ERG Power Generation

ANNUAL REPORT
AS AT 31 DECEMBER 2017

ERG
EVOLVING ENERGIES

TABLE OF CONTENTS

1 REPORT ON OPERATIONS

Courtesy translation

2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL STATEMENTS

Report on Operations

CORPORATE BODIES

BOARD OF DIRECTORS

Chairman

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Chief Executive Officer

PIETRO TITTONI

Directors

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ALBERTO FUSI

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ANDREA NAVARRA

BOARD OF STATUTORY AUDITORS

Chairman

LELIO FORNABAIO

Standing auditors

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VINCENZO CAMPO ANTICO

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

FOREWORD

The merger by incorporation of ERG Renew S.p.A. and ERG Operations & Maintenance S.r.l. into ERG Power Generation S.p.A. was completed with effective date 1 January 2017; as a result, the companies that were held by ERG Renew S.p.A. (ERG Renew Group) were transferred to ERG Power Generation S.p.A.

The latter, while holding direct controlling stakes (ERG Power S.r.l. - ERG Hydro S.r.l.), did not draw up consolidated financial statements until 31 December 2016, taking advantage of the faculty envisaged by Art. 27 of Law no. 127 of 09/04/1991, being entirely controlled by ERG S.p.A. (parent company that draws up its own consolidated financial statements).

Starting from this year, Management has decided to draw up Consolidated IAS Financial Statements, representative of the new group, which includes companies that were under the scope of consolidation of ERG Power Generation S.p.A., as well as those that are part of the ERG Renew Group.

The Consolidated Financial Statements as 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 International Financial Reporting Standards - IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

This document has been audited by the company Deloitte & Touche S.p.A.

Note that for complete disclosure and comparability of data, this document provides comparable data for 2016 inclusive of the pro-forma figures.

RECURRING RESULTS

To enhance comprehension of business performance, the operating results are also shown excluding non-recurring items[1].

The results 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 hedges carried out in relation to renewable sources (“RES”) by the Energy Management of ERG Power Generation S.p.A.

1 Non-recurring items include significant but unusual earnings.

GROUP'S PROFILE

Today, the ERG Power Generation 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 co-generation 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), Bulgaria (54 MW) and Northern Ireland (47.5 MW)[2]. In particular, note that in May 2017, ERG further consolidated its position in the German on-shore wind market, through the acquisition of six German wind farms, with an installed capacity of 48.4 MW; moreover, in fourth quarter 2017, the 47.5 MW farm in Northern Ireland gradually began operating.

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

Programmable sources

- ERG operates in the generation of electricity from thermoelectric sources through the "Centrale Nord" plant (480 MW) at the industrial site of Priolo Gargallo (SR) in Sicily, which operated until 27 May 2016 as an Essential Unit in accordance with the Mucchetti Amendment[3]. This is a high-efficiency co-generation plant (C.A.R.), based

2 It consists of Brockaghboy wind farm, sale in progress.
3 Law converting Law Decree 91/14 ("Competitiveness Decree"). For additional details, refer to the Thermoelectric paragraph.

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 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.

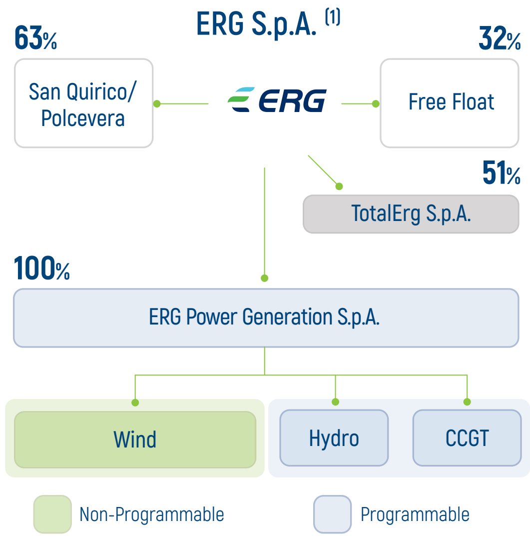
ONE COMPANY

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 are in turn subdivided into production units on a geographical basis;
  - Energy Management, as a single entry point to the organised markets;
  - a commercial structure dedicated to Key Accounts;
  - a centre of technological excellence, responsible for the Engineering & Construction processes;
  - a hub of specialised skills in regulatory, planning and performance control matters, across all industrial processes;
  - a structure dedicated to management of health and safety issues and to protection of the environment 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 incorporation 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% treasury shares

Change in the business scope

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

Furthermore, note that the 2017 results also reflect the contribution of the wind farm owned by the company Brockaghboy Windfarm Ltd, which began operating in fourth quarter 2017. The process to sell this company was launched at the end of 2017, and it is expected to be completed by the end of first quarter 2018.

Brockaghboy Windfarm Ltd.

At the beginning of 2016, ERG purchased from TCI Renewables ("TCI") 100% of the capital of Brockaghboy Windfarm Ltd. ("BWF"), a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland, completed during 2017, with an installed capacity of 48 MW. The farm has already been accredited for the purposes of the current incentive mechanisms (NIRO) envisaged by the regulatory system.

The agreements stipulated at the time established that at the end of construction and subsequent to accreditation of the incentives (NIRO), ERG would have the right to submit a supplementary bid to TCI to retain definitive ownership. If the bid had not been accepted and only in the case of higher bids by third parties, it would have been possible to proceed with the transfer, through a contractual mechanism of distribution of the capital gain.

Having said that, note that at the end of 2017 a sales process for subsidiary Brockaghboy Windfarm Ltd. started, expected to be completed within first quarter 2018.

With reference to what has been said 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 greater disclosure, the results of the assets being sold as part of ordinary operations are shown and commented in this Report.

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

SUMMARY OF RESULTS

(EUR million)		YEAR 2017	2016
MAIN INCOME STATEMENT DATA			
Revenues from ordinary operations		1,055	1,024
Recurring EBITDA		**488**	**469**
Recurring EBIT		**241**	**218**
Net profit		137	95
of which Group net income		*137*	*95*
Recurring Group net profit (1)		**137**	**104**
MAIN FINANCIAL DATA			
Net invested capital		**3,049**	**3,211**
Shareholders' Equity		1,951	1,799
Total net financial indebtedness		1,098	1,412
of which non-recourse Project Financing (2)		*1,115*	*1,276*
Financial leverage		36%	44%
EBITDA Margin %		**46%**	**46%**
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 at period end - 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 expenditures (3)	(EUR million)	51	57
Employees at end of period	Units	**490**	**532**
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 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

	YEAR	
(EUR million)	2017	2016
REVENUES FROM ORDINARY OPERATIONS		
Non-programmable sources		
Wind sector: Italy	315	311
Wind sector: France	46	46
Wind sector: Germany	38	26
Wind sector: Bulgaria	13	13
Wind sector: Romania	19	18
Wind sector: Poland	12	10
Wind sector: UK	3	(0)
Total Non-programmable sources	**445**	**423**
Programmable sources		
Thermoelectric power (1)	473	479
Hydroelectric power	137	122
Total Programmable sources	**610**	**601**
Revenues from recurring ordinary operations	**1,055**	**1,024**
EBITDA		
Non-programmable sources		
Wind sector: Italy	241	235
Wind sector: France	30	32
Wind sector: Germany	25	18
Wind sector: Bulgaria	6	8
Wind sector: Romania	8	8
Wind sector: Poland	5	6
Wind sector: UK	2	(0)
Total Non-programmable sources	**316**	**308**
Programmable sources		
Thermoelectric power (1)	78	77
Hydroelectric power	94	84
Total Programmable sources	**172**	**161**
Recurring EBITDA	**488**	**469**

(1) includes Energy Management contribution

(EUR million)	YEAR 2017	2016
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
Non-programmable sources		
Wind sector: Italy	(101)	(105)
Wind sector: France	(21)	(25)
Wind sector: Germany	(19)	(15)
Wind sector: Bulgaria	(4)	(4)
Wind sector: Romania	(5)	(5)
Wind sector: Poland	(6)	(6)
Wind sector: UK	(1)	(0)
Total Non-programmable sources	**(158)**	**(161)**
Programmable sources		
Thermoelectric power (1)	(31)	(30)
Hydroelectric power	(58)	(58)
Total Programmable sources	**(89)**	**(88)**
Recurring amortisation, depreciation and write-downs	**(247)**	**(249)**
EBIT		
Non-programmable sources		
Wind sector: Italy	140	130
Wind sector: France	8	7
Wind sector: Germany	6	3
Wind sector: Bulgaria	2	4
Wind sector: Romania	3	3
Wind sector: Poland	(1)	(1)
Wind sector: UK	1	(0)
Total Non-programmable sources	**158**	**147**
Programmable sources		
Thermoelectric power (1)	48	47
Hydroelectric power	35	26
Total Programmable sources	**83**	**73**
Recurring EBIT	**241**	**220**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
Non-programmable sources		
Wind sector: Italy	3	6
Wind sector: France	2	–
Wind sector: Germany	–	–
Wind sector: Bulgaria	–	–
Wind sector: Romania	–	–
Wind sector: Poland	1	1
Wind sector: UK	29	36
Total Non-programmable sources	**35**	**44**
Programmable sources		
Thermoelectric power (1)	10	10
Hydroelectric power	6	4
Total Programmable sources	**16**	**13**
Total capital expenditures	**51**	**57**

(1) includes Energy Management contribution

SALES

POWER GENERATION

The electricity sales 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 around 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[4] table:

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 sales[5] amounted to 737 thousand tonnes (752 thousand tonnes in the same period of 2016).

Energy sold in the wholesale market includes sales within the IPEX electrical market as well as in the "day before market" (MGP), the "intraday market" (MI) and the "market for dispatch services" (MSD) in addition to being sold to the primary operators of the sector within the OTC (over the counter) platform. The latter are realised by Energy Management in order to develop forward contracts, also with the objective of hedging the generation, in accordance with Group's risk policies.

4 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.
5 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 1,055 million, slightly higher than the value of EUR 1,024 million in 2016, even in the presence of slightly lower RES compared to the same period of 2016, due to particularly adverse weather conditions in Italy (water). These effects were more than offset by the growth in wind volumes, thanks to the contribution by the new German and UK plants, within a positive scenario that recorded an average increase in energy prices, as well as in incentives and Energy Efficiency Certificates. This item also reflects the effects of 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 488 million, higher than the EUR 469 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 corresponding period of the prior year (EUR 308 million), mainly due to the more favourable general price trend, as well as the additional cost containment actions and the contribution of the newly acquired wind farms in Germany, as well as the launch of the new wind farm in Northern Ireland. These effects were partly offset by less wind and lower output in Italy and France, where the wind conditions were less favourable. Good wind conditions were recorded in Germany and in the eastern countries.

  In addition, 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, although 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 EUR 77 million of the previous year, which however benefited from the "reintegration consideration" granted to the CCGT plant, with regards to 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 241 million (EUR 218 million in 2016) after amortisation and depreciation of EUR 247 million (EUR 249 million in 2016).

The **recurring Group net profit** amounted to EUR 137 million, sharply up compared to the profit of EUR 104 million in 2016, as a consequence of the aforesaid higher operating results and lower net financial expenses.

In 2017, **Group capital expenditure** amounted to EUR 51 million (EUR 57 million in 2016), of which 69% in the Non-programmable sector (77% in 2016), mainly relating to the construction of the Brockaghboy wind farm in Northern Ireland, which began operating from fourth quarter 2017, and 31% in the Programmable sector (23% in 2016). Added to these are 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 acquisition of the wind farms in France and Germany from the Impax Group and Brockaghboy).

The **net financial indebtedness** amounted to EUR 1,098 million, in decrease by EUR 313 million compared to 31 December 2016 mainly due to the positive operating cash flows and the collection of amounts for UESSE reintegration (EUR 22 million)[6], which offset the impacts of the acquisition of the German wind farms from the DIF Group (EUR 40 million), tax payments (EUR 14 million) and investments in the period (EUR 54 million).

6 In fourth quarter 2017, EUR 13 million was collected for the 2015 balance and EUR 9 million as the second instalment for 2016.

SIGNIFICANT EVENTS DURING THE YEAR

Wind Power

On **8 March** ERG, through its subsidiary ERG Power Generation S.p.A., acquired from DIF RE Erneuerbare Energien 1 GmbH and from DIF RE Erneuerbare Energien 3 GmbH 100% of the capital of six German companies that own six wind farms in Germany.

The wind farms, with an installed capacity of 48.4 MW have an expected annual average output of approximately 84 GWh, equal to approximately 66,000 t of CO_2 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 operation's closing happened on **2 May**.

The operation, in accordance 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.

On **22 June** 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 of the necessary authorisations for the construction of a wind farm (35 MW) in Northern Ireland, expected to enter into operation by 2020.

On **30 June** 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.

On **11 October** ERG, through its subsidiary ERG Eolienne France S.a.s., signed 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 end of first quarter 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

On **16 November** ERG, through its subsidiary Power Generation S.p.A., signed an agreement with VEI Green, investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, for the purchase of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy.

ForVei, joint venture of VEI Green and Foresight established in 2011, owns and manages 30 photovoltaic plants, which came on stream between 2010 and 2011, situated in 8 regions between northern and southern Italy, with an installed capacity of 89 MW and annual production of approximately 136 GWh, equal to around 77 kt of CO_2 emissions avoided. 100% of the installed capacity benefits from incentives with average maturity until 2030.

The enterprise value of the transaction was EUR 336 million; expected annual EBITDA for 2017 was approximately EUR 35 million. The assets are currently financed through non-recourse project financing for approximately EUR 180 million and leasing contracts for about EUR 60 million. Closing of the transaction took place on 12 January 2018 (see Significant events after the reporting period) and, therefore, the company will be fully consolidated starting from 1 January 2018.

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, reached in December 2015, ratified last 4 October 2016 and signed by 94.4% of participating countries the subsequent 5 October, formally became effective 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 withdrew 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 provisions regard the revision and issue of directives and regulations on renewable energy, on energy efficiency and on the electrical system, with the objective of providing a stable regulatory framework, necessary to facilitate the transition towards the use of clean energy (and important for the creation of an energy union) and to allow the EU to achieve the climatic-energy objectives for 2030[7], adopted in October 2014 and presented to the COP 21 of December 2015.

The provisions to be finalised also include the Commission's guidelines on drawing up the action plans by the member countries.

Approval of the final provisions, which should take place within 2018, envisages a co-decision process between the European Parliament and Council of the Union. All provisions should become effective starting from 2021.

Revision of the ETS Directive

The ETS (Emissions Trading System) is considered the main mechanism in the European Union to facilitate achievement of the objectives of reducing emissions of climate-altering gases to 2020 and 2030.

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

The prolonged depression of CO_2 prices, together with the need to adapt the system to the 2030 de-carbonization targets, has highlighted the need for a structural revision of the system.

The European Commission therefore presented a reform proposal in 2015, aimed at regulating the fourth phase that will cover the 2021-2030 decade; the main objective of the reform is to structurally resolve the excess supply of CO_2 quotas, which led to the collapse and subsequent stagnation of the price of quotas at levels that are totally insufficient to encourage de-carbonization.

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

The agreement reached must now be ratified by Parliament as well as by the Council, and then published in the Official Journal of Italy, presumably within first quarter 2018.

British referendum on the membership of 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.

Last 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 mainly regard the measures to protect the rights of European citizens expatriated to the United Kingdom, the approach to the issue of the border with Northern Ireland and the method for calculating the amount in Euro that the United Kingdom will be required to pay to the European Union, without prejudice to the financial commitments already made on the current multi-annual budget for 2020.

The agreement allows negotiations to continue to the subsequent phase, which envisages the definition of a new trade agreement between the United Kingdom and the European Union.

National Energy Strategy (Strategia Energetica Nazionale, SEN)

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

The objective of the Strategy, which defines the energy policy lines until 2030 by updating the similar document published in 2013, is threefold: continuation and strengthening of the transition towards de-carbonized energy, greater competitiveness of the energy price for Italian consumers with the aim of increasing the competitiveness of the country in Europe, and increased security of energy supply with a simultaneous reduction in energy dependence on foreign countries.

The 2017 SEN will constitute the basis for finalisation within 2018 of the National Energy and Climate Plan envisaged

by the Clean Energy Package of the European Commission. In regard to the objectives set by the 2017 SEN for 2030, it is expected that 28% of total energy consumption will be produced from renewable sources and 55% of electricity consumption will be achieved through a substantial increase in electricity production from solar and wind sources.
The other major objectives contained in the Strategy include the intention to abandon the use of coal in electricity generation from 2025 and replace it with a mix of gas and renewable generation, in conjunction with adaptations to the electricity grid infrastructure and electrochemical and hydroelectric energy storage.
The SEN recognises the strategic value of repowering, in particular existing wind farms, in order to increase efficiency and production of renewable energy, by providing enabling mechanisms such as simplification of the authorisation process, equity contributions on investment and the use of long-term bilateral energy supply contracts (Power Purchase Agreement - PPA).

National Strategy for Sustainable Development (Strategia nazionale per lo sviluppo sostenibile - SNSS)

Last 2 October 2017, the Council of Ministers approved the National Strategy for Sustainable Development.
The document aims to provide the country with a common reference framework with a vision of development based on sustainability. Therefore, five areas of intervention are envisaged: People, Planet, Prosperity, Peace, Partnership.
The Strategy, of which the SEN is an integral and coordinated part, incorporates the prior "Environmental Action Strategy for Sustainable Development in Italy 2002-2010" and the contents of Agenda 2030 for Sustainable Development, adopted in 2015 at the United Nations level by Heads of State and Government, in line with the Agreement reached in 2015 at the "Conference of Parties" on climate change, in Paris.
This approval is followed by a second phase, coordinated by the President of the Council, to define and quantify the specific objectives associated with the sustainable development objectives established by the Strategy, as well as the shared methods for their monitoring and for evaluation of the contribution of the policies adopted to achieve them.

Environment - Efficiency - Safety

On April 2017 two Italian legislative decrees implementing European directives in the field of noise pollution were published. The provisions will be implemented through subsequent ministerial decrees and introduce specific guidelines on activities that cause noise 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 the 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.
In August, in implementation of the aforementioned Legislative Decree, the Decree of the Director of Environmental Assessments and Authorisations of the Ministry of the Environment was published, establishing the first general checklists, functional to pre-screening and subsequent identification of the procedure to be initiated for modifications, extensions and technical adjustments of existing plants, aimed at improving their yield and environmental performance. Subsequent decrees identify the checklists relating to specific types of projects. In particular, for modernisation and repowering of wind farms, Ministerial Decree no. 48 of 5 February 2018 was issued.
In August 2017, Law 123 of 3 August 2017 was published, converting Law Decree 91 of 20 June 2017, the so-called "Decreto Mezzogiorno", into law, with amendments.

The provisions of the law include the alignment of national regulations on the classification of waste with European regulations, overcoming the restrictions introduced by the previous "Competitiveness" Law of 2014. The new classification criteria contained in EU Regulation 2017/997 become effective on 5 July 2018, in order to permit operators to comply with the new rules.
Also in August, Presidential Decree 120/2017 on the simplified governance of management of excavation soils was published, in implementation of the law converting Law Decree 133/2014 (so-called "Sblocca Italia"). The provision defined the general requirements to be satisfied in order for excavation soils and rocks to be qualified, under specific conditions, as sub-products and not as waste.
Law no. 163 of 25 October 2017 was published last November, under the 2017 European delegation.
This provision assigns to the government a number of authorisations to comply with adaptation to the national and regulatory legislation and to the EU directives. This includes delegations for adaptation of Italian legislation to European regulations on appliances burning gaseous fuels and personal protective equipment, as well as delegations for the implementation of Directive 2016/2284 on the reduction of national emissions of certain atmospheric pollutants.

2017 European Law

Last November 2017, Law no. 167 of 20 November 2017 was published, which fulfils Italy's obligations as member of the European Union.
The law, which took effect on 12 December, encompasses various issues and contains a number of sections directly linked to the energy sector.

In particular, it envisages adaptation of the national legislation to the European Guidelines on government aid in favour of the environment and energy for 2014-2020.
In implementation of this Law, a specific Ministerial Decree published at the end of December 2017 granted subsidies to energy-intensive businesses, including tariff adjustments in other sectors in order to raise the necessary funds. Subsidies were also implemented for companies with high consumption of natural gas.
In order to avoid excessive increases in electricity bills, the Authority for Electricity, Gas and Water postponed until 1 January 2019 the implementation of the reform on tariff components covering general costs for domestic electricity customers.
With regard to incentives on energy from renewable sources, Legislative Decree no. 28 of 3 March 2011 was updated, bringing the threshold value within which incentives can be provided without recourse to auctions to 1 MW, with the exception of wind farms that maintain this value at 5 MW. The government was also granted the right to call auctions with quotas open to different technologies.

“Annual Extensions Act”

Law no. 19 of 27 February 2017, converting Decree Law no. 244 of 30 December 2016, concerning the extension and definition of terms prescribed by law (the so-called “Annual Extensions Act”), was published in February 2017.
For issues of interest, mention goes to the extension up to 31 December 2017 of the reduced taxation of fuels used in co-generation plants such as the CCGT of Priolo; therefore, the rates identified by the Authority for Energy, reduced by 12%, shall continue to be applied. The entry into force of the reform of general system charges for non-domestic consumers was postponed to 1 January 2018, while the variable portions of general system charges will be applied to electricity withdrawn from public grids with the obligation to connect third parties starting on 1 January 2017.

2017 Competition Law

Last August 2017, the Annual Law for the Market and Competition no. 124 of 4 August 2017 was published, and the measure came into force on 29 August.
For the energy sector, the most important forecast is that the protected regime for the retail sale of electricity and gas will be exceeded, starting from 1 July 2019. For electricity,
a safeguard service is introduced, regulated by the AEEGSI, through competitive procedures by territorial areas and at conditions that encourage the transition to the free market, to ensure continuity of supply to domestic customers and small businesses.
In this regard, in addition to a series of implementation decrees for completion of the sector’s liberalisation, the establishment of a register of electricity vendors is envisaged, through criteria and methods established by the Ministry of Economic Development upon proposal by the Authority for Electricity, Gas and Water.
As regards the separation of energy sales and distribution activities, the exemption for closed distribution systems forming part of a vertically integrated undertaking from the obligation of functional separation has been adopted, without prejudice to the need for accounting separation.

Law converting the “Manovrina 2017” Decree Law

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

Of particular note are the modification of the parameters for the determination of ACE (Aiuto alla Crescita Economica - Economic Growth Aid) 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

At the end of December 2017, Law no. 205 of 27 December 2017 was published, known as the “Legge di Bilancio 2018”.

Among the most interesting points in the provision, mention goes to revision of the rules governing penalties with regard to incentives for renewable sources: for certain proven violations, the incentive will no longer be recovered entirely, but will be reduced to between 20% and 80%, depending on the extent of the violation.

In the event of “voluntary disclosure” by operators who voluntarily report the violation outside of an inspection, the above reductions are decreased by one third.

Violations that give rise to decreases in the incentive will be established by the Italian Ministry of Economic Development, based on elements provided by the GSE.

The law also envisages assignment of the responsibilities for waste to the Energy Authority, named ARERA and once again guided by a board of 5 members.

Also confirmed are the incentives on industrial investments as part of the Industria 4.0 package: the super-amortisation/depreciation of capital goods with the exclusion of vehicles and hyper-amortisation/depreciation, refinancing of the “Nuova Sabatini” law for investments by SMEs in machinery, plants and equipment and the 40% tax credit for training of personnel on digital technologies.

To cope with droughts and manage water losses in the aqueducts, a plan for water reservoirs and rehabilitation of the aqueducts is established.

To encourage stable recruitment, employers will benefit from 50% tax relief in the first three years of an employment contract, subject to increasing safeguards and specific conditions, from 1 January. This tax relief, which is aimed at young people, is increased to 100% if the person has completed an alternating school-work programme or worked through an apprenticeship with the same employer.

Extension of access to early retirement to 15 categories of jobs, borne by the government, is envisaged. The reduction in the contribution requirements for women is also extended from 6 months to 1 year, again for a maximum of 2 years. The time frame within which to accrue the period of employment required for “heavy” professions is extended (in addition to 6 out of 7 years, there is also the possibility of an employment period of 7 out of 10 years).

With regard to registration tax, to establish the taxation to be applied to the deed submitted for registration, interpretation elements external to the deed or contained in other related legal transactions should no longer be considered.

In the area of waste tracking and management, an extension on penalties for operations is introduced, in addition to amnesty for non-payment of the annual fee and various administrative simplifications.

The "ecobonuses" are confirmed for 2018 as well, with changes to the incentives for boilers, as well as the benefits for anti-seismic interventions (which can be combined with the ecobonus).

The tax calendar was also redefined: the deadline for filing the pre-compiled tax return goes to 23 July and that of the income tax return to 31 October.

2018 Tax Decree and conversion into Law

Last October 2017, Tax Law Decree no. 148/2017 was published, related to the Economic and Financial Programming Document. Conversion into Law and the relative publication took place the subsequent December.

The most significant provisions include extension of the Split Payment to all Public Administration subsidiaries, a number of rules on corporate transparency, re-proposal of the elimination of tax payment demands, prohibition of issuing 28-day telecommunications bills, new rules for earthquake zones and some facilitations for the return to Italy after work abroad.

Energy efficiency certificates

In April 2017, Ministerial Decree of 11 January 2017 was published, which defined the energy savings objectives for electricity and gas distribution companies for the years from 2017 to 2020, impacting the balance of demand and supply of energy efficiency certificates (TEE).

Following the Decree, resolutions 435/2017 and 634/2017 were issued by the Italian Authority for Electricity, Gas and Water (AEEGSI), modifying for the future a number of criteria for determination of the unit tariff contribution to be recognised for compliant distributors as part of the TEE mechanism and updating the regulations on bilateral TEE transactions by the Energy Market Manager (Gestore dei Mercati Energetici - GME). The modifications will apply for years subsequent to 2017.

Increase in electricity dispatching service costs: Resolution no. 342/2016 of the Italian Authority for Electricity, Gas and Water (AEEGSI) and subsequent measures

Significant increases in the cost of dispatching services for end customers were recorded in the second quarter of 2016 (with particular reference to the uplift price). These occurrences were studied and investigated by the government and consumer associations, with the suspicion that several electricity operators had engaged in illegal conduct on the energy and dispatching services markets.

On 27 June 2016, the AEEGSI published Resolution 342/2016/E/eel, through which it launched a process for the timely adoption of prescriptive measures and/or asymmetric regulation measures and the assessment of potential abuse on the electricity market, pursuant to Regulation (EU) no. 1227/2011 (REMIT), potentially committed in the

recent past by several electricity market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.).
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. submitted an appeal before the Administrative Court of Lombardy for partial annulment of the aforementioned deeds, considering the conditions for their issuance to be non-existent.
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). Even with regard to said provisions, the companies ERG Power Generation S.p.A. and ERG Hydro S.r.l. have appealed to the Administrative Court of Lombardy for the annulment of the deeds.
With two subsequent resolutions approved in January and February 2018, the Authority closed the procedures regarding the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. Terna is expected to quantify the value to be returned following the two aforementioned resolutions by the end of March. 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 safety

The Ministerial Decree updating the prevention action plan and emergency plan to deal with adverse events for the natural gas system was published at the end of October 2017.
It also renewed the non-market measures to be adopted in the event of emergency, introducing new tools for balancing of the system.
Also in October, the European Union published the new regulations on natural gas procurement safety, which became effective on 1 November 2017.
The general objective of the regulations, based on three underlying principles - strengthening of the risk assessments, solidarity mechanism and intensification of the information exchange - is to increase energy safety in the European Union, reducing dependence on others for energy procurement and allowing any gas procurement crises to be resolved 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).

In implementation of resolution 300/2017, Terna launched two pilot projects that envisaged the creation of Eligible Virtual Consumption Units (UVACs) and Eligible Virtual Production Units (UVAPs). The UVACs and UVAPs respectively aggregate several smaller consumption and production units within the same grid area; the figure of aggregator is established separately from the dispatching user owning the consumption or production units aggregated in the eligible virtual units. During 2019, Terna will publish further proposals for pilot projects that will envisage the aggregation of production and consumption units within the same eligible virtual unit.

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 pursuant to 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 last 28 December, Terna reduced the publication delay of preliminary data to 30 minutes prior to the moment of physical delivery, in line with the Authority guidelines.

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, 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 level, in October 2017, the Region of Sicily published the Presidential Decree on the criteria for identifying areas that are not suitable for the construction of wind power plants. The measure follows Regional Law 29/2015 and the regulation implementing Regional Law 11/2010, respectively concerning landscape and environmental protection and the penetration targets of renewable sources.

Last November 2017, the Regional Council of Campania published a Resolution concerning changes in terms of energy authorisations; a previous measure that considered changes to plants that involve increases in size of up to 30% as "not substantial" was repealed.

The measure lists the authorisation procedures, distinguishing between plants within the scope of application of the

EIA and interventions that affect the physical dimensions of individual appliances and the volume 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 a feed-in premium (FIP) was published, based on a remuneration supplementing system plus a premium, for wind farms that submitted the application for access to the incentives to 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 onshore 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 base auction price of 74.8 EUR/MWh, closed on 1 December 2017, while the last auction is envisaged for 1 May 2020. The aim is to use this mechanism to develop 3 GW of onshore wind capacity over the years 2017-2020.

In December 2017, the CRE (French Energy Authority) also published the procedures on multi-technological auctions for access to the FIP for new wind and photovoltaic plants with power between 5 MW and 18 MW envisaged for September 2018. The available amount is 200 MW and Cap and Floor amounts are envisaged for the supply, respectively of 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 aerogenerators or 3 MW of power each, that have submitted a request to EDF for access to the FIP starting from 2017. The value of the FIT, on the basis of which the incentive component (complément de rémunération) is calculated, depends on the diameter of the turbine rotor, as well as the annual production of the plant, which, if it exceeds a certain production threshold (limit), incurs a reduction for the excess energy produced.

GERMANY

The “Renewable Energy Sources Act” 2016 (EEG 2017), adopted on 8 July 2016, marks a move to an auction scheme for access to the incentives, applied to all Electric Renewable Energy Plants > 750 kW, operating from 1 January 2017[8]. The annual auction quotas for new onshore wind capacity are 2.8 GW per year up to 2020 and 2.9 GW for subsequent years. Inside the Grid Expansion Areas, there is a limit on 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, established at 902 MW/year for the years 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 starting from 1 January 2020.

For the three wind auctions carried out in 2017, a base auction price of 70 EUR/MWh was established, for the assignment of onshore wind power amounting to 800 MW for the first session in May and 1,000 MW/session for the other two auctions in August and November 2017. Almost all amounts were assigned to projects belonging to the so-called "Citizens' energy companies" (cooperatives) that benefited from the incentive, not envisaged for other operators, to participate without having obtained specific authorisation in advance.

The average allotment values declined progressively during the three sessions, amounting to 38.2 EUR/MWh in the last session of November 2017 (average allotment value in the May and August sessions equal to 57.1 EUR/MWh and 42.8 EUR/MWh respectively). Contrary to the other operators who obtain the bid price based on the "pay-as-bid" mechanism, cooperatives obtain the marginal price, or rather the maximum national tariff.

The rate that the winning plant will actually receive, however, is calculated, for all successful bidders, by the network manager following the allotment, by applying the so-called "corrective factor" to the bid accepted in order to take account of the specific wind conditions of the site, determined according to the "Site location quality" and the model of turbine used.

In July 2017, the German Parliament approved certain amendments to the EEG 2017, providing, inter alia, that for the first two sessions of 2018, in order to be able to participate in auctions, all projects, including those of cooperatives, must have been granted environmental authorisation (BImschG, abbreviation of Bundes-Immissionsschutzgesetz, i.e. federal pollution control act).

In light of the low allotment values achieved during the 2017 auctions, BNETZA (the German regulator for network services) decided to raise the starting bid price for 2018, bringing it from 49 EUR/MWh envisaged by the EEG (equal to the average of the three highest rates awarded in the three prior auctions, increased by 8%) to 63 EUR/MWh, for all auctions that will be carried out during the year (1 February, 1 May, 1 August and 1 November 2018).

Moreover, from 2018, multi-technological "pilot" auctions must be planned for wind and photovoltaic technologies.

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.

8 The onshore wind power plants authorised by 2016 and operating within 2018 can continue to benefit from the FIP (reduced), pursuant to EEG 2014. The initial value recognised in the first 5 years of operation is 83.8 EUR/MWh, and the base value for subsequent years is 46.6 EUR/MWh, with periodic reductions envisaged from March 2017. The maximum reduction in tariff (-2.4%) is applied from October 2017, as the wind MW installed in the last year widely exceeded the value limit set. As an alternative to the FIP, it is possible to participate in auctions (deadline for participation 1 March 2017).

After weeks of negotiations, the talks on forming a coalition government among the Christian-democrats (CDU/CSU), liberals (FDP) and Green party failed at the end of November 2017.
Following a new negotiation phase in February 2018, the two main parties (SPD and CDU/CSU) signed an agreement to form a new "Major Coalition".

In terms of energy, the agreement envisages postponement of the target for reduction of CO_2 emissions by 40%, to be achieved "as soon as possible"; an increase in the target of penetration of Renewable Energy Sources to 65% in 2030 is also proposed, through new electricity generation assigned via additional auctions to be carried out in 2019 and 2020, dedicated to onshore wind and solar (4 GW per technology). Similarly, the phase-out plan for fossil fuels will be defined within one year.
Definitive confirmation of the agreement for definition of the new government will have to wait for the internal vote by members of the SPD, planned 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.
More specifically:

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. To this end, last December 2017, the European Commission announced approval, based on the European regulations on state aid, of the Polish programme for renewable energies, which envisages, for plants having a capacity of over 500 kW, a premium over the wholesale price, awarded through competitive auctions.

With regard to the Certificates of Origin (CO) mechanism envisaged for renewable plants that began operating by June 2016, an amendment introduced in August 2017 to the RES Act 2015 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 prices of the COs recorded the previous year, plus 25%. For the period September-December 2017, 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, following completion of negotiations for 2017, the penalty was set at 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 to large consumers. Said 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 regard:

- 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 Law Decree 91/2014

On 25 May 2016 news was published on the Terna website declaring the entry into operation at 00:00 a.m. of 28 May 2016 of the Sorgente-Rizziconi connection and the ancillary works defined by resolution 521/2014. This communication sanctioned the end of the essentiality regime envisaged by Law Decree no. 91 of 24 June 2014 for the electricity production units located in Sicily, as governed by the aforementioned Resolution 521/14.

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

Last 13 December 2016, the Authority issued resolution 741/2016/R/eel, which quantified the second instalment for compensation to reimburse the costs in relation to the essential plants subject to the 91/14 regime for the year 2015, authorising Terna to liquidate the amounts.

For ERG Power Generation, whose Priolo CCGT plant was considered to come under essential facilities pursuant to Law Decree 91/2014 until 27 May 2016, the compensation advance agreed following the resolution is equal to around 68% of the balance requested.

The AEEGSI then notified resolution no. 761/2016/R/eel of 15 December 2016, through which it confirmed and quantified the instalment relative to the 2016 financial year.

Resolution 745/2017 recognised the balance for the 2015 reintegration.

Resolution 841/2017 recognised an extraordinary advance for the 2016 reintegration application.

The amounts were paid by Terna within the deadlines.

Essential Units pursuant to Resolution 111/2006

On 28 October 2016, resolution 610/2016 was published, which includes the CCGT plant of Priolo in the list of essential units pursuant to resolution 111/2006 for the year 2017 for a section of the plant equal to 120 MW (and according to an essentially different regime compared to that indicated above in accordance with Law Decree 91/2014). The company opted for the alternative regime pursuant to Art. 65-bis of resolution 111/06, which envisages that the tertiary reserve remuneration rise through an option contract, removing the plant from the essentiality regime in energy markets (MGP - day before market/MI - intraday market).

Closed Distribution Systems/Internal user networks

Last August 2017, the Authority published resolution no. 582/2017, which postponed the date of application of the TISDC (testo integrato sistemi distribuzione chiusi - integrated text on closed distribution systems), in the case of Internal user networks from 1 October 2017 to 1 January 2018, in order to align it to revision of the tariff structure of general system charges (which, among other things, will result in the disappearance of the declining brackets) active since 1 January 2018, as well as to the exemptions on functional unbundling envisaged by the Competition Law.

HYDROELECTRIC

With regard to replacement rates for the "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 State Property Office issued a decree adapting the measure of the coastal over-fee for hydroelectric derivations.

This over-fee, updated every two years based on ISTAT inflation figures, is increased by 0.05 EUR/kW and 0.06 EUR/kW, respectively, for small and large offtakes. In the two-year period 2018-2019, the over-fee for large offtakes will increase from 7.61 EUR/kW to 7.67 EUR/kW.

In the subsequent month of January 2018, the over-fee applicable to the Mountain Watersheds, payable by licensees of major water offtakes for the production of motive power for the period 1 January 2018 - 31 December 2019, was also adjusted.

The amount of Mountain Watershed over-fee for all offtakes of over 220 kW became 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 ruling, an appeal was filed with the Court of Cassation, currently awaiting the scheduling of a hearing before the Court.

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 Power Generation Group operates in the Wind segment.

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 Renewables Market [2] (GWh)		
Production 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 EUR 123.8/MWh acknowledged to the Palazzo S. Gervasio plant
(6) the values of the Feed-In Tariff abroad refer to the prices obtained by the wind farms
(7) the Romania price of electricity refers to the price fixed by the company via bilateral agreements
(8) price referred to the unit value of the green certificate (the number of green certificates recognised and the timeline are discussed in the section describing the scenario in Romania)

Market scenario in Italy

In 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 2012[9] 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 FIP for 2017, 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 year[10], amounts to 107.34 EUR/MWh.

Pursuant to 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 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 ordered 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, 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 Regulation (EU) 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

9 There is a transitional period until 30 April 2013, for plants already authorised no later than 11 July 2012.
10 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.

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). With the two subsequent resolutions approved in January and February 2018, the Authority closed the procedures regarding the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. Terna is expected to quantify the value to be returned following the two aforementioned resolutions by the end of February. 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 date of the plant's entry into operation:

- plants that entered into operation by July 2014 access FIT tariffs and, on an optional basis, FIP tariffs plus a management premium (EEG 2012);
- plants that entered into operation from August 2014 to December 2016 may benefit exclusively from a 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 for, in which it is possible to continue to benefit from the tariffs set out in the EEG 2014[11] of declining value in relation to the actual new power installed during 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)[12].

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.

During the three sessions in 2017, the average allotment values declined progressively, amounting to 38.2 EUR/MWh in the last session of November 2017 (average allotment value in the May and August sessions equal to 57.1 EUR/MWh and 42.8 EUR/MWh, respectively). Contrary to the other operators who obtain the bid price based on the "pay-as-bid" mechanism, cooperatives obtain the marginal price, or rather the maximum national tariff, Citizens

11 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.

12 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).

Energy Companies (cooperatives) obtain the marginal national price and, given their exemption from the obligation of having obtained authorisation prior to the auction, achieved almost all of the amounts envisaged.

In July 2017, the German Parliament approved certain amendments to the EEG 2017, providing, inter alia, that, from 2018, in order to be able to participate in auctions, projects of the cooperatives must have been granted environmental authorisation (BImschG, abbreviation of Bundes-Immissionsschutzgesetz, federal pollution control act).

In light of the low allotment values achieved during the 2017 auctions, BNETZA (the German regulator for network services) decided to raise the starting bid price for 2018, bringing it from 49 EUR/MWh envisaged by the EEG (equal to the average of the three highest rates awarded in the three prior auctions, increased by 8%) to 63 EUR/MWh, for all auctions that will be carried out during 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 of 2,800 MW/year, and three in 2020 (1 February, 1 June and 1 October), for a total of 2,900 MW/year envisaged also for subsequent years. Moreover, between 2018 and 2020, multi-technological auctions are also 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 objective is 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, 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 starting bid 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 (French Energy Authority) also published the procedures on multi-technological auctions for access to the FIP for new wind and photovoltaic plants with power between 5 MW and 18 MW envisaged for September 2018. The available amount is 200 MW and Cap and Floor amounts are envisaged for the supply, respectively of 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 on-shore wind farms, current regulations prescribe a feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years (Hrabrovo plant) or 15 years (Tcherga plant). In particular, below the first bracket (on average equal to approximately 2200 equivalent hours of operation annually), the FIT recognised amounts to approximately 97 EUR/MWh, while the changes to legislation significantly reduced revenues for higher production levels. These legislative amendments are currently the subject of an appeal by renewable source producers.

On 2 March 2015 an amendment was approved to the legislation which does not permit new plants to access the incentive system. This measure, which has no retroactive effects, is justified by having achieved 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 to large consumers. This 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 regard:

- 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.

More specifically:

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 (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. To this end, last December 2017 the European Commission announced approval, based on the European regulations on state aid, of the Polish programme for renewable energies, which envisages, for plants having a capacity of over 500 kW, a premium over the wholesale price, awarded through competitive auctions.

With regard to the Certificates of Origin (CO) mechanism envisaged for renewable plants that began operating by June 2016, an amendment introduced in August 2017 to the RES Act 2015 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 prices of the COs recorded the previous year, plus 25%. For the period September-December 2017, 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, following completion of negotiations for 2017, the penalty was set at 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

INCOME STATEMENT DATA	YEAR 2017	YEAR 2016
Revenues from ordinary operations	**445**	**423**
Recurring EBITDA (1)	**316**	**308**
Amortisation, depreciation and write-downs (1)	(158)	(161)
Recurring EBIT (1)	**158**	**147**
Capital expenditures 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	YEAR 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, although offset by a better price scenario net of the effects of hedges.

During the period, the incentivised period ended for some wind farms in Italy, so approximately 214 MW (equivalent to 260 GWh of output, for a theoretical economic value of EUR 28 million) 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), amounted 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, and starting from the fourth quarter of 2017, in Northern Ireland. The contribution to the output of wind farms abroad was approximately 1,496 GWh (+17%).

The recurring EBITDA in 2017 totalled EUR 316 million, up slightly compared to the values recorded in the previous year (EUR 308 million), for the reasons referenced above, as well as for 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 the 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 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.

	YEAR	
INSTALLED POWER (MW)	**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 to 31 December 2016, following the start of operations at 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-operational 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, up compared to 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 weak wind conditions compared to the usual seasonal values and lower than those recorded in 2016. With regard to abroad, 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 plant built in Northern Ireland.

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

LOAD FACTOR %	YEAR 2017	2016
Italy	**22%**	**23%**
of which		
Campania	*23%*	*23%*
Calabria	*23%*	*24%*
Puglia	*24%*	*24%*
Molise	*24%*	*24%*
Basilicata	*24%*	*24%*
Sicily	*17%*	*20%*
Sardinia	*21%*	*24%*
Abroad	**25%**	**23%**
of which		
Germany	*19%*	*16%*
France	*22%*	*23%*
Poland	*35%*	*30%*
Bulgaria	*33%*	*31%*
Romania	*33%*	*29%*
UK	*n.s.*	*n.a.*
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, equal to 23%, was in line with the 2016 value, with a slight decline from 23% to 22% in Italy, offset by an increase from 23% to 25% abroad.

The above figures do not include the data on the plants in Northern Ireland, as they are not very representative, following the gradual start of operation of the 47.5 MW plant 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		
Thermoelectric	*199,500*	*190,771*
Hydroelectric	*37,530*	*43,785*
Other renewables	*48,088*	*45,147*

SALE PRICES (EUR/MWh)	2017	2016
PUN [3]	54.0	42.8
Sicily zone price (baseload)	60.8	47.6
North Center 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

Demand for electricity from the Italian electricity system in 2017 amounted to 320.4 TWh, up (+2.0%) compared to the values recorded in 2016. With regard to Sicily, a region in which ERG is present with its CCGT plant, a requirement of around 19.1 TWh was registered in 2017, up (+1.1%) compared to 2016, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the request for electricity came to 44.8 TWh (+2.6%).

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

The average PUN (Single National Price) in 2017 was 54.0 EUR/MWh, up by 26% compared to 2016 (42.8 EUR/MWh).

Regulatory framework

• Thermoelectric: the Mucchetti amendment

The period for application of the regulation on Essential Units pursuant to Law Decree 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 investigation was completed with resolution 745/2017: at the end of November 2017, the final balance pertaining to 2015 was collected (approximately EUR 12.6 million).

Also 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, the ARERA resolved an extraordinary advance for the UESSE pursuant to Law Decree 91/2014 with regard to 2016. The company collected this advance at the end of December 2017 (9 M/EUR of the residual 12.9 M/EUR).

The residual 2016 reintegration shall be collected in 2018.

• RIU Internal user networks (IUN)

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 resolution 582/2017, the AEEGSI further postponed the entry into force of the new RIU regulations as at 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 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 large water offtakes for hydroelectric purposes. The new unit tariff of EUR 31.02/kW of nominal concession power per module, which applies as from 1 January 2016, comes to double that in force until 31 December 2015. In December 2015, ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waterways in Rome, to request the cancellation of the afore-mentioned resolution. The results for the period prudently reflect the aforementioned increase.

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

Summary of the period performance highlights

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

INCOME STATEMENT DATA

	YEAR	
(EUR millions)	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 expenditures 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

INCOME STATEMENT DATA

(EUR millions)	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 expenditures 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 in 2016 (2,693 GWh), also 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 for 737 thousand tons declined slightly (-2%) compared to 752 thousand tons in 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 in 2017 amounted to EUR 78 million (EUR 77 million recorded in 2016), higher than expectations and than the 2016 amounts, which had even benefited from the former UESSE reintegration consideration for approximately 31 million. This significant result is due to appreciation of 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 by the increase in the margin (Spark spread) as a result of the higher rise of sale prices compared to the cost of gas, as well as by the improved performance of ERG Power's CCGT plant and the industrial efficiency-boosting actions carried out during the period.

Hydroelectric

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.

INCOME STATEMENT DATA

	YEAR	
(EUR millions)	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 expenditures on tangible and intangible fixed assets	6	4
EBITDA MARGIN %	**69%**	**68%**
Total output from 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 for 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 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 sales prices reflect both the sales price of the electricity, higher than the single national price due to the zonal price trends observed in the central/northern part of Italy during the year, in addition to the modulation of the plants, as well as the value of the feed-in premium (former green certificate), acknowledged on a portion equal to around 40% of the generation and for a value higher than that of 2016, equal to around 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 total EBITDA margin for 2017 amounted to 69% (68% in 2016).

The final load factor in the period came to 25%, impacted by the scarce water availability (output of 1,144 GWh in 2017, down compared to the corresponding period in 2016 as well as to the ten-year average).

The overall efficient power of the Terni plants is equal to 526.9 MW, of which 512.4 MW pertaining to large offtakes and 14.5 MW to small offtakes and residual flows, which increased by 0.4 MW following completion of construction of the three new mini hydro plants, which are eligible for the feed-in tariff pursuant to Ministerial Decree 23/6/2016.

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

CAPITAL EXPENDITURES

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 Ireland[13], with planned capacity of over 47.5 MW and energy output estimated at over 150 GWh/year when fully operational. The operation involved an initial outlay of around EUR 13 million, in addition to the investments made downstream of the acquisition of the project, illustrated in the section below. The total estimated investment for construction of the farm is approximately EUR 80 million, already including the initial consideration paid for the purchase of the company.

The total capital expenditure in tangible and intangible fixed assets of the ERG Group in **2017** was EUR 51 million (EUR 57 million in 2016), of which EUR 50.2 million for tangible fixed assets and EUR 1.2 million for intangible fixed assets.

	YEAR	
(EUR millions)	2017	2016
Non-programmable sources	**35**	**44**
Wind	35	44
Programmable sources	**16**	**13**
Thermoelectric	10	10
Hydroelectric	6	4
Total	**51**	**57**

13 Brockaghboy wind farm, sale in progress.

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 began operating in fourth quarter 2017. The Brockaghboy wind farm consists of nineteen 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 environmental projects.

Hydroelectric capital expenditures refer mainly to the aforementioned investment in the new mini hydro plants, in addition to maintenance and other contracts.

RISKS AND UNCERTAINTIES

1. Renewable resource availability risk (Wind, Water and Sun)

This risk identifies 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 in Italy, Sun.

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

- technological diversification of renewable energy plants (e.g. Wind, Hydro and Solar) and the geographic diversification of the generating farms, which reduce both the impact and likelihood of occurrence of the risk;
- planning of renewable plant shutdowns based on periods with low use of renewable sources, thereby reducing their impact;
- the use of more accurate meteorological forecasting tools (for wind, water and sun) in order to define the generation plans that allow for improvement in Volume Risk management strategies over the short term.

The use of statistical risk analysis models is also envisaged, enabling quantification of the economic impacts over the medium term (plan time horizon).

The addition of solar is another important step in the technological and geographical diversification strategy which permits mitigation of the risks tied to unavailability of the natural resources, further reducing the overall risk profile to which the Group is exposed as generator of electricity from renewable sources.

The risk reduction strategies are carried out in accordance with company policy.

2. Price Risk

Price risk relates to the possibility that purchase and sales price fluctuations for the commodities could cause significant variations to the economic results, to an extent that compromises the achievement of the goals set out in the strategic plan.

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

- fluctuations in Electricity prices for all production plants for which the sale of electricity on the Market is envisaged;
- fluctuation in the prices of gas, CO_2 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 by portfolio, which permits the allocation of risks where they can be more effectively managed, benefiting from the offsetting of positions with opposite signs;

- definition of risk exposure limits and an associated process of escalation in the event of exceeding the limits, with identification of the parties responsible for defining/authorising the measures to return within the limits;
- definition of processes and responsibilities to monitor the exposure level using the appropriate indicators (e.g., P@R, V@R, Stop Loss, Take Profit, Open positions);
- definition of minimum and maximum hedging quantities (Hedging Ratios) on sales of EE over the life of the plan;
- use of derivative instruments to stabilise cash flows generated, contributing to guaranteeing the Group's economic and financial equilibrium. Use of derivative instruments for hedging purposes is only authorised if there is an underlying asset to pursue the reduction in the economic impacts tied to the volatility of the prices on the financial market and it is monitored constantly;
- where possible, balancing of the purchase formulas (e.g., for natural gas) with chargeback to end customers and/or transfer into sales agreements of the higher costs arising from fluctuations in prices, including specific clauses reducing 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.

The risk management strategies are carried out in accordance with company policy.

3. Dispute Risk

This risk refers to the possibility that the company ERG Power Generation SpA, its subsidiaries or employees of the Group may be involved in civil and/or administrative and/or fiscal/tax proceedings and/or legal actions arising from potential violations of laws or regulations, contractual or non-contractual liability or other disputes (e.g. labour disputes). The occurrence of such events could cause damage, generate sanctions, tarnish the reputation of the Group and erode value for shareholders.

The risk of disputes also refers to the possibility that a Group company may challenge an act or measure that is detrimental to its interests and issued by institutions or administrative bodies and/or independent authorities.

The ERG Group mitigates the risk linked to possible impacts on profit for the year as a result of exposure to higher costs and sanctions through:

- monitoring by specific Organisational Units responsible for ensuring respect of the reference regulations in the various areas of responsibility (e.g., legal, tax, administrative, etc.);
- effective pre-litigation management by the relevant OUs with the support of legal and tax specialists;
- management of disputes with the support of professional external assessments by experts in the areas under dispute;
- constant monitoring of the evolution of ongoing disputes and assessment of the likelihood of losing the case; if the risk of losing a specific proceeding is deemed probable, an estimate of the economic impact is made that also

takes into account all possible consequences and a specific provision is made in the financial statements;
- preparation and submission of periodic reports providing updates on the disputes, also through 231 flows to the Supervisory Bodies.

In the event of extraordinary transactions (e.g. acquisition of companies, establishment of JV), specific Due Diligences (e.g., legal, tax) are conducted in order to mitigate the risk of disputes and of the consequent negative economic impacts and, if considered appropriate, the counterparty is asked to provide the specific guarantees outlined in the contractual agreements governing the transaction.

With regard to the issuance of acts or measures detrimental to its interests, the ERG Group mitigates this risk through:
- regular and correct management, coordinated at Group level, of direct relations, or through trade associations, with Institutional Stakeholders at the local, national and international level;
- participation in preparation of the acts or measures (including consultation procedures);
- any appeal before the competent authorities against the acts or measures considered to be detrimental.

The risk management strategies are carried out in accordance with company policy.

For additional details in regard to disputes and to the Group's potential liabilities, see 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 corruption crimes, the Group has adopted a system of rules and controls defined in relation to the national and international regulatory context in which it operates. In particular, for Companies of the ERG Group:
- a system of behavioural rules adopted by Companies of the Group (Code of Ethics, Model 231 and Anti-corruption Policy) has been defined, based on the respective characteristics, which all employees are required to respect in carrying out their activities and which prohibit any form of corruption, active or passive, involving not only public officials but private parties as well;
- responsibilities and specific spending powers (authorisation and signature) are defined and assigned based on the principle of Segregation of Duty, in order to limit the possibility that a single person may complete an entire process in full autonomy;
- specific employee training programmes are defined and implemented, aimed at describing the regulatory framework on anti-corruption (and the relative sanctions system), along with the behavioural rules adopted by the

Group (e.g. Code of Ethics, Model 231 and Anti-corruption Policy);

- a process is in place, under the surveillance of the Supervisory Bodies pursuant to Legislative Decree 231/01, for the management of reports on conduct that is in conflict with the principles set out in the Code of Ethics, Model 231 and Anti-corruption Policy;
- specific third-level controls are carried out by Internal Audit with regard to compliance with the principles set out in the Code of Ethics, Model 231 and Anti-corruption Policy.

The risk management strategies are carried out in accordance with company policy.

5. New Investment Risk

This risk refers to the set of uncertain events originating from various factors, for example, scenario-related (micro/macro-economic, political, regulatory, business), technical, operational, financial or organisational, which may impact the decision of a new investment and its success.

These risks are mainly attributable to the impossibility of developing certain economic/financial forecasts over the period of the life of a Project (in the event of a specific initiative), with resulting income statement or financial position losses, or worsening 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 and financial assessment/planning models. The Group minimises possible risks linked to new investments by assessing potential associated risks for all relevant projects:

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

Furthermore, the Group periodically updates the WACC/HR also through benchmarks, to ensure an adequate return with respect to the expected risk profile.

The risk management strategies are carried out in accordance with company policy.

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.

The risk management strategies are carried out in accordance with company policy.

For additional details in regard to the loan agreements and relative covenants, see Note 25 to the Consolidated Financial Statements.

7. 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 are associated with ICT systems:

- risk of unsupervised access to networks, systems and data processing centres: this is 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 risk identifies 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 the ICT systems;
- adoption of specific behavioural models to be adopted when using the work stations and ICT tools, aimed at ensuring adequate security levels for the information;
- outsourcing of the management of the main systems with a supplier equipped with data centres having high physical security levels and standards, formally certified;
- adoption of tools to manage logical and physical accesses, as well as verify and record them, based on the relevant 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 IT 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 the potential risks of interruption of business activities on ICT processes regarded as strategic, the Group has a Disaster Recovery system in place which ensures continuity of services and data through an alternate Data Center, whose efficiency is subject to regular checks.
In addition, and in light of the significance of the activities that are implemented on a daily basis within the electrical market, specific focus is given to monitoring systems that interface with the market. These systems are subject to specific management and maintenance procedures designed to protect their stability.
The risk reduction strategies are carried out in accordance with company policy.

8. Business Continuity 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:
- plant management policies aimed at pursuing high levels of safety and operating excellence, in line with the best industrial practices;
- adoption and constant 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 audits of the plants are planned, as well as the use of control and remote control instruments in order to monitor technical parameters and promptly detect any potential anomalies; moreover, where possible, redundant systems are utilised in order to guarantee the continuity of business processes;
- continual supply of specialised training courses for technical personnel working on the plants.

In addition, the gradual adoption of ICT solutions to detect technical problems and calculate effective yield is

envisaged, aimed at allowing a predictive approach for the planning and execution of maintenance in order to limit downtime for accidental breakage.
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.

Specific infrastructural activities aimed at improving the response of dams to seismic events continue at the Terni Hydroelectric Complex. These activities are carried out under the supervision of the Ministry of Infrastructure and Transport - Dam Directorate-General and coordinating with Civil Defence. Monitoring and control have confirmed the seismic safety of all of the 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 contractual conditions which characterise these insurance policies are revised periodically.
The risk reduction strategies are carried out in accordance with company policy.

9. Commercial Credit Risk

This is the risk of unexpected changes in creditworthiness of a counterparty with respect to which there is an exposure that could lead to potential negative consequences in economic-financial terms. The objective of the Group is to maintain the risk profile at extremely low levels, through the preliminary evaluation of creditworthiness of the counterparties and the adoption, where deemed necessary, of risk mitigation tools, such as the acquisition of guarantees.
In particular, ERG minimises credit risk in the pursuit of its commercial and business targets, through:

- definition of risk exposure limits at Group level and adequate risk mitigation tools in order to ensure that the risk profile is in line with the Group's requirements;
- an overall Group portfolio strategy that benefits from offsetting among the various risk profiles associated with the individual customers and, in particular, among the riskiest and safest positions in terms of Probability of Default;
- a structured, active management process for credit, in which specific Organisational Units and a Credit Committee:
  - assess the creditworthiness each individual commercial counterparty in terms of Rating, Credit Limit and Probability of Default and assign to them specific levels of reliability in terms of maximum exposure (so-called credit limit);
  - analyse the risk profile of the portfolio and the levels of exposure to counterparties in terms of credit limit granted and sales;
  - conduct ageing analyses and constant monitoring of the overall exposure and of the exposure by counterparty, evaluating the definition and implementation of specific corrective measures.

Moreover, the Group has defined the types of guarantees that may be accepted in the case of credit to counterparties with an unsatisfactory economic/financial assessment and the financial institutes (banks and insurance companies) qualified to issue such guarantees.

The risk management strategies are carried out in accordance with company policy.

For additional details in regard to trade receivables and the bad debt provision, see Note 9 - Trade receivables of the Notes to the Consolidated Financial Statements.

10. Credit Risk in respect of Financial Counterparties

The ability to adequately assess one's financial counterparties and promptly intercept any threats and risks is a fundamental requirement for protection of the company's assets and reputation. This is the risk that unexpected changes in the creditworthiness of a financial counterparty to which an exposure exists (e.g., liquidity deposits) could cause consequent negative economic/equity impacts and damage to the company's image.

The Group's objective is to find the right balance between the return on financial investments and minimise the relative counterparty risk, through:

- use of counterparties with Investment Grade rating or, in the absence thereof, specific authorisation by the CEO upon obtaining the opinion of the Risk Committee;
- risk diversification strategies (e.g., by depositing liquidity in various banks and/or using investment funds) as per the guidelines of the Risk Committee;
- verification that each financial counterparty is not on any national and/or international Black List;
- constant monitoring of the standing of counterparties and an escalation process in case of negative events and/or worsening of the risk profile.

A structured process is in place at Group level that envisages:

- autonomy of the Finance area in depositing liquidity for up to 12 months in banks with Investment Grade rating;
- an authorisation process (as part of the Risk Committee) for cash investments over 12 months or with banks whose rating is below Investment Grade.

The risk management strategies are carried out in accordance with company policy.

11. Liquidity Risk

The risk resulting from the lack of financial resources to meet both short term and medium/long term commercial and financial commitments is called liquidity risk. This type of risk considers the possibility that the company may not be able to meet its commitments (funding liquidity risk) or that it is able to do so only at unfavourable economic conditions due to situations of tension or to the changed market perception of riskiness of the Group (or of one of its companies).

ERG implements a risk mitigation strategy aimed at preventing the occurrence 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 Group's objective is to maintain the subject risk profile at extremely low levels through implementation of a financial planning process having 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;
- ensuring an adequate level of operational elasticity, optimising on the cost of funding in relation to the current and future market conditions; the Group uses a prudent approach in estimating the projected cash inflows and outflows, taking into account the impact assessments of various scenarios, including stress-based ones, which identify the risk factors that could alter the cash flows envisaged in the Financial Plan (e.g. changes in scenarios, postponements of disposals) and define and implement the relative mitigation measures;
- maintaining a balance in terms of duration and composition of debt, also thanks to an operating structure based on assigned limits that undergo periodic revision and approval, and a second-level control structure, autonomous from the first, which verifies its functioning;
- guaranteeing an adequate distribution of credit lines, cash deposits and the relative financial assets among the major Italian and international banks.

To pursue its risk mitigation objectives, the ERG Group's stock of financial assets is used in short-term financial instruments that are highly liquid, preferring a very limited risk profile.

The risk management strategies are carried out in accordance with company policy.

12. 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) complicated authorisation processes that impact the time-to-market of development projects.

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

- non-assumption of risk and, therefore, no investments in countries which have political/social instability that makes them 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.

The risk management strategies are carried out in accordance with company policy.

13. Regulatory Risk

This risk is related to developments in the local scenario of the countries in which 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. The risk factors therefore include the constant and not always predictable development of the regulatory context of reference.

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.

The risk management strategies are carried out in accordance with company policy.

14. Health, Safety and Environment (HSE) Risk

The HSE Risk is mainly linked to the operation of industrial assets that have an impact on the health and safety of workers and on environmental matters.

Risks to health and compromising the biological equilibrium of staff at work are the risks that will have potential impact if there is an emission of chemical, physical or biological elements that pose a risk to the environment.

Safety risks are those related to the occurrence of accidents or injuries, or of physical harm or impairment (more or less serious) suffered by staff working at the various jobs.

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 is strongly committed to reducing these risks by adopting specific guidelines on matters of health, safety and the environment that, in accordance with the relevant best practices, envisage that all Companies of the Group: (i) respect all of the regulations in effect; (ii) pursue specific performance targets; (iii) continuously train staff; 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, as well as achievement of EMAS certification on the main plants. The Companies that do not manage industrial assets have an OHSAS 18001 certified

Management system. During the course of 2017, the periodic inspections by the certification bodies were carried out, resulting in the issuance and/or confirmation of 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 of best practices.
The adoption of the best technology available, the application of increasingly rigorous and exacting work practices in terms of prevention and reduction of pollution, and the correct management of the waste produced allow the industrial activity and related Health, Safety and Environment issues to be managed efficiently.
The ERG Group publishes an annual "Consolidated non-financial statement" that provides salient information and data regarding HSE aspects and social issues connected with the Group's business.
The strategies for health, safety and the environment are carried out in accordance with the company policies.

15. Risk of losing key figures

This is defined as the risk that the global rewarding systems in the Group (consisting of fixed and variable components, as well as benefits) may be inconsistent with people's motivation or with market benchmarks, with a resulting economic impact for the Group caused by the loss of key and/or strategic professionals.
The Group mitigates this risk by developing remuneration strategies and policies based on weighing and matching positions, aligned with market benchmarks, in order to ensure effectiveness of the monetary and non-monetary rewarding components.

In particular, the Group uses instruments that are differentiated based on the level of strategic relevance and seniority of its personnel. In this respect, the fixed remuneration component ensures retention through constant market benchmarks, while the variable component ensures alignment of the company's objectives with those of individuals, through the disbursement of performance-based bonuses based on long-term (LTI) and short-term (MBO) objectives.
The strategies employed to reduce these risks are carried out in accordance with company policy.

16. 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:

- definition of risk exposure limits and an associated process of escalation in the event of exceeding the limits, with identification of the parties responsible for defining/authorising the measures to return within the limits;
- definition of processes and responsibilities to monitor the exposure level using the appropriate 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 employed to reduce these risks are carried out in accordance with company policy.

17. 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. To that end, changes in the market rates can have negative impacts on the level of financial charges to the extent of compromising the financial stability of the Group 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 employed to reduce these risks are carried out in accordance with company policy.

18. Industrial Relations Risk

This risk refers to any negative impact that may arise from inappropriate management of individual and collective relations with employees, which could generate potential internal and/or external conflicts and compromise the achievement of business objectives.

Relations with employees arising from employment relationships are ensured, both individually and collectively, through compliance with labour law and international regulations on human rights, diversity and equal opportunities, and through the establishment of a corporate culture focused on:

- ongoing relations with workers' representative organisations at the national and local level;
- participation of employees in the business objectives;
- second-level bargaining activities.

The strategies employed to reduce these risks are carried out in accordance with company policy.

HEALTH, SAFETY AND ENVIRONMENT

The year 2017 saw the launch of a new organisational layout called "One Company", with a strong focus on process logic and a willingness to "reunite" the entire organisation towards a single common vision, focusing on two macro-roles:

- Corporate ERG, which ensures the strategic direction, is directly responsible for the business development processes and ensures management of all business support processes;
- ERG Power Generation, electricity generation and sale company, dedicated to the overall and integrated management of the three different and complementary production technologies currently possessed by the Group (Thermo, Hydro and Wind units), and to the sale of electricity through a single centralised Energy Management structure.

The corporate reorganisation, effective from 1 January 2017, envisaged the merger by incorporation 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. into ERG Power Generation S.p.A. Moreover, a new "HSE" Organisational Unit was established, tasked with functionally coordinating the resources assigned to the individual Electricity generation units (Thermo, Hydro and Wind), with the objective of strengthening and integrating the issues of health, safety and the environment.

Protecting the health and safety of people and safeguarding the environment have always been priorities in the ERG Group's corporate culture: prevention and management of the connected risks are therefore central in the implementation of the Group's strategic guidelines.

The principles adopted with regard to health, safety and the environment are stated in the Sustainability Policy, which outlines the values, commitments and objectives that ERG aims to pursue in terms of sustainability with respect to all stakeholders. In line with its Code of Ethics, ERG guides the activities of the entire Group, combining the objective of creating sustainable value over time with that of respect of the environment and attention to both internal and external stakeholders. For the ERG Group, growing in a sustainable manner means integrating the economic and business growth objectives with the creation of value for the Environment and for the Company, increasing the value generated and transforming it into competitive advantage.

Health and Safety

During the course of the year 2017, business activities continued in accordance with the health, safety and environmental policy as well as the principles pursuant to the Guidelines and Code of Ethics adopted by the Group.

ERG S.p.A. has continued to pursue the objective of "zero accidents" and has attained this goal for its personnel and for third-party companies even in 2017, as in the prior year.

In terms of measures carried out, intensive training was completed, both managerial as well as with regard to occupational health and safety, at all organisational levels, involving the various relevant personnel, in line with the contents of the applicable State-Regions Agreement. Specific seminars were held for Employers and Delegated Directors. Moreover, 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 in 2017 - just as in previous years - for the prevention of the most common cancers for the parties most exposed to risk according to international protocols in addition to an anti-flu vaccine for all personnel.

At the same time, the Health, Safety and Environment Specifications were updated, applicable to all companies of the ERG Group. The document outlines the key measures to be adopted and respected for the prevention of accidents and the protection of health and safety in the workplace by parties stipulating and implementing contracts for the realisation of services and works.

Environment

Protection of the environment is a fundamental value in the Group's corporate culture. Consequently, ERG has developed a business model that allows the production of energy with a very low environmental impact.

In accordance with this principle, the Group is committed to:

- giving priority to the development of renewable sources and the use of low carbon fuels;
- minimising the environmental impact of its business, reducing energy consumption, atmosphere emissions and the production of waste, also through improvement in the quality and efficiency of plants;
- taking into consideration the protection of biodiversity, of natural habitats and of ecosystems as a key component of sustainable development in achieving its projects;
- promoting informed and responsible use of all natural resources at the Group's disposal;
- adopting in its operating facilities certified Environmental Management Systems in accordance with recognised standards, with a view to ongoing improvement of performance and mitigation of risk.

ERG Power's plants have pursued, also in 2017, the achievement of their targets for the improvement of environmental performance, by maintaining the "best available techniques" (BAT) in the industry, as prescribed by the Integrated Environmental Authorisations (EIA), granted in accordance with IPPC (Integrated Prevention Pollution and Control) EC Directive. In particular, only the CCGT natural gas-powered co-generation plant was operated in 2017, with a very low emission of pollutants into the atmosphere.

As is known, ERG Power's plants, managed by ERG Power Generation, operate within a multi-company industrial site of Priolo Gargallo and supply utilities to other operator customers. In 2017, as in other years, the objectives of recovering water resources at the SA9 unit were consolidated, and other opportunities to evaluate reduction in water consumption were evaluated, an environmental aspect of definite interest for the local community. Finally, and again during the course of 2017 (in continuity with previous years), periodic and thorough tests were carried in the presence of the supervisory entities; these tests confirmed full compliance with best practices and the Integrated Environmental Authorisation provisions, in addition to the accuracy and reliability of the monitoring and control activities, in particular for management of atmospheric emissions and water discharges. Other consolidated objectives during 2017 or to be achieved in the next three years and for which a broader description is provided in the EMAS Environmental Declaration of ERG Power mainly regard energy efficiency and development of the awareness of environmental management as part of the purchasing process.

Similarly, in 2017, the management of Hydro and Wind assets was conducted in a manner that complied with all of the objectives set out in the plans to improve the respective environmental management systems; no non-conformities were identified by the accredited certification bodies or by the competent authorities.

Management and Certification Systems

ERG Power Generation S.p.A. fulfils all the obligations and requirements that are necessary to pursue the Sustainability Policy and the objectives established by management. ERG Power Generation S.p.A. has defined its Integrated Management System (IMS) as the collection of "organizational structures, procedures, processes and resources that are needed to implement Environmental and Safety Management".

The IMS retains the following objectives:

- identify and describe, in detail, the productive processes that were managed while highlighting the various processes, interfaces, relative inputs/outputs and control elements;
- measure and monitor the processes in order to attain the planned results, in accordance with the principles of efficacy, efficiency and constant improvement;
- manage processes in agreement with the requirements of regulations (ISO 14001 and OHSAS 18001);
- adopt procedures and reference guidelines applicable to all units.

In light of "One Company", the Integrated Management Systems of ERG Power Generation adopted by the Thermo, Hydro and Wind units in 2017 were adapted to the new organisational structure and to the new corporate changes. The natural consequence of this integration was the beginning of a process of unification of all ERG Power Generation certifications, with the objective of having a single accreditation entity of reference.

All certifications of the Integrated Management Systems of ERG Power Generation S.p.A. according to the international standards ISO 14001 Environment and OHSAS 18001 Health and Safety, in addition to ISO 9001 on Quality (Thermo and Wind units), were confirmed in 2017. During the course of these processes, no significant evidence emerged other than observations for improving certain processes, thereby confirming the efficacy of the management of corporate processes pertaining to workplace environment, health and safety. Moreover, the Thermo and Hydro units launched a process for migration of their environmental management system to the 2015 version of ISO 14001, while the Wind unit has already completed alignment to the new standard.

In accordance with the provisions of these systems, internal audits were planned and carried out to verify compliance with the standards of the Management Systems adopted; in 2017, new mixed audit teams were introduced, with internal resources from the organisational units of the production unit subject to audit. This allowed a valid internal comparison and an exchange of the skills acquired separately in prior years, today brought together in “One Company”.

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

EMAS, together with the adoption of an Environmental Management System consistent with the international standard ISO 14001, allows for the continuation of effective and efficient management of environmental aspects, based on a relationship of trust and transparency with the institutions and with the public and on active participation by employees and third parties at the operating sites.

The reports and indicators used in the Environmental Declaration, validated by an accredited Auditor, provide all stakeholders with an overview of the activities and main environmental issues. The document not only presents the results achieved in 2016, but also proposes the new environmental programme, the commitments and the new planned objectives that the organisation undertakes to implement in 2017-2020.

Voluntary participation in a community eco-management system is further confirmation of the importance of the environmental sustainability issue for our Group, in order to make one of the objectives of “Corporate Social Responsibility” (CSR) even more effective: open dialogue with the public.

As regards the management of near misses, the promotion of a safety culture based on prevention is of significant importance to the ERG Group, as it helps to protect people and the environment from harm. Consequently, the process of reporting by employees and third-party companies operating at the sites has been encouraged and strengthened: in fact, through the detailed analysis of each report, it is possible to trace the causes and assess whether similar situations can be found in other parts of the Group’s plants.

Nevertheless, despite respect and constant monitoring the effectiveness of the operating procedures, 4 employee accidents were recorded in 2017 (2 during maintenance activities on the thermoelectric plant and 2 in the wind plants).

The Group’s HSE functions assessed the events that occurred and took measures aimed at adequately modifying the operating procedures and replacing the equipment with other more suitable equipment in order to prevent additional injury. The assessments regarded not only the specific area of the incident but all areas of the plants involved, in order to extend the effects of the prevention activities as widely as possible.

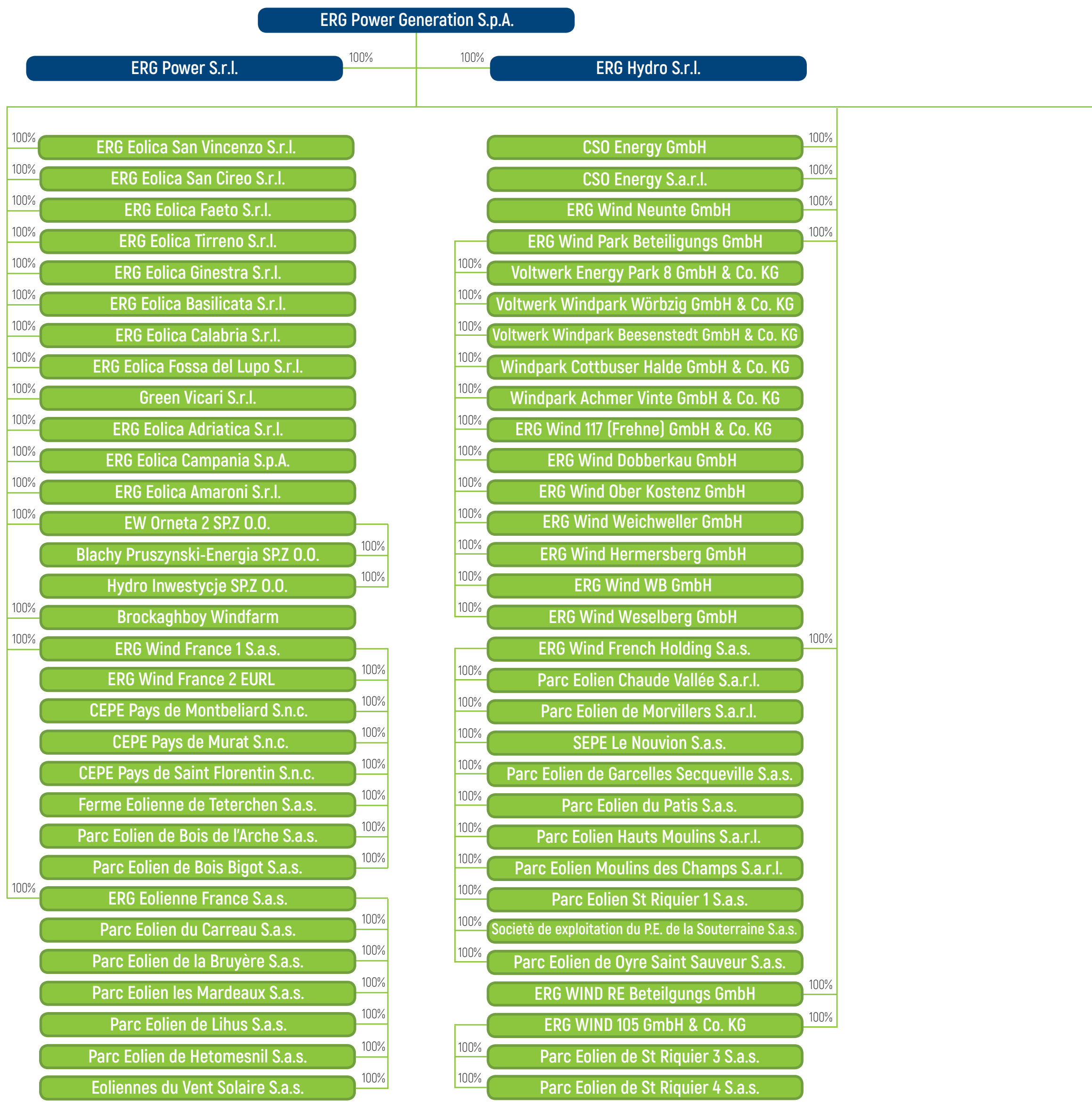
FINANCIAL STATEMENTS

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 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.

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FINANCIAL STATEMENTS

INCOME STATEMENT

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

Also note that the results of the Brockaghboy Windfarm Ltd. investment in the Notes to the Consolidated Financial Statements are recognised and indicated in accordance with IFRS 5.

For greater disclosure, the respective results of ordinary operations are shown and commented in this Report.

For the reconciliation of these values, please refer to the section “Alternative performance indicators”. For additional details on the impacts of valuation and recognition of the aforementioned results for the purposes of IFRS 5, see Note 27 to the Consolidated Financial Statements.

RECLASSIFIED INCOME STATEMENT

(EUR millions)	2017	2016
Revenues from ordinary operations	1,055	1,024
Other revenues and income	9	11
Total revenues	**1,064**	**1,035**
Costs for purchases	(355)	(332)
Changes in inventories	(1)	2
Costs for services and other operating costs	(184)	(199)
Personnel costs	(37)	(42)
EBITDA	**488**	**465**
Amortisation, depreciation and write-downs of fixed assets	(247)	(249)
EBIT	**241**	**216**
Net financial income (expenses)	(61)	(93)
Net income (loss) from equity investments	(1)	1
Profit (loss) before taxes	**178**	**123**
Income taxes	(42)	(28)
Profit (loss) before minority interests	**137**	**95**
Minority interests	–	–
Group share of net profit	**137**	**95**

Revenues from ordinary operations

Revenues in 2017 were EUR 1,055 million, up slightly compared to EUR 1,024 million in 2016. The change is a result of the following factors:

- the increase in the **Wind power sector** tied mainly to a more favourable trend in prices and variation of the scope of consolidation following acquisition of the companies of the DIF Group, partially offset by lower outputs in Italy;
- the increase in revenues of the **Hydroelectric sector** mainly as a consequence of the higher average sale prices;

- the **Thermoelectric sector**, essentially in line with 2016, given the loss of entitlement to the "reintegration consideration", offset by appreciation of the value of the Energy Efficiency Certificates and by the increase in electricity sales 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 355 million, up by EUR 23 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 parks which occurred in the second quarter of 2017 (for approximately EUR 4 million) and to the launch of operations of the Brockaghboy farm in Northern Ireland.

Net financial income (expenses)

Recall that 2016 included non-recurring expenses for approximately EUR 6 million pertaining to the prepayment of the bank loan of Romanian company Corni Eolian S.A.

Net of the non-recurring costs referred to above, net financial expenses at replacement cost for 2016 were equal to EUR 93 million.

Net financial expenses totalled EUR 61 million in 2017, down significantly compared to EUR 84 million in 2016, net of non-recurring costs. The decrease is mainly due to higher income from “cash management” and lower medium/long-term interest expense due to repayments that took place during the period and to the restructuring measures completed in 2016.

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, this item included write-downs (approx. EUR 1 million) of minor investments measured at cost.

Income taxes

Income taxes in 2017 were EUR 42 million (EUR 28 million in 2016).

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 23% (23% in 2016).

The recurring tax rate in 2017, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 23% (22% in 2016).

The tax rate is essentially in line with the prior year and mainly impacted by the benefit arising from the decrease in the Italian IRES rate (24% since 1 January 2017, compared to 27.5% in 2016) and the positive impact (approx. EUR 4 million) of the reduction in Corporate Income Tax in France (28% in 2017 compared to 33% in 2016). These effects are offset by the negative effect of adjustment of the ACE rate (1.6% in 2017 compared to 4.75% in 2016).

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2017	31/12/2016
Intangible fixed assets	730,748	764,221
Tangible fixed assets	2,241,635	2,352,696
Equity investments and other financial fixed assets	59,916	55,602
Fixed Assets	**3,032,299**	**3,172,519**
Inventories	20,596	20,363
Trade receivables	258,031	285,224
Trade payables	(71,704)	(103,614)
Excise duties payable to tax authorities	(566)	(422)
Net working capital	**206,357**	**201,550**
Employees' severance indemnities	(5,157)	(5,573)
Other assets	237,350	279,108
Other liabilities	(421,472)	(436,857)
Net invested capital	**3,049,376**	**3,210,748**
Group Shareholders' equity	1,951,098	1,798,989
Minority interests	–	–
Medium to long-term net financial indebtedness	1,171,942	1,352,745
Net short-term financial indebtedness	(73,664)	59,014
Shareholders' equity and financial debt	**3,049,376**	**3,210,748**

At 31 December, net invested capital amounted to EUR 3,049 million, down compared to 31 December 2016. Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 36% (44% 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 began operating in fourth quarter 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

(EUR thousand)	31/12/2017	31/12/2016
Cash and cash equivalents	152,315	179,547
Bank account overdrafts	(39)	(19)
Restricted bank and postal deposits	–	–
Short-term net financial indebtedness	**152,276**	**179,528**
Financial receivables due from Group companies	49,304	55,474
Financial receivables due from others	18,179	19,344
Financial assets	**67,483**	**74,817**
Total current financial assets	**219,759**	**254,345**
Payables to other lenders	(1,936)	(4,654)
Payables to parent companies	(171)	(156,553)
Payables to banks	(143,846)	(151,906)
Derivative payables	(142)	(247)
Total current financial liabilities	**(146,095)**	**(313,360)**
Receivables from others	–	–
Financial receivables due from Group companies	–	–
Total non-current financial assets	**–**	**–**
Payables to other lenders	–	–
Payables to parent companies	(98,689)	(93,005)
Payables to banks	(970,891)	(1,123,674)
Derivative payables	(102,361)	(136,066)
Total non-current financial liabilities	**(1,171,942)**	**(1,352,745)**
NET FINANCIAL POSITION	**(1,098,278)**	**(1,411,759)**

ALTERNATIVE PERFORMANCE INDICATORS

To enhance comprehension of business performance, the operating results are also shown excluding non-recurring items.

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.

Brockaghboy Windfarm Ltd. - IFRS 5

With reference to the Brockaghboy Windfarm Ltd. transaction, mentioned in the introduction, note 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 greater disclosure, the results of the assets being sold as part of ordinary operations are shown and commented in this Report.

	12 months	
EBITDA	**2017**	**2016**
EBITDA from continuing operations	**485.5**	**466.5**
Contribution from discontinued operations (Brockaghboy)	*2.3*	*–*
IAS Reported EBITDA	**487.9**	**466.5**
Exclusion of non-recurring items:		
Thermoelectric power - Hydroelectric power		
Charges for company reorganisation	*–*	*0.3*
Reversal of ancillary charges on extraordinary operations (Special Projects)	*0.3*	*–*
Wind Power		
HR charges for company reorganisation	*–*	*0.9*
Reversal of ancillary charges on extraordinary operations (Special Projects)	*0.1*	*–*
Ancillary charges on extraordinary operations	*–*	*0.9*
Recurring EBITDA	**488.3**	**468.6**

	12 months	
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	**2017**	**2016**
Depreciation of 'continuing' operations	**(246.1)**	**(253.7)**
Contribution from discontinued operations (Brockaghboy)	*(1.3)*	*–*
Amortisation, depreciation and write-downs	**(247.3)**	**(253.7)**
Exclusion of non-recurring items:		
Non-recurring items	*–*	*–*
Recurring amortisation and depreciation	**(247.3)**	**(253.7)**

	12 months	
GROUP'S NET PROFIT (LOSS)	**2017**	**2016**
Group's net profit (loss)	**136.6**	**95.4**
Exclusion of non-recurring items:		
Exclusion of effects of loan prepayment	–	5.3
Exclusion of ancillary charges on special projects	–	–
Exclusion of ancillary charges on extraordinary operations	0.4	0.9
Exclusion of HR charges for company reorganisation	–	0.8
Recurring Group net profit (loss)	**137.0**	**102.5**

ERG POWER GENERATION S.P.A. FINANCIAL STATEMENTS

The separate financial statements of ERG Power Generation S.p.A. for the year ended on 31 December 2017 were drafted in accordance with the National Accounting Standards and with prevailing law governing the drafting of financial statements, interpreted and added to the accounting standards issued by the National Board of Chartered Accountants and the Italian Accounting Body, and take account of the revisions and updates of prevailing Italian accounting standards.

The comparative data of 2016 are presented with regard to the 2016 financial statements of ERG Power Generation S.p.A. Note that in the "ONE Company" Project, ERG Power Generation S.p.A. incorporated, effective 1 January 2017, ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A., taking over all payables and receivables of the merged companies.

INCOME STATEMENT

	YEAR	
(EUR thousand)	**2017**	**2016**
Revenues from ordinary operations	721,932	626,370
Other revenues and income	8,207	6,903
TOTAL REVENUES	**730,139**	**633,273**
Costs for purchases	(507,735)	(432,463)
Changes in inventory	2,529	-
Costs for services and other operating costs	(206,219)	(181,806)
Personnel costs	(27,930)	(17,565)
EBITDA	**(9,216)**	**1,439**
Economic-technical amortisation, depreciation and write-downs	(1,769)	(316)
EBIT	**(10,985)**	**1,123**
Net financial income (expenses)	82,715	64,953
Value adjustments to financial assets and liabilities	(200)	17
OPERATING RESULTS	**71,530**	**66,093**
Income taxes	6,954	10,673
PROFIT (LOSS) FOR THE YEAR	**78,485**	**76,766**

Revenues from ordinary operations

Revenues from sales, amounting to EUR 645.4 million, mainly comprise the sale of electricity, steam, gas and other utilities, essentially to GME, IREN Mercato, ISAB S.r.l. and other customers in the Priolo industrial district. Revenues from sales include, in addition to the sale of electricity generated by the CCGT plant owned by ERG Power S.r.l., that of the Italian wind farms and of ERG Hydro S.r.l.

Revenues from services, equal to EUR 76.6 million, also include services rendered to subsidiaries for Operation & Maintenance and BoP, i.e., management and maintenance of the wind aerogenerators and substations, for approximately EUR 34 million.

Revenues from services also include operation and maintenance management services under the Operation & Maintenance service agreement, provided during the period to ERG Power S.r.l., Priolo Servizi S.c.p.A. and ISAB S.r.l.

The subject item also includes revenues for technical services and central staff services provided to the subsidiaries, as well as Energy Management services rendered, predominantly to third parties and to Terna.

Other revenues and income

This item mainly includes the positive effect of the partial release of the risk provision relating to the Power CGU - combined cycle plant that emerged in the 2011 impairment test on the financial statements of ERG S.p.A., and transferred on 1 July 2014 to ERG Power Generation S.p.A., amounting to EUR 4,670 thousand.

The item also includes revenues from Jao S.A. for the sale of the unused transmission capacity and revenues from the parent company for miscellaneous re-debiting.

Costs for purchases

Costs for purchases mainly include costs for the purchase of electricity, primarily from GME and from the subsidiaries, as well as purchases of gas, primarily from Edison and Gazprom Export LLC for the CCGT plant owned by ERG Power S.r.l.

Costs for purchases include costs for raw materials acquired from third parties and subsidiaries to conduct maintenance on the wind aerogenerators on behalf of the subsidiaries.

Costs for services and other operating costs

This item mainly includes the costs for services relating to the tolling fee paid to the parent company ERG Power S.r.l. as part of the tolling contract.

The item also includes transportation costs linked to purchases of electricity and gas, as well as other costs for services.

The subject costs also include maintenance costs essentially referring to costs for assistance, management and maintenance services for the wind farms owned by subsidiaries.

Lastly, the item includes staff services rendered by the company ERG S.p.A.

Personnel costs

This item amounts to EUR 27.9 million and reflects the cost of company personnel, which increased significantly in 2017 mainly as a result of the merger.

Amortisation, depreciation and write-downs

Economic-technical amortisation of EUR 1.3 million was allocated during the year for intangible fixed assets and EUR 0.4 million for tangible fixed assets.

Net financial income (expenses)

This item mainly comprises income from dividends and distributions of reserves collected during the year from subsidiaries for about EUR 68.2 million, interest income from subsidiaries (for EUR 10.9 million) and the capital gain from the increase in share capital in Orneta, through disposal at market value of the investment of subsidiary Blachy Pruszynski – Energia SP.Z O.O., for approximately EUR 5.4 million.

This item also includes financial charges that accrued on the loan taken out with the parent company ERG S.p.A. for approximately EUR 1 million and other minor charges.

Value adjustments to financial assets

The net item mainly includes the fair value of derivative instruments and the write-down of the investment in subsidiary Creggan Wind Farm Limited, as the project did not obtain authorisation from the Scottish government.

Income taxes

Taxes on the net profit for the year amounted to EUR 7 million.

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2017	31/12/2016
Fixed Assets	1,789,848	1,059,406
Net working capital	43,899	49,400
Employees' severance indemnities	(3,199)	(1,090)
Other assets	58,215	17,800
Other liabilities	(15,012)	(16,055)
NET INVESTED CAPITAL	**1,873,751**	**1,109,461**
Shareholders' Equity	1,843,675	1,061,828
Medium to long-term net financial indebtedness	–	–
Short-term financial indebtedness	30,077	47,634
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**1,873,751**	**1,109,462**

The net invested capital amounted to EUR 1,874 million at 31 December 2017.

Fixed Assets

Fixed assets primarily comprise financial fixed assets, mainly consisting of the shareholdings held in the fully-owned subsidiaries ERG Power S.r.l. and ERG Hydro S.r.l. and the investments arising from the merger of the renewables companies.

Net working capital

Net working capital consists of trade receivables and payables vis-à-vis Group companies and third parties.

Other assets

They mainly comprise receivables from tax authorities and other receivables from Group companies. The item also includes deferred tax assets, prepaid expenses and other assets paid as advances for the purpose of potential development of wind farms abroad.

Other liabilities

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

FINANCIAL INDEBTEDNESS

(EUR thousand)	31/12/2017	31/12/2016
Short-term bank borrowings	–	13
Financial payables due to Group companies	252,850	119,781
Other short-term financial payables	2,071	247
Short-term financial liabilities	**254,921**	**120,041**
Cash and cash equivalents	(3,210)	–
Financial receivables due from Group companies	(203,596)	(55,382)
Other short-term financial receivables	(18,038)	(17,023)
Short-term financial assets	**(224,844)**	**(72,405)**
Total	**30,077**	**47,635**

Net financial indebtedness mainly comprises:

- other financial payables to Group companies, which mainly include the balance of zero balance cash pooling from subsidiary ERG Hydro S.r.l., including the interest accrued, for a total of EUR 177 million, and the residual amount reflects the balance of zero balance cash pooling from other subsidiaries;
- financial receivables from Group companies, which predominantly include the balance of zero balance cash pooling from subsidiary ERG S.p.A., including the interest accrued, for a total of EUR 49.2 million, and financial receivables relative to treasury and in favour of subsidiaries for EUR 154.4 million;
- other short-term financial receivables, which mainly comprise receivables from the ECC - European Commodity Clearing, regarding the margin deposit and fair value of contracts stipulated (futures) for approximately EUR 14.1 million, receivables for the positive fair value of derivative financial instruments for about EUR 0.6 million and other minor receivables.

The following is an exercise to determine the 2016 pro-forma statement of financial position and income statement, aimed at representing the transaction as if it had taken place on 1 January 2017, for greater information completeness and data comparability.

ASSETS 2016

(amounts in EUR thousand)	Notes	ERG Power Generation S.p.A.	ERG Renew S.p.A.	ERG Renew Operations & Maintenance S.r.l.	Merger adjustments	Pro-forma 2016
Fixed assets						
Goodwill	1	–	–	–	3,754	3,754
Intangible fixed assets		451	1,887	223	–	2,560
Tangible fixed assets		88	753	1,682	–	2,523
Financial fixed assets	2	1,058,867	743,652	60	(9,860)	1,792,720
TOTAL FIXED ASSETS		**1,059,406**	**746,292**	**1,965**	**(6,106)**	**1,801,557**
Current Assets						
Inventories	3	–	–	7,388	–	7,388
Receivables		200,274	63,504	5,340	(19,135)	249,983
Financial assets	4	55,859	108,417	804	(804)	164,275
Cash and cash equivalents		–	598	640	–	1,238
TOTAL CURRENT ASSETS		**256,133**	**172,518**	**14,172**	**(19,939)**	**422,884**
Accruals and deferrals		**159**	**7,045**	**280**	**–**	**7,484**
TOTAL ASSETS		**1,315,698**	**925,855**	**16,417**	**(26,045)**	**2,231,925**

LIABILITIES 2016

	Notes	ERG Power Generation S.p.A.	ERG Renew S.p.A.	ERG Renew Operations & Maintenance S.r.l.	Merger adjustments	Pro-forma 2016
Shareholders' Equity	5	**1,061,828**	**701,050**	**6,106**	**(6,106)**	**1,762,878**
Provisions for liabilities and charges		8,327	217	–	–	8,545
Employees' severance indemnities		1,090	560	1,724	–	3,374
Payables	6	244,453	224,006	8,353	(19,939)	456,872
Accruals and deferrals		–	21	234	–	256
TOTAL LIABILITIES		**253,870**	**224,805**	**10,311**	**(19,939)**	**469,047**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,315,698**	**925,855**	**16,417**	**(26,045)**	**2,231,925**

INCOME STATEMENT 2016

(amounts in EUR thousand)	ERG Power Generation S.p.A.	ERG Renew S.p.A.	ERG Renew Operations & Maintenance S.r.l.	Merger adjustments	Pro-forma 2016
VALUE OF PRODUCTION					
Revenues from sales and services	626,370	128,044	28,737	(90,807)	692,345
Other revenues and income	6,903	1,799	27	(734)	7,995
TOTAL VALUE OF PRODUCTION	**633,273**	**129,843**	**28,764**	**(91,541)**	**700,339**
COSTS OF PRODUCTION					
For raw, ancillary and consumable materials and goods	(432,463)	(116,034)	(7,335)	89,389	(466,443)
For services	(179,668)	(20,798)	(9,702)	2,152	(208,015)
For leased goods	(495)	(292)	(944)	–	(1,730)
For employees:	(17,565)	(7,371)	(7,159)	–	(32,096)
Amortisation, depreciation and write-downs:	(1,371)	(842)	(350)	–	(2,563)
Changes in inventories of raw materials, ancillary and consumable materials and goods	–	–	4,291	–	4,291
Provisions for risks	–	–	–	–	–
Other provisions	(46)	–	–	–	(46)
Management expenses	(543)	(254)	(59)	–	(855)
TOTAL COSTS OF PRODUCTION	**(632,150)**	**(145,591)**	**(21,256)**	**91,541**	**(707,456)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	**1,123**	**(15,748)**	**7,508**	**–**	**(7,117)**
FINANCIAL INCOME AND EXPENSES					
Income from equity investments	77,000	38,857	–	–	115,858
Other financial income	201	11,764	15	(36)	11,944
Interest and other financial expenses	(12,244)	(4,763)	(21)	36	(16,992)
Gains and losses on foreign exchange	(4)	–	–	–	(4)
TOTAL FINANCIAL INCOME AND EXPENSES (C)	**64,953**	**45,858**	**(6)**	**–**	**110,805**
Value adjustments to financial assets	**17**	**–**	**–**	**–**	**17**
PROFIT (LOSS) BEFORE TAXES	**66,093**	**30,110**	**7,502**	**–**	**103,705**
Income taxes for the year: current, deferred and prepaid	**10,673**	**9,218**	**(2,425)**	**–**	**17,466**
PROFIT (LOSS) FOR THE YEAR	**76,766**	**39,328**	**5,077**	**–**	**121,171**

ANALYSIS OF STATEMENT OF FINANCIAL POSITION UPON MERGER

Provided below is a summary disclosure of the main balance sheet items subject to the merger as 1 January 2017:

1. Goodwill

Until 31 December 2016, the company ERG Renew Operations & Maintenance S.r.l. was wholly owned by ERG Renew S.p.A. The merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. into ERG Power Generation S.p.A. involved, as a first step, netting of the investment of ERG Renew Operations & Maintenance S.r.l. in ERG Renew S.p.A. (equal to EUR 9,860 thousand) against the shareholders' equity of the subsidiary (equal to EUR 6,106 thousand). As a result of the netting, the two values became a single amount of EUR 3,754 thousand, recorded as goodwill, with an estimated useful life of ten years.

2. Financial fixed assets

The most significant impact is generated by the financial fixed assets of ERG Renew S.p.A., equal to EUR 743,652 thousand and broken down as follows:

- EUR 456,372 thousand in equity investments in subsidiaries and companies under joint control of the ERG Group operating in the Wind sector, which reflects the effects brought about by these acquisitions on its financial and income situation, as well as the performance of all investees indirectly controlled by the Company. This item included the investment in ERG Renew Operations & Maintenance S.r.l. for EUR 9,860 thousand, netted following the merger by incorporation, shown in the column merger adjustments;
- EUR 287,280 thousand in other non-current financial assets, more specifically financial receivables due from Group companies, fully consisting of loans to subsidiaries of ERG Renew S.p.A.

3. Inventories

The impact is generated by the inventories of ERG Renew Operations & Maintenance S.r.l., amounting to EUR 7,388 thousand and essentially comprising spare parts for the wind turbines, as well as the inventories of the foreign branches (French and German), for a total of EUR 1,062 thousand.

4. Financial assets

The most significant impact was generated by the financial assets of ERG Renew S.p.A., equal to EUR 108,417 thousand, predominantly comprising financial receivables due from Group companies, mainly related to the subsidiaries' giro accounts (for EUR 97,771 thousand) and receivables for interest accrued on loans granted to subsidiaries (EUR 9,678 thousand).

5. Shareholders’ Equity

The shareholders’ equity of the merged companies is absorbed into ERG Power Generation S.p.A., for a total amount of EUR 607,050 thousand, indicated separately in other shareholders’ equity reserves under “2017 Merger reserve”.

6. Payables

The most significant impact is generated by the payables of ERG Renew S.p.A., equal to EUR 224,006 thousand and broken down as follows:

- EUR 201,944 thousand in current financial liabilities, including EUR 199,799 thousand in financial payables due to Subsidiaries by ERG Renew S.p.A. (subsidiaries and parent company) and other financial payables for EUR 2,144 thousand;
- EUR 20,415 thousand in trade payables, regarding purchases of a commercial nature and other types of services connected with operations, and other minor current liabilities.

NOTES ON THE RESULTS OF THE MAIN NON-CONSOLIDATED SUBSIDIARIES, 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 closed the year at 31 December 2017 with a slight increase.

Also note that the Group has investments in non-operational subsidiaries, as 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).

MANAGEMENT AND COORDINATION BY ERG S.P.A.

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:

- definition of the business strategies and the corporate governance systems and shareholding structure;
- determination of shared general policies with respect to human resources, information & communication technology, accounting, financial statements, taxes, procurement, finance, investments, risk management, legal and corporate affairs, communications, institutional relations, corporate social responsibility and business development.

In this respect, we note that, with regard to the board resolutions of ERG Power Generation S.p.A. made in 2017, the following should be added - in our opinion - to the above-mentioned paragraph:

- Board of Directors' meeting of 12 January 2017:
  - point 2: Remuneration of the Chairman and Chief Executive Officer;
  - point 3: Investments budget for 2017.
- Board of Directors meeting of 7 March 2017:
  - point 7: New transaction in the renewable energy sector in Germany; inherent and consequent resolutions.
- Board of Directors meeting of 10 May 2017:
  - point 3: Quarterly forecast for the annual investments budget;
  - point 4: Financial and corporate restructuring in Poland;
  - point 5: Capital increase in Brockaghboy Windfarm Ltd.
- Board of Directors meeting of 9 June 2017:
  - point 1: Refinancing of a number of subsidiary wind companies; inherent and consequent resolutions;
  - point 2: New transaction in the renewable energy sector in Northern Ireland; inherent and consequent resolutions;
  - point 3: Integration of Investments budget for 2017; inherent and consequent resolutions.
- Board of Directors meeting of 8 August 2017:
  - point 5: Quarterly forecast for the annual investments budget.
- Board of Directors meeting of 9 October 2017:
  - point 1: Operation within a new sector of renewable energy sources; inherent and consequent resolutions;
  - point 2: New transaction in the renewable energy sector in France; inherent and consequent resolutions;
  - point 3: Brockaghboy project; inherent and consequent resolutions.
- Board of Directors meeting of 8 November 2017:
  - point 3: Quarterly forecast for the annual investments budget;
  - point 4: Update of the transaction in a new sector of renewable energy sources;
  - point 5: Closure of branches in France and Germany; inherent and consequent resolutions.

- Board of Directors meeting of 13 December 2017:
  - point 2: Review and approval of the 2018 investment budget;
  - point 3: Brockaghboy project; inherent and consequent resolutions;
  - point 4: Calendar of meetings of corporate bodies for 2018;
  - point 7: Proposal for adoption of the ERG Group's Anti-Corruption Policy.

PRIVACY

In 2017, the ERG Group again invested adequate resources to maintain high levels of Compliance with regard to privacy; the internal regulatory system as well as the system for appointments and proxies have been systematically updated by aligning the latter with external regulatory changes as well as internal changes and for the purposes of guaranteeing compliance with the provisions of the Privacy Code (Italian Legislative Decree no. 196/2003) and the Provisions issued by the Authority for the protection of personal data.

With regard to the regulatory restrictions arising from the introduction of the European regulation on the protection of personal data (24 May 2016), the ERG Group is preparing to adopt all of the regulatory aspects which, in any case, will become definitively and directly applicable in all EU countries starting from 25 May 2018.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

12 January 2018

ERG, through its subsidiary ERG Power Generation S.p.A. completed the acquisition from VEI Green S.r.l., investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy, with an installed capacity of 89 MW.

The deal, which obtained the approval of the Antitrust authorities, as well as that of the financing banks, marks ERG's introduction into the solar sector and represents a further important step in its strategy of technological diversification in production from renewable sources.

12 January 2018

ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, signed an agreement with the Vortex Energy Group to acquire 100% of the capital of Windpark Linda GmbH & Co. KG, company that holds the permits to build a wind farm in Germany with power of 21.6 MW and an estimated production at full capacity of approximately 50 GWh per year, corresponding to approximately 39 kt of CO_2 emissions avoided.

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

Future construction of the plant, which will be situated in proximity to other ERG wind farms that already have 216 MW of operations in Germany, is part of the growth strategy for the country, optimising on capitalisation of its industrial expertise in development, engineering and construction.

BUSINESS OUTLOOK

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

Non-programmable sources

With regard to Wind power in Italy, EBITDA is expected to decline, following removal of the incentive system in 2017 for approximately 214 MW and the gradual removal of a further 72 MW during the year 2018; this decline is also due to the lower price of the incentive for 2018, the value of which is determined based on the average electricity price recorded in 2017, with a decrease of approximately 8 EUR/MWh on incentivised production.

EBITDA of Wind power abroad is expected to decline compared to 2017 due to decrease of the incentive in Romania and only one green certificate, and following the sale of subsidiary Brockaghboy Windfarm Ltd, expected to be completed within first quarter 2018.

In general, overall EBITDA of Wind power is therefore expected to fall; a good portion of this will be offset by introduction of the Solar business, through the acquisition of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy, with an installed capacity of 89 MW, whose impact in terms of EBITDA is estimated at approximately EUR 35 million.

The overall result of Non-programmable sources (Wind and Solar) is expected to be lower than that of 2017.

Programmable sources

With regard to Hydroelectric power, growth in results is expected, due to a forecast of higher production than in 2017, which was significantly below historic averages; this effect is partly offset by the lower price of the incentive from which approximately 40% of production benefits, and from elimination of EUR 8 million in revenues in 2017 involving the recovery of prior incentives.

Slightly lower results are envisaged for Thermoelectric power, mainly due to the declining expected generation margins compared to the particularly positive values of 2017.

Overall, the contribution of Programmable sources is expected to increase compared to 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 and fuel distribution industry and for the environment, and other changes in business conditions and in competitors' actions.

Genoa, 6 March 2018

on behalf of the Board of Directors
The Chief Executive Officer
Pietro Tittoni

Notes to the Consolidated Financial statements

STATEMENT OF FINANCIAL POSITION (1)

(EUR thousand)	Notes	31/12/2017		31/12/2016	
Intangible assets	1		597,822		204,304
Goodwill	2		125,932		–
Property, plant and equipment	3		2,171,306		970,681
Equity investments:	4		20,683		13,151
valued using the equity method		*12,787*		*13,151*	
other equity investments		*7,896*		*–*	
Other non-current financial assets	5		39,233		2,032
of which with related parties	40	*2,630*		*–*	
Deferred tax assets	6		116,625		39,291
Other non-current assets	7		45,402		9,754
of which with related parties	40				
Non-current assets			**3,117,003**		**1,239,213**
Inventories	8		20,596		5,656
Trade receivables	9		256,090		171,032
of which with related parties	40	*2,054*		*4,308*	
Other current receivables and assets	10		74,357		23,451
of which with related parties	40	*28,853*		*10,149*	
Current financial assets	11		67,484		72,406
of which with related parties	40	*49,181*		*55,382*	
Cash and cash equivalents	12		151,022		15,513
Current assets			**569,549**		**288,057**
Assets held for sale	27		**81,526**		**–**
TOTAL ASSETS			**3,768,077**		**1,527,271**
Group Shareholders' Equity	13		1,951,102		1,075,048
Minority interests			–		–
Shareholders' Equity			**1,951,102**		**1,075,048**
Employees' severance indemnities	14		5,157		2,744
Deferred tax liabilities	15		250,622		94,412
Provisions for non-current liabilities and charges	16		46,704		1,449
Non-current financial liabilities	17,22		1,171,942		191,242
of which with related parties	40	*98,689*		*93,005*	
Other non-current liabilities	18		30,706		543
of which with related parties	40				
Non-current liabilities			**1,505,131**		**290,390**
Provisions for current liabilities and charges	19		44,809		2,547
Trade payables	20		71,002		106,196
of which with related parties	40	*61*		*23,950*	
Current financial liabilities	21,22		146,135		29,909
of which with related parties	40	*–*		*221*	
Other current liabilities	23		47,743		23,180
of which with related parties	40	*27,724*		*10,681*	
Current liabilities			**309,689**		**161,833**
Liabilities held for sale	27		**2,156**		**–**
TOTAL LIABILITIES			**3,768,077**		**1,527,271**

(1) the statement of financial position at 31 December 2017 is represented as determined by IFRS 5, with the exclusion of the assets and liabilities of 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 - Net profit (loss) from assets held for sale**

INCOME STATEMENT (1)

(EUR thousand)	Notes	Anno 2017		Anno 2016	
Revenues from ordinary operations	28		1,052,437		691,160
of which with related parties	40	*11,862*		*11,463*	
of which non-recurring items					
Other revenues and income	29		8,863		5,527
of which with related parties	40	*30*		*74*	
of which non-recurring items					
Changes in inventory	30		(624)		(565)
Costs for purchases	31		(354,966)		(406,999)
of which with related parties	40	*(172)*		*(89,405)*	
of which non-recurring items					
Costs for services and other operating costs	32		(183,533)		(105,858)
of which with related parties	40	*(46,980)*		*(28,017)*	
of which non-recurring items	39	*398*			
Personnel costs	33		(36,639)		(24,534)
of which non-recurring items	39			*(274)*	
EBITDA			**485,538**		**158,731**
Amortisation, depreciation and write-downs of fixed assets	34		(246,065)		(88,134)
EBIT			**239,473**		**70,598**
Financial income	35		18,849		368
of which with related parties	40	*20*		–	
of which non-recurring items					
Financial expenses	35		(79,597)		(21,307)
of which with related parties	40	*(2,649)*		*(14,918)*	
of which non-recurring items					
Net financial income (expenses)	35		**(60,748)**		**(20,939)**
Net income (loss) from investments carried at equity	36		119		139
Other net income (loss) from equity investments	36		(1,124)		–
Income (loss) from equity investments			**(1,005)**		**139**
PROFIT (LOSS) BEFORE TAXES			**177,720**		**49,798**
Income taxes	37		(41,752)		(8,659)
of which non-recurring items	39	*(5)*		*75*	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**135,967**		**41,139**
Net profit (loss) from discontinued operations	38		625		–
NET PROFIT (LOSS) FOR THE PERIOD			**136,592**		**41,139**
Minority interests			–		–
GROUP SHARE OF NET PROFIT (LOSS)			**136,592**		**41,139**

(1) the income statement for 2017 is represented as determined by IFRS 5, with the exclusion of the results of 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 under **Note 38 - Net profit (loss) from assets held for sale**

OTHER COMPREHENSIVE INCOME COMPONENTS

(EUR thousand)	2017	2016
Net profit (loss) for the period	**136,592**	**41,139**
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	(205)	–
Income taxes referred to the actuarial change in employees' severance indemnities provision	49	–
	(156)	**–**
Changes that will be reclassified in the income statement		
Changes in the cash flow hedge reserve	20,968	(2,261)
Income taxes referred to the change in the cash flow hedge reserve	(5,032)	622
	15,935	**(1,639)**
Changes in the translation reserve	(1,597)	–
Income taxes referred to the changes in the translation reserve	564	–
	(1,033)	**–**
Other components of comprehensive income after tax	**14,747**	**(1,639)**
Comprehensive net income (loss) for the period	**151,340**	**39,500**
Comprehensive net income (loss) pertaining to the minority interests	–	–
Comprehensive net income (loss) pertaining to the Group	**151,340**	**39,500**

STATEMENT OF CASH FLOWS

(EUR thousand)	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES (A)		
Net profit (loss) for the period	136,592	41,139
- Amortisation, depreciation and write-downs of fixed assets	247,326	88,134
- Net change in provision for liabilities and charges	9,219	(4,414)
- Net change in deferred tax assets and liabilities	19,512	(18,791)
- Write-down of receivables and current assets	1,481	1,055
- Net capital gain/loss on sale of non-current assets	–	–
- Portion of income/expenses from investments carried at equity	363	(1,010)
- Write-down of equity investments	–	–
- Net change in employees' severance indemnities	(415)	110
Cash flow from operating activities	**414,077**	**106,222**
- Change in other operating assets and liabilities:		
- Change in inventory	(233)	3,163
- Change in trade receivables	48,646	18,418
- Change in trade payables	(51,427)	14,645
- Net change in other receivables/payables and other assets/liabilities	(2,107)	20,270
	(5,121)	**56,497**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**408,956**	**162,719**
CASH FLOW FROM INVESTING ACTIVITIES (B)		
Acquisitions of intangible assets and goodwill	(1,230)	(867)
Acquisition of property, plant, and equipment	(50,294)	(12,333)
Acquisition of equity investments and other non-current financial assets	(4,763)	(5)
Net change in other increases/decreases in fixed assets	(1,410)	16,320
Collection of balance from acquisition of ERG Hydro S.r.l.	–	(10,000)
Disposals of intangible fixed assets and goodwill	–	–
Disposals of property, plant and equipment and related capital gains/losses	1,221	–
Disposals of equity investments and other non-current financial assets	86	(98)
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(56,390)**	**(6,983)**
CASH FLOW FROM FINANCING ACTIVITIES (C)		
New non-current loans	176,685	13,942
Repayment of non-current loans	(376,788)	(732,753)
Net change in loans to Group companies not consolidated line by line	(150,213)	(82,089)
Net change in other non-current financial liabilities	(2,573)	(31,344)
Net change in short-term bank borrowings	–	–
Net change in other current financial assets/liabilities	(31,794)	6,769
Share capital increases/repayments	–	700,000
Dividends paid to third parties	–	(21,188)
Other changes in shareholders' equity	15,521	(1,639)
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(369,161)**	**(148,302)**
TRANSFER/MERGERS (D)	**164,034**	**–**
CHANGE IN SCOPE OF CONSOLIDATION (E)	**(11,930)**	**–**
NET CASH FLOW IN THE PERIOD (A+B+C+D+E)	**135,509**	**7,434**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**15,513**	**8,079**
NET CASH FLOWS FOR THE YEAR	135,509	7,434
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**151,022**	**15,513**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Reserves	Profit (loss) for the year	Total	Minority interests	Total Shareholders' Equity
BALANCE AT 31/12/2015	**6,000**	**314,930**	**35,036**	**355,966**	**–**	**355,966**
Allocation of 2015 profit	–	35,036	(35,036)	–	–	–
Dividends	–	(21,188)	–	(21,188)	–	(21,188)
Capital account payment, ERG Power Generation	–	700,000	–	700,000	–	700,000
Other changes	–	770	–	770	–	770
Net profit (loss) for 2016	–	–	41,139	41,139	–	41,139
Actuarial change in employees' severance indemnities provision	–	–	–	–	–	–
Changes in the cash flow hedge reserve	–	(1,639)	–	(1,639)	–	(1,639)
Change in the translation reserve	–	–	–	–	–	–
Comprehensive net income (loss)	**–**	**(1,639)**	**41,139**	**39,500**	**–**	**39,500**
BALANCE AT 31/12/2016	**6,000**	**1,027,909**	**41,139**	**1,075,048**	**–**	**1,075,048**
Allocation of 2016 profit (loss)	–	41,139	(41,139)	–	–	–
Dividends	–	–	–	–	–	–
Change due to merger, Consolidated ERG Renew	94,000	629,941	–	723,941	–	723,941
Other changes	–	773	–	773	–	773
Net profit (loss) for 2017	–	–	136,592	136,592	–	136,592
Actuarial change in employees' severance indemnities provision	–	(160)	–	(160)	–	(160)
Changes in the cash flow hedge reserve	–	15,935	–	15,935	–	15,935
Change in the translation reserve	–	(1,028)	–	(1,028)	–	(1,028)
Comprehensive net income (loss)	**–**	**14,747**	**136,592**	**151,340**	**–**	**151,340**
BALANCE AT 31/12/2017	**100,000**	**1,714,510**	**136,592**	**1,951,102**	**–**	**1,951,102**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ERG Power Generation refers to ERG Power Generation S.p.A. and the companies included in its scope of consolidation. These Financial Statements are the first Consolidated Financial Statements drawn up by ERG Power Generation S.p.A.

NATURE OF 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.

MERGER BY INCORPORATION OF ERG RENEW OPERATIONS & MAINTENANCE S.R.L. AND ERG RENEW S.P.A. INTO ERG POWER GENERATION S.P.A.

As part of the "ONE Company" Project, ERG Power Generation S.p.A. incorporated, effective 1 January 2017, ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A., taking over all payables and receivables of the merged companies. ERG Renew S.p.A. was the sub-holding of the ERG Group active in the generation of electricity from wind sources, leading wind power operator in Italy and one of the top ten in Europe in 2016.
ERG Renew Operations & Maintenance S.r.l. carried out management and maintenance, both ordinary and extraordinary, on the Italian and foreign wind farms of the ERG Group.
In order to allow more complete comparison of the economic and financial data between the years 2017 and 2016, the following are provided:

- a pro-forma balance sheet, drawn up assuming that the transaction took place on 31 December 2016. This statement is formed by adding the assets and liabilities of the ERG Power Generation S.p.A. Group, including its subsidiaries ERG Power and ERG Hydro and the Consolidated accounts of ERG Renew S.p.A., after netting the intercompany items;

- a pro-forma income statement, drawn up assuming that the transaction took place on 1 January 2016. This statement is formed by adding the revenues and expenses of the ERG Power Generation S.p.A. Group, including its subsidiaries ERG Power and ERG Hydro and the Consolidated accounts of ERG Renew S.p.A., after netting the intercompany items.

Note that, for the purposes of greater clarity, the tables of the Explanatory Notes provide the 2016 figures as well as the pro-forma data, in order to permit their comparability.

	31/12/2016		
(EUR thousand)	Pro-forma Consolidated Financial Statements	Effect of 2017 merger	Consolidated Financial Statements before merger
Intangible assets	638,295	433,991	204,304
Goodwill	125,926	125,926	–
Property, plant and machinery	2,352,696	1,382,015	970,681
Equity investments:	18,058	4,907	13,151
Other non-current financial assets	37,544	35,511	2,032
Deferred tax assets	146,787	107,496	39,291
Other non-current assets	43,715	33,962	9,754
Non-current assets	**3,363,021**	**2,123,808**	**1,239,213**
Inventories	20,363	14,708	5,656
Trade receivables	285,224	114,192	171,032
Other current receivables and assets	88,605	65,154	23,451
Current financial assets	74,818	2,412	72,406
Cash and cash equivalents	179,547	164,034	15,513
Current assets	**648,557**	**360,500**	**288,057**
TOTAL ASSETS	**4,011,578**	**2,484,307**	**1,527,271**
Group Shareholders' Equity	1,798,989	723,941	1,075,048
Minority interests	–	–	–
Shareholders' Equity	**1,798,989**	**723,941**	**1,075,048**
Employees' severance indemnities	5,573	2,829	2,744
Deferred tax liabilities	261,271	166,859	94,412
Provisions for non-current liabilities and charges	44,012	43,615	397
Non-current financial liabilities	1,352,745	1,161,502	191,242
Other non-current liabilities	31,347	30,804	543
Non-current liabilities	**1,694,946**	**1,405,608**	**289,338**
Provisions for current liabilities and charges	38,282	34,683	3,599
Trade payables	103,614	(2,582)	106,196
Current financial liabilities	313,379	283,470	29,909
Other current liabilities	62,368	39,188	23,180
Current liabilities	**517,643**	**354,758**	**162,885**
TOTAL LIABILITIES	**4,011,578**	**2,484,307**	**1,527,271**

	Year 2016		
(EUR thousand)	Pro-forma Consolidated Financial Statements	Effect of 2017 merger	Consolidated Financial Statements before merger
Revenues from ordinary operations	1,024,368	333,208	691,160
Other revenues and income	11,112	5,585	5,527
Changes in inventory	1,905	2,469	(565)
Costs for purchases	(331,912)	75,086	(406,999)
Costs for services and other operating costs	(198,699)	(92,841)	(105,858)
Personnel costs	(42,202)	(17,667)	(24,534)
EBITDA	**464,572**	**305,840**	**158,731**
Amortisation, depreciation and write-downs of fixed assets	(248,996)	(160,862)	(88,134)
EBIT	**215,576**	**144,978**	**70,598**
Financial income	18,730	18,362	368
Financial expenses	(112,023)	(90,716)	(21,307)
Net financial income (expenses)	**(93,293)**	**(72,354)**	**(20,939)**
Net income (loss) from investments carried at equity	139	–	139
Other net income (loss) from equity investments	526	526	–
Income (loss) from equity investments	**665**	**526**	**139**
PROFIT (LOSS) BEFORE TAXES	**122,949**	**73,150**	**49,798**
Income taxes	(28,083)	(19,424)	(8,659)
NET PROFIT (LOSS) FOR THE PERIOD	**94,866**	**53,727**	**41,139**
Minority interests	–	–	–
GROUP SHARE OF NET PROFIT (LOSS)	**94,866**	**53,727**	**41,139**

DRAFTING CRITERIA

The Consolidated Financial Statements as 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 as 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 Power Generation 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 CONSOLIDATION PRINCIPLES

Summary of significant accounting standards

The merger by incorporation of ERG Renew S.p.A. and ERG Operations & Maintenance S.r.l. into ERG Power Generation S.p.A. was completed with effective date 1 January 2017; as a result, the companies that were held by ERG Renew S.p.A. (ERG Renew Group) were transferred to ERG Power Generation S.p.A.
The latter, while holding direct controlling stakes (ERG Power S.r.l. - ERG Hydro S.r.l.), did not draw up consolidated financial statements until 31 December 2016, taking advantage of the faculty envisaged by Art. 27 of Law no. 127 of 09/04/1991, being entirely controlled by ERG S.p.A. (parent company that draws up its own consolidated financial statements).
Starting from this year, Management has decided to draw up Consolidated IAS Financial Statements, representative of the new group, which includes companies that were under the scope of consolidation of ERG Power Generation S.p.A., as well as those that are part of the ERG Renew Group.
The Consolidated Financial Statements as 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 International Financial Reporting Standards - IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).
The main accounting policies adopted for the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2017 are as follows.

Intangible assets

Intangible 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 in a reliable way.
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 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 economic and technical life.

There are no intangible 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 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,identifiable acquired assets 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 whether the fair value of the identifiable assets and liabilities acquired is correct or not, is recognised in the income statement at the date of acquisition. The profit is allocated to the purchaser.

In a business combination achieved in more than one stage, the acquirer shall revaluate 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 during the prior reporting periods changes in the value of its equity interest in the acquiree have been recognized 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.

Regarding 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 value of the unit (or group of units) to which the goodwill is allocated is less than its carrying amount, impairment shall be recognised according to this order: first, as a reduction of the carrying amount of the CGU's goodwill and, thus, to the other assets in the unit (or group of units) in proportion to the carrying amount of each asset that comprises 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 assets cost, in presence of current obligations, includes charges for dismantling, assets removal 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 from the date in which 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 fixed 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.

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 equipment	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

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, the recoverable amount of the asset must be estimated to determine the impairment, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount 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 amount is lower than the carrying amount. Should the impairment of an 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

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

In accordance with IAS 39, financial assets shall be classified in the following categories:

- financial assets at fair value through profit or loss (FVTPL): Fair value through profit or loss;
- held-to-maturity (HTM) investments: Held-to-maturity investments;
- loans & receivables (L&R): Loans and receivables;
- available-for-sale (AFS) financial investments Available-for-sale financial investments.

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 discount rate 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 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 and 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, made exception for financial derivative securities, 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 investments include equity investments in companies other than subsidiaries and associates in which the 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 in reference to stock market prices recorded at close of trading at the end of the reporting period.

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 & receivables" are measured at amortised cost, calculated using the effective interest rate method, net of impairment provisions, 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 the end of each reporting period, the Group verifies whether a financial asset or group of financial assets has suffered impairment in value.

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 recognised, depending on 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

In accordance with IAS 39, financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss (FVTPL): Fair value through profit or loss;
- 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 rate 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 essentially transferred all risks and rewards of ownership of the financial asset, or has neither transferred nor retained all risks and rewards of the asset, but has transferred control thereof.

In cases where the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor retained 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 recorded as assets when the fair value is positive and as a liability when it is negative.

ERG performs transactions with derivative instruments in order to hedge the risk deriving from price fluctuation of commodities and products, exchange rates 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 previously and periodically, is high.

When hedging derivatives hedge the risk of change in fair value of the underlying hedged asset (fair value hedge), they are recognised at fair value with the effects allocated in the income statement; consistently, the hedging derivatives are adequate to reflect fair value changes associated with the hedged risk.

When derivatives hedge the risk of changes in the cash flows of the underlying hedged asset (cash flow hedge), the effective portion of the changes in the fair value of the derivatives is initially recognised in the shareholders' equity and subsequently allocated in the income statement consistently with the economic effects of 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

These are recorded at the exchange rate in force at the transaction date. Monetary assets and liabilities in foreign currency are converted at the exchange rate in force at the reporting date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date, except in 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 Power Generation S.p.A. records provisions for liabilities and charges when:

- there is a current, legal or implicit obligation to third parties;
- it is likely that the Group will have to use its own resources to fulfil the obligation;
- the amount of the obligation itself can be reliably estimated.

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 provisions connected with the passage of time is allocated in the income statement under Financial income (expenses).

When the liability relates to property, plant or machinery (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.

The notes to the financial statements illustrate the significant contingent liabilities represented by:

- 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 governance of said provision was changed by Law no. 296 of 27 December 2006 ("2007 Financial Act") and subsequent decrees and regulations issued in the initial months of 2007. In light of these amendments, and specifically with regard to companies with at least 50 employees, this instrument shall now be considered a defined-benefit plan exclusively with regard to the portions accrued prior to 1 January 2007 and not yet settled at the reporting date. Following that date, this provision is treated as 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.

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 in a reliable way and that 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 period, 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 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 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 regards 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 period attributable to the parent company's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period.
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 through implementation of the appropriate technologies and application of efficient systems.
White certificates are accounted for on an accrual basis and recorded under other current assets, based on one certificate for every TOE (Tonnes of Oil Equivalent) actually saved during the year.

Their measurement is based on the price set in the bilateral TEE sales agreement or in the trading sessions of the Electricity Market Manager platform, taking into account that the certificates are made available on the operator's account, within the year subsequent to the reference year. In the event of non-sale during the year, the measurement takes place based on the Final Tariff Contribution calculated according to the weighted mean of TEE prices on the Electricity Market Manager's platform for the last twelve months of the market.

With regard to the **Feed-in premium** (FIP), incentives are calculated on a monthly basis, based on the electricity fed into the network from the plant, and are issued to the operator 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 and Gas 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 and Gas 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 Power Generation to make estimates and assumptions that affect the carrying values of the assets and liabilities recognised in the

Financial Statements and disclosures relating to contingent assets and liabilities. To obtain these estimates, available information had to be used and subjective evaluations had to be adopted.

By their nature, the estimates and assumptions used can change from year to year and, therefore, it is possible that in subsequent years the current amounts may differ as a result of changes in the subjective evaluations applied.

The main estimates for which the use of subjective assessments is more heavily required were used, inter alia, for:

- the estimate of revenues from ordinary operations pertaining to the thermoelectric business;
- provisions for bad debt, inventory obsolescence and asset write-downs;
- the definition of the useful life of the fixed assets and the correlated amortisation and depreciation;
- allocations to provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the valuation processes pertain both to the determination of the degree of probability of occurrence of the conditions that can entail a financial outlay, and the quantification of the related amount;
- deferred tax assets, recognised on the basis of the future taxability of expected profits generated in accordance with business plans as well as of the expected 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**, which implies - in estimating 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 in which the change took place.

"Mucchetti" amendment for production units in Sicily - update on the completion of the "Sorgente-Rizziconi" operation

On 25 May 2016, TERNA announced the entry into operation at 00:00 a.m. on 28 May 2016 of the Sorgente-Rizziconi connection and the ancillary works defined by Resolution 521/2014.

That communication sanctioned the end of the essentiality regime envisaged by Law Decree no. 91 of 24 June 2014 for the electricity production units located in Sicily, as governed by the aforementioned Resolution 21/14.

The AEEGSI then confirmed said situation by way of Resolution 274/2016/R/eel published on 27/05/2016.

On 13 December 2016, the Authority issued Resolution 741/2016/R/eel which established the second advance for the compensation for costs in relation to essential facilities subject to the 91/14 regime, for the year 2015, giving a mandate to TERNA for the liquidation of the amounts.

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

On 30 December 2016, approximately EUR 28 million was collected as an additional advance on 2015 and approximately EUR 18 million as an advance on 2016, while approximately EUR 26 million still remain to be collected. A request was made to AEEGSI in **August 2017** for the balance of the 2016 reimbursement, pursuant to Art. 65.28 of resolution no. 111/06;

On **30 November 2017**, EUR 12.6 million was collected for the 2015 balance. On the total amount requested by the Company with regard to 2015 of EUR 77.7 million, the AEEGSI did not recognise EUR 0.7 thousand, which was consequently eliminated from the 2017 income statement;

On **30 December 2017**, EUR 9 million was collected as an additional advance on 2016. Therefore, with regard to the subject item, a receivable of EUR 3.9 million is recorded with respect to 2016.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2017

The following Accounting Standards, amendments and IFRS interpretations were applied by the Group for the first time starting from 1 January 2017:

- Amendment to **IAS 7 - "Disclosure Initiative"** (published on 29 January 2016). The document aims to provide a number of clarifications to improve reporting on financial liabilities. In particular, the amendments require providing a disclosure that allows readers of the financial statements to comprehend the changes in liabilities arising for financing transactions.
- Amendment to **IAS 12 - "Recognition of Deferred Tax Assets for Unrealised Losses"** (published on 19 January 2016). The document aims to provide some clarification on the recognition of deferred tax assets on unrealised losses in the valuation of financial assets in the "Available for Sale" category, upon the occurrence of specific circumstances and on the estimate of taxable income for future years. The adoption of these amendments had no effect on the Group's consolidated financial statements.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORY AND NOT ADOPTED BY THE GROUP IN ADVANCE AT 31 DECEMBER 2017

- **IFRS 15 - Revenue from Contracts with Customers** (published on 28 May 2014 and integrated with additional clarifications published on 12 April 2016), which will supersede IAS 18 - Revenue and IAS 11 - Construction Contracts, as well as the following interpretations: IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 Revenue-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 revenue accounting according to the new model are:
  - identify the contract with the customer;
  - identify the performance obligations of the contract;
  - determine the transaction price;
  - allocate the price to the performance obligations of the contract;
  - recognise revenue when the entity satisfies a performance obligation.

The standard shall apply from 1 January 2018 onwards. Amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were endorsed by the European Union on 6 November 2017.

IFRS 15 - Revenues from contracts with customers defines a single model that companies must use to account for revenues from contracts with customers. In this respect, the underlying premise of the Standard is that each company recognises revenues in a way that faithfully represents the process of transferring control of goods and services to customers and to an extent that effectively represents the consideration that it expects to obtain in return for the goods and services provided.

Application of the Standard requires a careful analysis of sales agreements with customers, in order to outline five phases:

1. identify the contract with customers;
2. identify the individual performance obligations within the contract;
3. determine the sale consideration arising from the contract;
4. allocate the consideration to the individual performance obligations based on their stand-alone selling price;
5. recognise revenues in accordance with fulfilment of the individual performance obligations.

The analysis activities to identify the areas affected by the new provisions and to determine the relative impacts were essentially completed in 2017.

Based on the analyses carried out, the directors expect that application of IFRS 15 will not have a significant impact on the amounts recognised under revenues and on the relative disclosure in the consolidated financial statements.
The cases identified by the standard and which could lead to different accounting for revenues compared to what is done by applying IAS 18 include the "Gross or net presentation" (Principal vs Agent). In some contracts, ERG is identified as "agent", envisaging a representation of revenues at net values to highlight only the intermediations, however for irrelevant values.

- Final version of **IFRS 9 - Financial Instruments** (published on 24 July 2014). The document sets out the results of the IASB project to replace IAS 39:
  - it introduces new criteria for the classification and measurement of financial assets and liabilities (along with the assessment of minor changes to the financial liabilities);
  - with regard to the impairment model, the new standard requires the estimate of losses on receivables to be made based on the expected losses model (and not on the incurred losses model used by IAS 39), using supported information, available at no cost or without unreasonable effort and which includes past, current and future data;
  - it introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, change to the accounting for forward contracts and options when they are included in a hedge accounting relationship, changes to the effectiveness test).

The new standard applies to the financial statements beginning on 1 January 2018 or later.
IFRS 9 - Financial Instruments which will replace IAS 39 envisages a single model for the classification of financial assets, based on the characteristics of cash flows from the instrument and on the business model used by the entity, outlined below:

Category	Business model	Characteristics of cash flows
Amortised cost	The financial asset is held until the contractual cash flows' collection	Cash flows are represented exclusively by the payment of interest and capital reimbursement
Fair value through OCI (FVTOCI)	The asset is held until collection of the contractual cash flows, as well as cash from the sale of the assets	Cash flows are represented exclusively by the payment of interest and reimbursement of capital
Fair value through PL (FVTPL)	Different from that envisaged for amortised cost and FVTOCI	Different from that envisaged for amortised cost and FVTOCI

The standard also introduces a new method of writing down receivables that takes into account expected credit losses and changes the provisions on hedge accounting and on changes in financial liabilities that do not lead to derecognition of the debt.
IFRS 9 must be applied starting from the years beginning with 1 January 2018 or subsequently (first financial statements drawn up in application of IFRS 9 at 31 December 2018).

The principle proposes, in general, retrospective application of the accounting methods, while envisaging some exemptions, such as the possibility of not carrying out a restatement of comparative balances of the prior years.

In this last case, the profits/losses carried forward will be restated, in order to recognise the effects of first-time adoption of the standard as at the date of its first application (1 January 2018).

Areas affected 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 recognition of said impairment based on a predictive approach, according to the counterparty's probability of default and the ability to recover in the event of a default event (so-called Loss given default); and (ii) for minority equity investments, reclassification from available-for-sale and trading equity investments to equity investments at fair value through profit or loss.

The activities for definition and implementation of the method for impairment of receivables were completed in 2017 and mainly comprise:

(i) the use of official and/or internal ratings, already used for the purposes of customer credit, to determine the probability of default of counterparties;
(ii) identification of the recovery capacity in the event of default of the counterparty based on prior experiences and on the different possible methods of recovery.

At the moment of the first-time adoption, the effects of application of the new standard in terms of measurement of receivables, quantified in a negative amount of less than a million euro, will be recognised in shareholders' equity at 1 January 2018.

Note that IFRS 9 on hedging accounting exclusively envisages prospective application from 1 January 2018.

Lastly, with regard to changes in financial liabilities that do not lead to derecognition of debt, the previous IAS 39 did not envisage any recognition of the effects in the income statement, as it is not a substantial change in the financial liability.

IFRS 9, however, does not provide for distribution of the economic effects of the renegotiation (and relative costs) throughout the residual duration of the debt, modifying the effective interest rate of the debt at that date.

According to the standard, a modification or exchange of a financial liability that does not qualify for derecognition/extinguishment (and the consequent accounting for a new liability at fair value) must be treated as a revision of the future cash flows from the instrument itself. With application of IFRS 9, this involves the recognition of an immediate profit or loss at the date of modification of the liability, rather than incorporating the changes in future cash flows into the change in the effective interest rate on the debit and, therefore, into the interest expense recognised over the remaining life of the liability, as required by IAS 39.

Upon first-time adoption, the effects of application of the new standard in terms of changes in financial liabilities that do not lead to derecognition of the debt are quantified in a positive amount that is not significant for the years 2015, 2016 and 2017, which shall be recognised in shareholders' equity at 1 January 2018.

- **IFRS 16 - Leases** (published on 13 January 2016), designated to replace IAS 17 – Leases, as well as the interpretations 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 lease and introduces a criterion based on the right of use of an asset to distinguish between leasing contracts and service contracts, based on the following key elements: identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from its use and the right to direct use of the asset underlying the contract.
  The standard establishes a single model for the recognition and measurement of leasing contracts for the lessee, which envisages recognition of the leased asset, including operating leases, under assets, with a financial payable as contra-entry, also providing the possibility of not recognising under leasing those contracts that involve low-value assets and those with a term of 12 months or less. Conversely, the standard does not envisage any significant changes for lessors.
  The standard shall apply from 1 January 2019 onwards, but early adoption is allowed only for companies that have already applied IFRS 15 - Revenue from Contracts with Customers.
  Directors expect application of IFRS 16 to have a significant impact on the amounts and relative disclosure reported in the Group's consolidated financial statements. However, a reasonable estimate of the effects cannot be provided until the Group has completed a detailed analysis of the relative contracts.

- Document "**Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**" (published on 12 September 2016). For entities whose business is predominantly insurance, the amendments aim to clarify 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, based on which financial liabilities are instead measured.
  Directors do not expect the adoption of these amendments to have a significant impact in the consolidated financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the reference date of these Financial Statements the competent bodies of the European Union have not completed the endorsement process required for adoption of the amendments and of the 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 "Foreign Currency Transactions and Advance Consideration".
- **Amendments to IAS 40** - Transfers of Investment Property.

- Interpretation 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.
- Document “Annual Improvements to IFRSs 2015-2017 Cycle”.
- 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 Power Generation S.p.A., the Parent Company, and the subsidiaries either directly or indirectly controlled by it. 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 Power Generation 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.

Equity investments in entities included in the scope of consolidation

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.

All financial statements of the companies consolidated line by line are 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 attributable to them.

The carrying amount of equity investments is eliminated vis à vis the corresponding fraction of equity of the investee companies, attributing to individual assets and liabilities their current value at the date of acquisition of control. Any residual difference, if positive, is recorded under the "Goodwill" asset item; if it is negative, it is recorded in the income statement, as prescribed by IFRS 3 (Business Combinations).

Intra-group transactions

Application of the "line-by-line" method, to eliminate the influence of all intra-group transactions on the consolidated statement of financial position and income statement, determines for the companies included in the scope of consolidation the elimination of their mutual payables and receivables, of the costs and revenues and of the profits, if significant, originating from sales of products and assets.

Translation of financial statements in currencies other than the Euro

The consolidated financial statements of ERG Power Generation are prepared in Euro, which is the functional currency of the Parent Company ERG and of all companies included in the consolidation area, 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 English subsidiary 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 companies consolidated line-by-line, those measured at equity and those measured at cost are listed below.

List of subsidiaries consolidated **line-by-line**:

	Registered office	Direct share	Group share	Share capital (1) (2)	Shareholders' Equity (1) (2)
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	13
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 Pruszynsky-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 last 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) Brockaghboy Windfarm Ltd. is represented in these financial statements according to IFRS 5. For more information, refer to **Note 38 - Net profit (loss) from assets held for sale** and **Note 27 - Assets and liabilities held for sale**

	Registered office	Direct share	Group 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 Kavarna East EOOD	Sofia (Bulgaria)	100%	100%	505	3,547
Wind Park Kavarna 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 Morvilers 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 last 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 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 last approved financial statements
(2) amounts are reported in thousands of Euro
(3) the remaining 20% is held by ERG Wind MEI 2-14-2

List of equity investments **measured under the equity method of accounting**:

	Registered office	Direct share	Group share	Share capital (1) (2)	Shareholders' Equity (1) (2)	Value in financial statements 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
Company associates						**12,787**

(1) data referring to the last approved financial statements
(2) amounts are reported in thousands of Euro
(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 share	Share capital (1) (2)	Shareholders' Equity (1) (2)	Value in financial statements 31/12/2017
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. (3)	Paris (France)	100%	100%	n,d,	n,d,	10
ERG UK Holding Ltd. (4)	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**
TOTAL						**7,894**

(1) data referring to the last approved financial statements
(2) amounts are reported in thousands of Euro
(3) on 15 December 2017 ERG, through its subsidiary ERG Eolienne France S.a.s., established the French company ERG Development France S.a.s.
(4) on 28 November 2017, the name of Evishagaran Wind Farm Ltd. was changed to ERG UK Holding Ltd.

The main transactions on the Group's equity investments are summarised below.

- 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 CO_2 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 shares of the UK-based company Evishagaran Wind Farm Ltd. was completed, under the care of the relative English authorities.

- 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 end of first quarter 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.

- On **11 December 2017** ERG, through its subsidiary ERG Power S.r.l., sold to Syndial S.p.A. and ISAB S.r.l. an overall 213,560 shares of Priolo Servizi S.C.p.A., equal to 0.76% of the stake held in the same by the aforementioned company. Therefore, from the above date, ERG Power S.r.l. owns 23.65% of the share capital of Priolo Servizi S.c.p.A. In these Consolidated Financial Statements, the company is consolidated at equity.

- On **15 December 2017** ERG, through its subsidiary ERG Eolienne France S.a.s., established the French company ERG Development France S.a.s.

- On **16 November 2017**, ERG, through its subsidiary Power Generation S.p.A., signed an agreement with VEI Green, investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, for the purchase of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy. ForVei, joint venture of VEI Green and Foresight established in 2011, owns and manages 30 photovoltaic plants, which came on stream between 2010 and 2011,

situated in 8 regions between northern and southern Italy, with an installed capacity of 89 MW and annual production of approximately 136 GWh, equal to around 77 kt of CO_2 emissions avoided. 100% of the installed capacity benefits from incentives with an average maturity until 2030. The enterprise value of the transaction was EUR 336 million; expected annual EBITDA for 2017 was approximately EUR 35 million. The assets are currently financed through non-recourse project financing for approximately EUR 180 million and leasing contracts for about EUR 60 million.
On **12 January 2018**, ERG, through its subsidiary ERG Power Generation S.p.A. completed the acquisition from VEI Green S.r.l., investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy, with an installed capacity of 89 MW. The deal, which obtained the approval of the Antitrust authorities, as well as that of the financing banks, marks ERG's introduction into the solar sector and represents a further important step in its strategy of 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 Pruszynski-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 50 million Zloty and 40 million Zloty respectively. As a result of these capital increases, intercompany loans between the two companies and ERG Power Generation S.p.A. were partially repaid.
  This transaction represents the first step of a broader corporate and financial reorganisation of the companies in Poland aimed at renegotiating the project financing with the banks lending to EW Orneta 2 SP. Z O.O, making it possible to benefit from the cash flows from Blachy and Hydro for the purposes of debt sustainability. After the end of the half-year:
  - On **3 July 2017**, ERG Power Generation S.p.A. subscribed a capital increase in Orneta, by means of the transfer of the equity investments held by ERG Power Generation S.p.A. in Blachy and Hydro for a total value of 132 million Zloty (corresponding to the market value of these shares).

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

• Note that effective **1 January 2018**:
  - assets that were part of 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 company name to ERG France S.A.R.L.;
  - assets that were part of 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 consequence of these operations, with date of effect on the 2nd of January, 2018 , Branches of ERG Power Generation were closed.

With regard to the existence of restrictions and guarantees on the equity investments held by the Group, please refer to the comments in **Note 25 - Covenants and negative pledges**.

BROCKAGHBOY WINDFARM LTD.

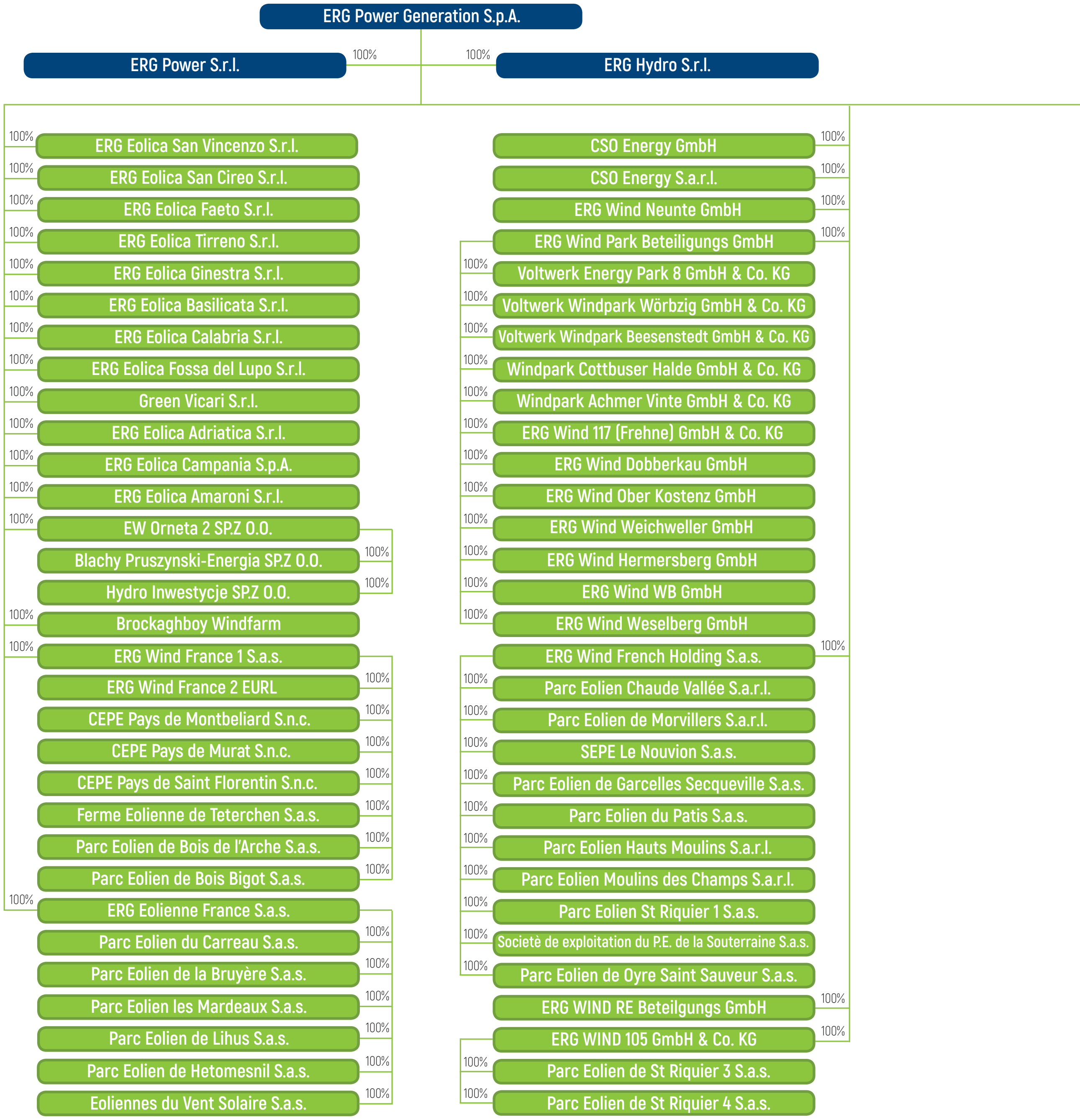
At the end of 2017, a sales process for the subsidiary Brockaghboy Windfarm Ltd., UK company that owns a wind farm in Northern Ireland that was commissioned in fourth quarter 2017, started. The sales process is expected to be completed within first quarter 2018.

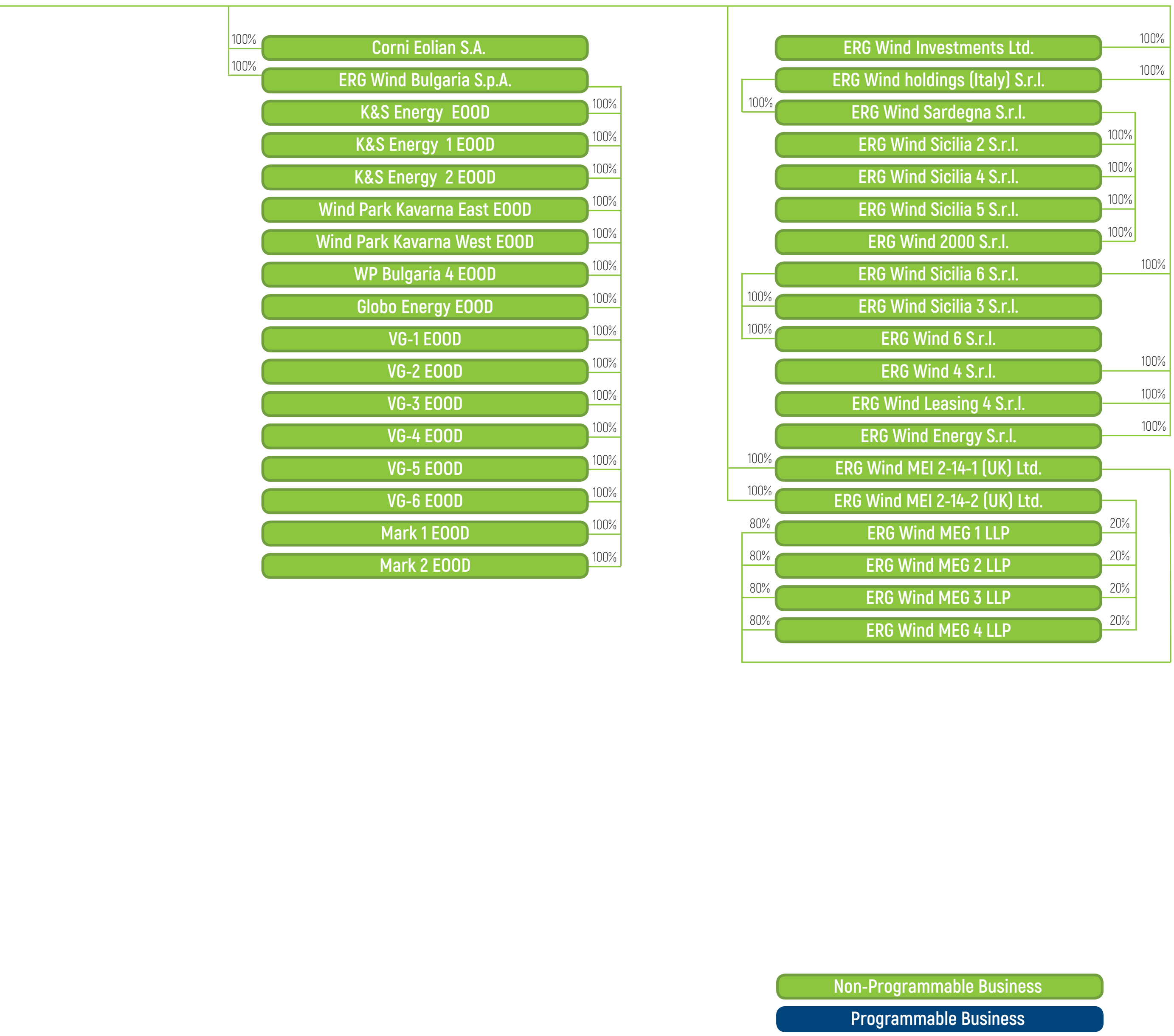
With reference to the above, in the Notes to the Consolidated Financial Statements, the accounting results of the assets being sold are indicated separately in accordance with IFRS 5.

For greater disclosure, the results of the assets being sold as part of ordinary operations are shown and commented in this Report.

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

SCOPE OF CONSOLIDATION AT 31 DECEMBER 2017




100% Corni Eolian S.A.
100% ERG Wind Bulgaria S.p.A.
K&S Energy EOOD 100%
K&S Energy 1 EOOD 100%
K&S Energy 2 EOOD 100%
Wind Park Kavarna East EOOD 100%
Wind Park Kavarna West EOOD 100%
WP Bulgaria 4 EOOD 100%
Globo Energy EOOD 100%
VG-1 EOOD 100%
VG-2 EOOD 100%
VG-3 EOOD 100%
VG-4 EOOD 100%
VG-5 EOOD 100%
VG-6 EOOD 100%
Mark 1 EOOD 100%
Mark 2 EOOD 100%
ERG Wind Investments Ltd. 100%
ERG Wind holdings (Italy) S.r.l. 100%
100% ERG Wind Sardegna S.r.l.
ERG Wind Sicilia 2 S.r.l. 100%
ERG Wind Sicilia 4 S.r.l. 100%
ERG Wind Sicilia 5 S.r.l. 100%
ERG Wind 2000 S.r.l. 100%
ERG Wind Sicilia 6 S.r.l. 100%
100% ERG Wind Sicilia 3 S.r.l.
100% ERG Wind 6 S.r.l.
ERG Wind 4 S.r.l. 100%
ERG Wind Leasing 4 S.r.l. 100%
ERG Wind Energy S.r.l. 100%
100% ERG Wind MEI 2-14-1 (UK) Ltd.
100% ERG Wind MEI 2-14-2 (UK) Ltd.
80% ERG Wind MEG 1 LLP 20%
80% ERG Wind MEG 2 LLP 20%
80% ERG Wind MEG 3 LLP 20%
80% ERG Wind MEG 4 LLP 20%
Non-Programmable Business
Programmable Business

CHANGE IN 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. 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 CO_2 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 closing date to the actual consolidation date.

Determination of the total consideration of the acquisition

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

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

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

(EUR thousands)	German companies "DIF"	Adjustment to the acquisition situation	German companies "DIF" Adjusted
Intangible 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 current receivables and 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	**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 machinery: mainly turbines, blades and transformers;
  - trade receivables: relative to the sale of electricity;
  - other current receivables and assets: portions of deferred expenses;
  - cash and cash equivalents: cash on hand held in current accounts;
  - deferred tax liabilities related to higher depreciation charges made for tax purposes;
  - non-current financial liabilities: bank borrowings for project financing;
  - provisions for risks and charges related to dismantling expenses;
  - Trade payables: payables to the seller and third party suppliers;

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

Contribution of the German companies in 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 operating income.

JOINT VENTURES

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 other shareholders of Gruppo Versalis S.p.A. (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 purpose of the standard is to require an entity to disclose information that enables users of 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.

Significant valuations and assumptions

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

Entities designated as jointly controlled entities in the sub-section List of Group Companies are entities on whose activities the Group has joint control, as defined by IAS 28 - Investments in Associates and Joint Ventures.

Entities designated as associates in the sub-section List of Group Companies are entities on whose activities the Group has joint control, as defined by IAS 28 - Investments in Associates and Joint Ventures.

Investments in subsidiaries

For the disclosure on the composition of the Group, please refer to the **Scope of Consolidation**.

With regard to the nature and the measure of restriction to the Group’s capability to access or use assets and to extinguish 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 2017 are expressed in the section **Changes in the scope of consolidation**.

With regard to the provisions that can limit the distribution of dividends or other capital distributions, recall that within the scope of the Project Financing agreements, the distribution of the available shares of equity to Shareholders is subject to verification of the conditions prescribed by the project financing agreement which require the attainment of determined financial coverage indicators and the absence of default conditions. 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 sections **List of Group companies**, and **Joint Ventures**.

For the summary of the economic and financial data of the joint ventures and associates, please see the following tables:

	PRIOLO SERVIZI	
(EUR thousand)	31/12/2017	31/12/2016
Property, plant and machinery	74,291	79,838
Intangible assets and Goodwill	5	64
Equity investments and Other non-current financial assets	38	36
FIXED ASSETS	**74,335**	**79,939**
Inventories	1,350	1,454
Trade receivables	5,182	7,179
Trade payables	10,196	13,917
Excise duty payables	–	–
NET WORKING CAPITAL	**3,664**	**5,283**
Employees' severance indemnities	457	571
Other assets	1,859	3,198
Other liabilities	2,284	3,473
NET INVESTED CAPITAL	**69,789**	**73,810**
Group Shareholders' Equity	54,069	53,872
Financial indebtedness	15,720	19,938
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**69,789**	**73,810**

	2017	2016
Revenues from ordinary operations	48,887	52,824
Other revenues and income	3,001	2,730
Costs for purchases	(1,196)	(1,407)
Changes in inventory	(102)	(59)
Costs for services and other operating costs	(32,234)	(34,862)
Personnel costs	(9,083)	(8,906)
EBITDA	**9,273**	**10,320**
Amortisation, depreciation and write-downs of fixed assets	(7,976)	(8,260)
EBIT	**1,297**	**2,059**
Net financial income (expenses)	(563)	(682)
Income (loss) from equity investments	–	–
PROFIT (LOSS) BEFORE TAXES	**734**	**1,375**
Income taxes	(232)	(802)
NET PROFIT (LOSS)	**502**	**574**

RECONCILIATION WITH THE CARRYING VALUE OF THE EQUITY INVESTMENT

	PRIOLO SERVIZI	
(EUR thousand)	31/12/2017	31/12/2016
Share attributable to ERG Group	24%	24%
Share of Group shareholders' equity	12,787	13,150
Other adjustments	–	–
Carrying value of the equity investment	**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.

To determine cash flows, the following were taken into consideration:

- for the period in question, the data contained in the Group's 2018-2022 financial plan, approved on 7 March 2018, excluding the Repowering, Business Development and Merger&Acquisition initiatives, as these are development hypotheses with positive impact;
- for subsequent years to the period in question, the data processed based on simulation models for the macroeconomic and energy scenario and hypothesising a constant trend in production.

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. perfected the purchase from International Power Consolidated Holding Limited of the remaining 20% of the shareholding 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 share capital of ERG Renew Operations & Maintenance S.r.l., 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 Pruszynski 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 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 own six wind farms in Germany, with a total installed capacity of 82 MW (Impax Germany business combination);
- business combinations for 2017 already discussed 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 consolidated financial statements, the values of the Enertad acquisitions had been partially written down. On the occasion of the 2010 consolidated financial statements, the capital gains relating to the acquisitions of the French companies were partially written down.

The residual value of the higher amounts[1] allocated within the purchase price allocation before the 2017 impairment test was equal to:

- 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).

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.

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.
The Group then estimated the recoverable value of the aforesaid assets. On the basis of 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 principal assumptions used to calculate the value in use concern the discount rate, the growth rate and the expected variation in the selling prices of electricity and the trend in direct costs during the period assumed for calculation purposes. The Group therefore adopted an after-tax discount rate that reflects the market's current assessment of the cost of money and the specific risk associated with the CGUs. The growth rates used are based on growth forecasts pertaining to the relevant industrial sector of the Group, without changes to the market share of the Group. Changes in the sale prices and in direct costs are based on 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. Instead, the cost of equity (ke) includes the rate of return of risk-free assets and it is identified as the average return of ten-year German government bonds.

"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 values attributable 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 values attributable 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 values attributable 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.

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 values attributable 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 values attributable 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" (France and Germany) business combination

With reference to values attributable 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% for Italy and 3.2% for Germany) was used to compute the present value of expected cash flows.

Group Management has deemed the assumptions used to identify the recoverable value of tangible fixed assets, intangible assets and goodwill connected with the different CGUs of the Wind segment to be 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 account of the aforesaid uncertainties in its elaboration and definition of the basic assumptions used to determine the recoverable value of the capital gains allocated to the "Renewables" sector, and it also carried out a sensitivity analysis on the recoverable value of the various CGUs. This analysis assumed that the overall revenues from sales of energy (i.e. the remuneration of energy and its production) could increase or decrease by an estimated amount of 10% with respect to the values estimated for the Plan.

The hypothesis of a 10% decrease in revenues, extended over the entire duration of the plan, would result in a decrease in recoverable value of approximately EUR 209 million, not entailing any write-down of the carrying values.

Lastly, a 1.0% increase in the discount rate would lead to a decrease in recoverable value of approximately EUR 198 million, not entailing any write-down of the carrying values.

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 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 depreciation, 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 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 period 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.
Note 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 is derived from information available to date and from reasonable estimates of the evolution of external variables such as the price of energy and cost of raw materials, in addition to 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 highlighted that a 5% decrease in unit contribution margins would lead to a decline in recoverable value in use, determined based on the valuation model adopted, for an amount of 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 TEST ON HYDROELECTRIC PRODUCTION PLANTS

On 30 November 2015, the Group finalised the purchase, through 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 the 2016 Financial Statements (definitively), as envisaged by IFRS 3, the relative Purchase Price Allocation procedure was adopted: the higher price was allocated to Concessions for approximately EUR 219 million, before the related tax effect recognised among "Deferred tax liabilities" for EUR 69 million, and to property, plant and equipment for EUR 235 million, before the tax effect recognised under "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 amounts allocated within the purchase price allocation before the 2017 impairment test was equal to:

- a higher amount of approximately EUR 185 million in Concessions;
- a higher amount of approximately EUR 198 million in Property, plant and equipment.

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 was established as a portfolio of assets subject to the acquisition in 2015 and, 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. Projected cash flows associated with the CGU up to 2029, expiry date of the Authorisations, were used in the calculation. A residual value (or terminal value) was also hypothesised, corresponding to the estimate of consideration to the outgoing assignee, calculated on the basis of current regulations.
Projected cash flows were discounted using a discount rate (WACC after tax) of 4.1%.

Group management deemed 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 account of the aforesaid uncertainties in its elaboration and definition of the basic assumptions used to determine the recoverable value of the capital gains allocated to the "Hydro" sector, and it also carried out a sensitivity analysis on the recoverable value of the various CGUs. This analysis assumed that the overall revenues from sales of energy (i.e. the remuneration of energy and its production) could increase or decrease by an estimated amount of 10% with respect to the values estimated for the Plan.
The hypothesis of a 10% decrease in revenues, extended over the entire duration of the plan, would result in a decrease in recoverable value of approximately EUR 61 million, not entailing any write-down of the carrying values.
Lastly, a 1.0% increase in the discount rate would lead to a decrease in recoverable value of approximately EUR 69 million, not entailing any write-down of the carrying values.

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 STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE ASSETS

	Concessions and licences	Other intangible assets	Assets in progress	Total
Historical cost	218,903	15,037	–	233,940
Amortisation	(17,311)	(12,325)	–	(29,636)
BALANCE AT 31/12/2016	**201,592**	**2,712**	**–**	**204,304**
Assets held for sale	**(7,069)**	**–**	**–**	**(7,069)**
Changes during the period:				
Consolidation of ERG Renew Group (2017 merger)	430,540	3,180	270	**433,990**
Acquisition of DIF Group Business Combination	12,420	–	–	**12,420**
Capital expenditures	–	600	630	**1,230**
Other increases	–	–	–	**–**
Capitalisations	–	59	(19)	**40**
Other reclassifications	–	504	(504)	**–**
Disposals and divestments	–	(243)	–	**(243)**
Amortisation	(42,978)	(2,504)	–	**(45,482)**
Write-downs	–	–	–	**–**
Other changes	(1,069)	(302)	–	**(1,371)**
Historical cost	763,267	22,408	377	786,052
Amortisation	(169,831)	(18,400)	–	(188,231)
BALANCE AT 31/12/2017	**593,436**	**4,008**	**377**	**597,822**

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.

For additional clarity, the changes in the period relating to reclassifications, disposals and divestments are posted net of accumulated depreciation. Amounts reclassified as assets held for sale refer to assets of Brockaghboy Windfarm Ltd as described in the relative paragraph. Note that the reclassified amount refers to the initial balance.

The amounts indicated under Consolidation of ERG Renew Group refer to the effects of the merger of the ERG Renew Group on 1 January 2017, while the impact of the acquisition of the German companies from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH amounts 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 pro-forma), 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 Income Statement and it is subject to impairment test on an annual basis or more frequently if there are indications, during the year, that this asset may have undergone impairment.

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	138,166	1,546,734	3,539	16,985	1,705,425
Amortisation, depreciation and write-downs	(72,977)	(659,091)	(2,676)	–	(734,744)
BALANCE AT 31/12/2016	**65,189**	**887,644**	**863**	**16,985**	**970,681**
IFRS 5 Reclassification	**–**	**–**	**–**	**(42,262)**	**(42,262)**
Changes during the period:					
Change in scope of consolidation ERG Renew (merger 2017)	56,325	1,277,861	4,172	43,657	**1,382,015**
Capital expenditures	–	37,679	–	–	**37,679**
Other increases	2,222	5,601	617	13,181	**21,621**
Capitalisations	–	–	–	–	**–**
Other reclassifications	14	2,285	269	(2,746)	**(178)**
Disposals and divestments	(1,264)	2	(0)	–	**(1,262)**
Depreciation	(35)	(1,186)	–	–	**(1,221)**
Write-downs	(9,155)	(190,553)	(906)	–	**(200,613)**
Other changes	224	4,624	(8)	5	**4,844**
Historical cost	221,627	4,043,991	14,529	28,820	4,308,967
Amortisation, depreciation and write-downs	(108,106)	(2,020,034)	(9,521)	–	(2,137,661)
BALANCE AT 31/12/2017	**113,520**	**2,023,957**	**5,008**	**28,820**	**2,171,306**

For additional clarity, the changes in the period relating to reclassifications, disposals and divestments are posted net of accumulated depreciation.

Amounts reclassified as assets held for sale refer to assets of Brockaghboy Windfarm Ltd. as described in the relative paragraph. Note that the reclassified amount refers to the initial balance.

The amounts indicated under Consolidation of ERG Renew Group refer to the effects of the merger of the ERG Renew Group on 1 January 2017, while the impact of the acquisition of the German companies from DIF RE Erneuerbare Energien 1 GmbH and DIF RE Erneuerbare Energien 3 GmbH amounts to EUR 37,679 thousand.

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

The investments 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 and, for the hydroelectric business, investment in the new mini hydro plants (equal to approximately EUR 2,800 thousand).

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.

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	**–**	**–**	**13,151**	**–**	**13,151**
Changes during the period:					
Consolidation of ERG Renew Group (2017 merger)	4,703	205	–	–	**4,908**
Acquisitions/share capital increases	3,898	32	–	–	**3,930**
Reclassifications	–	–	–	–	**–**
Write-downs/use of provision to cover losses	(943)	–	–	–	**(943)**
Disposals and divestments	–	–	–	–	**–**
Measurement of investments using the equity method	–	–	(363)	–	**(363)**
Other changes	–	–	–	–	**–**
BALANCE AT 31/12/2017	**7,658**	**237**	**12,788**	**–**	**20,683**

Acquisitions mainly refer to the acquisition of UK-based company Evishagaran Wind Farm Ltd. (now ERG UK Holding Ltd.) for EUR 3,802 thousand, to the establishment of French company ERG Development France S.a.s. for EUR 10 thousand, commented in the Scope of consolidation section, and the residual amount of EUR 118 thousand to capitalised charges.

Write-downs, equal to EUR 943 thousand, regard the investment in Creggan Wind Farm Limited (UK), as at the conditions in effect at the date of this document.

Disposals and divestments refer to disposal of the stake (0.76%) held by subsidiary ERG Power S.r.l. in Priolo Servizi S.C.p.A. to Syndial S.p.A. and ISAB S.r.l.

The negative change of EUR 13 thousand arising from companies measured under the equity method of accounting is due to the performance of the investee company Priolo Servizi S.C.p.A. in the period.

The breakdown of the item Equity investments held as at 31 December 2017 is shown below:

	Measured at equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated on a line-by-line basis	12,787	7,659	**20,446**
- in joint ventures	–	237	**237**
- in associated companies	–	–	**–**
- in other businesses	–	–	**–**
Total	**12,787**	**7,896**	**20,683**

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 pro-forma	31/12/2016
Financial receivables due from subsidiary companies not consolidated on a line-by-line basis	2,630	1,335	–
Other financial receivables	36,603	36,208	**2,032**
Total	**39,233**	**37,544**	**2,032**

Financial receivables due from subsidiary companies not consolidated on a line-by-line basis include:

- a financial receivable from French company WP France 6 S.a.s., acquired in 2016 and involved in the development of a wind project located in France for EUR 1,394 thousand;
- a financial receivable from UK-based company ERG UK Holding Ltd. (previously Evishagaran), acquired in 2017 and involved in the development of a wind farm located in Northern Ireland for EUR 617 thousand;
- a financial receivable from UK-based company Sandy Knowe Wind Farm Ltd., acquired in 2016 and involved in the development of a wind farm located in the United Kingdom for EUR 347 thousand;
- a financial receivable from ISAB Energy Solare S.r.l. for EUR 271 thousand.

The increase during the period is due to loans disbursed in 2017 to UK-based companies ERG UK Holding Ltd. and Sandy Knowe Wind Farm Ltd.

"Other non-current financial assets" amounting to EUR 39,233 thousand (EUR 37,544 thousand at 31 December 2016 pro-forma) 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. While awaiting the definitive decision, the Ministry of Economic Development revoked the contributions per Italian Law no. 488/92 previously 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. While awaiting that appeal, on 27 July 2015 payment notices were served on the companies for which the ERG Wind companies filed objections before the Court of Genoa, submitting an additional request 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 allocated, when their future recovery is likely, on the temporary differences, subject to advance taxation, between the value of the assets and liabilities for statutory purposes and their value for tax purposes 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 116,625 thousand (EUR 146,787 thousand at 31 December 2016 pro-forma) were mainly recognised with respect to derivative financial instruments and provisions for liabilities and charges.
Lastly, no deferred tax assets were recorded in relation to excess interest payable that can be carried forward amounting to approximately EUR 41 million referred to the ERG Wind Group, acquired in 2013.

NOTE 7 - OTHER NON-CURRENT ASSETS

Other non-current assets amounting to EUR 45,402 thousand (EUR 43,715 thousand at 31 December 2016 pro-forma) mainly comprise:

- the portion still to be collected (EUR 22 million) of the receivables for grants per Italian Law 488/92 relating to wind farms acquired within the scope of the ERG Wind transaction. In view of the aforesaid receivables, a liability of an equal amount has been allocated and 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 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;
- prepaid expenses regarding the costs for development of wind energy projects abroad, specifically costs for the UK companies developing four wind power projects in the United Kingdom for EUR 7 million.

NOTE 8 - INVENTORIES

Raw materials inventories, 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.

NOTE 9 - TRADE RECEIVABLES

Receivables can be summarised as follows:

	31/12/2017	31/12/2016 pro-forma	31/12/2016
Customer trade receivables	141,045	184,396	164,130
Receivables for incentives	115,646	101,668	5,024
Receivables due from Group associates	4,903	4,416	4,308
Bad debt provision	(5,503)	(5,256)	**(2,430)**
Total	**256,090**	**285,224**	**171,032**

The item mainly includes receivables for supply of electricity in respect of third parties, sale of utilities to operating subjects at the Priolo plant and environmental certificates (feed-in tariff, green certificates and white certificates).
For information concerning loans to Group companies not consolidated line-by-line, reference is made to Note 40 - Related parties.

The bad debt provision changed as follows:

	31/12/2017	Increases	Decreases	Change in scope of consolidation	31/12/2016
Bad debt provision	5,503	1,645	(1,398)	2,826	2,430
Total	**5,503**	**1,645**	**(1,398)**	**2,826**	**2,430**

The Group assesses the existence of factual evidence of impairment at the individual significant position level. The aforesaid analyses are validated at the level of each individual entity by the Credit Committee which meets periodically to analyse the situation of past-due receivables and of the critical issues for their collection.
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	**241,170**	**132,899**
Receivables past due:		
within 30 days	9,242	17,640
within 60 days	1,560	163
within 90 days	475	123
beyond 90 days	3,643	20,206
Total	**256,090**	**171,032**

NOTE 10 - OTHER CURRENT RECEIVABLES AND ASSETS

	31/12/2017	31/12/2016 pro-forma	31/12/2016
Tax receivables	13,840	17,890	2,755
VAT receivables	4,713	10,930	4,215
Receivables for IRES tax consolidation and Group VAT from ERG S.p.A.	28,853	20,474	9,406
Other receivables	3,615	16,364	406
Advances to suppliers and deferred costs	23,335	22,947	6,669
Total	**74,357**	**88,605**	**23,451**

Tax receivables mainly regard receivables for advances on income taxes.

The decrease in other receivables mainly refers to reclassification from current to non-current of receivables of EUR 10 million by way of indemnification of the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired within the scope of the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in Note 19 - Provisions for current liabilities and charges.

NOTE 11 - CURRENT FINANCIAL ASSETS

	31/12/2017	31/12/2016 pro-forma	31/12/2016
Financial receivables from ERG S.p.A.	49,181	55,474	55,382
Other short-term financial receivables	18,303	19,344	17,023
Total	**67,484**	**74,817**	**72,406**

Financial receivables from parent company ERG S.p.A. include the cash pooling zero balance for EUR 49,181 thousand.

The item also includes, under "Other short-term financial receivables", the receivables from ECC - European Commodity Clearing, relating to the margin deposit and the fair value of futures contracts stipulated (approx. EUR 14 million).

NOTE 12 - CASH AND CASH EQUIVALENTS

	31/12/2017	31/12/2016 pro-forma	31/12/2016
Bank and postal deposits	151,018	179,541	15,510
Cash and notes on hand	4	5	**3**
Total	**151,022**	**179,547**	**15,513**

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 companies belonging to the ERG Power Generation Group, according to the restrictions on use set forth in the relative project financing.

For an analysis of the increase in cash and cash equivalents, see 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

The share capital at 31 December 2016, fully paid in, comprised 600,000 shares with a par value of EUR 10 each for a total of EUR 6,000 thousand, is fully held by ERG S.p.A.

The merger deed of 21 December 2016 in particular provided full execution of the resolution of the Shareholders' Meeting of 18 November 2016 which envisaged, effective 1 January 2017, a share capital increase of the incorporating company ERG Power Generation S.p.A. for a total of EUR 94,000,000, with the issue of 9,400,000 new shares with a par value of EUR 10 each, which will be assigned to the company ERG S.p.A., sole shareholder of the incorporating company.

As a result of the above, the share capital at 31 December 2017 amounts to EUR 100,000 thousand.

At 31 December 2017, the parent Company's Shareholders' Register, relative to holders of significant interests, shows the following:

- ERG S.p.A. owns a number of shares equal to 100%;

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 5,157 thousand (EUR 5,573 thousand at 31 December 2016 pro-forma), 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 period. 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 pro-forma	31/12/2016
BALANCE AT BEGINNING OF PERIOD	**5,573**	**5,085**	**2,634**
Change in scope of consolidation	–	–	–
Increases in the period	2,162	2,102	1,256
Decreases in the period	(2,577)	(1,614)	(1,146)
BALANCE AT END OF PERIOD	**5,157**	**5,573**	**2,744**

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: lower liability	(199)
-0.5% change in discount rate: higher liability	219

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 250,622 thousand (EUR 261,271 thousand at 31 December 2016 pro-forma), 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	Reclassi-fications	IFRS 5 Reclassi-fication	DIF Group acquisition	Consolidation of ERG Renew Group	31/12/2016
Provision for decommissioning costs	**36,455**	2,200	–	–	(1,381)	1,414	34,221	**–**
Provisions for non-current tax risks	**9,969**	798	(114)	(82)	–	–	9,367	**–**
Provisions for non-current institutional risks	**263**	–	–	–	–	–	–	**263**
Other non-current provisions	**17**	–	(139)	–	–	22	–	**134**
Provisions for non-current liabilities and charges	**46,704**	**2,998**	**(253)**	**(82)**	**(1,381)**	**1,436**	**43,589**	**397**

For greater clarity, the provisions for non-current liabilities and charges have been reclassified by type and mainly include liabilities which refer to:

- expenses for the restoration of the site on which the wind farms recognised against major tangible fixed assets operate;
- tax risks linked to possible disputes.

The increases refer mainly to recognition of the Provision for decommissioning costs on the Brockaghboy Windfarm Ltd. farm, which began operating during third quarter 2017, and to the impact of discounting of the existing funds.

Reclassifications have an offsetting entry in provisions for non-current liabilities and charges.

The column IFRS 5 reclassification includes recognition of the aforementioned provision for decommissioning costs on the Brockaghboy farm.

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 pro-forma	31/12/2016
Medium/long-term Project Financing	1,114,706	1,275,580	121,748
- current portion of Project Financing	(143,846)	(151,906)	(29,427)
Loan payables to ERG S.p.A.	98,689	93,005	93,005
Other medium/long-term financial payables	102,393	136,066	5,917
Total	**1,171,942**	**1,352,745**	**191,242**

The item Loan payables to ERG S.p.A. includes the debt, comprising interest, on the loan agreement in place with ERG S.p.A., referred to as the "Project Sponsor Subordinated Loan Agreement". Repayment of the loan is subordinated to the Project Financing payable. In 2017, repayments of EUR 26 million were made, with disbursements for EUR 30 million, following a prepayment of project financing for EUR 30 million.

The item "Other medium/long-term financial payables" includes liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 102 million (EUR 142 million at 31 December 2016).

Medium/long-term project financing

The main characteristics of the project financing existing as at 31 December 2017 are summarised in the following tables:

Company	Wind Farm / Thermoelectric Plant	Net carrying amount of the asset	Carrying value of 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 1.58 %
ERG Eolica Campania	Bisaccia 2 - Foiano - Molinara - Baselice - 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 variable and partly fixed rate loan
ERG Eolica Faeto	Faeto (FG)	11,977	14,662	Project Financing	2007	2021	IRS from the 1st jaunuary 2016: fixed rate 2.13%
Eoliennes du Vent Solaire	Plogastel Saint Germane (Francia)	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 Orneta 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	Vari francesi	44,920	28,292	Project Financing	2016	2025	IRS: fixed rate -0.065%
ERG Power	Impianto CCGT	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. Societè 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 Cottbuser 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 85%
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	Waldfischbach 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.

Note that on 30 June 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.

Note that on 29 December, ERG Power S.r.l. made a prepayment involving an additional repayment of EUR 30 million with regard to the existing Project Financing.

At 31 December 2017, the weighted average interest rate on mortgages, loans and project financing was 1.53% (1.59% at 31 December 2016). The indicated rate does not take into account interest rate hedging transactions.

The maturities, divided by year, for existing medium/long-term bank loans are as follows:

	Project Financing 31/12/2017	Project Financing 31/12/2016
by 31/12/2018	143,815	151,906
by 31/12/2019	152,654	153,085
by 31/12/2020	157,474	163,140
by 31/12/2021	141,333	167,616
by 31/12/2022	392,858	148,783
beyond 31/12/2022	126,573	491,051
Total	**1,114,706**	**1,275,580**

Refer to Note 25 for a comment on Covenants and negative pledges relating to bank payables.

	31/12/2017	31/12/2016
Secured by Group tangible fixed assets		
with maturities up to December 2026	1,114,706	1,275,580
Total	**1,114,706**	**1,275,580**

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 102 million (EUR 137 million at 31 December 2016 pro-forma), the details of which are provided below:

	Issuing Bank	Contract	Maturity	Payable for fair value	
(EUR thousand)				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 Eood	Raiffeisen Bank	IRS	31/12/18	(169)	(346)
K & S Energy Eood	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)
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. Societè 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				**(102,361)**	**(136,748)**

NOTE 18 - OTHER NON-CURRENT LIABILITIES

	31/12/2017	31/12/2016 pro-forma	31/12/2016
ERG Wind Group acquisition price	9,821	9,821	–
Prior tax payables from foreign companies	18,594	18,594	–
Portions of deferred revenue in subsequent periods	2,141	2,313	543
Other non-current liabilities	150	618	–
Total	**30,706**	**31,347**	**543**

The other non-current liabilities, amounting to EUR 30,706 thousand (EUR 31,347 thousand as at 31 December 2016 pro-forma), mainly comprise the portions of income deferred in subsequent periods, tax liabilities in addition to the estimated potential adjustments amounting to EUR 10 million relating to the price of the acquisition of the ERG Wind Group. These adjustments refer to any price adjustments relating to guarantee clauses safeguarding the ERG Group.

NOTE 19 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	31/12/2017	Increases	Decreases	Reclassi-fications	IFRS 5 Reclassi-fication	DIF Group acquisition	Consolidation of ERG Renew Group	31/12/2016
Provision for charges for coverage of investees' losses	**101**	–	(9)	–	–	–	110	**–**
Provisions for current environmental risks	**78**	–	(21)	–	–	–	72	**27**
Provisions for current tax risks	**6,393**	1,223	(1,221)	194	–	–	5,778	**420**
Provisions for current institutional risks	**24,216**	38	(0)	–	–	–	24,178	**–**
Provisions for current legal risks	**9,924**	4,344	(64)	(112)	–	–	3,754	**2,000**
Other provisions for current liabilities and changes	**4,099**	3,502	(1,558)	–	–	211	792	**1,151**
Provisions for current liabilities and charges	**44,809**	**9,107**	**(2,875)**	**82**	**–**	**211**	**34,684**	**3,598**

Provisions for current institutional risks include:

- the provision for expenses tied to interest and revaluations on the contributions under Italian Law 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 commented more thoroughly in Note 5. It is hereby noted that the risks connected to the revocation of the aforementioned contributions are covered in the ERG Wind acquisition agreements by specific indemnification obligations issued by the seller and therefore we have allocated the relative credit in "Other current assets";
- risk provisions for potential charges - foreign companies (EUR 9 million), pertaining to potential liabilities relating to Romania.

Increases relate mainly to:

- items regarding the thermoelectric business (EUR 3.3 million);
- expenses regarding uncertainty of the results of projects mainly linked to the wind business (EUR 1.6 million);

- charges of a likely nature related to the hydroelectric business (EUR 0.8 million);
- charges resulting from a contractual dispute established in 2010 with a wholesale customer (EUR 0.7 million).

The decreases relate mainly to:

- EUR 0.4 million for the restructuring and similar provisions, relative to the costs for restructuring the asset portfolio;
- EUR 1.2 million for the provisions for tax risks.

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 pro-forma	31/12/2016
Trade payables	70,970	97,859	78,306
Payables due to Group companies not consolidated line by line	31	5,755	27,890
Total	**71,002**	**103,614**	**106,196**

These are payables deriving from trade dealings that fall due within the following year. These refer mainly to payables for the purchase of utilities (gas and electricity) and for investments.

NOTE 21 - CURRENT FINANCIAL LIABILITIES

	31/12/2017	31/12/2016 pro-forma	31/12/2016
Short-term bank liabilities	**39**	**19**	**13**
Other short-term financial liabilities:			
Current portion of medium/long-term bank borrowings	–	–	–
Current portion of medium/long-term project financing by banks	143,846	151,906	29,427
Financial payables to ERG S.p.A.	171	156,553	221
Other financial payables	2,078	4,901	247
	146,095	**313,360**	**29,896**
Total	**146,135**	**313,379**	**29,909**

Other financial payables include liabilities to acquire equity investments following extraordinary transactions relating to the acquisition of the French companies and in ERG Wind Bulgaria S.p.A.

NOTE 22 - NET FINANCIAL POSITION

	Notes	31/12/2017	31/12/2016 Pro-forma	31/12/2016
Medium/long-term mortgages and loans		–	–	–
- current portion of mortgages and loans		–	–	–
Financial payables to ERG S.p.A.		98,689	93,005	93,005
Other medium/long-term financial payables	17	102,393	136,066	5,917
Total		**201,082**	**229,070**	**98,922**
Medium/long-term project financing	17	1,114,706	1,275,580	121,748
- current portion of Project Financing	17,21	(143,846)	(151,906)	(29,427)
Total		**970,860**	**1,123,674**	**92,321**
Medium/long-term financial indebtedness/ (Medium/long term financial assets)		**1,171,942**	**1,352,745**	**191,242**
Short-term bank borrowings	21	39	19	13
Short-term financial debts	21	2,249	161,454	468
Total		**2,288**	**161,473**	**482**
Cash and cash equivalents	12	(15,285)	(15,679)	(1,784)
Financial receivables from ERG S.p.A.		(49,304)	(55,474)	(55,382)
Securities and other short-term financial receivables	11	(18,179)	(19,344)	(17,023)
Total		**(82,768)**	**(90,496)**	**(74,190)**
Short-term Project Financing	17,21	143,846	151,906	29,427
Cash and cash equivalents	12	(135,737)	(163,868)	(13,729)
Total		**8,110**	**(11,962)**	**15,698**
Net short-term financial indebtedness/ (Short-term financial assets)		**(72,370)**	**59,015**	**(58,010)**
Net Financial Position		**1,099,571**	**1,411,759**	**133,232**

The net financial position amounts to EUR 1,100 million, down by EUR 312 million compared to 31 December 2016 pro-forma, mainly due to 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 scope of consolidation;
- EUR -264 million in collections of incentives (feed-in tariff Italy, green certificates for prior years Italy, and white certificates Italy);
- EUR -22 million for collection regarding the Mucchetti amendment, discussed in detail in the relative section.

NOTE 23 - OTHER CURRENT LIABILITIES

	31/12/2017	31/12/2016 pro-forma	31/12/2016
Tax payables	5,862	11,538	1,770
Tax payables to parent company ERG S.p.A. Tax consolidation and Group VAT	27,724	28,343	10,681
Payables due to employees	2,293	3,971	2,333
Payables due to social security institutions	2,587	2,585	1,508
Other current liabilities	9,277	15,931	6,888
Total	**47,743**	**62,368**	**23,180**

"Tax payables" mainly refer to the estimate of income taxes owed for the period and VAT payable.

In 2017, taxes, net of offsetting, of approximately EUR 14.1 million was paid to the tax authorities in settlement of 2017 and as an advance for 2018.

NOTE 24 - GUARANTEES, COMMITMENTS AND RISKS (EUR 105,119 THOUSAND)

Sureties given (EUR 103,820 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

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, a 100% pledge of the company's share capital and on the 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:

- Annual Historical and Prospective Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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 take 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 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 take 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 it exceeds 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 less 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 (DSCRS): it is calculated as the ratio between the project's cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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): this is determined at 30 June and 31 December of each year and is calculated as the ratio between the project's cash flow, net of VAT flows, for the two previous half-years and the total base line and subsidised loan principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- The Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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 given include a leasehold mortgage and a 100% pledge on the companies' share capital and restricted current 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 (DSCRS): it is calculated as the ratio between the project's cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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 given include a leasehold mortgage and a 100% pledge on the company's share capital and restricted current 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 (DSCR): 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- the Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a guarantee for loan repayment. Consequently, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

Loan taken out in January 2010 by ERG Eolica Ginestra S.r.l.

The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 4.1 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If the Historical 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 take 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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 given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current 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 Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- Balloon Cover Ratio (BLCR): the BLCR is calculated as the ratio between the net present value, discounted at the weighted average cost of the debt, the operating cash flows anticipated by the company during the periods between the last repayment date and the 60 months subsequent thereto and the amount of the last loan instalment (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 Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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 given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 10.2 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees;
- The Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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 granted 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 jointly renegotiated on 30 June 2017.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the share capitals and on the restricted bank accounts (EUR 13.6 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of

12 months preceding and subsequent to each calculation date, as the ratio between the projects' cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the Companies to the hedging banks or by the hedging banks to the Companies pursuant to 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 Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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 were 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).

Loan issued in November 2015 to EW Orneta 2 SP. Z.O.O.

The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the share capital of EW Orneta 2 SP. Z.O.O. and on 100% of the share capital of Blachy Pruszyński - Energia SP. Z.O.O. and Hydro Inwestycje sp. z o.o. acquired by 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 Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts.
  If the Historical and/or Prospective DSCR are less than 1.20, EW Orneta 2 SP.Z.O.O. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.
  In the event that the value of the Historical DSCR is less than 1.10 and the company does not put in place any of the remedies contractually provided, the banks may request termination of the loan agreement and enforcement of the 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 take any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

Loan (multi-borrower project) issued in April 2012 and September 2013 to the Bulgarian company.

The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 1.2 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If the Historical and/or Prospective SCRs are less than 1.20, ERG Wind Bulgaria cannot distribute dividends to shareholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value of the Historical DSCR is less than 1.10 and the company does not put in place any of the remedies contractually provided, the banks may request termination of the loan agreement and enforcement of the guarantees.
- The Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Wind Bulgaria may not provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

Loan granted in August 2016 to ERG Wind France 1

The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 8.3 million at 31 December 2017). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Combined Debt Service Coverage Ratio (DSCRS): this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to 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. In the event that the value of the Historical DSCR is less than 1.10 and the company does not put in place any of the remedies contractually provided, the banks may request termination of the loan agreement and enforcement of the guarantees.
- The Project Financing provides for a negative pledge which protects the creditor's right over the assets given by the debtor as a 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 SAS 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 SARL 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 SARL 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 SAS 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 Sar.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 Sar.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.

Loans taken out by Windpark Achmer Vinte GmbH & Co. KG from 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 from DKB Deutsche Kreditbank on 27 October 2007 and 9 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 from Commerzbank on 6 August 2013, expiring 30 December 2030.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05 and 1.10 on a prospective basis. 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.

ERG Eolica Ginestra

In 2014, ERG Eolica Ginestra S.r.l. was subject to a tax audit for tax year 2010 for IRES, IRAP and VAT purposes by the Provincial Office of Genoa of the Italian Revenue Agency, which ended with the issue of a Report on Findings served to the Company on 13 November 2014. The Agency claims only that the Company unlawfully benefited from the tax relief regulated by Article 5 of Italian Law Decree no. 78/2009, converted with amendments by Italian Law no. 102/2009 (“Tax reductions for investments in machinery”), known as “Tremonti ter”, proposing a return to taxation for 2010 IRES purposes of 50% of the investments for which the Company had benefited from tax relief.

The Company deems that it is able to formulate valid defensive arguments upon appealing against any assessment notice which should 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 submitted an appeal with the related request for suspension of the tax collection, which was accepted on 16 July 2015.

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

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

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

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

Law 488/92 contributions by 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 488/1992 totalling EUR 53.6 million.

In relation to the assignment of those contributions, in the first half of 2007 an investigation was launched by the Public Prosecutor's Office at the Court of Avellino regarding the alleged falseness of some of the documents provided with the application.

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

That amount was 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 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 defence proceedings for the tax assessments are pending and the next hearing, for examination of the preliminary results, has been scheduled for 10 April 2018.

Even the proceedings subsequent to filing of the extraordinary appeals to the Head of State are still pending and, despite the reminders submitted by the applicants, the provisional judgement and the final judgement were not provided in 2017. Hopefully, the extraordinary appeals will be decided on in 2018.

In consideration 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 Italian Tax Police - Revenue Special Department – Rome Investigation Group served ERG Wind Investments Limited a final report on findings (hereinafter, "ROF") closing the audit operations that began on 17 June 2015.

Several findings of insignificant amounts emerged from this investigation: (i) failure to apply withholdings on spreads relating to Interest Rate Swaps paid to foreign counterparties in the tax periods 2010-2013, as these were classified as interest, for EUR 8.7 million, (ii) undue deductions in the tax periods 2010-2013 of interest expense on up-stream loans from foreign subsidiaries to ERG Wind Investments Limited, as this was not supported by valid economic reasons (abuse of rights pursuant to Article 10-bis of Italian Law no. 212/2000) with resulting higher taxes of EUR 8.8 million and (iii) the failure to apply, in the tax periods 2010-2013, withholdings on interest paid to non-resident parties as part of outstanding project financing for EUR 14 million.

Regarding the aforementioned PVC of 28 December 2015, the Company has received (i) an assessment notice only for the 2010 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties of EUR 2.5 million, plus a penalty of EUR 3 million and interest as at 22/12/2015 of EUR 0.4 million, (ii) an additional assessment of penalties for the reason under (i) with separate quantification of the penalties due to failure to pay a withholding amount of EUR 0.8 million and (iii) a question regarding the alleged inappropriate deduction of the interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by a valid economic reasons (abuse of the right afforded under article 10-bis of Law 212/2000) for the 2010-2013 tax period.

Following the joint consultation launched by Provincial Office I of Rome and the documentation produced, the finding pursuant to the ROF concerning the failure to apply - in the tax periods 2010-2013 - withholdings on interest paid to non-resident parties as part of outstanding project financing for 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 submitted an appeal 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. Payment of the subject instalments is underway.

On 27 September 2017, the merit hearing was held before the relative tax commission and we are awaiting the sentence. 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 October 2017 for 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 awaiting scheduling of the hearing for judicial suspension of the collection, as well the merit hearing.

The Group deems that it is not likely to lose with regard to the subject disputes and, therefore, it did not record liabilities in this regard.

Furthermore it is noted that ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated against the tax assessment the guarantee under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie declared that the assessment can be considered as a “Seller Driven Matter”[2] only for the 2010 and 2011 tax periods.

On 9 March 2016 an arbitration was initiated in ordered 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.

Following notification on 31 October 2017 of the notice of assessment for the 2012 taxation year, ERG Power Generation took action against Engie and obtained qualification of this dispute as a “Seller Driven Matter” as well (limited to this case and for the 2012 taxation period).

ERG Wind Holdings (Italy) tax audit

On 3 December 2015 the Italian Tax Police - Revenue Special Department – Rome Investigation Group served ERG Wind Holdings (Italy) S.r.l a final report on findings (hereinafter, “ROF”) closing the audit operations that began on 6 August 2014.

Said investigation gave rise to several findings of insignificant amounts as well as the sole finding concerning registration tax regarding the extraordinary transaction implemented in 2012, relating to the contribution by the 16 UK LLPs of the business units comprised of electricity production plants (held through business lease agreements) to

2 Engie formally recognises its liability based on said Share and Purchase Agreement.

ERG Wind Energy S.r.l., subsequently assigned to the two partners (two UK LTDs UK) holding the equity investment in ERG Wind Energy S.r.l.

Said finding, based on the reclassification of the transaction as the sale of a business, would give rise to higher registration tax of around EUR 9.5 million in addition to sanctions.

ERG Wind Holdings (Italy) S.r.l. would be required to jointly pay said registration tax as the merging company of the two UK partners of the 16 UK LLPs (i.e. the two UK LTDs) in 2013.

With regard to said ROF, on 14 December 2015 the Italian Inland Revenue - Provincial Office 3 of Rome served ERG Wind Holdings (Italy) S.r.l. a notice of settlement of the registration tax and imposition of fines.

The higher taxes demanded amount to EUR 9.5 million, plus interest (EUR 0.9 million) and fines (EUR 11.4 million), for a total of EUR 21.8 million.

Deeming that the Company is capable of formulating valid defence arguments, on 10 February 2016 ERG Wind Holdings (Italy) S.r.l. submitted an appeal against said notice of settlement.

The relevant hearing was held on 12 July 2017 at the Provincial Tax Commission of Rome.

On 31 January 2018, the Rome Provincial Tax Commission (CTP) rejected the appeal brought by the company.

The Group deems that it is not likely to lose and, therefore, it did not record liabilities in this regard.

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

Notice of payment of registration tax for the purchase of the ERG Hydro S.r.l. investment

On 3 July 2017, ERG Power Generation S.p.A. and E.On Italia were notified by the Genoa Provincial Office of the Italian Revenue Agency of the intention to reclassify the sale of all the shares in Hydro Terni S.r.l. (now ERG Hydro S.r.l.), carried out on 30 November 2015, from sale of an equity investment (following the partial demerger of the hydro business by E.On Produzione S.p.A.) to sale of a company and, consequently, highlighting non-payment of the related proportional registration tax on the declared price (approximately EUR 950 million).

On 21 July 2017, the companies met with officials of the Italian Revenue Agency of Genoa in order to provide their initial observations. As agreed with the Office, on 21 September 2017, the companies submitted to the Italian Revenue Agency a detailed note describing the intentions of the parties, the technical/legal peculiarities underlying the statutory lawsuit for the sale of the equity investment with respect to the “impractical” sale of the company, as well as the main regulatory aspects at the basis of the Company’s unfounded conduct.

In this regard, recall that on the ERG side, following the technical-legal analyses conducted at the time, acquisition of the investment in ERG Hydro S.r.l. (following the partial demerger of the hydro business by E.On Produzione S.p.A.) was the only concretely possible transaction within the terms and methods aimed at keeping the investment economically sustainable. In particular, the issues hindering a different transaction (i.e., sale of company) were: (i) complexity and uncertain timing in obtaining approval by the authorities with regard to transfer of the concessions,

(ii) zoning/cadastral differences of some hydroelectric assets and (iii) incompatibility of an acquisition of business branch with the structure of the ERG Group, in which each individual business is managed by a specifically dedicated company.

Despite presentation of the detailed note by ERG Power Generation and E.On Italia (supplemented by further production on 26 October 2017) and the meeting with officials of the Genoa Revenue Agency on 17 October 2017, on 27 October 2017, the Genoa Provincial Office of the Italian Revenue Agency served notice of payment of an additional registration tax of approximately EUR 28.8 million plus interest of EUR 1.9 million (no penalties were applied).

On 24 November 2017, an appeal and an application for judicial suspension of the tax collection were filed.

On 14 December 2017, the judicial suspension of the tax was ordered.

The relative hearing is scheduled for 14 March 2018.

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 assets and liabilities of 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, refer to the Brockaghboy Windfarm Ltd.

	31/12/2017	
(EUR thousand)	Brockaghboy Windfarm Ltd.	Assets and Liabilities held for sale
Intangible 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 current receivables and 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	–	–
Other current liabilities	139	139
Current liabilities	**842**	**842**
TOTAL LIABILITIES HELD FOR SALE	**2,156**	**2,156**

	31/12/2017		
(EUR thousand)	Brockaghboy Windfarm Ltd.	Intra-group transactions	TOTAL
Intangible 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 current receivables and 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**

INCOME STATEMENT ANALYSIS

NOTE 28 - REVENUES FROM ORDINARY OPERATIONS

	2017	2016 pro-forma	2016
Revenues from sales	762,269	703,614	635,019
Revenues for incentives	278,365	314,824	52,754
Revenues from services	11,803	5,929	3,387
Total	**1,052,437**	**1,024,368**	**691,160**

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

The Revenues from sales consist mainly of:

- the sales of electricity produced by the wind farms, thermoelectric installations and 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, the electricity which is sold wholesale includes the sales on the IPEX electricity exchange, the "Day Before Market" (MGP), 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 belonging to the ERG Hydro hydroelectric plants. In Italy, the valuation of the incentives was calculated at the price of EUR 107.3/MWh determined on the basis of the expected realisable value. With reference to the regulations pertaining to incentives, please refer to the section Drafting criteria.

For further details regarding the prices and quantities sold please see the comment under the Annual Financial Report herein.

NOTE 29 - OTHER REVENUES AND INCOME

	2017	2016 pro-forma	2016
Indemnifications	1,590	3,150	14
Expense recoveries	126	30	4
Capital gains on disposals	1	293	–
Non-recurring income	241	1,031	778
Other revenues and income	6,904	6,608	4,731
Total	**8,863**	**11,112**	**5,527**

Indemnifications mainly refer to insurance refunds obtained for claims involving plants of the wind companies, operating subsidies and expense recoveries.

NOTE 30 - CHANGE 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 pro-forma).

NOTE 31 - COSTS FOR PURCHASES

The amount for 2017 is equal to EUR 355 million (EUR 332 million in 2016 pro-forma) and refers mainly to the purchase of electricity from GME and gas from Edison, ENI and Gazprom S.p.A. The increase is due to higher costs for gas.

NOTE 32 - COSTS FOR SERVICES AND OTHER OPERATING COSTS

	2017	2016 pro-forma	2016
Service costs	143,576	165,303	88,076
Rents and leases	17,014	17,107	13,139
Write-downs of receivables	1,481	1,055	1,055
Accruals of provisions for liabilities and charges	9,047	3,829	570
Duties and taxes	9,926	6,928	2,081
Other operating expenses	2,489	4,477	936
Total	**183,533**	**198,699**	**105,858**

The breakdown of costs for services is as follows:

	2017	2016 pro-forma	2016
Costs for electricity transport	13,435	27,328	27,328
Commercial, distribution and transportation costs	762	4,546	4,279
Royalties and land rights	9,759	9,437	–
Maintenance and repairs	25,826	28,083	9,141
Utilities and supplies	3,597	5,227	1,642
Insurance	8,019	8,154	5,064
Consulting services	11,508	12,561	1,792
Advertising and promotions	70	117	33
Costs for services from Group companies not consolidated line by line	46,987	42,614	28,018
Other services	23,614	27,235	10,780
Total	**143,576**	**165,303**	**88,076**

- The **commercial**, **distribution and transportation costs** refer to ancillary costs relative to the distribution of electricity. The decrease is mainly due to the decrease in the volumes of electricity supplied to a final site customer that is connected to the national grid interconnection points.
- **Maintenance and repairs** mainly comprises the expenses for ordinary maintenance of the electricity-generating plants.
- The decrease in **consulting services** is due to the lower expenses incurred with reference to non-recurring transactions completed in the period.
- **Other services** include the compensation to Directors and Statutory Auditors, costs for charge back of services by parent company ERG S.p.A., settled by intercompany agreements (administration, financial, logistics and IT services provided by ERG S.p.A.) and costs relating to plant security, banking fees, general expenses 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 parks 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 and other taxes and duties.

NOTE 33 - PERSONNEL COSTS

	2017	2016 pro-forma	2016
Salaries and wages	25,424	28,461	16,700
Social security contributions	7,766	8,755	5,011
Employees' severance indemnities	1,505	1,733	1,106
Other personnel costs	1,945	3,253	1,717
Total	**36,639**	**42,202**	**24,534**

The other costs include supplementary severance indemnities.

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

	2017	2016 pro-forma	2016
Executives	12	24	9
Managers	66	122	51
Staff	235	322	171
Blue collar – Intermediate workers	175	168	45
Total	**489**	**636**	**276**

At 31 December 2017, the total number of employees was 490.

The change in the average and exact number of employees reflects an increase that is mainly due to the already commented change in the scope of consolidation.

NOTE 34 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2017	2016 pro-forma	2016
Amortisation of intangible fixed assets	45,482	42,766	16,189
Depreciation of tangible fixed assets	200,613	203,920	71,945
Write-downs of fixed assets	(30)	2,310	–
Total	**246,065**	**248,996**	**88,134**

Amortisation and depreciation refer to the wind farms, to the hydroelectric plants and to the CCGT plant and they are slightly lower than those of the same period of 2016, mainly as a result of the end of the useful life of some components of the French wind farms, the revision of the useful life of the farms in France and Germany acquired in the first half of 2016, within the scope of the Purchase Price Allocation defined in the 2016 Financial Statements, the effects of which were offset in part by higher amortisation and depreciation due to the acquisition of the German parks which occurred in 2017 (for approximately EUR 4 million) and to the launch of operations of the Brockaghboy farm in Northern Ireland.

NOTE 35 - NET FINANCIAL INCOME (EXPENSES)

	2017	2016 pro-forma	2016
Income			
Foreign currency exchange gains	587	509	13
Interest income on bank accounts	53	88	13
Other financial income	18,209	18,134	342
	18,849	**18,730**	**368**
Expenses			
Foreign currency exchange losses	(949)	(767)	(6)
Interest on short-term bank borrowings	(1)	(475)	(6)
Interest on medium/long-term bank borrowings	(20,896)	(32,277)	(2,552)
Other financial expenses	(57,751)	(78,504)	(18,743)
	(79,597)	**(112,023)**	**(21,307)**
Total	**(60,748)**	**(93,293)**	**(20,939)**

Net financial expenses totalled EUR 61 million in 2017, compared with EUR 94 million in 2016 pro-forma. The decrease is 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.

Recall that 2016 included non-recurring expenses for approximately EUR 6.5 million pertaining to the prepayment of the bank loan of Romanian company Corni Eolian S.A.

Net of the non-recurring costs referred to above, net recurring financial expenses for 2016 were equal to EUR 87 million.

"Other financial income" and "Other financial expenses" refer mainly to the results of the derivatives, as well as to 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, as 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

Net income (loss) from equity investments of Euro -1,105 thousand (EUR 665 thousand in 2016 pro-forma) includes the impact of consolidation through the equity method of associate Priolo Servizi S.C.p.A., equal to EUR 119 thousand and the write-down of the investment in subsidiary Creggan Wind Farm Limited for EUR -943 thousand.

Recall that in 2016, the pro-forma item included income from the sale of the equity investment in ERG Eolica Lucana (EUR 1 million).

NOTE 37 - INCOME TAXES

	2017	2016 pro-forma	2016
Current income taxes	(46,824)	(38,784)	(6,425)
Taxes from previous years	(671)	(717)	180
Deferred tax assets and liabilities	5,743	11,419	(2,415)
Total	**(41,752)**	**(28,083)**	**(8,659)**

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 tax assets and liabilities” originate from the temporary differences deriving from the adjustments made to the financial statements of the consolidated entities applying the Group’s homogeneous accounting standards, from the temporary differences between the value of the assets and liabilities for statutory purposes and their values for tax purposes 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.

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

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

Lastly, the year 2017 benefited from the positive impact of approx. EUR 4 million from reduction of the Corporate Income Tax in France (28% in 2017 compared to 33% in 2016).

Reconciliation between the tax liability in the financial statements and the theoretical tax liability

IRES (CORPORATE TAX)		
Profit (loss) before taxes	**136,592**	
Theoretical IRES 24%	**32,782**	
ACE impact		(7,879)
Impact of rate delta in France		(4,241)
Impact of permanent tax changes		9,776
Current, deferred and prepaid IRES		**30,438**

IRAP		
EBIT	240,543	
Write-down of receivables	1,481	
Total	**242,023**	
Theoretical IRAP 5%	**12,101**	
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		1,382
Current, deferred and prepaid IRAP		**10,772**
Total theoretical taxes	**44,883**	
Total IRES and IRAP in the financial statements		**41,210**
Taxes from previous year		**671**
Substitute taxes		**–**
Impact of Assets and Liabilities held for sale		**(129)**
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS		**41,752**

NOTE 38 – NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE

The income statement is presented in accordance with IFRS 5, which prescribes how to report discontinued operations, with the exclusion of the results of Brockaghboy Windfarm Ltd., consolidated based on the line-by-line method.

The impacts of the aforementioned exclusions are indicated separately under the item "Net profit (loss) from assets held for sale".

For additional details, refer to the section Brockaghboy Windfarm Ltd.

	2017	
(EUR thousand)	Brockaghboy Windfarm Ltd.	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	–	–
PROFIT (LOSS) BEFORE TAXES	**753**	**753**
Income taxes	(129)	(129)
Net profit (loss) from assets held for sale	**625**	**625**

The column Brockaghboy Windfarm Ltd. is broken down as follows:

	Anno 2017		
(EUR thousand)	Brockaghboy Windfarm Ltd.	Intra-group transactions	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)	(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**

NOTE 39 - NON-RECURRING ITEMS

	2017	2016
Revenues from ordinary operations	–	–
Other revenues	–	–
Costs for purchases	–	–
Changes in inventories	–	–
Costs for services and other costs	(398)	–
Personnel costs	–	(274)
Amortisation, depreciation and write-downs of fixed assets	–	–
Net financial income (expenses)	–	–
Net income (loss) from equity investments	–	–
Income taxes	5	75
Group net profit (loss) from non-recurring items	**(393)**	**(199)**

In 2017

- costs for services and other costs refer to accessory expenses for special projects;
- taxes include the tax effect of the above-mentioned items.

In 2016

- personnel costs refer to the staff redundancy procedure pursued in 2016 for ERG Power Generation;
- taxes include the tax effect of the above-mentioned items.

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".

Income Statement

	Revenues from ordinary operations	Other revenues and income	Costs for purchases	Costs for services and other costs	Financial income	Financial expenses
ERG S.p.A	74	30	–	(36,908)	20	(2,649)
Priolo Servizi S.C.p.A.	11,787	–	–	(10,072)	–	–
TotalErg S.p.A.	–	–	(172)	–	–	–
Total	**11,862**	**30**	**(172)**	**(46,980)**	**20**	**(2,649)**
% of total item	*1%*	*0%*	*0%*	*26%*	*0%*	*3%*

Statement of financial position

	Other non-current financial assets	Other non-current assets	Trade receivables	Other current receivables and assets	Current financial assets	Non-current financial liabilities	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG S.p.A	–	–	–	28,853	49,181	98,689	–	–	–	27,724
Priolo Servizi S.C.p.A.	–	–	2,054	–	–	–	–	18	–	–
ERG UK Holding	617	–	–	–	–	–	–	–	–	–
WP France 6 S.a.s.	1,394	–	–	–	–	–	–	–	–	–
Sandy Knove Wind Farm Ltd.	347	–	–	–	–	–	–	–	–	–
ISAB Energy Solare S.r.l.	271	–	–	–	–	–	–	–	–	–
TotalErg S.p.A.	–	–	–	–	–	–	–	43	–	–
Total	**2,630**	**–**	**2,054**	**28,853**	**49,181**	**98,689**	**–**	**61**	**–**	**27,724**
% of total item	*7%*	*0%*	*1%*	*39%*	*73%*	*8%*	*0%*	*0%*	*0%*	*58%*

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

All transactions are included in ordinary operations and are settled at arm's length conditions.

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.

Below are the highlights of the most recent financial statements of ERG S.p.A., listed on the Milan Stock Exchange and audited by Deloitte & Touche, the Company that exercises management and coordination activities over ERG Power Generation S.p.A:

Statement of Financial Position

(EUR)	31/12/2016	
Intangible assets		47,276
Goodwill		–
Property, plant and equipment		2,554,415
Equity investments		1,746,260,296
Other financial assets		93,004,734
of which with related parties	*93,004,734*	
Deferred tax assets		12,203,231
Other non-current assets		3,426,871
Non-current assets		**1,857,496,824**
Inventories		–
Trade receivables		13,936,728
of which with related parties	*5,235,748*	
Other current receivables and assets		64,581,627
of which with related parties	*39,330,556*	
Current financial assets		245,863,282
of which with related parties	*165,025,649*	
Cash and cash equivalents		247,648,671
Current assets		**572,030,307**
Assets held for sale		**200,000,000**
of which with related parties		
TOTAL ASSETS		**2,629,527,131**
Shareholders' Equity		**1,692,088,874**
Employees' severance indemnities		573,530
Deferred tax liabilities		1,633,143
Provisions for non-current liabilities and charges		82,117,261
Non-current financial liabilities		674,320,349
Other non-current liabilities		6,424,343
of which with related parties	–	
Non-current liabilities		**765,068,627**
Provisions for current liabilities and charges		7,291,259
Trade payables		52,784,854
of which with related parties	*1,535,370*	
Current financial liabilities		61,600,522
of which with related parties	*59,353,174*	
Other current liabilities		50,692,995
of which with related parties	*37,469,069*	
Current liabilities		**172,369,630**
Liabilities held for sale		**–**
of which with related parties		
TOTAL LIABILITIES		**2,629,527,131**

Income Statement:

(EUR)	2016	
Revenues from ordinary operations		16,628,719
of which with related parties	*16,623,888*	
of which non-recurring items	–	
Other revenues and income		5,365,436
of which with related parties	*546,355*	
of which non-recurring items	–	–
Changes in product inventories		–
Changes in raw materials inventories		–
Costs for purchases		(115,825)
of which with related parties	*(41,310)*	
Costs for services and other costs		(24,521,886)
of which with related parties	*(6,024,800)*	
of which non-recurring items	–	
Personnel costs		(11,896,382)
of which non-recurring items	–	
EBITDA		**(14,539,939)**
Amortisation, depreciation and write-downs of fixed assets		**(170,702)**
Income (expenses) from sale of business unit		
of which non-recurring items		
Financial income		22,428,151
of which with related parties	*19,460,205*	
Financial expenses		(24,171,709)
of which with related parties	*(5,515)*	
Net financial income (expenses)		(1,743,558)
of which non-recurring items	*(12,469,005)*	
Net income (loss) from equity investments		27,381,544
of which non-recurring items	–	
Other net income (loss) from equity investments		–
Net income (loss) from equity investments		**27,381,544**
PROFIT (LOSS) BEFORE TAXES		**10,927,345**
Income taxes		**545,295**
of which non-recurring items	*354,088*	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		**11,472,640**
Net profit (loss) from assets held for sale		–
of which non-recurring items	–	
NET PROFIT (LOSS) FOR THE PERIOD		**11,472,640**

NOTE 41 - INFORMATION BY SEGMENT AND GEOGRAPHICAL AREA

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

Results at adjusted replacement cost are indicators that are not defined in the International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance.

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

Information by geographical area

(EUR millions)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL recurring results
2017								
Revenues from ordinary operations	924.4	46.2	37.6	11.8	12.9	19.4	2.9	1,055.2
EBITDA	**412.6**	**29.6**	**24.8**	**4.7**	**6.0**	**8.3**	**2.3**	**488.3**
Amortisation, depreciation and write-downs	(190.2)	(21.3)	(18.9)	(6.1)	(4.2)	(5.3)	(1.3)	(247.3)
EBIT at replacement cost	**222.3**	**8.3**	**5.9**	**(1.4)**	**1.7**	**2.9**	**1.1**	**240.9**
Capital expenditure in fixed assets	**19.1**	**2.4**	**–**	**1.1**	**–**	**0.2**	**28.7**	**51.5**
2016								
Revenues from ordinary operations	912.7	45.5	26.1	9.7	12.5	17.8	(0.0)	1,024.3
EBITDA	**396.4**	**31.8**	**18.2**	**5.7**	**8.1**	**8.5**	**(0.1)**	**468.6**
Amortisation, depreciation and write-downs	(195.2)	(25.1)	(14.8)	(6.4)	(4.2)	(5.4)	(0.0)	(251.0)
EBIT at replacement cost	**201.2**	**6.8**	**3.4**	**(0.7)**	**3.9**	**3.1**	**(0.1)**	**217.5**
Capital expenditure in fixed assets	**19.6**	**0.1**	**–**	**0.8**	**0.3**	**0.0**	**36.2**	**56.8**

For details and the reconciliation entries, please refer to the "Alternative performance indicators" chapter in the "Report on Operations".

NOTE 42 - FINANCIAL INSTRUMENTS

The following table shows an analysis of derivative financial instruments measured at fair value, grouped in Levels from 1 to 3 based on the degree of observability of the fair value:

- level 1, the fair value is determined by prices quoted on active markets;
- level 2, the fair value is determined via evaluation techniques based on variables that are directly (or indirectly) observable on the market;
- level 3, the fair value is determined via evaluation techniques based on significant variables that are not observable on the market.

31/12/2017	FVTPL [1]	L&R [2]	AFS [3]	Derivatives hedge	Other liabilities	Total	*of which non-current*	Fair value
Equity investments	–	–	10	–	–	10	–	–
Financial receivables	–	39,233	–	–	–	39,233	*39,233*	–
Derivative instruments	–	–	–	17,210	–	17,210	–	17,210
Trade receivables	–	256,090	–	–	–	256,090	–	–
Financial securities classified as current assets	–	–	0	–	–	–	–	–
Other receivables	–	241,340	–	–	–	241,340	*162,026*	–
Cash and cash equivalents	–	151,022	–	–	–	151,022	–	151,022
Total assets	**–**	**687,685**	**11**	**17,210**	**–**	**704,905**	**201,259**	**168,232**
Mortgages and loans	–	–	–	–	–	–	–	–
Non-recourse project financing	–	–	–	–	1,114,706	1,114,706	*970,891*	–
Short-term bank borrowings	–	–	–	–	71	71	–	–
Financial payables	–	–	–	–	2,107	2,107	–	–
Derivative instruments	–	–	–	102,503	–	102,503	*102,361*	102,503
Trade payables	–	–	–	–	71,002	71,002	–	–
Other payables	–	–	–	–	81,606	81,606	*30,662*	81,606
Total liabilities	**–**	**–**	**–**	**102,503**	**1,269,492**	**1,371,995**	**1,103,914**	**184,110**

31/12/2016	FVTPL [1]	L&R [2]	AFS [3]	Derivatives hedge	Other liabilities	Total	*of which non-current*	Fair value
Equity investments	–	–	0	–	–	0	–	–
Financial receivables	–	37,544	–	–	–	37,544	*37,544*	–
Derivative instruments	–	–	–	18,375	–	18,375	*667*	17,708
Trade receivables	–	285,224	–	–	–	285,224	–	–
Financial securities classified as current assets	–	–	0	–	–	0	–	–
Other receivables	–	279,107	–	–	–	279,107	*190,502*	–
Cash and cash equivalents	–	179,547	–	–	–	179,547	–	179,547
Total assets	**–**	**781,421**	**1**	**18,375**	**–**	**799,797**	**228,712**	**197,255**
Mortgages and loans	–	–	–	–	–	–	–	–
Non-recourse project financing	–	–	–	–	1,275,580	1,275,580	*1,123,674*	–
Short-term bank borrowings	–	–	–	–	19	19	–	–
Financial payables	–	–	–	–	161,207	161,207	–	–
Derivative instruments	–	–	–	136,313	–	136,313	*136,066*	136,313
Trade payables	–	–	–	–	103,614	103,614	–	–
Other payables	–	–	–	–	91,322	91,322	*30,728*	91,322
Total liabilities	**–**	**–**	**–**	**136,313**	**1,631,743**	**1,768,055**	**1,290,468**	**227,635**

(1) FVTPL: fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

	Level 1	Level 2	Level 3
Financial assets			
- FVTPL	–	–	–
- AFS	–	–	–
- Hedging derivatives	16,647	564	–
Total	**16,647**	**564**	**–**
Financial liabilities			
- FVTPL	–	–	–
- Hedging derivatives	–	102,503	–
Total	**–**	**102,503**	**–**

The Group has no financial instruments classifiable under level 3.

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

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

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

NOTE 43 - DISCLOSURE ON RISKS

The principal risks identified and actively managed by the ERG Group are the following:

- Credit risk, i.e. the possibility of default by a counterparty or potential deterioration of its assigned credit rating;
- 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. Consistently with this objective, an advanced Risk Management system has been adopted that assures, in compliance with existing policies on the matter, the identification, measurement and control of the degree of exposure to individual risks at centralised level for the entire Group.
The Risk Finance function assures consistency with the assigned limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and the Top Management of the Parent Company, for strategic decisions.

Credit risk

Exposure to credit risk, inherent in the probability that a given counterparty will not be able to fulfil its contractual obligations, is managed by means of appropriate analysis and evaluation, assigning each counterparty an internal rating (Internal Based Rating, summary index evaluating their creditworthiness). The rating classes provide an estimation of the probability of default of a specific counterparty, on which the degree of creditworthiness assigned depends, which is accurately monitored and must not be overrun. The choice of counterparties both for the industrial business and financial negotiations underlies the decisions of the Credit Committee, whose choices are supported by creditworthiness analyses.
Concentration risk, both by customer and by segment, is continuously monitored, though no warning situations have 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.

Liquidity risk

Liquidity risk is the risk that financial resources may not be sufficient 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				
(Thousands of Euro)	On request	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Mortgages and loans	–	–	–	–	–
Non-recourse project financing	–	5,651	159,318	910,388	222,629
Short-term bank borrowings	39	–	–	–	–
Derivative instruments	–	142	30,151	70,769	840
Trade payables	34,761	36,241	–	–	–
Total liabilities	**34,800**	**42,033**	**189,469**	**981,157**	**223,469**

31/12/2016	Payables by maturity				
(Thousands of Euro)	On request	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Mortgages and loans	–	46	7,033	22,373	–
Non-recourse project financing	–	4,754	133,328	622,158	573,621
Short-term bank borrowings	19	–	–	–	–
Derivative instruments	–	–	–	–	–
Trade payables	25,279	78,304	31	–	–
Total liabilities	**25,298**	**83,103**	**140,391**	**644,531**	**573,621**

Market risk

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. The management of these risks is regulated by the guidelines indicated in the Group's Policy and by internal procedures within the Finance area.

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

This risk identifies the change in future interest rate trends that may cause higher costs for the Group. The interest rate risk is hedged by using derivative contracts such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table shows the impact on the profit before taxes (because of changes in the fair value of financial assets and liabilities) and on the Group's shareholders' equity (due to changes in the fair value of cash flow hedge derivatives) of a +/-1% change in the interest rate, all other variables remaining equal.

Impact on Income Statement

(EUR millions)	2017	2016
Shock-up (interest rate variation +1%)	2.9	1.0
Shock-down (interest rate variation -1%)	(0.3)	0.3

Impact on shareholders' equity

(EUR millions)	2017	2016
Shock-up (interest rate variation +1%)	25.9	57.0
Shock-down (interest rate variation -1%)	(28.8)	(19.7)

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 Income Statement

(EUR millions)	2017	2016
Shock-up (variation in commodities price +25%)	2.0	0.1
Shock-down (variation in commodities price -25%)	(2.0)	(0.1)

IImpact on shareholders' equity

(EUR millions)	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 instruments adopted in the management of financial risks, solely for hedging purposes, are as follows:

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;

Swap: contract that determines, between two parties, the swap of flows of payments at 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 2015 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 Swap instruments to bring fixed and floating rate loans to the risk profile deemed most appropriate. In IRS derivatives, the counterparties, with reference to a defined notional value and at pre-set times, swap interest flows calculated in relation to fixed rates or to floating rate parameters agreed beforehand.

Currency exchange rate derivatives

- FX Forwards are used to hedge currency exchange rate risk on anticipated foreign currency availability or requirements in the reference period. The purpose of these contracts is the purchase or sale of a currency with delivery at a specified future date, at a fixed price. In these contracts, the party committing to purchase the currency assumes a “long” position, while the party committing to sell the currency assumes a “short” position;
- FX Options used to manage currency exchange rate risk. These are contracts which, after payment of a premium, confer the right to buy or sell a specified amount of a foreign currency at a fixed rate (strike price) on a fixed date.

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 the 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 as at 31 December 2017:

	Type	Hedged risk	Underlying financial instruments	Fair Value 31/12/2017
				(EUR thousand)
	Cash Flow Hedge instruments			
A	Interest rate swaps and interest rate caps	Economic interest rate risk	1,521 EUR million	(102,361)
B	Gas price risk swaps	Transaction commodity risk	1,065 thousands of MWh	509
C	Electricity price risk hedging futures	Transaction commodity risk	809 thousands of MWh	(1,474)
D	Electricity price risk hedging CFD		119 thousands of MWh	(142)
	Total cash flow hedging instruments			**(103,468)**
	Non Hedge Accounting Instruments			
B	Gas price risk swaps	Transaction commodity risk	53 thousands of MWh	17
D	Electricity price risk hedging CFD	Transaction commodity risk	164 thousands of MWh	38
C	Electricity price risk hedging futures	Transaction commodity risk	852 thousands of MWh	753
	Total Non Hedge Accounting instruments			**808**
	TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS			**(102,661)**

Cash Flow Hedge instruments

A Interest Rate Swaps and Interest Rate Caps and Collars

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

The underlying financial instruments lie in the following companies:

- 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 102.4 million. The change is recognised in the Cash Flow Hedge reserve.

B Gas price risk swaps

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

As of 31 December 2017 there was a total positive fair value in the amount of EUR 0.5 million.

C Electricity price risk hedging futures

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

As of 31 December 2017 there was a total negative fair value in the amount of EUR 1.5 million.

D Electricity price risk hedging CFD

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

At 31 December 2017, there was a total negative fair value of an immaterial amount.

NOTE 46 - COMPENSATION FOR AUDIT SERVICES

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 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 review of the company's reporting package for the purposes of drawing up the consolidated financial statements of the parent company.

Type of service	Party providing the service	Recipient	2017 fees (EUR thousand)
Auditing	Parent Company's auditor	Parent company	292
	Parent Company's auditor	Subsidiaries	587
	Network of the Parent Company's auditor	Subsidiaries	242
Total Auditing services			**1,120**
Services other than Auditing	Tax advice services	Subsidiaries	–
	Parent Company's auditor	Parent company	55
	Network of the Parent Company's auditor	Parent company	–
	Network of the Parent Company's auditor	Subsidiaries	–
	Parent Company's auditor	Subsidiaries	176
Total Services other than Auditing			**231**
Total			**1,351**

NOTE 47 - OTHER INFORMATION

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 6 March 2018, the Board of Directors of ERG S.p.A. authorised the publication of the consolidated financial statements together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations. These financial statements represent in a true and fair manner the Group's Statement of financial position, as well as the economic result for the year.

Genoa, 6 March 2018

on behalf of the Board of Directors

The Chief Executive Officer

Pietro Tittoni

AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Sole Shareholder of
ERG Power Generation S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of the ERG Power Generation 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.

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 Power Generation 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.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union 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.

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.

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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;

- 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.

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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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of ERG Power Generation S.p.A. are responsible for the preparation of the report on operations of the Group as at December 31, 2017, including its consistency with the related consolidated financial statements and its 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 with the consolidated financial statements of ERG Power Generation Group as at December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the consolidated financial statements of ERG Power Generation Group as at December 31, 2017 and is 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.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
March 26, 2018

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

Financial Statements

STATEMENT OF FINANCIAL POSITION

ASSETS

(EUR)	31/12/2017	31/12/2016
A) SUBSCRIBED CAPITAL, UNPAID	**–**	**–**
B) FIXED ASSETS		
I. Intangible fixed assets		
1) Start-up and expansion costs	482	–
2) Development costs	–	–
3) Industrial patents and intellectual property rights	1,258,784	–
4) Concessions, licences, trademarks and similar	9,167	–
5) Goodwill	3,378,257	–
6) Fixed assets under construction and advances	625,588	–
7) Other	208,167	450,980
Total	**5,480,445**	**450,980**
II. Tangible fixed assets		
1) Land and buildings	465,293	–
2) Plant and machinery	247,466	–
3) Industrial and commercial equipment	1,168,862	–
4) Other assets	510,626	88,200
5) Fixed assets under construction and advances	355,085	–
Total	**2,747,332**	**88,200**
III. Financial fixed assets		
1) Equity investments in		
a) subsidiaries	1,524,295,903	1,057,021,190
b) associates	–	–
c) parent companies	–	–
d) companies subject to control by parent companies	235,893	–
d-bis) other companies	–	–
	1,524,531,796	**1,057,021,190**
2) Receivables		
a) from subsidiaries	228,795,633	–
b) from associates	–	–
c) from parent companies	–	–
d) from companies subject to control by parent companies	–	–
d-bis) from others	1,964,215	1,845,802
	230,759,848	**1,845,802**
3) Other securities	–	–
4) Derivative financial instruments	–	–
Total	**1,755,291,644**	**1,058,866,992**
TOTAL FIXED ASSETS (B)	**1,763,519,421**	**1,059,406,172**

(EUR)		31/12/2017		31/12/2016
C) CURRENT ASSETS		**–**		**–**
I. Inventories				
1) Raw, ancillary and consumable materials		9,917,276		–
2) Work in progress and semi-finished products		–		–
3) Contract work in progress		–		–
4) Finished products and goods		–		–
5) Advances		–		–
Total		**9,917,276**		**–**
II. Receivables	of which beyond 12 months:		of which beyond 12 months:	
1) From customers	–	103,965,867	–	159,534,996
2) From subsidiaries	57,454	179,549,241	–	2,516,109
3) From associates	–	1,534,832	–	2,491,934
4) From parent companies	–	26,918,388	–	10,627,914
5) From companies subject to control by parent companies	–	–	–	320,578
5-bis) Tax receivables	1,256,394	3,645,749	–	2,488,613
5-ter) Deferred tax assets	5,102,244	5,423,928	3,996,763	5,133,557
5-quater) From others	12,429,144	31,695,106	–	17,160,514
Total		**352,733,111**		**200,274,215**
III. Short-term financial assets				
1) Equity investments in subsidiaries		26,328,506		–
2) Equity investments in associates		–		–
3) Equity investments in parent companies		–		–
3-bis) Equity investments in companies subject to control by parent companies		–		–
4) Other investments		–		–
5) Derivative financial instruments		563,677		476,329
6) Other securities		–		–
7) Financial assets for centralised treasury management in respect of parent company		49,180,761		55,382,329
Total		**76,072,944**		**55,858,658**
IV. Cash and cash equivalents				
1) Bank and postal deposits		3,210,093		–
2) Cheques		–		–
3) Cash and notes on hand		69		69
Total		**3,210,162**		**69**
TOTAL CURRENT ASSETS (C)		**441,933,493**		**256,132,942**
D) ACCRUALS AND DEFERRALS		**9,533,178**		**158,678**
TOTAL ASSETS		**2,214,986,091**		**1,315,697,791**

LIABILITIES

(EUR)		31/12/2017		31/12/2016
A) SHAREHOLDERS' EQUITY				
I) Capital		100,000,000		6,000,000
II) Share premium reserve		7,000,000		7,000,000
III) Revaluation reserves		36,839		36,839
IV) Legal reserve		5,038,323		1,200,000
V) Statutory reserves		–		–
VI) Other reserves, indicated separately		–		–
Reserves for contributions by shareholders		961,732,646		961,732,646
Reserve for operating grants		–		–
Extraordinary reserve		5,829,878		5,829,878
Legal reserve, additional VAT deduction		642		642
Reserve pursuant to Law no. 308/82		363		363
Operating grants		861		861
Merger surplus		5,855,286		5,855,286
Merger surplus 2017		607,050,294		–
VII) Reserve for transactions to hedge expected cash flows		(788,834)		(3,101,075)
VIII) Retained profits (losses)		73,433,745		505,607
IX) Profit (loss) for the year		78,485,157		76,766,462
X) Negative reserve for treasury shares in portfolio		–		–
TOTAL SHAREHOLDERS' EQUITY (A)		**1,843,675,200**		**1,061,827,509**
(B) PROVISIONS FOR LIABILITIES AND CHARGES				
1) Provision for pensions and similar obligations		–		–
2) Provision for taxes, including deferred		–		–
3) Derivative financial instruments payable		141,969		246,920
4) Other		9,110,738		8,080,436
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (B)		**9,252,707**		**8,327,356**
(C) EMPLOYEES' SEVERANCE INDEMNITIES		**3,199,048**		**1,089,857**
(D) PAYABLES				
	of which beyond 12 months:		of which beyond 12 months:	
1) Bonds	–	–	–	–
2) Convertible bonds	–	–	–	–
3) Shareholder loan payables	–	–	–	–
4) Bank payables	–	6	–	12,783
5) Payables to other lenders	–	–	–	–
6) Advances	–	–	–	–
7) Trade payables	–	40,263,821	–	64,189,664
8) Payables represented by securities	–	–	–	–
9) Payables to subsidiary companies	–	310,362,820	–	147,760,170
10) Payables to associates	–	–	–	–
11) Other payables due to parent companies	–	50,865	–	5,046,684
11-bis) Payables to companies subject to control by parent companies	–	49,075	–	19,359,309
12) Tax payables	–	1,554,266	–	921,886
13) Payables to social security and pension institutions	–	1,929,455	–	1,094,890
14) Other payables	–	4,421,479	–	6,067,684
TOTAL PAYABLES (D)		**358,631,786**		**244,453,069**
E) ACCRUALS AND DEFERRALS		**227,350**		**–**
TOTAL LIABILITIES		**2,214,986,091**		**1,315,697,791**

INCOME STATEMENT

(EUR)	2017	2016
(A) VALUE OF PRODUCTION		
1) Revenues from sales and services	721,932,451	626,369,978
2) Changes in inventories of work in progress, semi-finished products and finished products	–	–
3) Changes in contract work in progress	–	–
4) Increases in fixed assets for internal work	–	–
5) Other revenues and income		
- other	8,206,763	6,903,136
- operating subsidies	–	–
TOTAL VALUE OF PRODUCTION (A)	**730,139,214**	**633,273,114**
(B) COSTS OF PRODUCTION		
6) For raw, ancillary and consumable materials and goods	(507,735,086)	(432,462,923)
7) For services	(197,064,872)	(179,667,801)
8) For leased goods	(2,057,269)	(494,889)
9) For employees:		
a) salaries and wages	(19,364,112)	(11,841,976)
b) social security contributions	(6,037,535)	(3,480,683)
c) employees' severance indemnities	(1,247,573)	(780,502)
d) provision for pensions and similar obligations	–	–
e) other costs	(1,280,417)	(1,462,265)
	(27,929,638)	(17,565,426)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible fixed assets	(1,318,714)	(305,988)
b) depreciation of tangible fixed assets	(449,994)	(9,800)
c) other write-downs of fixed assets	–	–
d) write-downs of receivables included in the current assets and cash and cash equivalents	–	(1,054,870)
	(1,768,708)	(1,370,658)
11) Costs for raw, ancillary and consumable materials and goods	2,529,030	–
12) Provisions for risks	(5,591,336)	–
13) Other provisions	–	(45,514)
14) Management expenses	(1,505,719)	(542,979)
TOTAL COSTS OF PRODUCTION (B)	**(741,123,597)**	**(632,150,190)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)	**(10,984,383)**	**1,122,924**

(EUR)	2017	2016
(C) FINANCIAL INCOME AND EXPENSES		
15) Income from equity investments:		
- from subsidiaries	68,204,063	77,000,297
- from associates	–	–
- from parent companies	–	–
- from companies subject to control by the parent companies	–	–
	68,204,063	**77,000,297**
16) Other financial income:		
a) from receivables recorded under fixed assets		
- from subsidiaries	–	–
- from associates	–	–
- from parent companies	–	–
- from companies subject to control by the parent companies	–	–
- from others	–	–
	–	**–**
b) from securities recorded under fixed assets that are not equity investments	–	–
c) from securities recorded under current assets that are not equity investments	–	–
d) other types of income:		
- from subsidiaries	16,274,749	34,565
- from associates	–	–
- from parent companies	19,772	334
- from companies subject to control by the parent companies	–	–
- from others	176,308	165,948
	16,470,830	**200,847**
17) Interest and other financial expenses:		
- to subsidiaries	(884,388)	(82,584)
- to associates	–	–
- to parent companies	(964,872)	(12,118,652)
- to companies subject to control by parent companies	–	–
- to others	(102,777)	(42,916)
	(1,952,037)	**(12,244,152)**
17-bis) Gains and losses on foreign exchange	(7,445)	(3,765)
TOTAL FINANCIAL INCOME AND EXPENSES (C)	**82,715,411**	**64,953,227**

(EUR)	2017	2016
(D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES		
18) Adjustments:		
a) to equity investments	–	–
b) to financial fixed assets that are not equity investments	–	–
c) to securities recorded under current assets that are not equity investments	–	–
d) to derivative financial instruments	1,284,442	17,327
	1,284,442	**17,327**
19) Write-downs:		
a) of equity investments	(996,237)	–
b) of financial fixed assets that are not equity investments	–	–
c) of securities recorded under current assets that are not equity investments	–	–
d) of derivative financial instruments	(488,146)	–
	(1,484,383)	**–**
TOTAL ADJUSTMENTS (18-19) (D)	**(199,941)**	**17,327**
PROFIT (LOSS) BEFORE TAXES (A - B +/- C +/- D)	**71,531,087**	**66,093,478**
20) Income taxes for the year: current, deferred and prepaid	**6,954,070**	**10,672,984**
21) PROFIT (LOSS) FOR THE YEAR	**78,485,157**	**76,766,462**

STATEMENT OF CASH FLOWS[1]

(EUR)	2017	2016
A. CASH FLOW FROM OPERATING ACTIVITIES (INDIRECT METHOD)		
Profit (loss) for the year	78,485,157	76,766,462
Income taxes	(6,954,070)	(10,672,984)
Interest payable/(interest income)	(9,551,113)	12,244,151
(Dividends)	(68,204,063)	(77,000,297)
(Capital gains)/capital losses from transfer of assets	(4,960,235)	
1. Profit (loss) for the year before income tax, interest, dividends and capital gains/losses from transfers	**(11,184,324)**	**1,337,332**
Provisions	8,168,910	826,016
Amortisation/depreciation of fixed assets	1,768,707	315,788
Write-downs for impairment	996,237	1,054,870
Other adjustments for non-monetary elements	–	–
Value adjustments to financial assets and liabilities of financial derivatives that do not involve financial movements	(796,297)	17,327
2. Cash flow before changes in net working capital	**10,137,557**	**2,214,002**
Decreases/(increases) in inventories	(3,859,000)	–
Decreases/(increases) in trade receivables	46,638,000	(26,088,465)
Increases/(decreases) in trade payables	(24,725,000)	34,491,714
Decreases/(increases) in accrued income and prepaid expenses	(2,049,000)	3,088,676
Increases/(decreases) in accrued expenses and deferred income	(28,000)	–
Other changes in net working capital	18,818,143	(20,604,352)
3. Cash flow after changes in net working capital	**34,795,143**	**(9,112,427)**
Interest received/(paid)	7,168,918	(11,960,720)
(Income taxes paid)	(55,366)	(6,802,444)
Dividends received	68,204,063	77,000,297
(Use of employees' severance indemnities provision)	(1,422,573)	(769,014)
(Use of the provisions)	(4,883,336)	(9,373,849)
Other collections and payments	–	–
4. Cash flow after other adjustments	**69,011,706**	**48,094,270**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**102,760,082**	**42,533,177**

1 the Statement was prepared based on the balances at 31 December 2016, including the contribution of the merger; therefore, changes during the year must be compared with the balances indicated under the paragraph “Pro-forma Statement of Financial Position as at 31 December 2016”

(EUR)	2017	2016
B. CASH FLOW FROM INVESTING ACTIVITIES		
Tangible fixed assets		
(Capital expenditures)	(673,994)	(98,000)
Divestments	–	–
Intangible fixed assets		
(Capital expenditures)	(484,714)	(349,323)
Divestments	–	–
Financial fixed assets		
(Capital expenditures)	(42,365,766)	(10,509,984)
Divestments	60,759,639	(5,810)
Short-term financial assets		
(Capital expenditures)	(51,051,000)	(55,382,329)
Divestments		
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(33,815,835)**	**(66,345,446)**
C. CASH FLOW FROM LOAN ACTIVITIES		
Borrowings		
Increase (decrease) of short-term borrowings from banks	(17,694)	8,202
Increase (decrease) of short-term payables/receivables to/from group companies	(69,268,306)	(597,141,727)
Loans taken out		
Loans paid back	–	(54,882,080)
Shareholders' equity		
Capital increase	–	700,000,000
(Repayment of capital)	–	–
Sale (purchase) of treasury shares	–	–
Other changes in Shareholders' Equity	2,314,000	(2,986,602)
Dividends (and advances on dividends) paid	–	(21,186,000)
CASH FLOW FROM LOAN ACTIVITIES (C)	**(66,972,000)**	**23,811,793**
Increase (decrease) of cash and cash equivalents (A ± B ± C)	1,972,247	(476)
Cash and cash equivalents of merged companies	1,237,846	
Opening cash and cash equivalents	69	545
CLOSING CASH AND CASH EQUIVALENTS	**3,210,162**	**69**

NOTES TO THE FINANCIAL STATEMENTS

THE COMPANY

The company is currently a wholly-owned subsidiary of ERG S.p.A.

Management of the industrial and commercial processes of the ERG Group is assigned to 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 Sarl and CSO Energy Gmbh companies, it performs technical and administrative services in France and Germany both in favour of Group companies and of third parties.

Therefore, ERG Power Generation S.p.A. is assigned responsibility for the Group's industrial and commercial processes, organised into:

- Wind, Thermo and Hydro generation technologies, which are in turn subdivided into production units on a geographical basis;
- Energy Management, as a single entry point to the organised markets;
- a commercial structure dedicated to Key Accounts;
- a centre of technological excellence, responsible for the Engineering & Construction processes;
- a hub of specialised skills in regulatory, planning and performance control matters, across all business processes;
- a structure dedicated to management of health and safety issues and to protection of the environment for the entire Group.

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

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), Bulgaria (54 MW) and Northern Ireland (47.5 MW)[1]. In particular, note that in May 2017, ERG further consolidated its position in the German on-shore wind market, through the acquisition of six German wind farms, with an installed capacity of 48.4 MW; moreover, in fourth quarter 2017, the 47.5 MW farm in Northern Ireland gradually began operating.

1 Brockaghboy wind farm, sale in progress.

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 Amendment[2]. 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 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.

During the course of the year, the Company mainly carried out activities:

a) in the electricity sector, including the purchase, generation, import, export and sale (including to end customers) of electricity and related products such as, for example, securities and instruments related to those activities;
b) in the energy sector in general, including the purchase, import and sale (including to end customers) of fuels and other utilities;
c) in other sectors that are related or close to the activities carried out in the above-mentioned sectors which allow for better use of the structures, resources and skills used, allowing the goods produced and services provided in the above-mentioned sectors to be used more effectively.

The following activities also form part of the Company business purposes (i) the design, construction, maintenance and management of plants; (ii) production and sale of equipment; (iii) research, consultancy services and assistance; and (iv) the purchase, sale and marketing of goods and services referred to in the sectors described under letters a), b) and c) of the preceding paragraph (including, by way of example, marketing and management services, as well as performance monitoring).

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Note that effective **1 January 2018**:

- the assets that were part of 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 company name to ERG France S.a.r.l.;
- the assets that were part of 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.

Following said transactions, the branches of ERG Power Generation S.p.A. were closed effective 2 January 2018.

2 Law converting Law Decree 91/14 ("Competitiveness Decree"). For additional details, refer to the Thermoelectric paragraph.

On **12 January 2018**, ERG Power Generation S.p.A. completed the acquisition from VEI Green S.r.l., investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy, with an installed capacity of 89 MW.

The deal, which obtained the approval of the Antitrust authorities, as well as that of the financing banks, marks ERG's introduction into the solar sector and represents a further important step in its strategy of technological diversification in production from renewable sources.

On **12 January 2018**, ERG Power Generation S.p.A., through its subsidiary ERG Windpark Beteiligungs GmbH, signed an agreement with the Vortex Energy Group to acquire 100% of the capital of Windpark Linda GmbH & Co. KG, company that holds the permits to build a wind farm in Germany with power of 21.6 MW and an estimated production at full capacity of approximately 50 GWh per year, corresponding to approximately 39 kt of CO_2 emissions avoided.

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

Future construction of the plant, which will be situated in proximity to other ERG wind farms that already have 216 MW of operations in Germany, is part of the growth strategy for the country, optimising on capitalisation of its industrial expertise in development, engineering and construction.

FORMAT AND CONTENT OF THE FINANCIAL STATEMENTS

The 2017 financial statements were drawn up in accordance with prevailing law governing the drafting of financial statements, interpreted and added to the accounting standards issued by the National Board of Chartered Accountants and the Italian Accounting Body, and take account of the revisions and updates of prevailing Italian accounting standards.

The financial statements were drawn up under the assumption of the company as a going concern, as there are no significant uncertainties in this regard.

The financial statements comprise the Statement of Financial Position, the Income Statement, the Statement of Cash Flows (prepared according to the formats specified in Articles 2424 and 2424-bis of the Italian Civil Code, and pursuant to Articles 2425, 2425-bis and 2425-ter of the Italian Civil Code) and these Explanatory Notes.

The Explanatory Notes aim to illustrate, analyse and in certain cases supplement the financial statements data, and they contain the information required by Articles 2427 and 2427-bis of the Italian Civil Code, by other provisions of the Italian Civil Code on financial statements and by other previous laws. In addition, they contain all the supplementary information considered necessary to provide the most transparent and complete representation possible, even if not required under specific legal provisions.

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

DETERMINATION OF THE PRO-FORMA STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED ON 31 DECEMBER 2016

As part of the "ONE Company" Project, ERG Power Generation S.p.A. incorporated, effective **1 January 2017**, ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A., taking over all payables and receivables of the merged companies.

ERG Renew S.p.A. was the sub-holding of the ERG Group active in the generation of electricity from wind sources, leading wind power operator in Italy and one of the top ten in Europe in 2016.

ERG Renew Operations & Maintenance S.r.l. carried out management and maintenance, both ordinary and extraordinary, on the Italian and foreign wind farms of the ERG Group.

In order to allow more complete comparison of the economic and financial data between the years 2017 and 2016, the following are provided:

- a pro-forma statement of financial position, drawn up assuming that the transaction took place on 31 December 2016. This statement was drawn up by summing the assets and liabilities of ERG Power Generation S.p.A. and those of the companies merged into it, adjusting the result through netting of intercompany receivables and payables and incorporating the equity impacts of the merger: elimination of the value of the equity investments of the merged companies and recording of goodwill;
- a pro-forma income statement, drawn up assuming that the transaction took place on 1 January 2016. This statement was drawn up by summing the revenues and expenses for the year of ERG Power Generation S.p.A. and those of the companies merged into it, adjusting the result through netting of intercompany items.

Note that, for the purposes of greater clarity, the tables of the Explanatory Notes provide the 2016 figures as well as the pro-forma data, in order to permit their comparability.

ASSETS 2016

(amounts in EUR thousand)	Notes	ERG Power Generation S.p.A.	ERG Renew S.p.A.	ERG Renew Operations & Maintenance S.r.l.	Merger adjustments	Pro-forma 2016
Fixed assets						
Goodwill	1	–	–	–	3,754	3,754
Intangible fixed assets		451	1,887	223	–	2,560
Tangible fixed assets		88	753	1,682	–	2,523
Financial fixed assets	2	1,058,867	743,652	60	(9,860)	1,792,720
TOTAL FIXED ASSETS		**1,059,406**	**746,292**	**1,965**	**(6,106)**	**1,801,557**
Current Assets						
Inventories	3	–	–	7,388	–	7,388
Receivables		200,274	63,504	5,340	(19,135)	249,983
Financial assets	4	55,859	108,417	804	(804)	164,275
Cash and cash equivalents		–	598	640	–	1,238
TOTAL CURRENT ASSETS		**256,133**	**172,518**	**14,172**	**(19,939)**	**422,884**
Accruals and deferrals		**159**	**7,045**	**280**	**–**	**7,484**
TOTAL ASSETS		**1,315,698**	**925,855**	**16,417**	**(26,045)**	**2,231,925**

LIABILITIES 2016

	Notes	ERG Power Generation S.p.A.	ERG Renew S.p.A.	ERG Renew Operations & Maintenance S.r.l.	Merger adjustments	Pro-forma 2016
Shareholders' Equity	5	**1,061,828**	**701,050**	**6,106**	**(6,106)**	**1,762,878**
Provisions for liabilities and charges		8,327	217	–	–	8,545
Employees' severance indemnities		1,090	560	1,724	–	3,374
Payables	6	244,453	224,006	8,353	(19,939)	456,872
Accruals and deferrals		–	21	234	–	256
TOTAL LIABILITIES		**253,870**	**224,805**	**10,311**	**(19,939)**	**469,047**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,315,698**	**925,855**	**16,417**	**(26,045)**	**2,231,925**

INCOME STATEMENT 2016

(amounts in EUR thousand)	ERG Power Generation S.p.A.	ERG Renew S.p.A.	ERG Renew Operations & Maintenance S.r.l.	Merger adjustments	Pro-forma 2016
VALUE OF PRODUCTION					
Revenues from sales and services	626,370	128,044	28,737	(90,807)	692,345
Other revenues and income	6,903	1,799	27	(734)	7,995
TOTAL VALUE OF PRODUCTION	**633,273**	**129,843**	**28,764**	**(91,541)**	**700,339**
COSTS OF PRODUCTION					
For raw, ancillary and consumable materials and goods	(432,463)	(116,034)	(7,335)	89,389	(466,443)
For services	(179,668)	(20,798)	(9,702)	2,152	(208,015)
For leased goods	(495)	(292)	(944)	–	(1,730)
For employees	(17,565)	(7,371)	(7,159)	–	(32,096)
Amortisation, depreciation and write-downs	(1,371)	(842)	(350)	–	(2,563)
Changes in inventories of raw materials, ancillary and consumable materials and goods	–	–	4,291	–	4,291
Provisions for risks	–	–	–	–	–
Other provisions	(46)	–	–	–	(46)
Management expenses	(543)	(254)	(59)	–	(855)
TOTAL COSTS OF PRODUCTION	**(632,150)**	**(145,591)**	**(21,256)**	**91,541**	**(707,456)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	**1,123**	**(15,748)**	**7,508**	**–**	**(7,117)**
FINANCIAL INCOME AND EXPENSES					
Income from equity investments	77,000	38,857	–	–	115,858
Other financial income	201	11,764	15	(36)	11,944
Interest and other financial expenses	(12,244)	(4,763)	(21)	36	(16,992)
Gains and losses on foreign exchange	(4)	–	–	–	(4)
TOTAL FINANCIAL INCOME AND EXPENSES (C)	**64,953**	**45,858**	**(6)**	**–**	**110,805**
Value adjustments to financial assets	**17**	**–**	**–**	**–**	**17**
PROFIT (LOSS) BEFORE TAXES	**66,093**	**30,110**	**7,502**	**–**	**103,705**
Income taxes for the year: current, deferred and prepaid	**10,673**	**9,218**	**(2,425)**	**–**	**17,466**
PROFIT (LOSS) FOR THE YEAR	**76,766**	**39,328**	**5,077**	**–**	**121,171**

Analysis of Statement of Financial Position upon merger

Provided below is a summary disclosure of the main balance sheet items subject to the merger as 1 January 2017:

1. Goodwill

Until 31 December 2016, the company ERG Renew Operations & Maintenance S.r.l. was wholly owned by ERG Renew S.p.A. The merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. into ERG Power Generation S.p.A. involved, as a first step, netting of the investment of ERG Renew Operations & Maintenance S.r.l. in ERG Renew S.p.A. (equal to EUR 9,860 thousand) against the shareholders' equity of the subsidiary (equal to EUR 6,106 thousand). As a result of the netting, the two values became a single amount of EUR 3,754 thousand, recorded as goodwill, with an estimated useful life of ten years.

2. Financial fixed assets

The most significant impact is generated by the financial fixed assets of ERG Renew S.p.A., equal to EUR 743,652 thousand and broken down as follows:

- EUR 456,372 thousand in equity investments in subsidiaries and companies under joint control of the ERG Group operating in the wind sector, which reflects the effects brought about by these acquisitions on its financial and income situation, as well as the performance of all investees indirectly controlled by the Company. This item included the investment in ERG Renew Operations & Maintenance S.r.l. for EUR 9,860 thousand, netted following the merger by incorporation, shown in the column merger adjustments;
- EUR 287,280 thousand in other non-current financial assets, more specifically financial receivables due from Group companies, fully consisting of loans to subsidiaries of ERG Renew S.p.A.

3. Inventories

The impact is generated by the inventories of ERG Renew Operations & Maintenance S.r.l., amounting to EUR 7,388 thousand and essentially comprising spare parts for the wind turbines, as well as the inventories of the foreign branches (French and German), for a total of EUR 1,062 thousand.

4. Financial assets

The most significant impact is generated by the financial assets of ERG Renew S.p.A., equal to EUR 108,417 thousand and broken down as follows:

- EUR 107,449 thousand in financial receivables due from Group companies, mainly consisting of receivables related to the investees' giro accounts (for EUR 97,771 thousand) and receivables for interest accrued on loans granted to subsidiaries (EUR 9,678 thousand);
- EUR 968 thousand in other short-term financial receivables, regarding advances for foreign projects.

5. Shareholders' Equity

The shareholders' equity of the companies merged by incorporation is absorbed into ERG Power Generation S.p.A., for a total amount of EUR 607,050 thousand, indicated separately in other shareholders' equity reserves under "2017 Merger reserve".

Therefore, the changes in shareholders' equity in the 2016 Financial Statements of ERG Power Generation S.p.A. compared to the pro-forma figures highlight the following:

- an increase of EUR 607,050 thousand as mentioned above;
- the increase in share capital from the merger, equal to EUR 94,000 thousand.

The merger adjustment illustrated in the above schedule for EUR 6,106 thousand reflects netting of the shareholders' equity of ERG Renew Operations & Maintenance S.r.l. into ERG Renew S.p.A.

6. Payables

The most significant impact is generated by the payables of ERG Renew S.p.A., equal to EUR 224,006 thousand and broken down as follows:

- EUR 201,944 thousand in current financial liabilities, including EUR 199,799 thousand in financial payables due to Subsidiaries by ERG Renew S.p.A. (subsidiaries and parent company) and other financial payables for EUR 2,144 thousand;
- EUR 20,415 thousand in trade payables, regarding purchases of a commercial nature and other types of services connected with operations;
- EUR 1,647 thousand in other minor current liabilities.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

The Accounting Standards and valuation criteria below comply with the aim of providing a true and fair view of the financial position and operating performance of the Company and the net profit for the year as required under articles 2423 et seq. of the Italian Civil Code. The items were assessed in accordance with the general principle of prudence, on an accrual basis, considering that the company will continue to operate on a going concern basis, with the substance prevailing over the form principle as introduced by Legislative Decree no. 6 of 2003. Legislative Decree 139/2015 also specifies that compliance with the obligations of relevance, measurement, presentation and disclosure is not mandatory if such compliance is irrelevant in providing a true and accurate representation, without prejudice to the obligations with regard to regular bookkeeping.
No exceptions were made when adopting the standards for drafting the financial statements, as indicated by Article 2423 of the Civil Code.
The accounting principles indicated below have been adapted by changes, supplements and new aspects introduced to the regulations of the Italian Civil Code by Legislative Decree 139/2015, which implemented accounting directive 34/2013/EU in Italy. In particular, the national accounting standards have been reworded by the Italian Accounting Body in the version issued on 22 December 2016.

Intangible fixed assets

These are recognised at their historic acquisition cost, net of amortisation applied over the years, and attributed directly to the individual items. The cost includes ancillary charges and direct and indirect costs for the portion reasonably attributable to the asset, with respect to the period of construction and up until the moment in which the asset may be used, and the financial charges incurred to finance construction (internal or through third parties) until use of the asset is possible.
The plant and expansion costs are amortised on a straight-line basis over five years.
Leasehold improvements are capitalised and recognised under “other intangible fixed assets” if they cannot be separated from the assets themselves (otherwise they are recognised under the specific item of “tangible fixed assets”), and amortised on a straight-line basis at the lower of the period of expected future utility and the residual lease, taking into account any renewal period, if dependent on the Company.
If, regardless of any amortisation already recognised, there proves to be impairment, the asset is written down accordingly. If in later years the reason for the write-down no longer applies, the original value is restored to the extent

of the value the asset would have had if the write-down had never been made, with the exception of "Deferred charges" pursuant to number 5 under Article 2426 of the Italian Civil Code.

The amortisation rate on software is 33%, while leasehold improvements are amortised at 20%.

In general, intangible fixed assets are amortised over a maximum period of five years.

Goodwill includes amounts paid in this respect with regard to company purchase transactions or other corporate transactions and is amortised based on useful life. The useful life figure is estimated upon initial recognition of goodwill and is not changed in subsequent years. If it is not possible to estimate useful life, goodwill is amortised over a period of 10 years.

Tangible fixed assets

These are recognised at purchase cost, including directly attributable ancillary charges and costs incurred to use the asset, net of any commercial discounts and cash discounts of a significant amount. The values recorded are adjusted on an annual base on the corresponding accumulated depreciation. The depreciation amounts recognised in the income statement are calculated on a straight-line basis, using rates considered to be representative of the estimated economic-technical useful life of the assets to which they refer. If, regardless of the depreciation already recognised, impairment occurs, the fixed asset is written down accordingly. If the reasons for impairment cease to exist in subsequent years, the original value is restored, adjusted solely based on the depreciation.

Italian Legislative Decree 139/2015 replaced the principle of economic function with the principle of economic substance. In this respect, the OIC 16 Italian accounting standard specified that fixed assets are initially recognised on the date in which the risks and benefits connected with the acquired asset are transferred, further specifying that said transfer of risks and benefits usually occurs only when the ownership title is transferred. In any case, it states that "if, by virtue of specific contractual clauses, the date in which the risks and benefits are transferred and the date in which ownership title is transferred are not the same, the date in which risks and benefits were transferred shall prevail" and that "in carrying out said analyses, all contractual clauses must be examined".

Write-downs for impairment of tangible and intangible fixed assets ("Impairment")

On the basis of OIC 9, the Company subjects its tangible and intangible fixed assets to impairment testing to determine whether there are indications that they may have suffered impairment at the dates of the financial statements. 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 Company 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 and deferred charges, 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, financial receivables and securities

Equity investments and debt securities recognised as fixed assets are due to be held permanently among the Company's assets. Equity investments are measured using the cost method, adjusted for impairment losses. The cost method assumes that the recognition value is calculated on the basis of the purchase or subscription price, including ancillary costs. When impairment is detected, the carrying value of the investment is written down to its lowest recoverable value, calculated on the basis of future benefits expected as inflows by the investor. The original value of the equity investment is written back in later years if the reasons for the write-down should no longer apply.

For the 2017 financial statements, as in previous years, the carrying values of the equity investments in subsidiaries and in joint ventures were tested.

With regard to the above investments, no impairment was recorded during preparation of the 2017 financial statements.

Inventories

Inventories of ancillary and consumable materials and spare parts are recognised using the weighted average cost method per period on an annual basis. These are measured at the lower between the cost and estimated realisable value as deduced from market trends (Article 2426, paragraph 9, Italian Civil Code).

To determine the estimated realisable value from market trends, the replacement cost is normally taken as reference or, where available, the net realisable value of the assets.

In the event of obsolescence or slow turnover of the materials, the carrying amount is written down accordingly with a provision used to directly cut the inventory value.

Receivables

Receivables are recorded in the financial statements based on the amortised cost method, taking into account the time factor and the estimated realisable value. The amortised cost method is not applied when the effects are immaterial, or when the transaction costs, commissions paid by the parties and any other difference between initial and final value are of limited significance, or if the receivables are short term (with maturity of less than 12 months).

Trade receivables with expiry beyond 12 months from initial recognition, without payment of interest, or with interest significantly different from the market interest rates, and the relative revenues, are initially recognised at the value determined by discounting the future cash flows at the market interest rate. The difference between initial recognition value of the receivable determined in this manner and the final value is recorded in the income statement as financial income throughout the duration of the receivable, using the effective interest rate method.

The trade receivables in the financial statements all have expiries of less than 12 months and are therefore recognised at nominal value.

Moreover, the receivables are recognised at estimated realisable value. The value of receivables is adjusted to the estimated realisable value through the allocation of an appropriate bad debt provision, established by taking into account the country risk and the economic conditions in general and within the specific sector.

Receivable operations carried in foreign currencies are converted into Euros at the exchange rate on the date of the operation, and the difference between the amount and the amount actually received is recognised under the income statement under financial charges and income.

The exchange rate differences resulting from adjustment of the receivables in foreign currency to the exchange rate at year-end with respect to the date of the operation are recognised in the income statement.

Financial assets

As indicated in OIC 14, receivables generated by centralised management of treasury (i.e. cash pooling) are recognised, if permitted by the terms of collection, under "Short-term financial assets", as "Financial assets for centralised treasury management", indicating the counterparty (for example, parent company or subsidiary). If the short-term collection terms are not satisfied, these receivables are recorded under financial fixed assets.

Cash and cash equivalents

These are recorded at nominal value with a separate indication for bank and postal deposits and cash and notes on hand.

Accruals and deferrals

The item accruals and deferrals of the assets section respectively includes the portion of revenues accrued during the year but collectible in subsequent years, and the portion of costs incurred within the end of the year but relating to subsequent years.

The item accruals and deferrals of the liabilities section respectively includes the portion of revenues collected during the year but relating to subsequent years, and the portion of costs accrued within the end of the year but collectible in subsequent years.

Derivative instruments

Derivative financial instruments are financial assets and liabilities recognised at fair value.

Derivatives are classified as hedging instruments only when, at the beginning of the hedge, there is a close and documented correlation between the characteristics of the hedged asset and those of the derivative, and the hedge itself is formally documented and its effectiveness, verified periodically, is high.

When derivatives hedge against the risk of changes in future cash flows of the hedged asset, the effective portion of profits or losses on the derivative instrument is suspended in shareholders' equity. The profits and losses associated with a hedge are recognised in the income statement as regards the ineffective portion. Cumulative profits and losses recognised in shareholders' equity up to that moment are recognised in the income statement when the relative transaction occurs (adjusting or integrating the income statement items impacted by the hedged cash flows).

Therefore, the changes in relative fair value of hedging derivatives are recognised:

- in the income statement under items D18 or D19 in the event of fair value hedging of an asset or liability recognised

in the financial statements, as well as changes in the fair value of hedged items (if the change in fair value of the hedged asset is higher in absolute terms than the change in fair value of the hedging instrument, the difference is recognised under the relative income statement item of the hedged item);
- in a specific shareholders' equity reserve (under the item AVII "Reserve for transactions to hedge expected cash flows") in the event of hedging of cash flows using methods to offset the effects of the hedged flows (the ineffective component, as well as the change in time value of the options and forwards, is classified under items D18 and D19).

For derivative financial instruments classified as trading, which do not satisfy the requirements to be handled in hedge accounting, the changes in fair value are recognised in the statement of financial position and posted to the income statement under items D18 and D19.

Payables

Payables are recorded based on the amortised cost method, taking into account the time factor. The amortised cost method is not applicable to payables if its effects are irrelevant. The effects are considered irrelevant for short-term payables (namely those due in less than 12 months). For the amortised cost method, see the description for receivables. Payable operations carried in foreign currencies are converted into Euros at the exchange rate on the date of the operation, and the difference between the amount and the amount actually paid is recognised under the income statement under financial charges and income.

The exchange rate differences resulting from adjustment of the payables in foreign currency to the exchange rate at year-end with respect to the date of the operation are recognised in the income statement.

Provisions for liabilities and charges

Provisions for liabilities and charges are allocated against liabilities of a calculable nature, certain or probable, for which nevertheless at year end the total or contingency date is not yet known.

Potential liabilities are recognised on the financial statements and registered under the provisions when their realisation has become probable and when the amount of the relative charge can be reasonably estimated.

Measurement of the charge complies with the general prudence and accrual principles which, vice versa, do not allow the allocation of provisions that are generic or without economic justification.

Any risks for which a liability is only possible or for which no objective forecast can be made of the amount payable are indicated in the Explanatory Notes without the allocation of provisions for liabilities and charges.

If the possibility of realisation of a risk is considered to be remote, it will not be taken into account.

Following the changes introduced by Legislative Decree 139/2015, a specific item was added under the item "provisions for liabilities and risks" for the fair value of derivatives.

Employees' severance indemnities

Recorded within the item employees' severance indemnities are the amounts that employees would be entitled to receive in the event of termination of the employment relationship as at the reporting date. The seniority indemnities comprising this item, namely the provisions allocated for the year and the annual revaluation of the pre-existing fund, are calculated in accordance with the regulations in effect. The employees' severance indemnities are recognised under item C of liabilities and the relative provision under item B9 of the income statement.

Following the introduction of the provisions of the 2007 Financial Act and relative implementation decrees, starting from 1 January 2007, the accrued Employees' severance indemnities have been designated to pension funds or to the treasury fund established with INPS (the Italian National Social Security Institute). The accounting treatment of amounts accrued from 1 January 2007 is therefore considered as equivalent to contributions of other nature, with regard to the supplementary pension option as well as in the case of designation to the Treasury Fund established with INPS. The item therefore includes contributions accrued by employees prior to the date indicated and not yet paid, net of any advances received in accordance with the regulations in effect.

Statement of Cash Flows

The statement of cash flows includes all cash inflows and outflows during the year.

The single cash flows are presented individually in the following categories of the statement of cash flows:

a. operating activities;
b. investing activities;
c. loan activities.

The categories of cash flows are presented in the order shown above.

The operating activities cash flow is calculated using the indirect method, i.e. adjusting the profit or loss for the year shown in the income statement.

The algebraic sum of the cash flows of each category mentioned above represents the net change (increase or decrease) of the cash and cash equivalents during the year.

The statement of cash flows is presented in scaled format.

The OIC 10 accounting principle introduced the following amendments:

- interest paid and collected is presented separately among cash flows from operating activities, except for specific cases in which it refers directly to investments (investing activities) or financing (loan activities);
- dividends received and paid are presented separately under operating activities or loan activities, respectively;
- cash flows relating to income tax are presented separately and classified under operating activities.

Revenues and costs for the year

Revenues from the sale of goods are recognised upon the actual and non-official transfer of ownership title, where the reference parameter for actual transfer is the transfer of risks and benefits.

Revenues from the sale of products, goods or services with respect to ordinary operations are recorded net of returns, discounts, rebates and premiums, and of the taxes directly connected to the sale of products and provision of services.

Revenues for the performance of services are recognised upon completion and/or accrual.

Transactions with related parties took place at normal market conditions.

White certificates (Energy Efficiency Certificates) are recognised by the GSE upon achievement of energy savings achieved in the end uses through implementation of the appropriate technologies and application of efficient systems.
White certificates are accounted for on an accrual basis among revenues for the year, based on one certificate for every TOE (Tonnes of Oil Equivalent) actually saved during the year.
Their measurement is based on the price set in the bilateral TEE sales agreement or in the trading sessions of the Electricity Market Manager platform, taking into account that the certificates are made available on the operator's account, within the year subsequent to the reference year. In the event of non-sale during the year, the measurement takes place based on the Final Tariff Contribution calculated according to the weighted mean of TEE prices on the Electricity Market Manager's platform for the last twelve months of the market.
Costs are accounted for based on the accrual principle, regardless of the date of collection and payment, net of returns, discounts, rebates and premiums.

Dividends

Dividends are recorded in the year in which they are resolved by the Shareholders' Meeting. Dividends are recognised as financial income regardless of the nature of the reserves to be distributed.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis. Costs relating to receivables factoring transactions for any reason (with or without recourse) and of any nature (trade, financial or other) are recognised in the year in which they arose.

Foreign currency items

Non-monetary assets and liabilities originally stated in foreign currency are recognised in the statement of financial position at the exchange rate in effect upon their purchase, or at the initial recognition cost.
Monetary assets and liabilities originally stated in foreign currency are converted in the financial statements at the spot exchange rate as at the end of the year; the relative exchange rate gains and losses are recognised in the income statement and any net profit is allocated to a specific non-distributable reserve until realisation.

Current and deferred taxes

Current taxes are calculated on the estimated taxable income in compliance with tax regulations in force, taking into account the effects of inclusion in the national tax consolidation with the consolidator ERG S.p.A.
Deferred tax assets and liabilities are calculated and allocated on the basis of temporary differences between the value assigned to a given asset or liability in accordance with statutory provisions and the value assigned for tax purposes, in compliance with the principles of prudence and accrual accounting. They are measured by taking into account the presumed tax rate that the Company expects to apply in the year in which the differences will be considered in forming the tax result, considering the rates in force or already confirmed at the reporting date and allocated respectively to

the “deferred tax provision” as part of the provisions for liabilities and charges under liabilities and item 5-ter), or to “deferred tax assets” under current assets.

Deferred tax assets are recognised for all deductible temporary differences in compliance with the principle of prudent accounting, if there is reasonable certainty of taxable income not less than the total differences to be offset in the year in which they will be reversed.

Vice versa, deferred tax liabilities are recognised on all taxable temporary differences.

In compliance with the provisions of Article 2424 of the Italian Civil Code, deferred tax assets are indicated in the Statement of Financial Position in the item “Deferred tax assets” under current assets, whilst deferred tax liabilities are indicated under “Provisions for liabilities and charges” in the item “Deferred tax provision”.

Tax payments are arranged by the Consolidator.

Each company adopting the tax consolidation transfers its taxable income (or tax loss) to the consolidator. The consolidator then records a receivable equal to the IRES payable (the consolidated entity instead records a payable due to the consolidator). Conversely, for companies recording a tax loss, the consolidator recognises an IRES tax payable on the portion of the loss actually offset at Group level (the consolidated entity recording a tax receivable due from the consolidator).

The rate used to calculate deferred tax assets is the nominal IRES (corporate tax) rate of 24% and the IRAP (regional tax) rate of 4.82%, where envisaged. Note that in 2017, the Company adjusted the IRAP deferred tax assets to the rate actually applied of 4.82% (from 3.9% applied previously to estimate deferred taxes), with the impact on the income statement comprising a positive income component of EUR 20 thousand.

Intra-group relations and relations with related parties

Please refer to the relevant chapter at the end of these Explanatory Notes for the disclosure relating to intra-group relations and relations with related parties.

Operations with the parent company and other ERG group companies are carried out on an arm’s length basis.

Company drawing up the consolidated financial statements

The merger by incorporation of ERG Renew S.p.A. and ERG Operations & Maintenance S.r.l. into ERG Power Generation S.p.A. was completed with effective date 1 January 2017; as a result, the companies that were held by ERG Renew S.p.A. (ERG Renew Group) were transferred to ERG Power Generation S.p.A.

The latter, while holding direct controlling stakes (ERG Power S.r.l. - ERG Hydro S.r.l.), did not draw up consolidated financial statements until 31 December 2016, taking advantage of the faculty envisaged by Art. 27 of Law no. 127 of 09/04/1991, being entirely controlled by ERG S.p.A. (parent company that draws up its own consolidated financial statements).

Starting from this year, Management has decided to draw up consolidated IAS financial statements, representative of the new group, which includes companies that were under the scope of consolidation of ERG Power Generation S.p.A., as well as those that are part of the ERG Renew Group.

Exceptions

There were no exceptional situations requiring recourse to legally permitted exceptions relating to financial statements pursuant to Article 2423, paragraph 4 of the Italian Civil Code.

Use of estimates

Preparation of the financial statements requires estimates and assumptions to be made that affect the values of assets and liabilities shown in the financial statements and the information provided concerning potential assets and liabilities. To obtain these estimates, available information was used and subjective evaluations were adopted based on experience.

By their nature, the estimates and assumptions used can change from year to year and, therefore, it is possible that in subsequent years the current amounts may differ as a result of changes in the subjective evaluations applied.

The main estimates for which the use of subjective assessments is more heavily required were used, inter alia, for:

- the estimate of revenues from ordinary operations pertaining to the energy business;
- provisions for bad debt, inventory obsolescence and asset write-downs;
- definition of the useful life of fixed assets and the related amortisation/depreciation;
- allocations to provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the valuation processes pertain both to the determination of the degree of probability of occurrence of the conditions that can entail a financial outlay, and the quantification of the related amount; deferred tax assets, recognised on the basis of the future taxability of expected profits generated in accordance with business plans as well as of the expected 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, which implies – in estimating 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 in which the change took place.

STATEMENT OF FINANCIAL POSITION ANALYSIS

ASSETS

FIXED ASSETS (EUR 1,763,519 THOUSAND)

Intangible fixed assets

	Start-up and expansion costs	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar	Goodwill	Fixed assets under construction and advances	Other	Total
Historical cost	–	–	–	–	–	5,904	5,904
Amortisation	–	–	–	–	–	(5,453)	(5,453)
BALANCE AT 31/12/2016	**–**	**–**	**–**	**–**	**–**	**451**	**451**
Changes during the year:							
Acquisitions	–	363	–	–	374	–	737
Capitalisations/reclassifications	–	10	–	–	(18)	–	(8)
Disposals and divestments	–	(184)	–	–	–	(59)	(243)
Amortisation	(1)	(680)	(1)	(376)	–	(262)	(1,319)
Write-downs	–	–	–	–	–	–	–
Merger 2017	1	1,751	10	3,754	270	78	5,863
Other changes	–	(1)	–	–	–	–	(1)
Historical cost	1	4,035	616	3,754	626	6,001	15,031
Amortisation	(1)	(2,776)	(606)	(376)	-	(5,793)	(9,551)
BALANCE AT 31/12/2017	**–**	**1,259**	**9**	**3,378**	**626**	**208**	**5,480**

At 31 December 2017, intangible fixed assets amount to EUR 5,480 thousand and refer mainly to the software used for the sale of electricity, intended for long-term use, currently being used or which will be used when completed.

The item also includes EUR 3,378 thousand regarding the residual value at 31 December 2017 of the goodwill generated by the merger already commented on in the paragraph “Determination of the pro-forma statement of financial position for the year ended on 31 December 2016”.

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation.

Tangible fixed assets

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Fixed assets under construction and advances	Total
Historical cost	–	–	–	98	–	98
Depreciation	–	–	–	(10)	–	(10)
Balance at 31/12/2016	**–**	**–**	**–**	**88**	**–**	**88**
Changes during the year:						
Acquisitions	73	–	352	75	166	666
Capitalisations/reclassifications	–	8	67	23	(89)	9
Disposals and divestments	–	–	–	–	–	–
Depreciation	(7)	(10)	(265)	(168)	–	(450)
Write-downs	–	–	–	–	–	–
Merger 2017	399	250	1,015	493	278	2,434
Other changes	–	–	–	–	–	–
Historical cost	494	321	3,467	2,278	355	6,915
Depreciation	(29)	(74)	(2,298)	(1,767)	–	(4,168)
BALANCE AT 31/12/2017	**465**	**247**	**1,169**	**511**	**355**	**2,747**

As of 31 December 2017, tangible fixed assets amounted to Euro 2,747 thousand.

The item “Industrial and commercial equipment” includes the metallic structures used in the work warehouses. The item also includes various equipment for maintenance of the wind farms of subsidiaries.

The item “Other assets” mainly refers to furniture, fittings, electronic machinery and light vehicles, as well as hardware (videowall) installed in the Energy Management Control and Bidding Centre for the market supply of all assets of the ERG Group, integrated and dynamic management of the electricity portfolio and implementation of dispatching.

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation.

Financial fixed assets

Equity Investments

		Pro-forma		Changes	
	31/12/2017	31/12/2016	31/12/2016	Increases	Decreases
Subsidiaries					
Eolico Troina in liquidazione S.r.l.	25	25	–		–
ERG Eolica Adriatica S.r.l.	69,817	69,817	–	–	–
ERG Eolica San Vincenzo S.r.l.	10,171	10,171	–	–	–
ERG Eolica San Cireo S.r.l.	10,550	10,550	–	–	–
ERG Eolica Faeto S.r.l.	5,322	5,322	–	–	–
ERG Eolica Tirreno S.r.l.	76	26	–	50	–
ERG Eolica Ginestra S.r.l.	12,828	12,828	–	–	–
ERG Eolica Basilicata S.r.l.	210	210	–	–	–
ERG Eolica Calabria S.r.l.	153	153	–	–	–
ERG Eolica Fossa del Lupo S.r.l.	13,707	13,707	–	–	–
Green Vicari S.r.l.	18,570	18,570	–	–	–
ERG Eolica Campania S.p.A.	100,104	100,104	–	–	–
ERG Eolica Amaroni S.r.l.	2,103	2,103	–	–	–
ERG Wind Bulgaria S.p.A.	32,178	32,178	–	–	–
ERG Wind Investments Limited	21,913	21,913	–	–	–
Hydro Inweststycje SP. Z.O.O.	–	1,553	–	9,562	(11,115)
Blachy Pruszynski Energia SP. Z.O.O.	–	3,051	–	11,953	(15,004)
EW Orneta 2 SP. Z.O.O	35,720	4,640	–	31,080	–
Corni Eolian S.A.	27,202	27,202	–	–	–
Longburn Wind Farm Limited	313	289	–	29	(5)
Sandy Knowe Wind Farm Limited	398	348	–	65	(10)
Creggan Wind Farm Limited	–	943	–	68	(1,007)
ERG UK Holding Ltd.	3,802	–	–	3,802	–
CSO Energy Sarl	2,909	2,903	–	6	–
ERG Eolienne France S.a.s.	31,614	31,614	–	–	–
WP France 6	2,986	2,975	–	19	(8)
ERG Wind France 1 S.a.s.	9,879	9,879	–	–	–
ERG Wind French Holdings S.a.s.	36,834	36,793	–	41	–
CSO Energy GmbH	882	1,281	–	–	(399)
ERG Wind 105 GmbH & Co. KG	5,618	5,607	–	11	–
ERG Wind Neunte GmbH	88	88	–	–	–
ERG Wind RE Beteiligungs GmbH	23	23	–	–	–
ERG Windpark Beteiligungs GmbH	11,277	12,350	–	13	(1,086)
ERG Power S.r.l.	30,105	30,105	30,105	–	–
ERG Hydro S.r.l.	1,026,916	1,026,916	1,026,916	–	–
Total subsidiaries	**1,524,296**	**1,496,237**	**1,057,021**	**56,696**	**(28,637)**
Joint ventures					
Rigghill Wind Farm Limited	236	204	–	38	(6)
Total Joint ventures	**236**	**204**	**–**	**38**	**(6)**
TOTAL EQUITY INVESTMENTS	**1,524,532**	**1,496,441**	**1,057,021**	**56,734**	**(28,643)**

All equity investments at 31 December 2017, excluding ERG Power S.r.l. and ERG Hydro S.r.l., were transferred into the Company as a result of the aforementioned merger effective from 1 January 2017. Therefore, in the above table, the column of changes is calculated based on changes in equity investments in 2017 compared to the 2016 pro-forma figures.

In 2017, the main transactions carried out on the equity investments held directly by Company were:

- on 1 January 2017, following the merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. into ERG Power Generation S.p.A., the investment of ERG Renew Operations & Maintenance S.r.l. in ERG Renew S.p.A. (equal to EUR 9,860 thousand) was netted against the shareholders' equity of the subsidiary (equal to EUR 6,106 thousand);
- the decrease in value of the equity investments of companies ERG Windpark Beteiligungs GmbH and CSO Energy GmbH is due to the purchase price adjustment as per the agreement signed between ERG Power Generation S.p.A. and Epuron Holding GmbH & Co. KG of 19 April 2017;
- on 22 June 2017, the Company acquired from Abo Wind UK Ltd. 100% of the share capital of the UK company ERG UK Holding Limited, holder of the authorisations required for the construction of a wind farm in Northern Ireland, expected to be commissioned in July 2020. The value of this investment at 31 December 2017, equal to EUR 3,802 thousand, also includes all due diligence costs incurred for this project;
- in June 2017, the Company carried out a capital increase in the UK subsidiary Brockaghboy Windfarm Limited for a value of EUR 19,237 thousand;
- also in June 2017, the Company carried out capital increases in Polish subsidiaries Blachy Pruszynski-Energia SP. Z.O.O. and Hydro Inwestycje SP. Z.O.O. through the transfer of EUR 11,953 thousand and EUR 9,562 thousand, respectively;
- on 3 July 2017, the Company carried out a capital increase in EW Orneta 2 SP. Z.O.O., through the transfer of holdings held in Blachy Pruszynski-Energia SP. Z.O.O and Hydro Inwestycje SP. Z.O.O., respectively for EUR 15,004 thousand and EUR 11,115 thousand. Following this transaction, ERG Power Generation S.p.A. indirectly controls the companies Blachy Pruszynski-Energia SP. Z.O.O. and Hydro Inwestycje SP. Z.O.O. through subsidiary Orneta 2 SP. Z.O.O., and the value of the investment of this last company increased by EUR 31,080 thousand. This value includes the capital gain (EUR 5,379 thousand) and capital loss (EUR 419 thousand) from the transfer at market value of the aforementioned investment holdings;
- on 31 December 2017, the Company wrote down the full value of the investment in subsidiary Creggan Wind Farm Limited, following non-issuance of authorisation for the project by the Scottish government.

The figures provided for under point 5 of Article 2427 of the Italian Civil Code with respect to the subsidiaries are provided below:

	Registered office	Direct share	Share capital (1) (2) (3)	Shareholders' Equity (1) (2) (3)
Subsidiaries				
Eolico Troina S.r.l. in liquidazione	Palermo	99%	20	250
ERG Eolica Adriatica S.r.l.	Genoa	100%	10	28,464
ERG Eolica S. Vincenzo S.r.l.	Genoa	100%	3,500	20,524
ERG Eolica S. Cireo S.r.l.	Genoa	100%	3,500	22,522
ERG Eolica Faeto S.r.l.	Genoa	100%	10	6,622
ERG Eolica Tirreno S.r.l.	Camporeale	100%	10	22
ERG Eolica Ginestra S.r.l.	Genoa	100%	10	(963)
ERG Eolica Basilicata S.r.l.	Genoa	100%	38	3,689
ERG Eolica Calabria S.r.l.	Catanzaro	100%	10	132
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	50	23,161
Green Vicari S.r.l.	Camporeale	100%	119	18,153
ERG Eolica Campania S.p.A.	Genoa	100%	120	51,326
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	10	3,203
ERG Wind Bulgaria S.p.A.	Genoa	100%	50	30,105
ERG Wind Investments LTD	Gibraltar	100%	112,993	202,310
EW Orneta 2 Z.O.O.	Warsaw (Poland)	100%	32,675	29,612
Corni Eolian SA	Constanta (Romania)	100%	152,000	123,913
Brockaghboy Windfarm Ltd	Belfast (UK)	100%	3	15,244
Longburn Wind Farm LTD	Seebeck House (UK)	100%	–	–
Sandy Knove Wind Farm LTD	Seebeck House (UK)	100%	–	–
Creggan Wind Farm Limited	Seebeck House (UK)	100%	–	–
ERG UK Holding LTD	Belfast (UK)	100%	–	–
CSO Energy S.a.r.l.	Paris (France)	100%	1,415	239
ERG Eolienne France S.a.s.	Paris (France)	100%	21,625	26,435
WP France 6 S.a.s.	Puteaux (France)	100%	6	(4)
ERG Wind France 1 S.a.s.	Paris (France)	100%	1,097	1,908
ERG Wind French Holdings S.a.s.	Paris (France)	100%	1,410	(650)
CSO Energy Gmbh	Leisnig (Germany)	100%	210	597
ERG Wind 105 Gmbh	Leisnig (Germany)	100%	1	(527)
ERG Wind Neunte Gmbh	Leisnig (Germany)	100%	25	84
ERG Wind RE Beteiligungs Gmbh	Leisnig (Germany)	100%	25	18
ERG Wind Park Beteiligungs Gmbh	Leisnig (Germany)	100%	25	570
ERG Power S.r.l.	Genoa	100%	5,000	170,798
ERG Hydro S.r.l.	Genoa	100%	50,000	737,640
ISAB Energy Solare S.r.l.	Genoa	100%	100	(217)
Joint ventures				
Rigghill Wind Farm Limited	Seebeck House (UK)	50%	–	–

(1) data referring to the latest approved financial statements
(2) amounts are reported in thousands of Euro
(3) the Share Capital and Shareholders' Equity of companies EW Orneta 2 Z.O.O., Corni Eolian SA and Brockaghboy Windfarm Ltd are expressed in the currency of the country in which the Registered Office is located

The separate financial statements of the Company reflect the effects brought about by these acquisitions on its financial and income situation, as well as the performance of all investees controlled by the Company.

Any higher carrying values according to the historical cost criterion with respect to the shareholders' equity belonging to the Company are justified by the future income expectations of the investees, which confirm their recoverability, even taking into account the uncertainties indicated in the section "Use of estimates".

Receivables

(EUR thousand)	31/12/2017	Pro- forma 31/12/2016	31/12/2016
Non-current financial receivables due from Group companies	228,796	287,280	–
Non-current receivables from others	1,964	1,914	1,846
Total	**230,760**	**289,194**	**1,846**

The item "Financial receivables due from Group companies" includes receivables for loans to Group companies, particularly renewables, introduced into the Company as a result of the aforementioned merger.

In detail, a summary of the financial receivables by Country of the subsidiaries is provided below, expressed with the 2016 comparison in regard to equity investments recognised in the 2016 financial statements of ERG Renew S.p.A.

(EUR thousand)	31/12/2017	31/12/2016
Bulgaria	70	368
Poland	50,164	68,162
France	53,516	53,101
Germany	59,930	48,295
Romania	63,880	68,461
Great Britain	965	48,622
Italy	271	271
Total	**228,796**	**287,280**

All loans are interest-bearing, and the following table summarises the rates applied for each company (in line with market rates):

Company	Country	Rate applied
Mark 1 Eood	Bulgaria	1-month Euro Libor plus 250 basis points
Globo Energy Eood	Bulgaria	1-month Euro Libor plus 250 basis points
WP Bulgaria 4 Eood	Bulgaria	1-month Euro Libor plus 250 basis points
EW Orneta 2	Poland	12-month Euribor plus 305 basis points
ERG Wind France 1	France	12-month Euribor plus 208 basis points
ERG Wind French Holdings S.a.s.	France	12-month Euribor plus 214 basis points
ERG WP France 6 S.a.s.	France	12-month Euribor plus 214 basis points
CSO Energy Sarl	France	12-month Euribor plus 214 basis points
Voltwerk Windpark Wörbzig GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
Windpark Cottbuser Halde GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
Voltwerk Energy Park 8 GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
ERG Wind 105 GmbH & Co.	Germany	12-month Euribor plus 305 basis points
Voltwerk Windpark Beesentedt GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
ERG Windpark Beteiligungs GmbH	Germany	12-month Euribor plus 305 basis points
CSO Energy GmbH	Germany	12-month Euribor plus 305 basis points
Corni Eolian S.A.	Romania	12-month Euribor plus 400 basis points
ERG UK Holding Ltd.	Great Britain	12-month Euribor plus 250 basis points
Sandy Knowe Windfarm Ltd.	Great Britain	12-month Euribor plus 250 basis points
ISAB Energy Solare S.r.l.	Italy	6-month Euribor plus 400 basis points

The key transactions that took place during the course of 2017 are summarised below:

- during June and July 2017, following the corporate and financial reorganisation of the Polish companies, the companies Blachy Pruszynski-Energia SP. Z.O.O and Hydro Inwestycje SP. Z.O.O. fully settled their financial debt to ERG Power Generation S.p.A. (at 31 December 2016, respectively equal to EUR 32.7 and 18.6 million). During the same period, ERG Power Generation S.p.A. granted a new loan of EUR 32.5 million to subsidiary EW Orneta 2 SP. Z.O.O.

At the end of 2017, a sales process was initiated for subsidiary Brockaghboy Windfarm Ltd, UK company that owns a wind farm in Northern Ireland that was commissioned in fourth quarter 2017. The sales process is expected to be completed within first quarter 2018. In consideration of the above and for greater clarity of presentation, it was deemed appropriate to reclassify within these Financial Statements the EUR 54.7 million receivable from subsidiary Brockaghboy Windfarm Limited to short-term.

The item "Non-current receivables from others", equal to EUR 1,964 thousand, mainly refers to security deposits particularly in regard to gas with respect to Snam Rete Gas S.p.A., essentially in line compared to the prior year

CURRENT ASSETS (EUR 441,933 THOUSAND)

Inventories

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Inventories of spare parts	11,247	7,388	–
Inventory write-down provision	(1,330)	–	–
Total	**9,917**	**7,388**	**–**

The item, equal to EUR 9,917 thousand at 31 December 2017, reflects the value of the spare parts necessary to conduct maintenance work on the aerogenerators and wind turbines. The item was transferred to the Company's financial statements as a result of the aforementioned merger and, at 1 January 2017, amounted to EUR 7,388 thousand. The write-down at 31 December 2017 is calculated based on an analysis of the turnover ratio of spare parts and is aimed at handling a possible decline in functionality of the spare parts.

Receivables

Receivables can be summarised as follows:

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Customer trade receivables	103,966	160,900	159,535
Receivables from subsidiaries	179,549	116,673	2,516
Receivables from associates	1,535	2,492	2,492
Receivables from parent companies	26,918	17,142	10,628
Receivables from companies subject to control by parent companies	–	4,546	321
Tax receivables	3,646	6,682	2,489
Deferred tax assets	5,424	18,259	5,134
Receivables from others	31,695	31,697	17,160
Total	**352,733**	**358,391**	**200,274**

Note that the column of the above 2016 pro-forma data table includes the 2016 pro-forma "Receivables" figures and the item "Financial assets" attributable to ERG Renew S.p.A., stated in the "Determination of the pro-forma statement of financial position for the year ended on 31 December 2016".

Customer trade receivables (EUR 103,966 thousand)

The customer trade receivables mainly consist of:

- invoices relating to the sale of electricity generated under the tolling contract by the combined cycle plants of ERG Power S.r.l., the Italian wind farms of its renewables subsidiaries and the hydroelectric plants of ERG Hydro S.r.l. in relation to the Electricity Market Manager for EUR 13,721 thousand, and invoices relating to steam and other utilities;
- a receivable due from Terna for the amount requested as reimbursement on the basis of the provisions pursuant to Attachment A of resolution no. 111 of 9 June 2006 of AEEGSI, for EUR 3,857 thousand;
- confirmation of the receivable relating to Energy Efficiency Certificates ("white certificates") for energy production in 2017, for EUR 27,550 thousand;

- a receivable due from IREN Mercato S.p.A. for the sale of electricity following the binding framework agreement for the supply of 2 TWh per year of electricity, in force as of 1 January 2012, due on 31 December 2017, for EUR 21,840 thousand.

Note that with regard to the receivable due from Terna for the amount requested as reimbursement on the basis of the provisions pursuant to Attachment A of resolution no. 111 of 9 June 2006 of AEEGSI, a request was made to AEEGSI in August 2017 for the balance of the 2016 reimbursement, pursuant to art. 65.28 of resolution no. 111/06; on 30 November 2017, EUR 12,558 thousand was collected in regard to the 2015 balance. On the total amount requested by the Company with regard to 2015 of EUR 77,678 thousand, the AEEGSI did not recognise EUR 735 thousand, which was consequently eliminated from the 2017 income statement.
On 30 December 2017, approximately EUR 9,000 thousand was collected as an additional advance on 2016. Therefore, with regard to the subject item, a receivable of EUR 3,857 thousand is recorded with respect to 2016.
The receivables due from customers at 31 December 2017 are mostly from Italian customers and are due for payment within the following year.
Note that customer trade receivables are stated net of the bad debt provision for EUR 2,824 thousand at 31 December 2017, allocated in order to cover any non-performing receivables.

Receivables from subsidiaries (EUR 179,549 thousand)

This item is broken down as follows:

- trade receivables for approximately EUR 24,821 thousand, mainly attributable to services rendered and not yet collected under the Operation & Maintenance contract on the CCGT plant owned by ERG Power, as well as services rendered and not yet collected under the Operation & Maintenance and B.o.P. contracts on wind farms of the subsidiaries. Moreover, the item includes services charged to all subsidiaries under the administrative and corporate service agreement;
- financial receivables for approximately EUR 154,416 thousand, relative to treasury receivables and in favour of subsidiaries, of which the most significant amounts are recorded from Brockahboy (UK) for EUR 56,807 thousand, ERG Eolica Ginestra S.r.l. for EUR 36,790 thousand and ERG Eolica Fossa del Lupo S.r.l. for EUR 22,881 thousand;
- other receivables for EUR 313 thousand.

Receivables from associates (EUR 1,535 thousand)

The trade receivables from Priolo Servizi S.C.p.A. include the provision of utility services (sea water, electricity and others) and services rendered within the scope of the Operation & Maintenance contract.

Receivables from parent companies (EUR 26,918 thousand)

This item mainly includes other receivables from ERG S.p.A. for EUR 24,110 thousand, which refer to receivables relating to the transfer of VAT for December 2017 and to participation in the tax consolidation.

The considerable increase in other receivables from parent companies is due to transfer of the ACE (Aiuto alla Crescita Economica - Economic Growth Aid) tax benefit, for EUR 10,621 thousand, to ERG S.p.A.

The item increased significantly in 2017, given the transfer to tax consolidation of the ACE tax benefit accrued during the current year and prior years by the Company and by merged company ERG Renew S.p.A. for use in offsetting against the taxable income generated within the consolidation.

Corresponding to the increase in the receivable from the parent company is a reduction in the deferred tax assets recorded in prior years by the company itself and by merged company ERG Renew S.p.A.

Tax receivables (EUR 3,646 thousand)

This item mainly includes the receivable for IRAP (Regional tax) advances paid in excess with respect to the tax owing for 2017 for EUR 749 thousand, the advance on electricity and gas excise duty of EUR 629 thousand and the IRAP receivable for which an application for reimbursement was made regarding a 2004 tax assessment for EUR 55 thousand. The item includes a receivable from ACEA acquired from merged company ERG Renew S.p.A., equal to EUR 1,256 thousand.

The amount also includes taxes paid pending a ruling by the company itself (EUR 166 thousand) and by merged company ISAB Energy Services S.p.A. (EUR 171 thousand), in addition to EUR 142 thousand regarding the IRES receivable for deductibility of IRAP, with request made to financial administration via consolidating company ERG S.p.A. but not yet reimbursed.

DEFERRED TAX ASSETS (EUR 5,424 THOUSAND)

The deferred tax assets relate to the tax effect of the deductible temporary differences that will be repaid in future years. The breakdown of the main temporary differences and relative tax effects are presented below.

	31/12/2017		31/12/2016	
	Amount of temporary Differences	Tax effect	Amount of temporary Differences	Tax effect
Provision for clean-up charges	–	–	220	61
Write-down of inventory	1,330	383	–	–
Other provisions	16,046	4,308	2,027	565
Other changes in IRES (Corporate tax)	1,431	412	–	3,530
Derivative instruments	1,107	319	–	977
Total		**5,424**		**5,134**

Maintenance of the deferred tax assets in the financial statements for the year ended on 31 December 2017 is supported by reasonable elements of certainty regarding their recoverability in the years in which they are expected to be repaid. This assumption is mainly based on the fact that the company forms part of the consolidated tax regime with the parent company ERG S.p.A., in view of the expected Group taxable amounts.

As mentioned previously, recall that the ACE benefit arising from prior years and in part from the merger was essentially used up during 2017.

Law no. 208 of 28 December 2015 reduced the IRES rate from 27.5% to 24% as of 1 January 2017.

Thus it is noted that the rate used to calculate deferred tax assets is the nominal IRES rate of 24% for those income items that will be recognised for tax purposes in future years, increased, when prescribed, by the IRAP rate (4.82%). The Company also adapted the deferred IRAP tax by applying the rate of 4.82% instead of the base rate previously used and equal to 3.9%, with an impact due to adjustment of the balances of EUR 20 thousand.

Receivables from others (EUR 31,695 thousand)

This item predominantly comprises receivables from the ECC - European Commodity Clearing, regarding the margin deposit and fair value of contracts stipulated (futures) for EUR 14,069 thousand, the receivable from Jao S.A. for EUR 2,438 thousand and security deposits from GME for EUR 550 thousand.

The item also includes receivables of EUR 10,009 thousand from Gaz de France, referring to recovery of the revaluation and interest on the disbursements of Italian Law no. 488/1992, arising from ERG Renew S.p.A. It also comprises receivables of EUR 2,236 thousand from the company PLT Energia S.p.A. for the Tursi transaction. This receivable is fully covered by bank and insurance guarantee, and its collection is envisaged within June 2018.

Short-term financial assets (EUR 76,073 thousand)

This item mainly comprises the investment in Brockaghboy Windfarm Limited. The summary table is provided below:

				Changes	
	31/12/2017	Pro- forma 31/12/2016	31/12/2016	Increases	Decreases
Subsidiaries					
Brockaghboy Windfarm Limited	26,329	7,090	–	19,239	–
TOTAL EQUITY INVESTMENTS	**26,329**	**7,090**	**–**	**19,239**	**–**

As commented on above, at the end of 2017, a sales process was initiated for subsidiary Brockaghboy Windfarm Ltd, UK company that owns a wind farm in Northern Ireland, commissioned in fourth quarter 2017. The sales process is expected to be completed within first quarter 2018.

In consideration of the above and for greater clarity of presentation, it was deemed appropriate to classify the subject investment under Current Assets within these Financial Statements.

The subject item also includes the financial receivable from parent company ERG S.p.A. relating to the cash pooling zero balance in the amount of EUR 49,181 thousand.

This item also includes the fair value of derivatives, particularly with regard to swaps and Contracts for Differences existing at year-end for a total of EUR 564 thousand.

Cash and cash equivalents

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Bank and postal deposits	3,210	1,238	–
Total	**3,210**	**1,238**	**–**

The item principally relates to the credit balances on bank current accounts, the carrying value of which represents the nominal value.

Accruals and deferrals (EUR 9,533 thousand)

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Accrued income	–	24	–
Prepaid expenses - other	9,435	7,062	12
Prepaid expenses - insurance premiums	44	85	71
Prepaid expenses - other payments	54	313	76
Total	**9,533**	**7,484**	**159**

The item “Prepaid expenses - others” mainly regards the costs for development of wind energy projects abroad. Specifically, these were costs for the UK companies, which are developing four wind power projects in the United Kingdom for EUR 8,361 thousand.

The estimated classification by expiry of the items registered under assets is presented below:

	Within 12 months	Within 5 years	After 5 years	Total
Receivables under financial fixed assets				
- to others	–	1,964	228,796	230,760
Receivables under current assets				
- from customers	103,966	–	–	103,966
- from subsidiaries	179,491	57	–	179,549
- from associates	1,535	–	–	1,535
- from companies subject to control by parent companies	–	–	–	–
- from parent companies	26,918	–	–	26,918
- deferred tax assets	322	5,102	–	5,424
- from the tax authorities	2,390	1,256	–	3,646
- from others	19,266	12,429	–	31,695
Total	**333,888**	**20,809**	**228,796**	**583,493**

LIABILITIES

SHAREHOLDERS' EQUITY (EUR 1,843,675 THOUSAND)

Share Capital (EUR 100,000 thousand)

The share capital at 31 December 2016, fully paid in, comprised 600,000 shares with a par value of EUR 10 each for a total of EUR 6,000 thousand, and was fully held by ERG S.p.A.

The merger deed of 21 December 2016 in particular provided full execution of the resolution of the Shareholders' Meeting of 18 November 2016 which envisaged, effective 1 January 2017, a share capital increase of the incorporating company ERG Power Generation S.p.A. for a total of EUR 94,000,000, with the issue of 9,400,000 new shares with a par value of EUR 10 each, assigned to the company ERG S.p.A., sole shareholder of the incorporating company.

As a result of the above, the share capital at 31 December 2017 amounts to EUR 100,000 thousand.

Share premium reserve (EUR 7,000 thousand)

The Company's shareholders' meeting of 20 June 2014 had decided to increase the share capital from EUR 5,000 thousand to EUR 6,000 thousand, i.e. by EUR 1,000 thousand, by issuing 100,000 shares with a par value of EUR 10 each and a share premium of EUR 7,000 thousand as payment for the "Power Business Unit", which took place on 1 July 2014.

Revaluation reserve (EUR 37 thousand)

The revaluation reserves had been transferred following the merger of Isab Energy Services S.r.l. on 1 January 2015, which in turn derived from the spin-off from ERG Nuove Centrali S.p.A. on 1 July 2007 in proportion with its shareholders' equity at 30 June 2007, transferred with the spin-off.

Legal reserve (EUR 5,038 thousand)

The legal reserve was established in 2012 following the decision by the ordinary shareholders' meeting of 16 April 2012, which approved the financial statements for 2011.

The shareholders' meeting held on 22 April 2015 had approved the financial statements for 2014 and voted to allocate 5% of the total profits for the period, amounting to EUR 632 thousand, to the reserve.

The shareholders' meeting held on 21 April 2016 had approved the financial statements for 2015 and voted to allocate EUR 507 thousand to the reserve.

The shareholders' meeting held on 19 April 2017 resolved to allocate EUR 3,838 thousand to the reserve.

Other reserves (EUR 1,580,470 thousand)

The item "Other reserves" comprises the capital account payment by parent company ERG S.p.A. for a total amount of EUR 961,733 thousand, of which EUR 261,733 thousand in 2015 and EUR 700,000 thousand in July 2016, following the decision by ERG S.p.A. to make a capital contribution in favour of ERG Power Generation S.p.A. and extinguish the existing loan between ERG S.p.A. and ERG Power Generation S.p.A. via offsetting.

This item also includes the extraordinary reserve to which EUR 5,830 was allocated, as a result of the share capital reduction in FY 2011, and the merger surplus amounting to EUR 5,855 thousand, relative to the merger by incorporation of ISAB Energy Services S.r.l. on 1 January 2015.

The subject item also includes an amount equal to EUR 607,050 thousand, which reflects the shareholders' equity of companies ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l., incorporated into ERG Power Generation S.p.A. at 1 January 2017.

The remaining portion consists of sundry reserves of insignificant amounts (EUR 2 thousand) transferred to the company following the merger through incorporation of ISAB Energy Services S.r.l. on 1 January 2015.

Reserve for transactions to hedge expected cash flows (EUR -789 thousand)

This item was introduced by Legislative Decree 139/15 and comprises the fair value changes of the effective component of hedging derivatives, net of deferred taxes.

Retained earnings (EUR 73,434 thousand)

This item includes the profits and losses carried forward from previous years.

The table showing the changes in the shareholders' equity items of the Company over the past two years is shown below:

	Capital	Share premium reserve	Revaluation reserves	Legal reserve	Statutory reserves	Other reserves	Cash flow hedge reserve	Retained profits (losses)	Profit (loss) for the period	Total Shareholders' Equity
BALANCE AT 31/12/2015	**6,000**	**7,000**	**37**	**693**	**–**	**273,420**	**(114)**	**506**	**21,695**	**309,235**
										–
Dividends	–	–	–	–	–	–	–	(21,186)	–	(21,186)
Allocation of profit from prior year	–	–	–	507	–	–	–	21,186	(21,695)	–
Other changes	–	–	–	–	–	700,000	–	–	–	700,000
Adoption of new OIC standards	–	–	–	–	–	–	(2,987)	–	–	(2,987)
Net profit (loss) for the year	–	–	–	–	–	–	–	–	76,766	76,766
BALANCE AT 31/12/2016	**6,000**	**7,000**	**37**	**1,200**	**–**	**973,420**	**(3,101)**	**506**	**76,766**	**1,061,828**
Dividends	–	–	–	–	–	–	–	–	–	–
Allocation of profit from prior year	–	–	–	3,838	–	–	–	72,928	(76,766)	–
2017 merger reserve	–	–	–	–	–	607,050	–	–	–	607,050
Other changes	94,000	–	–	–	–	–	–	–	–	94,000
Adoption of new OIC standards	–	–	–	–	–	–	2,312	–	–	2,312
Net profit (loss) for the year	–	–	–	–	–	–	–	–	78,485	78,485
BALANCE AT 31/12/2017	**100,000**	**7,000**	**37**	**5,038**	**–**	**1,580,470**	**(789)**	**73,434**	**78,485**	**1,843,675**

The following table lists shareholders' equity items, indicating the possible utilisation for each of them, as well as any tax restrictions.

	Amount	Possibility of utilisation	Amount available	Amount subject to tax on distribution
Share capital	100,000	–	–	3,009
Revaluation reserves	37	A,B,C	37	37
Share premium reserve	7,000	A,B	7,000	–
Legal reserve	5,038	B	–	–
Other reserves/Capital account payment	961,733	A,B,C	961,733	–
Other reserves	11,687	A,B,C	11,687	–
Other reserves/Merger surplus 2017	607,050	A,B,C	–	–
Reserve for transactions to hedge expected cash flows	(789)	–	–	–
Retained earnings	73,434	A,B,C	73,434	–
Profit for the year	78,485	A,B,C	78,485	–
Total	**1,843,675**		**1,132,376**	**3,046**

Key:
A - for share capital increase
B - for coverage of losses
C - for distribution to shareholders

The Company did not allocate deferred tax liabilities on the capital portion related to operations subject to tax on distribution (for EUR 3,009 thousand) or on the revaluation reserves (for EUR 37 thousand) since no utilisation that could generate taxation is expected.

Provisions for liabilities and charges (EUR 9,253 thousand)

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Derivative financial instruments payable	142	247	247
Other provisions	9,111	8,297	8,080
Total	**9,253**	**8,545**	**8,327**

The item derivative financial instruments payable, equal to EUR 142 thousand, includes derivatives with negative fair value at the measurement date, particularly Contracts for Difference. For more information, refer to the relative paragraph on derivatives.

A summary of the item "Other provisions" is provided below:

(EUR thousand)	31/12/2017	Increases	Decreases	Merger 2017	31/12/2016
Provision for coverage of investees' losses	1,331	–	(4,670)	167	5,833
Other current expenses provisions	7,610	5,591	–	–	2,018
Provisions for current environmental risks	59	–	–	50	9
Provisions for current legal risks	–	–	(220)	–	220
Other non-current expenses provisions	112	131	(19)	–	–
Total	**9,111**	**5,722**	**(4,909)**	**217**	**8,080**

The item “Other provisions for liabilities and charges” mainly comprise the following:

- EUR 1,331 thousand from the residual provision allocated on the 2011 financial statements of ERG S.p.A. for the 2011 impairment test relating to the Power CGU combined cycle plant, transferred to ERG Power Generation S.p.A. on 1 July 2014;
- EUR 2,720 thousand from charges potentially resulting from a contractual dispute established in 2010 with a wholesale customer;
- EUR 3,250 thousand from charges potentially resulting from the electricity business;
- EUR 1,621 thousand from potential expenses regarding uncertainty of the results of projects mainly linked to the business of renewables companies.

For information purposes only, note that on 3 July 2017, ERG Power Generation S.p.A. and E.On Italia were notified by the Genoa Provincial Office of the Italian Revenue Agency of the intention to reclassify the sale of all the shares in Hydro Terni S.r.l. (now ERG Hydro S.r.l.), carried out on 30 November 2015, from sale of an equity investment (following the partial demerger of the hydro business by E.On Produzione S.p.A.) to sale of a company and, consequently, highlighting non-payment of the related proportional registration tax on the declared price (approximately EUR 950 million).

On 21 July 2017, the companies met with officials of the Italian Revenue Agency of Genoa in order to provide their initial observations. As agreed with the Office, on 21 September 2017, the companies submitted to the Italian Revenue Agency a detailed note describing the intentions of the parties, the technical/legal peculiarities underlying the statutory lawsuit for the sale of the equity investment with respect to the “impractical” sale of the company, as well as the main regulatory aspects at the basis of the Company’s unfounded conduct. In this regard, recall that on the ERG side, following the technical-legal analyses conducted at the time, acquisition of the investment in ERG Hydro S.r.l. (following the partial demerger of the hydro business by E.On Produzione S.p.A.) was the only concretely possible transaction within the terms and methods aimed at keeping the investment economically sustainable. In particular, the issues hindering a different transaction (i.e., sale of company) were: (i) complexity and uncertain timing in obtaining approval by the authorities with regard to transfer of the concessions, (ii) zoning/cadastral differences of some hydroelectric assets and (iii) incompatibility of an acquisition of business branch with the structure of the ERG Group, in which each individual business is managed by a specifically dedicated company.

Despite presentation of the detailed note by ERG Power Generation and E.On Italia (supplemented by further production on 26 October 2017) and the meeting with officials of the Genoa Revenue Agency on 17 October 2017, on 27 October 2017, the Genoa Provincial Office of the Italian Revenue Agency served notice of payment of an additional registration tax of approximately EUR 28.8 million plus interest of EUR 1.9 million (no penalties were applied).

On 24 November 2017, an appeal and an application for judicial suspension of the tax collection were filed.

On 14 December 2017, the judicial suspension of the tax was ordered.

The relative hearing will be held on 14 March 2018.

As the dispute is not deemed to be a probable risk, no allocation was made to the provisions for liabilities in these financial statements.

Employees' severance indemnities (EUR 3,199 thousand)

(EUR thousand)	31/12/2017	31/12/2016
Opening balance	**1,090**	**1,040**
Merger 2017	2,285	–
Increases	1,248	819
Decreases	(1,424)	(769)
Closing balance	**3,199**	**1,090**

This includes the liabilities related to the employees' termination indemnities due to employees. The changes shown in the table do not include the portion of the employees' termination indemnities accrued and transferred to the Italian National Social Security Institute ("INPS") Treasury fund.

Payables (EUR 358,632 thousand)

The payables can be summarised as follows:

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Payables to banks	–	18	13
Trade payables	40,264	71,286	64,190
Payables to subsidiary companies	310,363	208,098	147,760
Payables due to parent companies	51	164,026	5,047
Payables to companies subject to control by parent companies	49	554	19,359
Tax payables	1,554	1,344	922
Payables to social security and pension institutions	1,929	1,942	1,095
Other payables	4,421	9,603	6,067
Total	**358,632**	**456,872**	**244,453**

Trade payables (EUR 40.264 thousand)

Trade payables stem from commercial transactions.

The trade payables at 31 December 2017 were mostly to Italian counterparties.

The trade payables mainly regarded the payable to the Electricity Market Manager of EUR 6,081 thousand for the purchase of electricity, the payable to Edison of EUR 5,371 thousand, to ENI of EUR 5,948 thousand and to Gazprom Export LLC of EUR 2,128 thousand, for gas purchases.

The item also includes payables to other counterparties such as TERNA for EUR 5,425 thousand, EDP Renewables Italia S.r.l. for EUR 1,163 thousand and other operators for the purchase of electricity.

The subject item also includes trade payables for ancillary charges on the sale of electricity (such as, for example, to Enel Distribuzione S.p.A. for EUR 1,169 thousand) and other charges connected to the purchase of gas and production of the CCGT plant owned by ERG Power S.r.l., such as the payable to Snam Rete Gas for EUR 1,293 thousand.

The item also comprises trade payables to third parties for services connected to maintenance of the wind farms for approximately EUR 5,549 thousand.

Payables to subsidiaries (EUR 310,363 thousand)

The subject item mainly consists of the following:

- financial payables to subsidiaries, for EUR 252,850 thousand, particularly with regard to the zero balance cash pooling in respect of subsidiary ERG Hydro S.r.l., including interest accrued, for a total of EUR 177,014 thousand, the treasury payable to ERG Eolica San Cireo S.r.l. for EUR 12,939 thousand, the treasury payable to ERG Eolica San Vincenzo S.r.l. for EUR 7,575 thousand, treasury payables to ERG Wind Investments Limited for EUR 55,095 thousand and the residual portion of the subject financial payables, which reflects the zero balance cash pooling to other subsidiaries;
- trade payables to group companies, equal to EUR 57,249 thousand, which mainly regard payables to the wind subsidiaries for EUR 26,909 thousand for the purchase of electricity, payables to ERG Hydro S.r.l. for EUR 13,301 thousand for the purchase of electricity, and payables for services during the year, particularly from subsidiary ERG Power S.r.l., totalling EUR 17,038 thousand as part of the tolling contract;
- other payables for EUR 264 thousand.

Payables to parent companies (EUR 51 thousand)

The item in 2017 includes chargebacks of expenses by parent company ERG S.p.A.

Payables to companies subject to control by parent companies (EUR 49 thousand)

In 2017, this item includes chargebacks by TotalErg S.p.A. while in 2016 it included payables to ERG Renew S.p.A. for the purchase of electricity generated by wind farms belonging to ERG Renew S.p.A. companies.

Tax payables (EUR 1,554 thousand)

This item mainly refers to the payables to the tax authorities of EUR 833 thousand and payables for excise duty related to electricity and gas of EUR 566 thousand.

Payables to social security and pension institutions (EUR 1,929 thousand)

This mainly refers to what is due in salaries and wages for December for social security, pension and insurance obligations.

Other payables (EUR 4,421 thousand)

(EUR thousand)	31/12/2017	Pro-forma 31/12/2016	31/12/2016
Payables due to employees	2,348	3,100	1,846
Payables due to third parties for equity investments	1,929	2,144	–
Sundry payables	144	4,359	4,222
Total	**4,421**	**9,604**	**6,068**

The item includes payables due to employees relating to wages for the period not yet settled and comprises holidays, unused time off "in lieu" and the estimated productivity bonus and variable remuneration linked to company objectives. "Payables due to third parties for equity investments" mainly include a payable of EUR 1,844 thousand from the merger of ERG Renew S.p.A. The subject payable concerns the valuation of a put option on 0.69% of Ansaldo Fuel Cells S.p.A. granted by ERG Renew S.p.A. to Gepafin S.p.A. with expiry on 29 January 2009. Gepafin S.p.A. had notified exercising of its put option; ERG Renew S.p.A. did not consider the right on said shares of Ansaldo Fuel Cells S.p.A. to be valid and informed Gepafin S.p.A. that it would not purchase the shares that were the subject of the option. Consequently, Gepafin filed proceedings to obtain payment of the debt and, at present, the proceedings in question are pending before the Court of Cassation.

The classification by expiry of the main items registered under the liabilities is shown below:

	Within 12 months	Within 5 years	After 5 years	Total
Payables				
- to banks	–	–	–	–
- to suppliers	40,264	–	–	40,264
- to subsidiaries	310,363	–	–	310,363
- to parent companies	51	–	–	51
- to companies subject to control by parent companies	49	–	–	49
- tax	1,554	–	–	1,554
- to social security and pension institutions	1,929	–	–	1,929
- other payables	4,421	–	–	4,421
Total	**358,632**	**–**	**–**	**358,632**

INCOME STATEMENT ANALYSIS

VALUE OF PRODUCTION (EUR 730,139 THOUSAND)

Revenues from sales and services (EUR 721,932 thousand)

(EUR thousand)	2017	2016
Revenues from sales	645,365	596,676
Revenues from services	76,567	29,694
Total	**721,932**	**626,370**

Revenues from sales mainly comprise:

- the sale of electricity and gas to third parties and the sale of White Certificates on electricity generation of the CCGT plant;
- electricity and gas sales and the supply of steam and other utilities to the other companies operating in the industrial site of Priolo Gargallo.

Please note that ERG Power Generation S.p.A. is the only Group dispatcher as of March 2015 for the CCGT generating unit and for the Renew group generating units, and sells the relative supply program to the Electricity Market Manager through the IPEX platform. Also note that, from 1 July 2016, ERG Power Generation S.p.A. sells to the market the electricity generated by the ERG Hydro S.r.l. plants, with the exception of plants for which there are agreements in place with the GSE for dedicated withdrawal.

Revenues from services mainly comprise remuneration established in the Operation & Maintenance service contract from the subsidiary ERG Power S.r.l., from the associated company Priolo Servizi S.C.p.A. and from ISAB S.r.l. The item also includes the provision of technical services and central staff services charged back to ERG Power S.r.l.
This item also includes revenues from Terna for the capacity payment.
Also note that from 1 January 2017, due to the aforementioned merger, revenues from services include services rendered to the wind subsidiaries for Operation & Maintenance and BoP, i.e., management and maintenance of the wind aerogenerators and substations.

For complete disclosure, we provide below a breakdown of the revenues from sales and services:

(EUR thousand)	2017	2016
Sales		
Electricity	552,718	526,970
Steam	44,243	42,964
Gas	1,880	1,546
White Certificates	38,322	16,216
Utilities	8,203	8,978
	645,365	**596,674**
Services		
Dispatching Services Market revenues from TERNA	5,615	447
Service contracts from subsidiaries ERG Power and ERG Hydro	12,392	9,522
Service contracts from wind subsidiaries	5,716	–
O&M for ERG Power and third parties site	12,541	13,523
O&M and BoP from wind subsidiaries	33,796	–
Other	6,506	6,204
	76,567	**29,696**
Total revenues from sales and services	**721,932**	**626,370**

Revenues for electricity are mainly from the Electricity Market Manager and IREN Mercato, Terna and Enel.

Revenues from sales of electricity refer to the energy generated by the wind, thermoelectric and hydroelectric plants of the Italian subsidiaries.

Energy sold in the market includes sales within the IPEX electrical market as well as in the "day before market" (MGP), the "intraday market" (MI) and the "market for dispatch services" (MSD) in addition to being sold to the primary operators of the sector within the OTC (over the counter) platform. The latter are realised by Energy Management in order to develop forward contracts, also with the objective of hedging the generation, in accordance with Group's risk policies.

Note that the average PUN (Single National Price) in 2017 was 54.0 EUR/MWh, up by 26% compared to 2016 (42.8 EUR/MWh).

The sale of steam and utilities mainly relate to customers from the Priolo industrial area, more specifically Versalis S.p.A., ISAB S.r.l. and Priolo Servizi S.C.p.A.

Gas sales are residual and concern gas not used in the CCGT production cycle, and are associated primarily with Snam rete Gas S.p.A.

Revenues for White Certificates relate primarily to the benefit deriving from the generation of electricity from the combined cycle plant in 2017.

Revenues for services also include services provided by O&M to the wind subsidiaries, from 1 January 2017, following the merger by incorporation of ERG Renew Operation & Maintenance S.r.l. in particular.

The subject item also includes revenues for technical services and central staff services provided to the subsidiaries.

From 1 January 2017, the service contracts to wind companies are also included, following the merger by incorporation of ERG Renew S.p.A. in particular.

The item other services mainly comprises income from hedging transactions completed during the year for EUR 3,803 thousand, charged back to Terna in regard to fees for Lost Wind Power Output for EUR 2,676 thousand and other services to third parties, including site customers.

Other revenues and income (EUR 8,207 thousand)

(EUR thousand)	2017	2016
Other revenues from Group companies	1,077	87
Insurance indemnities	219	–
Expense recoveries	117	4
Other revenues	6,795	6,812
Total	**8,207**	**6,903**

Other revenues from Group companies essentially regard charge-backs to parent companies and subsidiaries for costs incurred and sale of spare parts.

The item other revenues mainly includes the positive effect of the partial release of the risk provision relating to the Power CGU - combined cycle plant that emerged in the 2011 impairment test on the financial statements of ERG S.p.A., and transferred on 1 July 2014 to the Company. Use of the provision is recognised upon the final closing of the cash flows of the CGU and amounted to EUR 4,670 thousand in 2017.

The item “Other revenues” also includes revenues from Jao S.A. for the sale of the unused transmission capacity for EUR 1,901 thousand.

COSTS OF PRODUCTION (EUR 741,124 THOUSAND)

Costs of production are broken down as per the table below.

(EUR thousand)	2017	2016
Costs for raw, ancillary and consumable materials	507,735	432,463
Service costs	197,065	179,668
Leasing costs	2,057	495
Employees costs	27,930	17,565
Amortisation, depreciation and write-downs	1,769	1,371
Changes in inventories of raw materials, ancillary and consumable materials and goods	(2,529)	–
Provisions for risks	5,591	–
Other provisions	–	46
Management expenses	1,506	543
Total	**741,124**	**632,150**

Costs for raw, ancillary and consumable materials and goods (EUR 507,735 thousand)

The purchase costs of electricity mainly regard purchases from the Electricity Market Manager, from the wind subsidiaries and from ERG Hydro S.r.l. The gas purchase costs are essentially related to Edison, ENI and Gazprom.

The purchases of utilities and steam mainly relate to the relations with the Companies at the industrial site of Priolo Gargallo.

Costs include outlays to purchase spare parts, referring to the costs of raw materials acquired by third parties and subsidiaries to conduct maintenance on the wind aerogenerators on behalf of the subsidiaries, an activity acquired as a result of the merger, starting from January 2017.

Service costs (EUR 197,065 thousand)

(EUR thousand)	2017	2016
Costs for services from third parties	43,657	44,072
Costs for services from subsidiaries	116,576	119,034
Costs for services from parent companies	36,832	7,485
Costs for services from companies subject to control by the parent companies	–	9,077
Total	**197,065**	**179,668**

The “Costs for services from subsidiaries” relate to the Tolling fee paid to the subsidiary ERG Power S.r.l. as part of the Tolling contract.

“Costs for services from parent companies” essentially reflect the costs for staff services rendered by the company ERG S.p.A.

“Costs for services from third parties” mainly comprise the following:

(EUR thousand)	2017	2016
Maintenance costs	4,678	–
Technical, legal and other consulting services	2,800	1,292
Payments to statutory auditors	70	29
Utilities and supplies	264	30
Insurance costs	436	248
Other services	35,408	42,473
Total	**43,657**	**44,072**

“Maintenance costs” refer to costs for assistance, management and maintenance services for the wind parks, an activity acquired by the company as a result of the merger, starting from January 2017.

The item “Consulting services” mainly includes about EUR 259 thousand for legal costs, EUR 1,257 thousand for technical professional consultancy costs, EUR 401 thousand for assessments, inspections and testing, EUR 246 thousand in feasibility studies and other costs for services.

The item also includes payment to the independent auditors Deloitte & Touche S.p.A. of which EUR 292 thousand related to the auditing services provided and EUR 57 thousand for services other than auditing.

“Insurance expense” includes the premiums paid in previous years.

The item “Other services” mainly comprises the following:

(EUR thousand)	2017	2016
EE transport, gas and other capacity charges	13,619	31,597
Futures, swaps and CFD charges	11,532	4,722
Other personnel services	2,667	1,356
Costs for O&M of renewables	1,777	–
Italian and foreign bank fees	958	180
Other TERNA and Ipex fees	1,091	2,792
Other services	3,764	1,826
Total	**35,408**	**42,473**

- electricity transport costs, amounting to EUR 13,619 thousand, are down compared to the 2016 figure of EUR 31,597 thousand, due to the significant decrease in volumes sold in 2017 as a result of expiry of a number of contracts with end customers on 31 December 2016;
- charges for transactions, predominantly hedging, completed during the year amounted to EUR 11,532 thousand, up compared to 2016, due to the increase in volumes of financial hedging transactions on production sold, compared to physical hedging transactions, whose positive margins are reflected in higher electricity sales revenues and lower electricity purchase costs;
- other personnel services increased mainly as a result of the introduction of employees of the companies ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. until 31 December 2017;
- other Terna and IPEX fees in 2017 amounted to EUR 1,091 thousand and declined mainly as a result of lower dispatching charges for the consumption units, generated by the decrease in number of PODs (points of delivery) served, as mentioned above.

Costs for leased goods (EUR 2,057 thousand)

(EUR thousand)	2017	2016
Rent expenses	486	93
Lease expenses	392	130
Royalties	5	–
Rentals and leases	1,174	272
Total	**2,057**	**495**

Leasing costs mainly refer to rent expense on warehouses, fees and leasing costs for automobiles and trucks.

Employee costs (EUR 27,930 thousand)

Employee costs relate to the total costs of 368 employees (371 at the end of the year) during the year.

(EUR thousand)	2017	2016
Salaries and wages	19,364	11,842
Social security contributions	6,038	3,481
Employees' severance indemnities	1,248	781
Other costs	1,280	1,462
Total	**27,930**	**17,565**

The subject item increased significantly compared to the prior year, mainly due to the merger by incorporation of ERG Renew S.p.A. and ERG Renew Operation & Maintenance S.r.l., effective from 1 January 2017, as part of the Group's reorganisation process.

The following shows the breakdown of the Company's personnel:

	2017	2016
Executives	12	8
Managers	53	38
Staff	159	114
Blue collar – Intermediate workers	147	22
Total	**371**	**182**

Amortisation, depreciation and write-downs (EUR 1,769 thousand)

(EUR thousand)	2017	2016
Amortisation of intangible fixed assets	1,319	306
Depreciation of tangible fixed assets	450	10
Write-down of receivables classed as current assets and cash and cash equivalents	–	1,055
Total	**1,769**	**1,371**

Amortisation of the intangible fixed assets refers to the other intangible fixed assets, especially the software used to carry out the activities and the goodwill generated by the merger, as described above.

In 2017, following verification of the collectibility of receivables from third-party customers, it was not necessary to carry out any write-downs of receivables.

Change in inventories of raw, ancillary and consumable materials and goods (EUR -2,529 thousand)

The item refers entirely to the change in inventories of spare parts, acquired in order to conduct maintenance activities on the wind aerogenerators for the wind subsidiaries, activity introduced into the Company starting from January 2017. The write-down at 31 December 2017 is calculated based on an analysis of the turnover ratio of spare parts and is aimed at handling a possible decline in functionality of the spare parts.

Provisions (EUR 5,591 thousand)

(EUR thousand)	2017	2016
Accruals of provisions for liabilities and charges	5,591	–
Other provisions	–	46
Total	**5,591**	**46**

The item accruals of provisions for liabilities and charges includes:

- an increase of EUR 720 thousand for charges potentially resulting from a contractual dispute established in 2010 with a wholesale customer;
- EUR 3,250 thousand for charges potentially arising from the electricity business;
- EUR 1,621 thousand in potential expenses regarding uncertainty of the results of projects mainly linked to the business of renewables companies.

Management expenses (EUR 1,506 thousand)

(EUR thousand)	2017	2016
Other charges from Group companies	384	15
Municipal property tax	6	–
Other duties and taxes	141	99
Other management expenses	975	429
Total	**1,506**	**543**

FINANCIAL INCOME AND EXPENSES (EUR 82,715 THOUSAND)

(EUR thousand)	2017	2016
Income from equity investments	68,204	77,000
Other income	16,471	201
Interest and other financial expenses	(1,952)	(12,244)
Gains and losses on foreign exchange	(7)	(4)
Total	**82,715**	**64,953**

Income from equity investments (EUR 68,204 thousand)

In 2017, the Company collected dividends and the distribution of reserves from subsidiaries as outlined in the following table:

(EUR thousand)	2017	2016
Dividends		
ERG Eolica San Vincenzo S.r.l.	4,487	–
ERG Eolica Eolica Basilicata S.r.l.	2,412	–
ERG Eolica San Cireo S.r.l.	3,521	–
ERG Eolica Eolica Campania S.p.A.	4,852	–
ERG Eolica Eolica Adriatica S.r.l.	5,175	–
ERG Eolica Eolica Fossa del Lupo S.r.l.	4,000	–
Green Vicari S.r.l.	483	–
ERG Eolica Eolica Faeto S.r.l.	1,453	–
ERG Hydro S.r.l.	37,640	1,782
	64,023	**1,782**
Distribution of reserves		
ERG Eolica Eolica Adriatica S.r.l.	4,180	–
ERG Hydro S.r.l.	–	75,218
	4,180	**75,218**
Total income from equity investments	**68,204**	**77,000**

Other income (EUR 16,471 thousand)

The item comprises the following:

- financial income of EUR 10,895 thousand from interest income on loans granted to subsidiaries;
- capital gain of EUR 5,380 thousand from the disposal at market value of the investment in Blachy Pruszynski-Energia SP. Z.O.O to the company EW Orneta 2 SP. Z.O.O. This transaction is detailed in the “Equity investments” paragraph of these Notes;
- interest income from the parent company for EUR 20 thousand;
- interest income from third parties, mainly due to payment extensions, for EUR 176 thousand.

Interest and other financial charges (EUR -1,952 thousand)

(EUR thousand)	2017	2016
Financial charges due to subsidiaries	884	83
Financial charges due to parent companies	965	12,119
Expenses due to others:		
Interest payable to banks	1	–
Other expenses	102	43
Interest and other financial charges	**1,952**	**12,244**

Financial charges due to subsidiaries include EUR 465 thousand in interest payable by subsidiaries and the capital loss of EUR 419 thousand following the share capital increase of EW Orneta 2 SP. ZO.O. through the disposal at market value of the investment in Hydro Inwestycje SP. Z.O.O.

Financial charges due to parent companies refer to the interest accrued up to 31 December 2017 on the cash pooling zero balance current account with the parent company ERG S.p.A.

Gains and losses on foreign exchange (EUR -7 thousand)

The item primarily includes the adjustment at the end of the period, calculated by the Company by aligning all items in foreign currency with the end-of-period exchange rate.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (EUR -200 THOUSAND)

(EUR thousand)	2017	2016
Revaluation of derivative financial instruments	1,284	17
Write-downs of equity investments.	(996)	–
Write-downs of derivative financial instruments	(488)	–
Total	**(200)**	**17**

This item includes changes in the fair value of derivatives compared to the prior year.

The item also includes the write-down of the investment in Creggan Wind Farm Limited for EUR 996 thousand, following non-issuance of authorisation for the project by the Scottish government.

INCOME TAXES FOR THE YEAR (EUR 6,954 THOUSAND)

(EUR thousand)	2017	2016
Current income taxes - IRES	6,397	8,325
Current income taxes - IRAP	–	–
Deferred tax assets	307	2,418
Taxes from previous year	250	(71)
Total	**6,954**	**10,673**

The current IRES (Corporate tax) account from consolidation highlights a positive amount, as it includes the transfer to ERG’s tax consolidation of the ACE benefit accrued by the company itself and by merged company ERG Renew S.p.A. in prior years.

The tax amount for the year is zero, as the available ACE benefit was used to offset the current taxable income.

Also note that no IRAP amount is due, as the taxable income for this tax is negative.

Deferred tax assets arose from the temporary differences between the statutory values and the relative tax values, for EUR 307 thousand.

The table below shows the reconciliation between the theoretical tax charges and the reported charges.

Reconciliation between the tax liability in the financial statements and the theoretical tax liability

IRES (CORPORATE TAX)		
Profit (loss) before taxes	**71,531**	
Theoretical taxation (24%)		**17,167**
Impact of permanent tax changes	(78,157)	
Taxable IRES income	(6,626)	
IRES rate (24%)		**(1,590)**
IRES reported		**(1,590)**

IRAP		
Difference between production costs and revenues	(10,984)	
Costs and revenues not relevant for IRAP purposes	27,930	
Theoretical taxable income for IRAP purposes	**16,946**	
Theoretical tax charge (tax rate 4.82%)		**817**
Impact of permanent tax changes	(28,640)	
Taxable IRAP income	(11,694)	
IRAP rate (4.82%)		**(564)**
IRAP reported		**0**
Changes in deferred tax assets with current income taxes at zero		262
Change in IRAP rate (4.82% vs 3.9%)		20
Adjustment for negative IRAP		(564)
Adjustments of taxes from previous years		(251)
ACE benefit transfer, tax consolidation		(4,831)
Total income taxes as reported in the financial statements		**(6,954)**

COMMITMENTS AND GUARANTEES AND CONTINGENT LIABILITIES NOT INDICATED IN THE STATEMENT OF FINANCIAL POSITION

Guarantees in favour of group companies (EUR 14,183 thousand)

As a result of the merger of ERG Renew S.p.A. into ERG Power Generation S.p.A., the latter acquired ownership of the guarantees issued in favour of companies of the wind group, particularly Government Agencies, for restoration of the wind farm areas at the end of the concession for the electricity generation activity. Mention also goes to two contractual guarantees issued in favour of third parties for payment of the variable portion of the purchase price of the business unit.

Sureties in favour of third parties issued on credit lines of the parent company (EUR 16,434 thousand)

These regard sureties issued by ERG Power Generation S.p.A. in favour of third parties, guaranteed by the direct parent company ERG S.p.A.

These are predominantly issued in favour of counterparties with whom the company has trade relations, and a guarantee in favour of the Electricity Market Manager so that it can operate on that market.

Sureties in favour of third parties (EUR 50 thousand)

These regard sureties issued in favour of third parties.

Collateral (EUR 114 thousand)

This item regards collateral dating back to the year 2012 for pledges on Power.

Our commitments (EUR 189 thousand)

This item refers to obligations assumed to acquire hardware, software and IT advisory services.

DISCLOSURE ON THE FAIR VALUE OF THE FINANCIAL INSTRUMENTS IN ACCORDANCE WITH ARTICLE 2427-*BIS* OF THE CIVIL CODE

The Company uses certain derivative instruments as part of Group policy to minimise the risks relating mainly to credit, market, liquidity and operational risks.

The following table shows the derivative financial instruments used by the Company at 31 December 2017.

(EUR thousand)			31/12/2017		31/12/2016	
Type of contract		**Underlying financial risk**	**Notional value**	**FV**	**Notional value**	**FV**
Contract for Difference	thousands of MWh	Electricity purchase price risk	283	(103)	11,04	12
Commodities swap	thousands of MWh	GAS purchase price risk	1,118	525	135,00	465
Commodities Futures	thousands of MWh	Electricity sale price risk	1,661	(721)	781,58	(4,542)
Total				**(299)**		**(4,066)**

Electricity price risk hedging swap

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 reference period.

Electricity price risk hedging CFD

CFD (Contract for Difference) transactions to hedge the risk of fluctuation in the price of electricity with respect to forward agreements for the purchase and sale of electricity. These are contracts whereby the parties undertake to liquidate, at a certain date, the difference between the price agreed and the market price of the reference period.

Futures

Futures transactions are fixed-term, standardised contracts. These are contracts whereby two parties agree to exchange, at a future date, a certain asset at a price determined upon stipulation of the contract.

The fair value is calculated based on the estimate of future cash flows, discounted at the measurement date (Discounted Cash Flow Model). The estimate of variable future prices is carried out on the basis of forward prices of the commodities.

The measurement techniques used are based exclusively on parameters such as spot and forward price, interest rates and commodity price directly observable on the market.

Other information

- no transactions subject to the obligation of retrocession upon completion were carried out (Article 2427, no. 6-*ter*);
- no financial expenses were posted to the asset values of the Statement of Financial Position during the year (Article 2427, no. 8);

- no bonus shares, bonds convertible into shares or securities or other similar instruments were issued (Article 2427, no. 18);
- no assets were allocated to a specific business (Article 2427, no. 20), and no loans were granted or stipulated with regard to a specific business (Article 2427, no. 21);
- no finance lease transactions involving the transfer to the lessee of the predominant portion of risks and benefits of the underlying asset were carried out (Article 2427, no. 22);
- transactions with related parties (Article 2427, no. 22-*bis*) are illustrated in the next paragraph;
- there are no known agreements whose effects are not mentioned in the Statement of Financial Position (Article 2427, no. 22-*ter*).

RELATIONS WITH PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES, COMPANIES CONTROLLED BY THE PARENT COMPANIES AND OTHER RELATED PARTIES

The main relations between the Company and the companies that form part of the ERG Group are set out below, with transactions settled on an arm's length basis.

Intra-group relations in 2017 refer to Company operations.

In particular, the Company received from parent company ERG S.p.A. debits for compensation due to directors who are employees of the parent company, for services as well as for the cash pooling zero contract.

The payable due to subsidiary ERG Power S.r.l. refers to the tolling contract, while the receivable mainly refers to operation and maintenance services under the Operation & Maintenance contract, as well as the service agreement.

The trade payable due to ERG Hydro S.r.l. refers to the contract for the purchase of electricity produced.

The financial payable due to ERG Hydro S.r.l. primarily concerns the financing for the centralised treasury agreement.

The trade receivables from wind companies mainly regard the O&M and BoP maintenance contracts.

The trade payables to wind companies mainly regard contracts for the purchase of electricity produced by the SPV.

Financial assets and liabilities refer to existing loan agreements between the Company and the wind companies.

Last 2016, the Company became the sole supplier for companies of the group with respect to electricity users.

The table below summarises the financial and equity items for the year 2017 with Group Companies.

	Revenues			Costs		
	Sales and services	Other revenues	Financial income	Purchases	Costs for services and other costs	Financial expenses
Subsidiaries						
ERG Eolica San Vincenzo S.r.l.	1,322	4	–	(3,540)	–	(67)
ERG Eolica San Cireo S.r.l.	1,198	4	–	(3,207)	(118)	(86)
ERG Eolica Faeto S.r.l.	1,065	4	–	(2,247)	–	–
ERG Eolica Ginestra S.r.l.	1,381	6	540	(3,275)	–	–
ERG Eolica Tirreno S.r.l.	16	–	–	–	–	–
Parc Eolien du Carreau S.a.s.	252	–	–	–	–	–
Parc Eolien de la Bruyère S.a.s.	315	–	–	–	–	–
Parc Eolien les Mardeaux S.a.s.	315	–	–	–	–	–
Parc Eolien de Lihus S.a.s.	315	–	–	–	–	–
Parc Eolien de Hetomesnil S.a.s.	315	–	–	–	–	–
Green Vicari S.r.l.	1,259	4	25	(3,348)	–	–
ERG Eolica Basilicata S.r.l.	424	2	–	(3,573)	–	–
ERG Eolica Fossa del Lupo S.r.l.	2,550	2	629	(8,905)	–	–
ERG Eolica Calabria S.r.l.	16	–	0	–	–	–
ERG Power S.r.l.	13,813	–	–	–	(116,438)	–
ISAB Energy Solare S.r.l.	10	–	10	–	–	–
ERG Eolica Adriatica S.r.l.	3,587	5	–	(11,790)	–	–
ERG Eolica Campania S.p.A.	3,083	330	503	(15,711)	(250)	–
ERG Eolica Amaroni S.r.l.	818	47	178	(2,327)	–	–
ERG Wind Investments Limited	200	–	–	–	–	(86)
ERG Wind Holdings (Italy) S.r.l.	18,769	144	–	(170)	(122)	–
ERG Wind Sardegna S.r.l.	88	12	–	–	–	–
ERG Wind Sicilia 6 S.r.l.	24	–	–	(2,543)	–	–
ERG Wind 4 S.r.l.	516	1	–	(1,217)	–	–
ERG Wind Leasing 4 S.r.l.	1	–	–	–	–	–
ERG Wind 6 S.r.l.	99	–	–	(3,037)	–	–
ERG Wind Sicilia 2 S.r.l.	49	–	–	–	–	–
ERG Wind Sicilia 3 S.r.l.	15	–	–	(1,627)	–	–
ERG Wind Sicilia 4 S.r.l.	38	–	–	–	–	–
ERG Wind Sicilia 5 S.r.l.	23	–	–	–	–	–
ERG Wind 2000 S.r.l.	45	3	–	–	–	–
ERG Wind MEG 1 LLP	122	136	–	–	–	–
ERG Wind MEG 2 LLP	73	53	–	–	–	–
ERG Wind MEG 3 LLP	360	–	–	–	–	–
ERG Wind MEG 4 LLP	300	–	–	–	–	–
ERG Wind Energy S.r.l.	1	–	–	(41,128)	–	–
EW Orneta 2 Sp. z.o.o.	10	19	1,050	–	–	–
Hydro Inwestycje SP.ZO.O. (Poland)	10	–	267	–	–	–
Blachy Pruszynski - Energia SP. Z.O.O (Poland)	10	–	489	–	–	–
ERG Wind France 1	–	–	500	–	–	–
P.E. Bois de l'Arche S.a.s.	288	–	–	–	–	–

	Revenues			Costs		
	Sales and services	Other revenues	Financial income	Purchases	Costs for services and other costs	Financial expenses
P.E. Bois Bigot S.a.s.	230	–	–	–	–	–
Sandy Knowe Wind Farm Limited	–	–	2	–	–	–
ERG Wind Park Beteiligungs GmbH	–	–	1,181	–	–	–
ERG wind 105 Gmbh	–	–	347	–	–	–
ERG Wind French Holdings S.a.s.	–	–	579	–	–	–
CSO Energy GmbH	175	146	1	–	(27)	–
CSO Energy S.ar.l.	340	69	–	–	(52)	–
Voltwerk Energy Park 8 GmbH	–	–	129	–	–	–
Voltwerk Windpark Worbzig GmbH	–	–	52	–	–	–
Voltwerk Windpark Beesenstedt GmbH	–	–	49	–	–	–
Windpark Cottbuser Halde GmbH	–	–	31	–	–	–
ERG Hydro S.r.l.	10,298	2	–	(64,765)	–	(225)
Brockahboy Wind Farm Limited (UK)	17	–	1,576	–	–	–
Corni Eolian S.A.	30	8	2,626	–	–	–
Globo Energy EOOD	3	–	3	–	–	–
K&S Energy EOOD	3	–	–	–	–	–
K&S Energy 1 EOOD	6	–	–	–	–	–
K&S Energy 2 EOOD	6	–	–	–	–	–
Mark 1 EOOD	4	–	2	–	–	–
Mark 2 EOOD	4	–	–	–	–	–
VG 1 EOOD	3	–	–	–	–	–
VG 2 EOOD	6	–	–	–	–	–
VG 3 EOOD	6	–	–	–	–	–
VG 4 EOOD	6	–	–	–	–	–
VG 5 EOOD	6	–	–	–	–	–
VG 6 EOOD	6	–	–	–	–	–
Wind Park Kavarna Est EOOD	6	–	–	–	–	–
Wind Park Kavarna Ovest EOOD	6	–	–	–	–	–
WP Bulgaria 4 EOOD	4	–	3	–	–	–
ERG Wind Bulgaria S.p.A.	16	–	3	–	–	–
ERG Eolienne France S.a.s.	–	26	91	–	–	–
	–	**–**	**–**	**–**	**–**	**(419)**
Associates						
Priolo Servizi S.C.p.A.	**11,788**	**–**	**–**	**–**	**–**	**–**
Parent companies						
ERG S.p.A.	**74**	**10**	**20**	**–**	**(36,837)**	**(965)**
Companies subject to control by the parent companies.						
TotalErg S.p.A.	**–**	**–**	**–**	**(151)**	**–**	**–**

	Receivables			Payables		
	Trade	Sundry	Financial	Trade	Sundry	Financial
Subsidiaries						
ERG Eolica San Vincenzo S.r.l.	318	–	–	(795)	–	(7,575)
ERG Eolica San Cireo S.r.l.	297	57	–	(804)	–	(12,939)
ERG Eolica Faeto S.r.l.	288	–	–	(553)	–	–
ERG Eolica Ginestra S.r.l.	716	–	36,790	(919)	–	–
ERG Eolica Tirreno S.r.l.	460	–	–	–	–	(228)
Parc Eolien du Carreau S.a.s.	45	–	–	–	–	–
Parc Eolien de la Bruyère S.a.s.	64	–	–	–	–	–
Parc Eolien les Mardeaux S.a.s.	64	–	–	–	–	–
Parc Eolien de Lihus S.a.s.	64	–	–	–	–	–
Parc Eolien de Hetomesnil S.a.s.	64	–	–	–	–	–
Green Vicari S.r.l.	919	–	–	(841)	–	–
ERG Eolica Basilicata S.r.l.	297	–	37	(814)	–	–
ERG Eolica Fossa del Lupo S.r.l.	371	–	22,881	(1,836)	–	–
ERG Eolica Calabria S.r.l.	5	–	5	–	–	–
Eoliennes du Vent Solaire S.a.s.	(30)	–	–	–	–	–
ERG Power S.r.l.	4,251	–	–	(17,038)	–	–
ISAB Energy Solare S.r.l.	9	–	90	–	–	–
ERG Eolica Adriatica S.r.l.	654	–	–	(2,758)	–	–
ERG Eolica Campania S.p.A.	832	–	10,900	(3,630)	–	–
ERG Eolica Amaroni S.r.l.	154	–	10,018	(445)	–	–
ERG Wind Investments Limited	61	–	–	–	–	(55,095)
ERG Wind Holdings (Italy) S.r.l.	791	–	–	(26)	(23)	–
ERG Wind Sardegna S.r.l.	42	–	–	–	–	–
ERG Wind Sicilia 6 S.r.l.	2	–	–	(529)	–	–
ERG Wind 4 S.r.l.	79	–	–	(318)	–	–
ERG Wind 6 S.r.l.	6	–	–	(819)	–	–
ERG Wind Sicilia 2 S.r.l.	31	–	–	–	–	–
ERG Wind Sicilia 3 S.r.l.	–	–	–	(462)	–	–
ERG Wind Sicilia 4 S.r.l.	0	–	–	–	–	–
ERG Wind Sicilia 5 S.r.l.	0	–	–	–	–	–
ERG Wind 2000 S.r.l.	5	–	–	–	–	–
ERG Wind MEG 1 LLP	89	–	–	–	–	–
ERG Wind MEG 2 LLP	68	–	–	–	–	–
ERG Wind MEG 3 LLP	214	–	–	–	–	–
ERG Wind Energy S.r.l.	–	–	–	(11,329)	(241)	–
EW Orneta 2 Sp. z.o.o.	–	–	3,385	–	–	–
Hydro Inwestycje SP.ZO.O. (Poland)	2	–	–	–	–	–
ERG Wind France 1 S.a.s.	–	–	863	–	–	–
P.E. Bois de l'Arche S.a.s.	173	–	–	–	(41)	–
P.E. Bois Bigot S.a.s.	172	–	–	–	–	–

	Receivables			Payables		
	Trade	Sundry	Financial	Trade	Sundry	Financial
Sandy Knowe Wind Farm Limited	–	(114)	2	–	–	–
ERG Wind Park Beteiligungs GmbH	523	–	1,954	–	–	–
ERG wind 105 GmbH	–	–	695	–	–	–
ERG Wind French Holdings S.a.s.	–	–	1,173	–	–	–
CSO Energy GmbH	260	241	51	(32)	–	–
CSO Energy S.ar.l.	364	14	–	–	–	–
Voltwerk Energy Park 8 GmbH	–	–	233	–	–	–
Voltwerk Windpark Worbzig GmbH	–	–	102	–	–	–
Voltwerk Windpark Beesenstedt GmbH	–	–	104	–	–	–
Windpark Cottbuser Halde GmbH	–	–	59	–	–	–
ERG Hydro S.r.l.	11,620	–	–	(13,301)	–	(177,014)
Brockahboy Wind Farm Limited (UK)	–	–	56,807	–	–	–
Corni Eolian S.A.	15	–	4,429	–	–	–
Globo Energy EOOD	4	–	(0)	–	–	–
K&S Energy EOOD	4	–	–	–	–	–
K&S Energy 1 EOOD	8	–	–	–	–	–
K&S Energy 2 EOOD	8	–	–	–	–	–
Mark 1 EOOD	5	–	(0)	–	–	–
Mark 2 EOOD	5	–	–	–	–	–
VG 1 EOOD	4	–	–	–	–	–
VG 2 EOOD	8	–	–	–	–	–
VG 3 EOOD	8	–	–	–	–	–
VG 4 EOOD	8	–	–	–	–	–
VG 5 EOOD	8	–	–	–	–	–
VG 6 EOOD	8	–	–	–	–	–
Wind Park Kavarna Est EOOD	8	–	–	–	–	–
Wind Park Kavarna Ovest EOOD	8	–	–	–	–	–
WP Bulgaria 4 EOOD	5	–	14	–	–	–
ERG Wind Bulgaria S.p.A.	343	–	119	–	–	–
ERG Eolienne France S.a.s.	22	–	3,676	–	–	–
Longburn Wind Farm Limited	–	(55)	–	–	–	–
Associates						
Priolo Servizi S.C.p.A.	**1,535**	**–**	**–**	**–**	**–**	**–**
Parent companies						
ERG S.p.A.	**2,808**	**24,111**	**–**	**(66)**	**–**	**–**
Companies subject to control by the parent companies						
TotalErg S.p.A.	**–**	**–**	**–**	**(30)**	**–**	**–**

OPERATING RESULTS

The financial statements for the year ended 31 December 2017 close with a profit of EUR 78,485 thousand, after taxes of EUR 6,954 thousand.

ESSENTIAL FIGURES FROM THE MOST RECENT FINANCIAL STATEMENTS OF ERG S.P.A., WHICH CARRIES OUT THE MANAGEMENT AND COORDINATION OF ERG POWER GENERATION S.P.A.

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2016
Intangible fixed assets	47
Property, plant and equipment	2,554
Equity investments	1,946,260
Other financial assets	93,005
Deferred tax assets	12,203
Other non-current assets	3,427
Non-current assets	**2,057,497**
Trade receivables	13,936
Other current receivables and assets	64,582
Current financial assets	245,863
Cash and cash equivalents	247,649
Current assets	**572,030**
TOTAL ASSETS	**2,629,527**
Shareholders’ Equity	**1,692,089**
Employees' severance indemnities	574
Deferred tax liabilities	1,633
Provisions for non-current liabilities and charges	82,117
Non-current financial liabilities	674,320
Other non-current liabilities	6,424
Non-current liabilities	**765,069**
Provisions for current liabilities and charges	7,291
Trade payables	52,785
Current financial liabilities	61,601
Other current liabilities	50,693
Current liabilities	**172,370**
TOTAL LIABILITIES	**2,629,527**

INCOME STATEMENT

(EUR thousand)	2016
Revenues from ordinary operations	16,629
Other revenues and income	5,365
Costs for purchases	(116)
Costs for services and other costs	(24,522)
Personnel costs	(11,896)
EBITDA	**(14,540)**
Amortisation, depreciation and write-downs of fixed assets	(171)
Financial income	22,428
Financial expenses	(24,172)
Net income (loss) from equity investments	27,382
PROFIT (LOSS) BEFORE TAXES	**10,927**
Income taxes	545
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**11,473**
NET PROFIT (LOSS) FOR THE PERIOD	**11,473**

Board of Directors' Proposal

BOARD OF DIRECTORS' PROPOSAL

Dear Shareholders,

We would like to conclude this report by calling upon you:

- to approve your company's annual financial statements for the period ended 31 December 2017, which closed with a net profit of EUR 78,485,156.87;
- to resolve in favour of the allocation of EUR 3,924,257.84 to the legal reserve;
- to carry forward the residual profit for the year, amounting to EUR 74,560,899.03.

Genoa, 6 March 2018

on behalf of the Board of Directors

The Chief Executive Officer

Pietro Tittoni

REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING FOR APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED ON 31 DECEMBER 2017, PURSUANT TO ART. 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of ERG Power Generation S.p.A.

During the year ended on 31 December 2017, we carried out the supervisory activities required of the Board of Statutory Auditors, in accordance with Article 2403 of the Italian Civil Code and Legislative Decree 58/98, in accordance with the Standards of behaviour of the Board of Statutory Auditors in subsidiaries controlled by companies with shares listed on regulated markets, issued by the National Boards Chartered Accountants, also taking into account the specific applicable regulations.
The Board states that it was able to verify respect of the legislation and regulations.

With regard to the activities carried out in FY 2017:

- we first of all note that the merger by incorporation of ERG Renew S.p.A. and ERG Renew Operation & Maintenance S.r.l. into ERG Power Generation S.p.A. became fully effective on 1 January 2017;
- on 8 March 2017, 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 price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million. 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. The transaction was completed on 2 May 2017;
- on 22 June, 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 Ltd), owner of the necessary authorisations for the construction of a wind farm (35 MW) in Northern Ireland, expected to enter into operation by 2020;
- on 16 November, ERG Power Generation S.p.A. signed an agreement with VEI Green, investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, for the purchase of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy;

- we held 6 meetings of the Board of Statutory Auditors and participated in the Shareholders' Meetings and in all meetings of the Board of Directors, monitoring compliance with the Articles of Association and with the law and regulations that govern the operation of the Company bodies;
- we obtained information on the overall activities carried out by the Company from the Directors, at least quarterly, and on the transactions with the greatest economic, financial or equity importance, verifying that the actions decided on and carried out complied with the law and with the Articles of Association and that they were not manifestly imprudent or reckless, potentially in conflict of interest or conflicting with the resolutions passed by the Shareholders' Meeting or capable of compromising the integrity of the company's capital;
- we verified the legitimacy of the management decisions made by the Management Body and their economic adequacy, excluding a verification of merit with regard to opportunity and feasibility;
- we checked the adequacy of the internal control system, structured at Group level and constantly updated in the parent company and in the subsidiaries. On the basis of the information provided, the Board of Statutory Auditors acknowledged the positive assessment by the Control and Risk Committee of ERG S.p.A. with regard to the adequacy of the overall internal control system, expressed in its annual report on the activities carried out in 2017;
- we monitored the adequacy of the organisational structure and we note that at 31 December 2017, a total of 371 individuals were employed by ERG Power Generation S.p.A.;
- we have noted during the joint meetings and, lastly, from the report received from the Supervisory Committee, established pursuant to Legislative Decree 231/01, that no significant critical aspects were identified during the year for the purposes of implementation and effectiveness of the Organisation and Management Model;
- the administrative-accounting system, to the extent that we verified and assessed through information obtained from the Head of the respective function, from an examination of the corporate documentation and from an analysis of the work carried out by the Independent Auditors, is suitable in accurately representing the operating events;
- we checked the timeliness with which the parent company was provided with the data required to draw up the Financial Statements and the information required to fulfil the disclosure obligations pursuant to Articles 114 and 115 of Legislative Decree 58/98;
- we report that, in accordance with the Sustainability Policy adopted by the Group and in light of the "ONE Company" project, in 2017, ERG Power Generation S.p.A. fulfils all the obligations and requirements that are necessary to pursue the Sustainability Policy. Moreover, ERG Power Generation S.p.A. has defined its Integrated Management System (IMS) as the set of "organisational structures, procedures, processes and resources that are needed to implement Environmental and Safety Management". The process of unification of all ERG Power Generation S.p.A. certifications has begun, with the objective of having a single accreditation entity of reference;
- all certifications of the Integrated Management Systems of ERG Power Generation S.p.A. according to the international standards ISO 14001 Environment and OHSAS 18001 Health and Safety, in addition to ISO 9001 on Quality (Thermo and Wind units), were confirmed in 2017. During the course of these processes, no significant

evidence emerged other than observations for improving certain processes, thereby confirming the efficacy of the management of corporate processes pertaining to workplace environment, health and safety;

- with regard to the Environment, during 2017 (as in prior years), measures were implemented to improve environmental performance, by maintaining the "best available techniques" (BAT) in the industry, as prescribed by the Integrated Environmental Authorisations (IEA), granted in accordance with IPPC (Integrated Prevention Pollution and Control) EC Directive. These activities focused predominantly on the ERG Power plants (managed by ERG Power Generation S.p.A.).

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During the supervisory activity, as described above:

- we did not identify any transaction that was atypical or could be defined as unusual either with respect to third parties or with intra-group companies or related parties, in terms of nature or extent;
- we found that ordinary transactions had been carried out on an intra-group basis and with related parties, confirming the existence of and compliance with procedures to ensure that these operations were duly documented, settled on an arm's length basis and in line with the best interests of the companies. These transactions were adequately illustrated by the Directors in the Financial Statements and in the Report on Operations, to which reference is made. With regard in particular to intra-group service agreements, we agreed with the cost charge-back criteria employed;
- we expressed our consent to recognition of the goodwill generated by the merger by incorporation of ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. into ERG Power Generation S.p.A., equal to EUR 3,754 thousand, with an estimated useful life of ten years, with residual value in the 2017 financial statements of EUR 3,378 thousand;
- no complaints were made by the shareholders in accordance with Article 2408 of the Italian Civil Code;
- we did not find any omissions or actions liable to censure or unlawful actions to be reported to the competent bodies or to be mentioned in this Report;
- we issued the opinions required by law and the justified proposal for the appointment of the Independent Auditors pursuant to and for the purposes of Art. 13 of Legislative Decree 39/2010.

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Moreover, we highlight the following:

- the company is subject to management and coordination by parent company ERG S.p.A.: in addition to the definition of business strategies, this activity includes the indication of strategic guidelines from an organisational perspective and personnel policies, as well as management of strategic finance and group treasury with respect to tax-related issues, especially with regard to planning, communication policies, policies regarding the environment, health and safety, and the IT systems.

  The obligations with regard to advertising, envisaged by Art. 2497-bis of the Italian Civil Code were also respected.

In particular, the decisions made as part of the management and coordination activities of ERG S.p.A. were mentioned in the Report on Operations;

- the company participates in the Domestic Tax Consolidation system, pursuant to Articles 117 et seq. of the Consolidated Law on Income Taxes, with the company ERG S.p.A. as consolidating company;
- the Security Policy Document was updated in light of the technical and organisational changes introduced in the group's IT system.

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Auditing of the Financial Statements was carried out by Deloitte & Touche S.p.A., already appointed by parent company ERG S.p.A. to audit its own Separate Financial Statements and the Consolidated Financial Statements.

During the year, we communicated regularly with the Independent Auditors, both through formal meetings attended also by the administrative managers of the company, and through informal contacts among the individual members of the Board and representatives of the Independent Auditors, for the mutual exchange of significant data and information.

The utmost collaboration was always noted, also with regard to the preliminary activities for preparation of the financial statements, and no significant facts or aspects worthy of mention were identified.

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Specifically with regard to the supervisory activity for the financial statements, the auditing of which was assigned to the independent auditors Deloitte & Touche S.p.A., we declare that:

- the laws governing the preparation and arrangement of the financial statements and of the Report on Operations were respected. Moreover, the adoption of accounting standards based on the prospect of the company as a going concern is considered to be suitable, given the information illustrated in the Report on Operations with regard to the company's business outlook; the financial statement formats adopted and the accounting standards applied, described in the Explanatory Notes, are compliant with the provisions of the law and adequate in relation to the company's business;
- as per the prior year, the Company has drawn up the financial statements in accordance with the Italian accounting standards, as last amended, for the purposes of lodging with the Business Register, also drawing up the periodic reports for submission of the economic and financial position and to enable preparation of the interim positions and consolidated financial statements of ERG S.p.A., in accordance with the IAS/IFRS international accounting standards;
- the financial statements match 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;
- the Report on Operations is consistent with the requirements of Art. 2428 of the Italian Civil Code and with the data and entries shown in the financial statements; it provides full disclosure on the market, on the regulatory scenario

in question and on the company's activities and its various areas of business, as well as adequate disclosure of the significant events that occurred during the year.

The Report also illustrates the following:

- developments in 2016 of the applicable regulatory framework, with reference to the matters considered to be of greater interest or more directly relevant to the activities carried out directly or indirectly by the Company;
- the main risks and uncertainties that the Company is exposed to in accordance with Article 2428 of the Italian Civil Code.

The Explanatory Notes adequately illustrate any changes in the Equity items, indicating the possibility of use and availability for distribution of each item, along with any tax restrictions;

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The merger by incorporation of ERG Renew S.p.A. and ERG Operation & Maintenance S.r.l. into ERG Power Generation S.p.A. was completed with effective date 1 January 2017; as a result, the companies that were held by ERG Renew S.p.A. (ERG Renew Group) were transferred to ERG Power Generation S.p.A.

The latter, while holding direct controlling stakes (ERG Power S.r.l. – ERG Hydro S.r.l.), did not draw up consolidated financial statements until 31 December 2016, taking advantage of the faculty envisaged by Art. 27 of Law no. 127 of 09/04/1991, being entirely controlled by ERG S.p.A. (parent company that draws up its own consolidated financial statements).

Starting from this year, Management has decided to draw up IAS consolidated financial statements, representative of the new group, which includes companies that were under the scope of consolidation of ERG Power Generation S.p.A., as well as those that are part of the ERG Renew Group.

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The Report drawn up by the independent auditors, issued pursuant to Article 14 of Legislative Decree 39 of 27/1/2010 and Article 165 of Legislative Decree 58 of 24/2/1998, on 26 March 2018, states that "the financial statements provide a true and fair view of the financial position, operating performance, net profit and cash flow of ERG Power Generation S.p.A. for the year ended on 31 December 2017, in accordance with the Italian standards governing their preparation."

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The Board of Statutory Auditors, within the scope of its responsibilities, acknowledging the results of the financial statements at 31 December 2017 and of the Independent Auditors' Report on said financial statements, has no objections with regard to approval of the financial statements and of the proposals made by the Directors in the Explanatory Notes.

Genoa, 28 March 2018

The Board of Statutory Auditors

Chairman of the Board

(Lelio Fornabaio)

Auditor

(Luisella Bergero)

Auditor

Vincenzo Campo Antico

AUDITORS' REPORT

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Sole Shareholder of
Erg Power Generation S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of ERG Power Generation S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2017, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying 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 the Italian law governing financial statements.

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 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.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian law governing financial statements, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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 Company's financial reporting process.

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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;

- 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 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 financial statements, including the disclosures, and whether the 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.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e) of Legislative Decree 39/10

The Directors of ERG Power Generation S.p.A. are responsible for the preparation of the report on operations of the Company as at December 31, 2017, including its consistency with the related financial statements and its 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 with the financial statements of ERG Power Generation S.p.A. as at December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the financial statements of ERG Power Generation S.p.A. as at December 31, 2017 and is 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 26, 2018

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

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ERG S.p.A. - March 2018
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