Vicari S.r.l.			718	
ERG Eolica Basilicata S.r.l.			923	
ERG Eolica Fossa del Lupo S.r.l.			1,887	
ERG Power S.r.l.	98,689		8,812	
ISAB Energy Solare S.r.l.			25	
TotalErg S.p.A.		241	23,107	
ERG Eolica Campania S.p.A.			4,807	
ERG Eolica Amaroni S.r.l.			517	
ERG Wind Sardegna S.r.l.			675	
ERG Wind 4 S.r.l.		5		
ERG Wind Leasing 4 S.r.l.		3		
ERG Wind Sicilia 2 S.r.l.			82	
ERG Wind Sicilia 5 S.r.l.			34	
ERG Wind 2000 S.r.l.			15	
ERG Wind Energy S.r.l.		1		
CSO Energy GmbH		3	67	
CSO Energy S.a.r.l.			5	
ERG Hydro S.r.l.			5,688	
ERG Petroleos S.A.				8,490
Other counterparties		2	5	
Total	98,689	433	52,342	8,490
<i>% of the total item</i>	<i>100.00%</i>	<i>13.10%</i>	<i>65.08%</i>	<i>76.46%</i>

2017 – STATEMENT OF FINANCIAL POSITION - LIABILITIES

	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG Power Generation S.p.A.		2,815	49,182	24,111
ERG Eolica San Vincenzo S.r.l.				31
ERG Eolica San Ciro S.r.l.				29
ERG Eolica Ginestra S.r.l.				32
ERG Eolica Tirreno S.r.l.				14
ERG Eolica Basilicata S.r.l.				16
ERG Eolica Fossa del Lupo S.r.l.				126
ERG Eolica Calabria S.r.l.				8
ERG Eolica Adriatica S.r.l.				585
TotalErg S.p.A.		19		4,223
ERG Eolica Campania S.p.A.				71
ERG Wind Holdings (Italy) S.r.l.				84
ERG Wind Sicilia 6 S.r.l.				24
ERG Wind 4 S.r.l.				127
ERG Wind Leasing 4 S.r.l.				2
ERG Wind 6 S.r.l.				33
ERG Wind Sicilia 3 S.r.l.				24
ERG Wind Sicilia 4 S.r.l.				2
ERG Wind Energy S.r.l.				1,097
ERG Hydro S.r.l.				2,421
ERG Wind Bulgaria S.p.A.				16
Other counterparties				1,727
Total	–	2,834	49,182	34,804
<i>% of the total item</i>	<i>0.00%</i>	<i>4.84%</i>	<i>25.79%</i>	<i>41.77%</i>

2017 - INCOME STATEMENT - INCOME

	Revenues from ordinary operations	Other revenues and income	Financial income
ERG Power Generation S.p.A.	36,694	247	965
San Quirico S.p.A.	30		
ERG Power S.r.l.	27	3	1,684
ISAB Energy Solare S.r.l.		32	
TotalErg S.p.A.	1,025	783	
ERG Eolica Amaroni S.r.l.			
ERG Wind 4 S.r.l.		3	
ERG Wind Leasing 4 S.r.l.		3	
CSO Energy GmbH		18	
CSO Energy Sarl		10	
ERG Hydro S.r.l.	4		
Other counterparties		(0)	
Total	37,780	1,099	2,649
<i>% of the total item</i>	<i>99.58%</i>	<i>53.79%</i>	<i>31.85%</i>

2017 - INCOME STATEMENT - EXPENSES

	Costs for purchases	Costs for services and other costs	Financial expenses
ERG Power Generation S.p.A.		112	20
ERG Eolica San Vincenzo S.r.l.			
ERG Eolica San Cireo S.r.l.			
ERG Eolica Ginestra S.r.l.	(0)		
ERG Eolica Adriatica S.r.l.			
TotalErg S.p.A.	78	21	
ERG Eolica Campania S.p.A.			
ERG Eolica Amaroni S.r.l.			
ERG Wind Holdings (Italy) S.r.l.		22	
ERG Wind 4 S.r.l.			
ERG Wind 6 S.r.l.			
ERG Wind Energy S.r.l.			
Other counterparties	(0)		
Total	78	155	20
<i>% of the total item</i>	<i>33.74%</i>	<i>0.54%</i>	<i>0.15%</i>

Assets mainly concerned trade receivables, the granting of loans, Group VAT and the "Consolidated Tax Regime".

Liabilities mainly concerned trade payables and loan agreements, Group VAT and the "Consolidated Tax Regime".

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 Cireo S.r.l. and ERG Eolica Ginestra S.r.l. It is also noted that on 5 October 2017, following the disposal

of the equity investment, the domestic tax consolidation with Totalgaz Italia S.r.l. was discontinued, taking effect from the beginning of the financial year in which the disposal of the equity investment took place. Finally it is noted that on 10 January 2018, following the disposal of the equity investments, the domestic tax consolidation with the companies TotalErg S.p.A., Eridis S.r.l., Raffineria di Roma S.p.A. and Gestioni Europa S.p.A. was discontinued, taking effect from the beginning of the financial year in which the disposal of the equity investments took place.

Income and expenses mainly comprise services carried out in respect of investees and the dividends distributed by subsidiary companies.

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

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

NOTE 37 - INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of the Issuers' Regulations, set out below are the costs for 2017 relating to services rendered by the independent auditors Deloitte & Touche S.p.A., the ERG Group's independent auditors, and by the companies belonging to its network.

	2017	2016
Auditing services	118	115
Services other than auditing	239	205
Total	357	320

Services other than auditing refer to:

- certification services for EUR 29 thousand mainly pertaining to the conformity review of the separate yearly accounts for the purposes of AEEG resolution no. 11/2007;
- other services, in the amount of EUR 128 thousand for agreed-upon procedures voluntarily requested on the quarterly data of subsidiaries, in the amount of EUR 44 thousand for the Sustainability Report, in the amount of EUR 26 thousand for the Half-Yearly Financial Report, in the amount of EUR 12 thousand for activities pursuant to Italian Legislative Decree no. 254.

NOTE 38 - DIVIDENDS

The dividends paid by ERG S.p.A. in 2017 (EUR 74.4 million) and in 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.

On 7 March 2018, the Board of Directors proposed the payment to shareholders of a dividend of EUR 1.15 per share, inclusive of a non-recurring component of EUR 0.40, which it is proposed be distributed following the completion of the process to change the structure of the Group by exiting the Oil business and entering the Solar Power business.

The dividend will be payable from 23 May 2018, with an ex-dividend date as of 21 May 2018 and record date of 22 May 2018.

NOTE 39 - FINANCIAL INSTRUMENTS

31/12/2017	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	HTM	Derivatives	Other liabilities	Total	of which non-current	Fair value
Equity investments	–	491	–	–	–	–	491	–	–
Financial receivables	–	99,825	–	–	–	–	99,825	99,825	–
Derivative financial instruments	–	–	–	–	2,478	–	2,478	–	2,478
Trade receivables	–	3,306	–	–	–	–	3,306	–	–
Financial securities classified as current assets	–	–	136	–	–	–	136	–	–
Other receivables	–	98,440	–	–	–	–	98,440	18,013	–
Cash and cash equivalents	–	661,970	–	–	–	–	661,970	–	661,970
Total assets	–	864,033	136	–	2,478	–	866,647	117,838	664,448
Mortgages and loans	–	–	–	99,465	–	670,555	770,020	711,395	–
Non-recourse Project Financing	–	–	–	–	–	–	–	–	–
Short-term bank borrowings	–	–	–	–	–	82,888	82,888	–	–
Financial payables	–	–	–	–	–	49,185	49,185	–	–
Derivative financial instruments	–	–	–	–	4,066	–	4,066	4,066	4,066
Trade payables	–	–	–	–	–	58,585	58,585	–	–
Other payables	–	–	–	–	–	103,894	103,894	10,243	103,894
Total liabilities	–	–	–	99,465	4,066	965,108	1,068,639	725,705	107,961

31/12/2016	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	HTM ⁽⁴⁾	Derivatives	Other liabilities	Total	of which non-current	Fair value
Investments in other companies	–	491	–	–	–	–	491	–	–
Financial receivables	–	94,670	–	–	–	–	94,670	94,670	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–
Trade receivables	–	13,937	–	–	–	–	13,937	–	–
Financial securities classified as current assets	–	–	80,136	–	–	–	80,136	–	–
Other receivables	–	78,698	–	–	–	–	78,698	14,116	–
Cash and cash equivalents	–	247,649	–	–	–	–	247,649	–	247,649
Total assets	–	434,953	80,627	–	–	–	515,580	108,786	247,649
Mortgages and loans	–	–	–	–	–	668,439	668,439	668,439	–
Non-recourse Project Financing	–	–	–	–	–	–	–	–	–
Short-term bank borrowings	–	–	–	–	–	2,252	2,252	–	–
Financial payables	–	–	–	–	–	59,357	59,357	–	–
Derivative financial instruments	–	–	–	–	5,881	–	5,881	5,881	5,881
Trade payables	–	–	–	–	–	52,785	52,785	–	–
Other payables	–	–	–	–	–	57,083	57,083	6,424	57,083
Total liabilities	–	–	–	–	5,881	839,916	845,797	680,745	62,964

(1) FVTPL: Fair value through profit or loss

(2) L&R: Loans and receivables

(3) AFS: Available for sale financial investments

(4) HTM: Held to maturity

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	-	72	-
Total	-	72	-
Financial liabilities			
- FVTPL	-	-	-
- AFS	99,465	-	-
- Hedging derivatives	-	3,995	-
Total	99,465	3,995	-

NOTE 40 - DISCLOSURE ON RISKS

The following are the main risks identified and actively managed by ERG S.p.A.:

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

ERG S.p.A. attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. In line with this objective, an advanced Risk Management system has been adopted that guarantees identification, measurement and control at a centralised level for the entire Group of exposure to individual risks, in accordance with existing policies.

The Group Risk Management & Corporate Finance function ensures compliance with the assigned limits and, via its own analyses, provides appropriate support for strategic decisions both to individual subsidiaries and to the Risk Committee as well as to top management at the Parent Company.

Credit risk

Exposure to credit risk, i.e. the likelihood that a given counterparty is not able to meet its contractual obligations, is managed through appropriate analyses and assessments, assigning to each counterparty an Internal Rating Based, a summary indicator of the creditworthiness assessment. The rating provides an estimate of the likelihood of default of a given counterparty on which the level of credit assigned depends, which is regularly monitored and must never be exceeded. The choice of counterparties for both industrial and financial transactions is subject to the decisions of the Credit Committee, whose decisions are supported by the credit rating analysis.

The risk of concentration, in terms of both customers and segments, is also monitored continuously, with no 'alert' situations having ever occurred.

The following table provides information on ERG S.p.A.'s exposure to credit risk at year-end by a classification of receivables not overdue (see **Note 7 - Trade receivables**) according to the corresponding creditworthiness reflecting the internal ratings assigned.

	2017
AAA Rating	–
AA+ / AA- Rating	–
A+ / A- Rating	–
BBB+ / BBB- Rating	–
BB+ / BB- Rating	110
B+ / B- Rating	–
CCC- Rating	–
Receivables due from Group companies	433
Not assigned	–
Total	543

Liquidity risk

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. Today, with its cash flow generation and the availability of lines of credit provided by various counterparties, ERG ensures adequate coverage of its financial requirements.

The following tables summarise the maturity profile of the financial liabilities of ERG S.p.A. at 31 December 2016 and 31 December 2017, based on undiscounted contractual payments.

31/12/2017

	Payables by maturity				
(EUR thousand)	On demand	Under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	2,953	67,055	646,354	102,223
Short-term bank borrowings	2,852	80,000	58,625	–	–
Derivative financial instruments	–	1,088	1,582	1,707	–
Trade payables	50,784	7,782	–	–	–
Total liabilities	53,636	91,823	127,262	648,061	102,223

31/12/2016

	Payables by maturity				
(EUR thousand)	On demand	Under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	3,040	4,207	695,626	–
Short-term bank borrowings	2,244	–	–	–	–
Derivative financial instruments	–	893	1,898	4,042	–
Trade payables	50,085	2,700	–	–	–
Total liabilities	52,329	6,633	6,105	699,669	–

Concerning the disclosure on "Fair value hierarchies" required by IFRS 7, see the comments in **Note 44** to the Consolidated Financial Statements.

Interest rate risk

Interest rate risk identifies the fluctuation in future interest rate trends that could determine higher costs for ERG S.p.A. Interest rate risk is hedged by using derivative contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on the shareholders' equity of ERG S.p.A. (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-1% change in interest rate, with all other variables kept constant.

Impact on Income Statement

(Eur million)	2017
Shock-up (interest rate variation +1%)	0,0
Shock-down (interest rate variation -1%)	(0.4)

Impact on shareholders' equity

(Eur million)	2017
Shock-up (interest rate variation +1%)	13.2
Shock-down (interest rate variation -1%)	(5.1)

Derivative financial instruments used

The main types of derivative financial instruments used to manage financial risks, with the sole purpose of hedging, are the following:

Options: a contract whereby one of the parties, on payment of a sum to the other (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying asset) at an established price (exercise or strike price).

Forward contracts: contracts for the purchase or sale between two parties of a certain financial instrument (the underlying asset) at a future date and at a price fixed at the time the contract is stipulated; this category also includes futures contracts, which unlike forward contracts are standardised, negotiated in lots and for predetermined maturity dates within regulated markets.

Swaps: contracts which establish an exchange of payment flows between two parties on certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The underlying financial instrument can be of various types and significantly influences the characteristics of the contract which, in practice, can take on different forms.

The derivative instruments entered into by ERG S.p.A. and aiming to mitigate exposure to financial risks existing at 31 December 2017 are as follows:

Interest rate derivatives

- Interest Rate Options that fix upper (cap) and lower (floor) limits to be applied to fluctuations in interest rates on variable rate loans;
- Interest Rate Swaps entered into to confine fixed and floating rate loans to the most appropriate risk profile. Interest Rate Swaps provide for the exchange between the counterparties of interest flows calculated with reference to pre-agreed fixed rates or variable rates and to pre-defined face value and timing.

Summary of derivative instruments used

The derivative financial instruments arranged by ERG, designed to hedge its exposure to interest rate risk, were as follows at 31 December 2017:

Type	Hedged risk	Underlying financial instruments	Fair Value at 31/12/2017
(EUR thousand)			
Cash Flow Hedging Instruments			
Interest rate swaps and interest rate caps	Economic interest rate risk	675 EUR million	(3,995)
Total cash flow hedging instruments			(3,995)

Cash Flow Hedging Instruments

A. Interest Rate Swaps and Interest Rate Caps and Collars.

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

At 31 December 2017, there was a total negative fair value in the amount of EUR 3,995 thousand. The change is recognised in the Cash Flow Hedge reserve.

NOTE 41 - PUBLICATION DATE OF THE SEPARATE FINANCIAL STATEMENTS

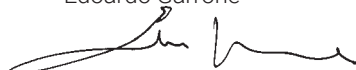
On 7 March 2018, the Board of Directors of ERG S.p.A. authorised the publication of the separate financial statements together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, Italy, 7 March 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone



REPRESENTATIONS ON THE SEPARATE FINANCIAL STATEMENTS

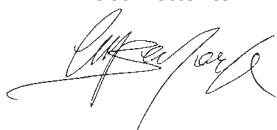
PURSUANT TO ARTICLE 81 TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

-
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, paragraphs 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 Separate Financial Statements in the period between 1 January 2017 and 31 December 2017.
 2. In this regard, the following is pointed out:
 - the suitability of the administrative and accounting procedures for the preparation of the Separate Financial Statements of ERG S.p.A. at 31 December 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 Separate Financial Statements of ERG S.p.A.:
 - 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 Report on Operations contains a reliable analysis of the operating performance and results, as well as the financial position of the issuer and the group of companies included in its consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, Italy, 7 March 2018

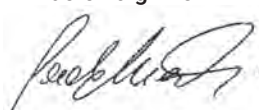
Chief Executive Officer

Luca Bettonte



Manager responsible for preparing
the company's financial reports

Paolo Luigi Merli



BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING, PURSUANT TO ART. 153 OF LEGISLATIVE DECREE NO. 58/98 AND ART. 2429 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of ERG S.p.A.

The Board of Statutory Auditors of ERG S.p.A. (hereafter also referred to as "ERG" or "the Company"), pursuant to art. 153 of Legislative Decree no. 58/98 (hereafter also referred to as T.U.F.) and art. 2429, para. 2 of the Italian Civil Code, is called to report, to the Shareholders' Meeting convened to approve the Financial Statements, about the supervisory activity performed during the financial year to fulfil its duties, any omissions and objectionable facts detected and the results for the year, as well as to formulate proposals on the Financial Statements, the related approval and any matters falling under its scope of responsibility.

During the financial year ended on 31 December 2017 and up to today's date, the Board of Statutory Auditors carried out supervisory activities in accordance with the Law, taking account of the standards of behaviour recommended by the Italian National Accounting Board, CONSOB Regulations on corporate supervision, and the provisions set out in the new version of art. 19 of Legislative Decree no. 39/2010 reformulated following the statutory audit reform implemented by Legislative Decree no. 135/2016.

ERG Financial Statements have been prepared in accordance with the standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC) as well as in compliance with the measures issued by CONSOB to implement art. 9, paragraph 3 of Legislative Decree no. 38/2005.

The Company's Financial Statements have been prepared in accordance with legal regulations and are presented together with the documents prescribed by the Italian Civil Code and the T.U.F. (Consolidated Finance Act).

The Board of Statutory Auditors has obtained the information required to carry out its supervisory duties by attending the meetings of the Board of Directors, the Control and Risk Committee and the Nominations and Remuneration Committee, holding interviews with the management of the Company and the Group, information obtained from the competent corporate structures, as well as through additional control activities.

Management Body - Appointment, term of office and operation

The Board of Directors in office on the date of this Report was appointed by the Shareholders' Meeting of ERG of 24 April 2015 and the term of office will expire on the date of the Meeting convened to approve the Financial Statements at 31 December 2017.

Upon proposal by the Nominations and Remuneration Committee and pursuant to art. 2386 of the Italian Civil Code and art. 15 of the Articles of Association, on 11 May 2017 the Board of Directors appointed Alessandro Careri as the new Company Director; he will remain in office until the date of the Meeting convened to approve the Financial Statements at 31 December 2017, replacing Director Luigi Ferraris who tendered his resignations on 20 April 2017.

The Shareholders' Meeting convened to approve the Financial Statements at 31 December 2017 is therefore called to appoint the new Board.

At the first meeting after the appointment, on 24 April 2015, and subsequently at the meeting of 13 July 2016, the Board of Directors confirmed the independence of Directors Massimo Belcredi and Paolo Francesco Lanzoni with reference to art. 148, paragraph 3, of the T.U.F. and the independence of Directors Mara Anna Rita Caverni, Alessandro Chieffi, Barbara Cominelli, Luigi Ferraris and Silvia Merlo both with reference to art. 148, paragraph 3, of the TUF and with reference to the information contained in the current Corporate Governance Code.

At the Board of Directors' meeting of 11 May 2017, Director Alessandro Careri was considered to be independent pursuant to art. 148, paragraph 3, of the T.U.F.

At the meeting held on 12 July 2017 the Board of Directors confirmed the independence assessments made in the past.

The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.

Board of Statutory Auditors - Appointment, term of office and operation

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting of 3 May 2016 and is comprised of Elena Spagnol (Chairperson), Lelio Fornabaio (Standing Auditor), Stefano Remondini (Standing Auditor); Vincenzo Campo Antico, Luisella Bergero and Paolo Prandi were appointed Alternate Auditors.

It will remain in office for three financial years and will expire on the date of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2018.

The appointment was made on the basis of two lists presented respectively by the majority shareholder and by some institutional investors, minority shareholders, in accordance with applicable legal regulations, rules and Articles of Association as well as in accordance with a transparent process that guarantees, inter alia, prompt and adequate information on the personal and professional characteristics of the candidates for the office.

The Chairman of the Board of Statutory Auditors and an alternate auditor were appointed from the minority list.

The composition of the Board of Statutory Auditors is in accordance with the gender balance criterion laid down in art. 148 of the T.U.F.

At the time of its appointment and subsequently at the meeting of 9 May 2017 the Board of Statutory Auditors verified the existence of the independence requisite; the verification was made on the basis of the criteria provided in the T.U.F., the Code of Conduct of listed companies and the Corporate Governance Code promoted by Borsa Italiana S.p.A.

The findings of the verification were communicated, pursuant to art. 144-*novies*, paragraph 1 ter of Consob Regulation no. 11971 (hereafter the "Issuers' Regulation"), and art. 8 C1 of the Code of Corporate Governance, to the Board

of Directors' meeting of 9 August 2017 to enable it to fully and adequately carry out the assessments provided in paragraph 1-bis of the aforesaid article as to whether the members of the supervisory body have the independence requisites provided in art.148, paragraph 3, of the T.U.F.

As the engagement conferred upon the independent auditors Deloitte & Touche S.p.A. expires on the date of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2017, the engagement must be renewed for the 2018-2026 period. The Board of Statutory Auditors has monitored the proper performance of the Selection Process of independent auditors, for which it is responsible pursuant to art. 19 paragraph 1 of Legislative Decree 39/2010 and art. 16 paragraph 3 of EU Regulation no. 537/2014 (the EU Regulation), actively participating, together with the Work Group set up within the Company, to the process for the selection of the Independent Auditors, carried out in line with the provisions of art. 16 paragraph 2 of the EU Regulation.

At the end of the Selection Process, the Board of Statutory Auditors prepared the required motivated recommendation pursuant to art. 19 paragraph 1 of Legislative Decree 39/2010 and article 16 paragraph 2 of EU Regulation expressing its preference according to legal regulations.

Adoption by the Company of the Corporate Governance Code

The Company has adopted the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the new edition of the Corporate Governance Code (hereafter the "Corporate Governance Code") published in July 2015.

Management and coordination activity

ERG is a subsidiary of San Quirico S.p.A. that does not, however, carry out any management and coordination activity over its subsidiary pursuant to article 2497 and ff. of the Italian Civil Code, also considering that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

On the contrary, ERG carries out management and coordination activities over its direct and indirect subsidiaries without interfering with the management and operational autonomy of the subsidiaries.

Supervisory and control activity by the Board of Statutory Auditors

The Board of Statutory Auditors has carried out its activity in accordance with the rules set out in art. 2403 of the Italian Civil Code and articles 149 and 151 of the TUF as well as art. 19 of Legislative Decree 39/2010 as shown further on.

Supervisory activity and information requested by CONSOB

In the performance of its duties, the Board carried out the supervisory activity prescribed by art. 2403 of the Italian Civil Code and the articles of the TUF, Consob recommendations on corporate controls and activities of the Board of Statutory Auditors (in particular, Communication no. DAC/RM 97001574 of 20 February 1997), complying with the

indications contained in the Corporate Governance Code, Standards of Behaviour of the Board of Statutory Auditors of listed companies issued by the Italian National Accounting Board.

In preparing this Report, due consideration was given to Consob communications no. 1025564 of 6 April 2001, no. 3021582 of 4 April 2003 and no. 6031329 of 7 April 2006, pertaining to the content of the reports of the Boards of Statutory Auditors of companies with shares listed on the stock market to the Shareholders' Meetings.

As part of its duties, the Board of Statutory Auditors:

- attended the Shareholders' Meetings and the Board of Directors' meetings, supervising compliance with the Articles of Association, laws and regulations that govern the operation of the Company's bodies and the enforcement of proper administration standards;
- more specifically, it attended the 9 meetings held by the Board of Directors, the 10 meetings held by the Control and Risk Committee and the 6 meetings held by the Nominations and Remuneration Committee;
- during the financial year it carried out 13 verifications of approximately 3 hours each;
- it supervised, as far as under the scope of its responsibility, on the adequacy of the Company's organizational structure and the compliance with management best practices, through direct observations, collection of information from those in charge of the organizational function and meetings with the Independent Auditors as part of a mutual exchange of relevant information and data;
- it assessed and supervised the adequacy of the Internal Control System as well as the administrative and accounting system, but also the reliability of the latter in correctly representing all management events, through information obtained from the officers in charge of the respective functions, the examination of corporate documentation and the analysis of the results of the work performed by the Independent Auditors;
- it supervised the adequacy of the mutual flow of information between ERG and its subsidiaries pursuant to art. no. 114, paragraph 2 of the T.U.F., safeguarded by the instructions issued by the Company's management to the Group;
- it supervised the compliance with information disclosures regarding mandatory and privileged information or information requested by the supervisory authorities;
- it oversaw compliance with the "Market abuse" and "Protection of savings" regulations as well as "Internal Dealing", with particular reference to the processing of privileged information and the procedure for disseminating notices and information to the public.

On 11 May 2017 the Board of Directors of ERG approved the update of the Corporate Governance Code on "Internal Dealing" which aims at ensuring the transparency of the financial transactions carried out by Relevant people.

On 9 August 2017, the Board of Directors of ERG approved the updating of the Procedure for handling and processing privileged information and the dissemination of notices and information to the public.

As regards "Market abuse", the Company continued to monitor the new provisions introduced by EU Regulation 596/2014 (MAR) evaluating and updating the framework to follow with regard to financial information.

The Board of Statutory Auditors monitored compliance with the provisions of art. 18 of EU Regulation no. 596/2014 about updates to the Register of people with access to privileged information.

On 12 July, the Organisation and Management Model pursuant to Italian Legislative Decree 231/2001 was updated

and on 9 October 2017 the Board of Directors approved the Anti-corruption System and Policy. The Policy is currently being adopted by all the other companies of the ERG Group, both Italian and foreign.

In addition, the Board of Statutory Auditors:

- has obtained from the Directors, at least quarterly, adequate information on the activities carried out and the most significant economic, financial and asset-related transactions carried out by the Company and its subsidiaries pursuant to art. 150, paragraph 1 of the T.U.F. In this regard, both collegially and individually, the Board has placed particular attention on checking that the transactions resolved and carried out were compliant with the law, the Company's Articles of Association and were not imprudent or risky, at odds with the resolutions passed by the Shareholders' Meeting, in potential conflict of interests or such as to compromise the integrity of the company's net worth.

The Board of Statutory Auditors also supervised compliance with the Guidelines, Principles of Conduct and the procedures in force at the Group, as well as on compliance with the processes, the outcome of which is brought to the attention of the directors to pass the related resolutions;

- it held meetings with the representatives of the Independent Auditors pursuant to art. 150, paragraph 3 of the T.U.F. and no relevant data and/or information emerged that required to be highlighted in this Report;
- it exchanged information with the Boards of Statutory Auditors of the companies that are directly and indirectly controlled by ERG on the most significant events that concerned the companies of the Group as well as on the internal control and risk management systems pursuant to art. 151, paragraphs 1 and 2 of the T.U.F.;
- it supervised the methods for the implementation of the corporate governance rules set out in the Corporate Governance Code adopted by the Company as adequately stated in the Report on Corporate Governance and Ownership, in accordance with art. 124-ter of the T.U.F. and art. 89-bis of the Issuers' Regulation;
- verified, as also stated in a specific paragraph, in relation to the periodic evaluation to be carried out pursuant to art. 3, paragraph 5 of the Corporate Governance Code, as part of the supervision on how to implement the corporate governance rules correctly, the correct application of the assessment criteria and procedures adopted by the Board of Directors, regarding the positive assessment of independence of Directors, both with reference to the provisions of art. 148, paragraph 3, of the T.U.F. and to those contained in the Corporate Governance Code, giving emphasis to substance (guarantee of independent judgment) rather than to form.

The Board of Statutory Auditors has agreed with the positive assessment expressed by the Nominations and Remuneration Committee, endorsed by the Board of Directors as required by application standard no. 1, paragraph 1, letter g) of the Corporate Governance Code, on the size and composition of the board of directors and its operation as well as on the size, composition and operation of the board committees. The assessment was performed using the valuation criteria of the previous year, based on the results of a self-assessment questionnaire, prepared by the Nominations and Remuneration Committee and filled out by all the members of the Board of Directors and of the Board of Statutory Auditors and updated to take account of the new provisions introduced by Legislative Decree 254/2016.

- On 12 July, the Supervisory Authority, with the help of a renowned Legal Practice, held an information conference on the role of Directors as regards the rules laid down in Legislative Decree no. 231/01, with particular focus on the “responsibility of entities for offences committed abroad”; the conference in question was attended by the Board of Statutory Auditors and, on 9 October 2017, the same Board and the Board of Directors attended a conference on an in-depth examination of energy scenarios for the 2017-2020 period.

Supervisory activity and information requested by the Consolidated Audit Act

Pursuant to the new art. 19 of Legislative Decree 39/2010 (Consolidated Audit Act), in the version reformulated following the reform of the statutory audit implemented through Legislative Decree 135/2016, with effect from the first financial year following the one in progress in 2016, the Board of Statutory Auditors, in its function as Internal Control and Audit Committee, is responsible for:

- a) informing the administrative body of the entity subject to audit of the results of the statutory audit performed and transmitting to that body the additional report pursuant to art. 11 of EU Regulation, along with remarks, if any;
- b) monitoring the financial information disclosure process and presenting the recommendations or proposals aimed at guaranteeing the integrity thereof;
- c) controlling the effectiveness of the company systems for the internal control of quality and risk management and, if applicable, of internal audit, as regards the financial information disclosure by the entity subject to audit, without violating its independence;
- d) monitoring the statutory audit of the separate and consolidated financial statements, also taking account of any results and conclusions of the quality controls carried out by Consob pursuant to art. 26, paragraph 6, of EU Regulation, if available;
- e) verifying and monitoring the independence of the independent auditors or of the auditing companies in accordance with articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree no. 39/2010 and article 6 of the EU Regulation, especially as regards the adequacy of the provision of services other than audit to the audited entity, in compliance with article 5 of that regulation;
- f) being responsible for the procedure aimed at selecting the independent auditors or the auditing company and recommending the independent auditors or auditing companies to be engaged pursuant to article 16 of the EU Regulation.

In this last respect, the Board has already adopted the procedure aimed at the selection of the independent auditing company and the recommendation of the auditing companies to be engaged pursuant to art. 16 of the EU Regulation. The Board of Statutory Auditors has performed its activity with the help of the Control and Risk Committee in order to coordinate their respective duties and avoid overlapping activities.

Financial information disclosure process

The Board of Statutory Auditors has supervised the existence of regulations and procedures concerning the process for compiling and disclosing financial information. In this regard we highlight that the Report on Corporate Governance

and Ownership illustrates the method adopted by the Group to define its own Internal Control and Risk Management System in relation to the financial information disclosure process at consolidated level with the objective of significantly mitigate risks and the extent of the reliability of financial information.

The Manager in charge of preparing corporate documents is Paolo Luigi Merli whom the Board of Directors has entrusted with the responsibility of:

- arrange adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of procedures;
- issuing to the market the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

The Manager in charge of preparing corporate documents relies on the support of the Compliance Organizational Unit 262 to verify the operation of the administrative and accounting procedures by testing controls.

The Board of Statutory Auditors acknowledges that it has received adequate information on the monitoring activity performed on corporate processes with administrative-accounting impact within the Internal Control and Risk Management System, carried out both during the year in relation to the periodic management reports and when closing the accounts for the preparation of the Financial Statements, in accordance with the monitoring and certification obligations to which ERG is subject pursuant to Law 262/05.

In particular, the Board of Statutory Auditors has acknowledged the Risk assessment for 2017, carried out by Compliance 262, as well as the half-yearly update of the testing activity pursuant to Law 262/05.

The adequacy of the administrative-accounting system was also assessed through the acquisition of information from the heads of the respective functions and the analysis of the results of the work carried out by the Independent Auditors.

No particular critical issues and elements were found that would prevent the issue of the certification by the Manager in charge of preparing corporate documents and by the Chief Executive Officer on the adequacy of the administrative and accounting procedures for the drafting of the Financial Statements of ERG SpA and of the Consolidated Financial Statements for the 2017 financial year.

The Board of Statutory Auditors oversaw compliance with regulations on the preparation and publications of the Half-yearly Financial Report and on Interim Reports on Operations, as well as their manner of drafting and the correct application of accounting standards, using also the information obtained from the Independent Auditors.

Effectiveness of Internal Control and Risk Management System

The Board of Statutory Auditors has assessed and overseen the adequacy of the internal control and the effectiveness of the internal control and risk management system.

In performing its supervisory activity, the Board of Statutory Auditors has maintained an ever open channel of communication with the Control Functions.

The Board of Statutory Auditors acknowledges that it has verified the most relevant activities carried out by the overall

internal control and risk management system by attending the meetings of the Control and Risk Committee and the Nominations and Remuneration Committee and meetings:

- with the Director in charge of the Internal Control and Risk Management System;
- with the Internal Audit function;
- with the Group Risk Management & Corporate Finance;
- with the Independent Auditors
- with the Supervisory Body and Compliance 231;

The Internal Control and Risk Management System of the ERG Group complies with the principles set out in the Corporate Governance Code in force and, more in general, it is consistent with domestic and international best practices.

Within the scope of this activity, in particular, the Board of Statutory Auditors received and examined:

- the periodic reports on activities prepared by the Internal Control and Risk Committee and by the Internal Audit Division;
- the reports prepared by the Internal Audit Division, after completing the verification and monitoring activities, with the related findings and recommended actions as well as the controls over the implementation of said corrective actions;
- the periodical updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by the Internal Audit Division and Group Risk Management & Corporate Finance as well as the objectives achieved.

The Board of Statutory Auditors has examined, expressing a positive opinion, as stated in the specific paragraph, the 2018 Internal Audit plan and budget approved by the Board of Directors and also evaluated by the Control and Risk Committee.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisational, management and control model pursuant to Legislative Decree 231/01 and appointed the related Supervisory Body.

The current Supervisory Body, appointed by the Board of Directors on 24 April 2015 and integrated on 12 May 2016 is comprised of (i) an external member represented by the Company's Standing Auditor (Lelio Fornabaio), as the Chairman and by (ii) two internal members, identified by the Head of Corporate Affairs (Giovanni Marco Scollo) and the Chief Audit Officer (Gabiello Maggini).

The Board of Statutory Auditors has examined the periodical reports on the activity performed by the Supervisory Body every six months and has examined the related activity plan and budget for 2018.

Similarly, the Board took note of the Compliance activity pursuant to Legislative Decree 231/2001 and the anti-corruption activity as well as the related 2018 activity plan and examined and shared the proposal for updating the Organization and Management Model pursuant to Legislative Decree no. 231/2001 as well as the adoption of the Anti-corruption System and Policy.

The Report on Operations lists the main risk identified, monitored and managed.

Following the activity carried out in the period, as detailed above, the Board of Statutory Auditors shared the positive assessment expressed by the Control and Risk Committee with regard to the adequacy of the internal control and risk management system.

Moreover, it should be noted that the Independent Auditors, Deloitte & Touche S.p.A. (Deloitte & Touche), engaged to carry out the Company's statutory audit for the 2009-2017 period, have carried out the verifications prescribed by the legal regulations and, at the periodical meetings with the Board of Statutory Auditors, did not highlight any exceptions.

Supervisory activity on the statutory audit and independence of the Independent Auditors, fees and non-audit services

In accordance with art. 19 of Legislative Decree no. 39/2010, the Board of Statutory Auditors, identified in that articles as the "Internal Control and Audit Committee", has performed the prescribed supervision on the activity carried out by the Independent Auditors.

The Board of Statutory Auditors monitored the audit of the annual and consolidated accounts by exchanging information and opinions with the Independent Auditors, examining the 2017 audit work plan, verifying its adequacy and promptly exchanging data and information relevant to the performance of the respective tasks without highlighting particular findings to be communicated or facts deemed to be reprehensible that required the drafting of specific reports pursuant to art. 155 paragraph 2 of the T.U.F.

On 27 March 2018 the Independent Auditors issued, pursuant to art.14 of Legislative Decree no. 39/2010 and art. 10 of the EU Regulation, the Audit Report on the Financial Statements at 31 December 2017.

The text of the Audit Report has been significantly revised following the changes made by the reform of statutory audit implemented in our legal system through Legislative Decree 135/2016 which modifies the provisions contained in Legislative Decree 39/2010. This new Report was amended in terms of format and content as well as statements made and information provided.

As regards the opinions and representations, in their Report the Independent Auditors have:

- expressed an opinion which states that the Financial Statements of ERG provide a true and fair view of the equity and financial position of ERG at 31 December 2017, of the economic result and cash flows for the financial year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as to the provisions issued to implement art. 9 of Legislative Decree no. 38/05
- issued an opinion of consistency and compliance which states that the Reports on Operations accompanying the Financial Statements at 31 December 2017 and some specific information contained in the "Report on Corporate Governance and Ownership" indicated in article 123-bis, paragraph 4 of the TUF, whose responsibility falls onto the directors of the Company, are drafted in compliance with the law.
- declared that they had nothing to report with regard to possible significant errors in the Reports on Operations, based on the knowledge and understanding of the company and the related context obtained during the audit.

On 27 March 2018 the Independent Auditors also presented the Board of Statutory Auditors with the Additional Report required by art. 11 of the EU Regulation, which reveals that no fundamental issues have emerged during the audit

nor are there significant deficiencies in the internal control and risk management system in relation to the financial disclosure process deserving to be brought to the attention of the managers in charge of governance activities. Pursuant to art. 19, paragraph 1 of Legislative Decree 39/2010, this report will be transmitted to the Board of Directors, through its Chairman, by the Board of Statutory Auditors that has made no specific observations.

Attached to the Additional Report, the Independent Auditors submitted to the Board of Statutory Auditors the declaration on their independence, as required by art. 6 of the EU Regulation, which does not highlight situations that may jeopardise their independence. Finally, the Board of Statutory Auditors took note of the Transparency Report prepared by the Independent Auditors, published on its website pursuant to art. 18 of Legislative Decree 39/2010.

The Board of Statutory Auditors oversaw the independence of the Independent Auditors Deloitte & Touche, verifying the nature and extent of non-audit services as regards ERG and its subsidiaries.

The audit fees paid by the ERG Group to the Independent Auditors and the companies that are part of the network of the Independent Auditors are as follows:

Activity	Amount €/000
Statutory audit	1,238
Services associated with the statutory audit (certification services)	131
Other services	339
TOTAL	1,708

"Other services" mainly refer to the activity performed with regard to the Sustainability Report and related to the DNF pursuant to Legislative Decree 254/2016 for € 56,000, the half-yearly reports for € 142,000, the AUP for € 128,000 and the Refinancing transaction for the company Fossa del Lupo for € 13,000.

It should be noted that in 2017, following the mergers that took place as part of the corporate reorganization project called "OneCompany" and the acquisitions, especially abroad, there were changes to the scope of the audit, with a consequent change in fees that, in any case, at consolidated level fell compared to those shown at 31 December 2016 due to the synergies generated with the Group's streamlining process.

In the 2017 financial year, especially as regards ERG, the Board of Statutory Auditors authorised the assignment of the engagement for non-audit services i.e. "Reporting system pursuant to Legislative Decree 254" and the integration of the fees for increased activity in the year.

In light of the above, the Board of Statutory Auditors believe that the Independent Auditors, Deloitte & Touche, have the independence requisite.

Consolidated declaration of non-financial nature pursuant to Legislative Decree 254/2016 ("DNF")

Pursuant to art. 2 of Legislative Decree 254/2016, ERG must prepare the DNF for each financial year as it has exceeded the parameters required for its presentation. It is mandatory for all financial statements beginning after 1 January 2017 and the declaration has the same scope of the consolidated financial statements.

The DNF must represent information to the extent necessary to ensure the understanding of the business activity, its performance, its results and of the impact produced by it, and covers environmental, social and personnel issues, respect for human rights, the fight against active and passive corruption, diversities that are relevant taking into account the activities and characteristics of the company.

This Declaration was prepared by ERG as a separate Report from the Report on Operations and was approved by the Board of Directors on 7 March 2018 and made available to the Board of Statutory Auditors within the deadline set by the law.

The Board of Statutory Auditors is in charge of control in line with the rules governing the consolidated financial statements as regards the adequacy of the organizational, administrative, reporting and control system.

The Independent Auditors (in charge of the audit of the Consolidated Financial Statements) are responsible for verifying the issuance of the DNF as well as verifying the correctness of the information reported and attesting that the requested information complies with the requirements of Legislative Decree 254/2016 and in accordance with the principles, methodologies and methods provided for in art. 3 paragraph 3. This certification was issued on 27 March 2018 without exceptions.

The Board of Statutory Auditors through periodic meetings with the internal function of ERG that deals with the management of the reporting process, during which it received updates on the progress of the process and on the implementation of the data collection and indicators (KPI) system, has therefore monitored the process of non-financial reporting and therefore compliance with the provisions of the law on the methods and timing of publication of the DNF, the subjective and objective scope of application, compliance with the comply or explain principle in terms of policies implemented, and on the adequacy of the organizational, administrative, and reporting and control system prepared by ERG in order to guarantee a correct and complete representation in the DNF of the business activity, its results and its impacts with regard to the non-financial topics.

Significant transactions and events

On the basis of the information acquired, the analyses carried out as part of the supervisory activity showed that the most significant, financial and asset-related transactions carried out by the Company, also through directly owned companies are those described below and more fully illustrated in the Report on Operations and in the Notes to the Financial Statements:

- on 19 July 2017 ERG concluded the process of issuing and placing with institutional investors a non-convertible bond loan amounting to € 100 million, each bond with a nominal value of € 100 thousand each, approved by the Board of Directors of ERG S.p.A. on 12 July 2017.

The issue of this unsecured loan 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 have no rating, are not subject to financial covenants and will be settled by bullet repayment in January 2023. The bonds were issued at a price equal to 100% of their nominal value and accrue interest at a fixed rate of 2.175% which are paid annually in arrears.

- On 3 November 2017, ERG and Total Marketing Services SA signed a binding agreement with api Group aimed at the sale of 100% of the shares of TotalErg S.p.A. The transaction was completed on 10 January 2018 following the approval obtained from the Antitrust and upon completing the spin-off of the lubricants sector business unit from TotalErg S.p.A. to Total Italia S.r.l., a company set up on 22 September 2017 in which ERG held a 51% stake then sold on 3 November to Total Marketing Services SA. As part of the sale of the stake in TotalErg S.p.A., the latter had already finalised on 10 August 2017 the sale of the subsidiary Restiani S.p.A. to the fund Ambienta sgr S.p.A. and to Aber S.r.l. and, on 5 October 2017, the sale to UGI s.r.l. of the subsidiary Totalgaz Italia S.r.l.
- At the end of 2017 a process commenced for the sale of the subsidiary Brockaghboy Windfarm Ltd, a company that owns the authorizations for the construction, completed in 2017, of a wind farm in Northern Ireland, that ERG acquired at the start of 2016 from TCI Renewables. The sale was completed in March 2018.

In 2017 the ERG Group completed the industrial conversion process started 10 years ago when it left the Oil sector and took a step towards the technological diversification by making an acquisition in the solar power sector in Italy. The Group's strategy was communicated with the presentation, on 8 March 2018, of the new 2018-2022 business plan which envisages a growth of 850 MW through: (i) Greenfield and Co-Development abroad, (ii) Repowering and Reblading in Italy and (iii) M&A.

The most significant transactions and events involving ERG through directly or indirectly owned companies are 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;
- 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;
- on 6 September 2017 the Shareholders' Meeting of Emittenti Titoli S.p.A. in which ERG holds a 0.51% stake resolved upon the early wind up and liquidation of the company;
- on 11 October 2017 ERG, through its subsidiary ERG Eolienne France SAS, signed with Vent d'Est SAS an agreement for the purchase of 75% of the share capital of the two companies that own two wind farms. The closing is expected to take place in the first quarter of 2018;
- on 11 December 2017 ERG, through its subsidiary ERG Power S.r.l. sold its 0.76% stake in Priolo Servizi S.C.p.A. to Syndial S.p.A. and ISAB S.r.l.;
- on 15 December 2017 ERG, through its subsidiary ERG Eolienne France SAS set up ERG Development France SAS, incorporated under French law;
- on 16 November 2017 ERG, through its subsidiary ERG Power Generation S.p.A. signed an agreement with VEI Green to acquire ForVei, a new photovoltaic operator in Italy. The acquisition was completed on 12 January 2018.

Furthermore, it is worth noting that at the meetings of the Board of Directors, the Board of Statutory Auditors was provided information on:

- pending tax and legal disputes;
- the evolution of the complex reference legal framework;

All the transactions indicated above have been adequately illustrated at the meetings of the Board of Directors to pass the resolutions required and fully disclosed in the Notes to the Financial Statements as well as in the Report on Operations for the 2017 financial year, which also provides a complete update of the evolution of the complex regulatory framework.

Extraordinary transactions - One Company

On 1 January 2017 the new organizational structure launched in 2016 became fully operational. The structure is characterised by the definition of two macroroles played by (i) ERG S.p.A. - Corporate that guarantees the strategic guidelines and is directly responsible for the business development processes and ensures the management of the business-supporting processes and (ii) ERG Power Generation S.p.A: that is responsible for the Group's industrial and commercial processes.

The Company has opted for the right, introduced by Consob with resolution no. 18079 of 20 January 2012, to waive the obligation to provide the public with an information document when the company carries out significant transactions, i.e. mergers, demergers, share capital increases by contributions in kind, acquisitions and sales. The right opted for is communicated in the Financial reports, as prescribed by art. 70, paragraph 8 of the Issuers' Regulation.

Atypical and/or unusual transactions and reports pursuant to art. 2408 of the Italian Civil Code

As a result of the supervision and control activity carried out during the year, the Board of Statutory Auditors can certify and note that:

- in the performance of the activity, no such omissions, irregularities or objectionable or otherwise significant facts emerged, that would require to be reported to the supervisory bodies or mentioned herein;
- the Board of Statutory Auditors did not receive any reports in accordance with art. 2408 of the Italian Civil Code or complaints by third parties;
- no transactions were identified, either with third parties or intra-group and/or with related parties, that appeared atypical or unusual by their contents, nature, dimensions and timing.

Opinions and proposals

The Board of Statutory Auditors also acknowledged that:

- has issued its opinion pursuant to art. 2386 of the Italian Civil Code for the co-optation of a director, acknowledging the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of the newly appointed Director and of all the other members of the Board of Directors;
- has issued its opinion pursuant to art. 2389 of the Italian Civil Code also in light of the assessments made by the Nominations and Remuneration Committee with regard to the fees proposed for the directors vested with special offices and to the updating of the Remuneration Policy;

- it expressed itself in view of the resolutions to be passed by the Board of Directors, as expressly required by the Corporate Governance Code - art. 7, criterion 7.C.1, in relation to (i) the remuneration due to the person in charge of the Internal Audit, (ii) the 2018 Internal Audit activity plan and the adequacy of the resources allocated, (iii) the correct use of accounting principles and their uniformity for the purposes of the Report on the separate and consolidated financial statements and half-yearly report (iv) interim reports on operations.

Infra-group or related-party transactions

The Board of Statutory Auditors verified infra-group and/or related-party transactions that mostly relate to transactions carried out with rationalization and economic objectives; they are part of ordinary transactions, are governed by market conditions and are illustrated in the Report on Operations and in the Notes to the Financial Statements.

In particular, the Board of Statutory Auditors examined and shared the document containing the main income data of the infra-group service agreements for the 2017 financial year, considering as adequate the analysis carried out to identify the criteria for allocating costs to the individual companies based on the services used.

Treasury shares

At 31 December 2017 ERG holds 1,503,000 ordinary treasury shares, equal to 1% of its share capital.

Impairment test procedure

On 20 February 2018 the Board of Directors of ERG approved the settings for the impairment test procedure that meet the provisions of IAS 36, autonomously and before the time of the approval of the financial reports and in line with the recommendations set out in Document no. 4 of 3 March 2010 jointly issued by the Bank of Italy/Consob/Isvap.

The Board of Statutory Auditors acknowledges having analysed and discussed the supporting documentation at a joint meeting with the Control and Risk Committee and, having verified the consistency with the previously adopted settings, the procedure was deemed to be correct.

The results of the impairments tests are adequately detailed in the Notes to the Financial Statements.

Additional supervisory activity in relation to the Separate and Consolidated Financial Statements

As regards the Financial Statements at 31 December 2017, the Consolidated Financial Statements and the Report on Operations, we highlight the following:

- the Board of Statutory Auditors established, through direct verifications and information obtained from the Independent Auditors, compliance with the laws that regulate the drafting and organisation of the Financial Statements and of the Report on Operations, of the financial statement formats adopted and the correct use of accounting standards, described in the Notes to the Financial Statements and the Company's Report on Operations;
- in accordance with CONSOB Resolution no. 15519/2006, the Financial Statements expressly indicate the effects of transactions with related parties;
- the Financial Statements agree with the facts and information of which the Board of Statutory Auditors became

aware in the performance of its supervisory duties and in the exercise of its oversight and inspection powers;

- as far as the Board of Statutory Auditors is aware, the Directors have prepared the Financial Statements without making any departure from legal regulations pursuant to art. 2423 paragraph 5 of the Italian Civil Code;
- the Chief Executive Officer and the Manager in charge of preparing corporate documents issued the certification, in accordance with art. 81-ter of Issuers' Regulation and subsequent amendments and additions and with article 154-bis of the T.U.F.;
- the Report on Operations complies with legal requirements and is consistent with the data and figures of the Financial Statements; it provides extensive information on the company's business and significant transactions, of which the Board of Statutory Auditors has been promptly informed, on the main risks to which the Company is exposed, on its subsidiaries and infra-group and related-party transactions, as well as on the process of upgrading the company's organisation in accordance with the standards of governance, consistently with the Corporate Governance Code for listed companies;
- in accordance with art. 123-ter of the T.U.F., the Report on Remuneration is submitted to the Shareholders' Meeting after the Board of Statutory Auditors, at a joint meeting with the Internal Control and Risk Committee, has reviewed and expressed a favourable opinion on it.

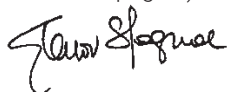
Proposal to the Shareholders' Meeting

The Board of Statutory Auditors expresses its favourable opinion to the approval of the Financial Statements at 31 December 2017 and has no objections to make regarding the proposed resolution presented by the Board of Directors as formulated in the Report on Operations.

Genoa, 29 March 2018

The Board of Statutory Auditors

(Ms. Elena Spagnol)



(Mr. Lelio Fornabaio)



(Mr. Stefano Remondini)



AUDITORS' REPORT



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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
ERG S.p.A.

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of ERG S.p.A. (the "Company"), which comprise the separate statement of financial position as at December 31, 2017, and the separate income statement, the statement of other comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of the adequacy of the non-current provisions for risks and charges in relation to liabilities related to the Industrial site of Priolo

Description of the key audit matter

In recent years the Company and the Group have completed a fundamental transformation from leading Italian private oil operator to leading independent operator in the production and sale of energy from renewable sources.

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In 2013, the sale of the last shareholding in ISAB S.r.l. led to the definitive exit from the Coastal Refining business; however, certain contingent liabilities connected with the Priolo Gargallo industrial site are still outstanding today, originating from previous years and not yet fully defined.

In particular, there is still a dispute with Tax Authorities about the application of harbor duties for the years 2001 and 2006, potential liabilities arising from environmental risks mainly related to the North Site depending on the dual guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site) and the agreement executed with Lukoil (new owner) and some minor positions related to the commercial relations of the site.

In consideration of the uncertainty inherent in 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, Management has made a comprehensive assessment of the risk associated with the issues commented above and decided the allocation of a specific risk provision called "Priolo Site Provision".

At the time of preparation of these Separate Financial Statements, Management, assisted by the competent corporate departments and with the formal opinions 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, consequently presenting in the Separate Financial Statements a provision for EUR 81 million as at December 31, 2017.

Given the uncertainties and difficulties associated with the estimation of risk provisions for environmental issues, we have considered the adequacy of Priolo Site Provision to be a key audit matter in our audit of the Separate Financial Statements.

The note "Accounting standards and valuation criteria" and the paragraph "Priolo Site" of "Note 25 – Contingent liabilities and disputes", provide information on the accounting policies adopted by the Company and the composition of the item.

Audit procedures

As part of our tests we have, among others, performed the following procedures:

- understanding of relevant procedures and controls put in place by Management in order to evaluate the reasonableness of the value of Priolo Site Provision;
- understanding of the method used by Management in making the accounting estimate and verification of the underlying data;
- analysis of the reasonableness of the main assumptions adopted by Management;
- request of information from the ERG Group's external legal advisors and internal legal department;
- analysis of subsequent events up to the date of this report.

We have furthermore examined the adequacy of the disclosures provided by the Company on the Priolo Site Provision and on non-current expenses and its compliance with IAS 37.

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Responsibilities of the Directors and the Board of Statutory Auditors for the Separate Financial Statements

The Directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;



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- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of ERG S.p.A. has appointed us on April 23, 2009 as auditors of the Company for the years from December 31, 2009 to December 31, 2017.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of ERG S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of the Company as at December 31, 2017, including their consistency with the related separate financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the separate financial statements of ERG S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the separate financial statements of ERG S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
March 27, 2018

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

FINANCIAL STATEMENTS OF THE MAIN SUBSIDIARIES

INCOME STATEMENT

(EUR Thousand)	ERG Power Generation S.p.A. ⁽¹⁾	ERG Power S.r.l. ⁽¹⁾	ERG Hydro S.r.l. ⁽¹⁾	ERG Power Generation Group ⁽²⁾
Revenues from ordinary operations	718,129	116,438	131,736	1,052,437
Other revenues and income	8,207	25	5,469	8,863
Changes in inventory	2,529	(187)	–	(624)
Costs for purchases	(515,464)	(2,677)	(1,238)	(354,966)
Costs for services and other operating costs	(194,687)	(35,988)	(34,021)	(183,533)
Personnel Costs	(27,930)	–	(5,795)	(36,639)
EBITDA	(9,216)	77,611	96,151	485,538
Amortisation, depreciation and write-downs of fixed assets	(1,769)	(37,047)	(54,767)	(246,065)
EBIT	(10,984)	40,564	41,384	239,473
Financial charges	(2,039)	(5,918)	(4)	18,849
Financial expenses	12,386	126	240	(79,597)
Net financial income (expenses)	10,347	(5,792)	236	(60,748)
Net income (loss) from investments carried at equity	–	–	–	119
Other net income (loss) from equity investment	72,168	195	–	(1,124)
Income (loss) from equity investments	72,168	195	–	(1,005)
Profit (loss) before taxes	71,531	34,968	41,620	177,720
Income taxes	6,954	(9,313)	(11,323)	(41,752)
Net profit (loss) from continuing operations	78,485	25,654	30,297	135,967
Net profit (loss) from discontinued operations	–	–	–	625
Net profit (loss) for the period	78,485	25,654	30,297	136,592

(1) the separate financial statements are represented in accordance with Local Gaap

(2) the Profit & Loss of ERG Power Generation Group is represented in accordance with IFRS 5 with the exclusion of net result relating to Brockaghboy Windfarm Ltd.

STATEMENT OF FINANCIAL POSITION

(EUR Thousand)	ERG Power Generation S.p.A. ⁽¹⁾	ERG Power S.r.l. ⁽¹⁾	ERG Hydro S.r.l. ⁽¹⁾	ERG Power Generation Group ⁽²⁾
Intangible fixed assets	2,102	4,769	807	597,822
Goodwill	3,378	–	91,679	125,932
Property, plant and equipment	2,747	300,115	468,879	2,171,306
Equity investments	1,550,860	10,866	–	20,683
Other non-current financial assets	230,760	18	22	39,233
Deferred tax assets	5,424	6,506	5,636	116,625
Other non-current assets	13,686	113	–	45,402
Non-current assets	1,808,957	322,387	567,023	3,117,003
Inventories	9,917	5,469	–	20,596
Trade receivables	132,161	17,553	19,711	256,090
Other receivables and current assets	39,106	1,199	10,051	74,357
Current financial assets	221,635	–	177,014	67,484
Cash and cash equivalents	3,210	16,520	59	151,022
Current assets	406,029	40,741	206,835	569,549
Assets held for sale	–	–	–	81,526
TOTAL ASSETS	2,214,986	363,128	773,858	3,768,077
Group Shareholders' equity	1,843,675	170,798	737,640	1,951,102
Shareholders' Equity	1,843,675	170,798	737,640	1,951,102
Employees' severance indemnities	3,199	–	1,262	5,157
Deferred tax liabilities	(0)	–	4,023	250,622
Provisions for non-current liabilities and charges	112	–	596	46,704
Non current financial liabilities	–	151,669	–	1,171,942
Other non current liabilities	–	–	–	30,706
Non-current liabilities	3,311	151,669	5,881	1,505,131
Provisions for current liabilities and charges	8,999	4,750	935	44,809
Trade payables	97,613	12,999	20,775	71,002
Current financial liabilities	254,921	14,039	–	146,135
Other current liabilities	6,467	8,874	8,627	47,743
Current liabilities	368,000	40,661	30,337	309,689
Liabilities held for sale	–	–	–	2,156
TOTAL LIABILITIES AND EQUITY	2,214,986	363,128	773,858	3,768,077

(1) the separate financial statements are represented in accordance with Local Gaap

(2) the statement of financial position of ERG Power Generation Group is represented in accordance with IFRS 5 with the exclusion of assets and liabilities relating to Brockaghboy Windfarm Ltd.



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Share Capital EUR 15.032.000,00 fully paid

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ERG S.p.A. - March 2018

This publication is available in pdf format at www.erg.eu

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