



HALF-YEAR FINANCIAL REPORT

AT 30 JUNE 2016





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Half-Year Financial Report



CORPORATE BODIES

BOARD OF DIRECTORS ⁽¹⁾

Chairman
EDOARDO GARRONE
(Executive)

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

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI ⁽³⁾
(Independent)
MARA ANNA RITA CAVERNI ⁽⁴⁾
(Independent)
ALESSANDRO CHIEFFI ⁽⁴⁾
(Independent)
BARBARA COMINELLI ⁽⁴⁾
(Independent)
MARCO COSTAGUTA
(Non-executive)
LUIGI FERRARIS ⁽⁴⁾
(Independent)
PAOLO FRANCESCO LANZONI ⁽³⁾
(Independent)
SILVIA MERLO ⁽⁴⁾
(Independent)

BOARD OF STATUTORY AUDITORS ⁽⁵⁾

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

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

INDEPENDENT AUDITORS
DELOITTE & TOUCHE S.p.A.

(1) Appointed on 24 April 2015

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

(3) With reference to the matters envisaged by Article 148.3 of the Consolidated Finance Law

(4) With reference to the matters envisaged by Article 148.3 of the Consolidated Finance Law and the matters contained in the current Corporate Governance Code furthered by Borsa Italiana S.p.A.

(5) Appointed on 3 May 2016

INTRODUCTION

The Half-year Financial Report for the six-month period ended 30 June 2016, prepared on the basis of the indications contained in Article 154-ter of the Italian Consolidated Finance Act, was prepared in condensed form in accordance with IAS 34 "Interim Financial Reporting" and, with respect to recognition and measurement standards, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, including also all International standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations by the International Financial Reporting Interpretation Committee (IFRIC) and by the former Standing Interpretations Committee (SIC).

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

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

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

RESULTS AT REPLACEMENT COST

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

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

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

¹ Non-recurring items include significant but unusual earnings.

² The contribution to equity of TotalErg is shown net of inventory gains (losses) and non-recurring items.



CHANGE IN THE BUSINESS SCOPE

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

- acquisition of six wind farms (63 MW) in France from the Macquarie group in July 2015;
- start-up of the wind farm of EW Orneta 2 (42 MW) in July 2015;
- start up of the Hydro Inwestycje and Blachy Pruszyński wind farms in Poland (40 MW) at the beginning of 2016;
- acquisition of the integrated hydroelectric complex in Terni (527 MW) from E.ON on 30 November 2015;
- acquisition of eleven wind farms in France (124 MW) and six in Germany (82 MW) from Impax Asset Management Group in the first quarter of 2016.

BUSINESS DESCRIPTION

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

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

The ERG Group, via its subsidiaries, operates in the Electric power generation sectors using:

Non-programmable sources

Through ERG Renew (93% owned subsidiary), ERG is active in the generation of electricity from wind sources with 1,720 MW of installed power at 30 June 2016. ERG Renew is the leading wind power operator in Italy and one of the first ten in Europe.

The wind farms are mainly concentrated in Italy (1,094 MW), but with a significant and rising presence also abroad (626 MW operational and 47.5 MW under constructions), in particular in France (252 MW), Germany (168 MW), Poland (82 MW entirely developed by ERG in 2015) as well as in Romania and Bulgaria (70 MW and 54 MW after the termination of the Joint Venture with LUKOIL), in addition to 47.5 MW under construction in Great Britain, which is planned to enter into operation in 2017. Through ERG Renew O&M, ERG also carries out Operation & Maintenance of its Italian wind farms and on a portion of its farms in France and Germany.

Programmable sources

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

- **ERG Power S.r.l.:** a company which owns the so-called "Centrale Nord" (480 MW) located in the industrial estate in Priolo Gargallo (SR) in Sicily, which operated up to 27 May 2016 as an Essential Unit on the basis of the Mucchetti Amendment³. This is a high-output co-generation plant (C.A.R.), based on latest generation combined cycle technology using natural gas, which came into stream commercially in April 2010 along with other ancillary plants for the production of steam and other utilities;

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

- **ERG Hydro S.r.l.:** a newly-formed company in which the hydroelectric business segment acquired from E.ON Produzione at the end of 2015 was transferred. The integrated assets portfolio of ERG Hydro is made up of 16 plants, 7 dams, 3 reservoirs and a pumping station, located geographically throughout Umbria, the Marches and Lazio, with a capacity of 527 MW;
- **ERG Power Generation S.p.A.** (wholly-owned): a company which carries out Energy Management activities for the whole of the ERG Group, in addition to the O&M activities for the ERG Power S.r.l. plant.
ERG Power Generation holds 100% of ERG Power S.r.l. and ERG Hydro S.r.l.

The ERG organisational model also envisages the centralisation of the services transversal to the Group in ERG Services, a company delegated with achieving operational excellence in the supply of shared services.

The ERG Group also has an investment of 51% in TotalErg, a joint venture in the integrated downstream sector, which is not considered part of the core business of the Group and whose results are included using the equity method.

GROUP STRUCTURE AT 30 JUNE 2016



(1) ERG holds 5% of its own shares

(2) UniCredit owns 7.18% of ERG Renew

ERG'S STOCK MARKET PERFORMANCE

At 30 June 2016 the reference price of ERG's shares was EUR 10.24, down (-17.9%) from the end of 2015, in the presence of a drop in the same period in the FTSE All Share index (-23.5%), the FTSE Mid Cap index (-16.8%) and the Euro Stoxx Utilities Index (-3.6%). The decrease in value is linked to the distribution of the dividend of EUR 1.00 per share, paid in May 2016, which included a non-recurring component of EUR 0.50 per share. During the period under review, the listed price of the ERG stock disclosed a minimum of EUR 9.495 (27 June) and a maximum of EUR 12.45 (4 January).

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

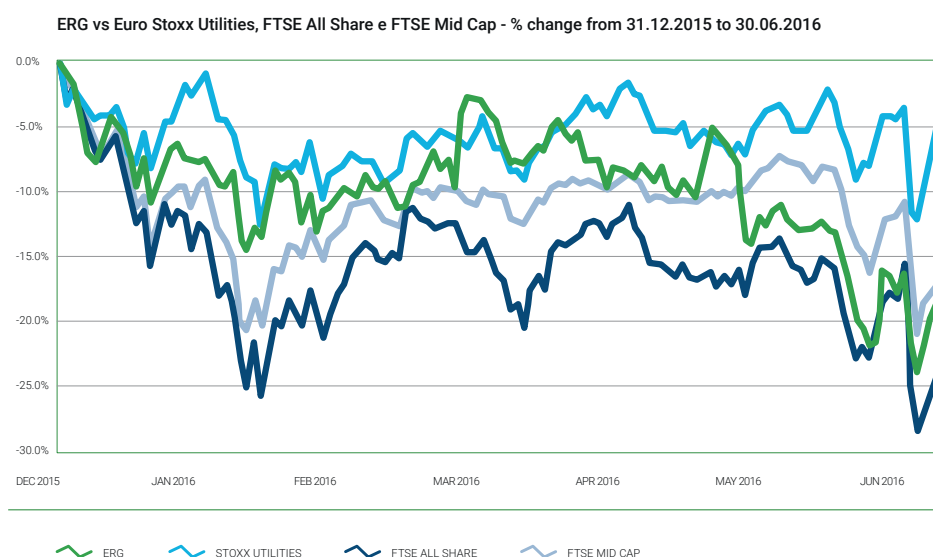
Stock price	EUR
Reference price at 30.06.2016	10.24
Highest price (04.01.2016) ⁽¹⁾	12.45
Lowest price (27.06.2016) ⁽¹⁾	9.50
Average price	11.23

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

Traded volumes	No. of shares
Maximum volume (23.03.2016)	932,125
Minimum volume (03.06.2016)	85,806
Average volume	307,926

Market capitalisation at 30 June 2016 was approximately EUR 1,539 million (EUR 1,874 million at the end of 2015).

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





PERFORMANCE HIGHLIGHTS

FY 2015	(EUR million)		1 st half	
			2016	2015
		MAIN INCOME STATEMENT DATA		
944	Revenues		530	497
350	EBITDA at replacement cost		273	198
179	EBIT at replacement cost		145	116
24	Net income		76	74
21	of which Group net income		73	70
96	Group net profit (loss) at replacement cost ⁽¹⁾		74	57
		MAIN FINANCIAL DATA		
3,124	Net invested capital		3,433	2,136
1,676	Shareholders' equity		1,593	1,734
1,448	Total net financial indebtedness		1,840	402
1,285	of which non-recourse Project Financing ⁽²⁾		1,285	1,197
46%	Financial leverage		54%	19%
37%	EBITDA Margin%		52%	40%
		OPERATING DATA		
1,506	Installed capacity at period end – wind farms	MW	1,720	1,383
2,614	Electric power generation from wind farms	millions of kWk	2,048	1,482
480	Installed capacity – thermoelectric plants	MW	480	480
2,632	Electric power generation from thermoelectric plants	millions of kWk	1,293	1,211
527	Installed capacity at period end – hydroelectric plants	MW	527	–
84	Electric power generation from hydroelectric plants	millions of kWk	751	–
10,113	Total sales of electric power	millions of kWk	5,960	4,989
106	Capital expenditure ⁽³⁾	EUR million	19	52
666	Employees at the period end	Units	722	588
		MARKET INDICATORS		
52.3	Reference price of electricity - Italy (baseload) ⁽⁴⁾	EUR/MWh	37.1	49.8
100.1	Feed In premium (former Green Certificates) - Italy	EUR/MWh	100.1	100.5
57.5	Sicily zone price (baseload)	EUR/MWh	41.9	55.9
57.9	Centre North zone price (peak)	EUR/MWh	40.0	53.9
147.8	Average selling price per unit of ERG wind energy - in Italy	EUR/MWh	135.6	146.7
96.2	Feed In Tariff - Germany ⁽⁵⁾	EUR/MWh	91.7	96.1
90.4	Feed In Tariff - France ⁽⁵⁾	EUR/MWh	88.6	91.7
80.3	Feed In Tariff - Bulgaria ⁽⁵⁾	EUR/MWh	96.7	96.7
37.1	Price of electricity - Poland	EUR/MWh	33.1	n.a.
26.0	Price of certificate of origin - Poland	EUR/MWh	16.6	n.a.
29.7	Price of electricity - Romania ⁽⁶⁾	EUR/MWh	27.6	32.0
29.5	Price of GCs - Romania ⁽⁷⁾	EUR/MWh	29.5	29.6

To enhance understandability of business performance, the operating results are shown at replacement cost, excluding non-recurring items. You are reminded that at the end of 2015, the winding up of the joint venture LUKERG Renew GmbH (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated in full as from 1 January 2016. In consideration of the commented on change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the values for 2015 in the compared balances which includes the portion relating to ERG of the economic results at replacement cost of said joint venture LUKERG Renew GmbH (50%).

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

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

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

(4) Single National Price

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

(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

FY 2015	(EUR million)	1 st half	
		2016	2015
	REVENUES FROM ORDINARY OPERATIONS		
345	Non-programmable sources	244	199
345	Wind power	244	199
602	Programmable sources	288	302
592	Thermoelectric power ⁽¹⁾	228	302
11	Hydroelectric power	61	–
22	Corporate	16	11
(25)	Intra-segment revenues	(18)	(15)
944	Total revenues from ordinary operations	530	497
	EBITDA		
254	Non-programmable sources	187	157
254	Wind power	187	157
115	Programmable sources	93	52
107	Thermoelectric power ⁽¹⁾	52	52
8	Hydroelectric power	41	–
(19)	Corporate	(6)	(11)
350	EBITDA at replacement cost	273	198
	AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
(134)	Non-programmable sources	(83)	(66)
(134)	Wind power	(83)	(66)
(34)	Programmable sources	(44)	(15)
(30)	Thermoelectric power	(15)	(15)
(5)	Hydroelectric power	(29)	–
(3)	Corporate	(1)	(1)
(171)	Amortisation and depreciation at replacement cost	(129)	(81)
	EBIT		
120	Non-programmable sources	104	91
120	Wind power	104	91
81	Programmable sources	48	37
78	Thermoelectric power ⁽¹⁾	37	37
3	Hydroelectric power	12	–
(22)	Corporate	(7)	(12)
179	EBIT at replacement cost	145	116
	CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
95	Non-programmable sources	13	48
95	Wind power	13	48
9	Programmable sources	5	3
9	Thermoelectric power	4	3
0	Hydroelectric power	1	–
2	Corporate	1	1
106	Total capital expenditures	19	52

(1) includes Energy Management contribution

SALES

POWER

The electricity sales of the ERG Group, carried out in Italy via the Energy Management of ERG Power Generation S.p.A., refer to the electricity generated by its plants, wind power (ERG Renew), thermoelectric (ERG Power) and, as from December 2015, hydroelectric (ERG Hydro), as well as purchases on organised markets and through physical bilateral agreements. During the first half of 2016, total sales of electricity came to 6.0 TWh (5.0 TWh in the same period in 2015), in the presence of an overall value of production for the Group plants of around 4.1 TWh, of which roughly 0.7 TWh abroad and 3.4 TWh in Italy. The latter balance corresponds to around 2.2% of electricity demand in Italy (1.6% in the first half of 2015). The breakdown of sale volumes and electricity production volumes, with reference to the type of source, is shown in the following table⁴:

FY		1 st half	
2015	SOURCES OF ELECTRIC POWER (GWh)	2016	2015
1,910	ERG Renew – Italy wind production	1,343	1,181
705	ERG Renew – foreign wind production	705	301
2,632	ERG Power Generation – thermoelectric production	1,293	1,211
84	ERG Power Generation – hydroelectric production	751	–
4,782	ERG Power Generation - purchases	1,867	2,296
10,113	Total	5,960	4,989

FY		1 st half	
2015	SALES OF ELECTRIC POWER (GWh)	2016	2015
535	Electric power sold to customers Priolo site	263	253
2,015	Electric power sold to IREN	1,004	999
7,563	Electric power sold Wholesale	4,692	3,737
6,858	of which Italy	3,987	3,436
705	of which Abroad	705	301
10,113	Total	5,960	4,989

Steam sales⁵ amounted to 452 thousand tons in the first half of 2016 (388 thousand tons in the first half of 2015).

Electric power sold wholesale includes the sales on the IPEX electricity exchange, both on 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. The latter are carried out by Energy Management with a view to developing the forward contracting activities also with the aim of hedging the generation, in line with Group risk policies.

⁴ The sources of electricity refer to the production of the Group plants and the purchases made on the wholesale markets; the uses include the sales made via physical bilateral agreements and on spot and forward markets. The 2015 comparative balances which in the previous reports represented the net balance of the energy bought and resold on the wholesale markets, were consistently reclassified.

⁵ Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

COMMENTS ON THE HALF YEAR'S PERFORMANCE

During the first half of 2016, **revenues from ordinary operations** amounted to EUR 530 million, up with respect to the EUR 497 million in the first half of 2015, further to significant increased generation in Italy, both in wind and thermoelectric, the contribution from new wind capacity operative in France, Germany and Poland, as well as the contribution from the newly acquired hydroelectric complex. The additional volumes more than offset the average decrease in the prices of energy.

EBITDA at replacement cost amounted to EUR 273 million, compared with EUR 198 million in the first half of 2015. The change is a result of the following factors:

Non-programmable sources: EBITDA amounted to EUR 187 million, up sharply compared to the same period in the previous year (EUR 157 million) thanks to the significant increase in production, in light of both the contribution of the new wind farms in France, Germany and Poland, and to the better wind conditions in the period, particularly in Italy, which more than offset the impact of the lower average sales prices.

Programmable sources: EBITDA of EUR 93 million, up on the previous year (EUR 52 million) further to the contribution provided by the purchase of the hydroelectric complex, which contributed EUR 41 million to the result, despite scarce water availability in the period. The thermoelectric result, EUR 52 million, is in line with the previous year due to the elevated efficiency of the plants, the increase in the spark spread and the results of Energy Management activities covering the generation margin. Note that up to 27 May 2016, the CCGT plant of ERG Power was subject to the legislation on Essential Units for the safety of the electricity system.

EBIT at replacement cost was EUR 145 million (EUR 116 million in the first half of 2015) after amortisation and depreciation of EUR 129 million (EUR 81 million in the first half of 2015).

Group EBIT at replacement cost amounted to EUR 74 million, up compared to EUR 57 million in the first half of 2015, mainly as a result of the reasons already illustrated when commenting on the operating results as well as the improved contribution to equity of the TotalErg investment, and despite higher financial expenses for the period as a result of the new acquisitions.

Group's net profit⁶ was EUR 73 million (EUR 70 million in the first half of 2015).

⁶ Includes inventory gains (losses) of EUR 6 million (+12 in 2015) and non-recurring items of - EUR 8 million (+1 in 2015). The values are net of tax effects. Additional details are provided in the chapter "Alternative performance indicators".

In the first half of 2016 **Group capital expenditure** totalled EUR 19 million (EUR 52 million in the first half of 2015), of which 68% in the Non-Programmable sector (92% in the first half of 2015) and 27% in the Programmable sector (7% in the first half of 2015). This balance does not include the value of the investments and acquisitions in wind amounting to EUR 306 million in the first half of 2016.

Net financial indebtedness was EUR 1,840 million, up EUR 392 million compared with the 31 December 2015 figure mainly due to the acquisition of the French and German wind farms from the Impax group (EUR 293 million), the distribution of dividends (EUR 143 million), as well as the capital expenditure for the period (EUR 19 million), mainly linked to entering the UK market (EUR 13 million). The operating cash flows (EUR 84 million) partly offset those effects, despite the negative trend of the working capital (- EUR 110 million), partly linked to the timeline for collection of the feed in premium in Italy and the regime of the Essential Units, envisaged to be partially absorbed by year end.

SIGNIFICANT EVENTS DURING THE HALF YEAR

02
February
2016

ERG Renew finalised an agreement to purchase eleven wind farms in France from a fund managed by Impax Asset Management Group, with an installed output of 124 MW, along with six in Germany, with an installed output of 82 MW, for a total of 206 MW. The wind farms, which became operative between 2009 and 2014 in France and 2004 and 2014 in Germany, present an estimated average annual production of approximately 410 GWh.

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

The value of the acquisition comes to around EUR 290 million in terms of enterprise value, equal to a multiple of approximately EUR 1.4 million per MW. The farms are already entirely financed with limited recourse Project Financing. The estimated Gross Operating Margin will be around EUR 30 million in 2016. The overall consideration for the equity comes to EUR 135 million.

29
February
2016

ERG Renew acquired, 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, in the county of Londonderry, with planned capacity of around 47.5 MW and energy output estimated at around 150 GWh/year when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO₂ emissions. ERG Renew started work for the construction of the wind farm in the second quarter of 2016, and is expected to complete construction, in line with the timing for connection to the distribution network, between the first and third quarter of 2017.

The total estimated investment for construction of the farm is approximately GBP 60 million (roughly EUR 80 million), already including the initial consideration paid for the purchase of the company. The project meets the conditions for the accreditation in line with the current incentive mechanisms (NIRO) envisaged by the bill being examined by the UK parliament.

On the basis of the agreements, on conclusion of the construction and having obtained the accreditation in line with the incentives (NIRO), the possibility of BWF being transferred to third parties is envisaged.

ERG Renew will have the right to present a supplementary offer to TCI so as to maintain the ownership definitively. If this offer is not accepted and only in the event that higher offers have been received and accepted from third parties, steps will be taken to transfer BWF and subsequently calculate and divide up the capital gain on the basis of the agreed contractual mechanisms. By means of this transaction, ERG Renew will enter the UK wind market as envisaged in the ERG 2015-18 Strategic Plan by means of an innovative and



flexible contractual structure which makes it possible to develop the industrial expertise gained and to optimise the creation of value.

06
April
2016

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

13
April
2016

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

REGULATORY FRAMEWORK: MAIN CHANGES

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

GENERAL

Paris Agreement on Climate Change

On 11 April 2016 the European Commission granted a mandate to the President of the European Council to sign the agreement reached in Paris in December 2015 during the Conference of Parties no. 21.

The signing ceremony was held at the UN in New York on 22 April, attended by 175 countries, including Italy.

United Kingdom Referendum on membership in the European Union

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

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

European Commission Regulatory Calendar

The Commission announced its calendar of regulatory measures on climate and energy for 2016. Particularly important measures include the actions to amend Directive 2009/28 on renewable energy to adapt it to the climate-energy framework subsequent to 2020, the proposed reforms of the wholesale market, the balancing market and network services, as well as the intervention on the national capacity remuneration mechanisms.

Environment - Efficiency - Safety Matters

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

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

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

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



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.

Green certificates

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

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

Also with regard to “green certificates”, at the end of October 2015, the GSE announced the **timeline for the disbursement of the incentives for plants holding “green certificates”**, which from 2016 will be **converted into Feed In Premiums (FIP)**. Starting on 1 January 2016, these incentives are now determined on a monthly basis, and **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.

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

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

A new algorithm for calculating the **extension of the incentive period** in the event of total or partial shutdown of wind farms required by the national transmission network operator (Terna) was inserted as part of the new **“Application procedure for the issue, management and withdrawal of “green certificates” by the GSE**. The procedure now permits calculations using the final data for Lost Wind Power Output (MPE).

Resolution 333/2016/R/eel - Measurement of imbalances for 2012, 2013 and 2014

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

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

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

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

The approval process was completed for the ministerial decree governing the incentive regimes for new plants and renovations relating to 2016. Italian Official Journal of 29 June 2016 published the **Decree of 23 June 2016 of the Ministry of Economic Development**, jointly with the Ministry of the Environment and the Ministry of Agricultural Policies. With this Decree, which entered into force on 30 June 2016, the Ministry of Economic Development defines the incentives and the procedures for accessing them, for the pursuit of the objectives of the National Energy Strategy, in line with the European Commission Guidelines on State Aid for environmental protection and energy.

Building on the previous Ministerial Decree of 6 July 2012, the measure sets out the application of competitive mechanisms (auctions) for large plants fuelled by renewable sources, while smaller units must enrol in specific registers and direct access. The notices of the auctions shall be carried out at one time and will be published in the second half of 2016. For the wind power sector, auction amounts of 800 MW are envisaged for new plants and 40 MW for renovations, while 60 MW is reserved for the registers. The minimum price for wind power is equal to 110 EUR/MWh and the winning price will be paid for 20 years (steady in nominal terms).

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

The Ministerial Decree also governs maintenance works on operating plants.

France

To ensure achievement of the European target for renewables in 2020 and the domestic target in 2030 (40% of renewables in the energy mix, of which 20% from wind power), the French Ministry of Energy submitted for consultation the final version of the Long-Term Energy Plan, which defines the new interim targets for installed power for 2016-2018 and 2019-2023. In addition to providing an indicative schedule of the auctions structured by technology, the document proposes the goal of raising onshore installed wind power capacity to 15 GW by 2018 (from around 10 GW at the end of 2015) and between 22 and 26 GW in 2023. The new renewables remuneration scheme, based on a Feed-in Premium scheme, will enter into force in summer 2016. For reasons relating to the timing of notification of the new Law to the Competition DG of the European Commission, the new schemes should not be applied to wind power before 2018, with a transitional regime envisaged for 2017. The impossibility of putting an end to the need for onshore development of wind power and that of preserving the functionality and security of military radar and installations (translating into a limit to where new wind farms can be located) has limited the growth of wind power, blocking development of 3.5 GW of projects, according to estimates by the industry. The French National Assembly issued the "Energy Transition Law" on 17 August 2015. The law defines the objectives for the energy transition to the complete elimination of coal, envisaging the reduction of greenhouse gas emissions by 40% in 2030 compared to 1990, the reduction of consumption of fossil fuels by 30% in 2030 with respect to 2012, the increase of the portion of renewable energy as a percentage of final consumption to 32% in 2030 (to 40% with regard to electric power generation), the reduction of final consumption by 50% with respect to 2012, and the reduction of the nuclear portion as a percentage of electric power generation to 50% in 2025 (compared with the current approximate 75%).

Germany

The German Parliament approved a plan to define the new version of the Law on Renewables (EEG 2016) applicable from 2017, with the goal of ending the current incentive system based on feed-in tariffs, introducing a new support scheme that combines the competitive auctions, certain installation volumes linked to targets for growth of renewables and direct sales of electricity generated from wind power on the market. The Parliament agreed to cap the annual auctions for new onshore capacity at 2.8 GW per year up to 2020 and 2.9 GW afterwards.

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

By the end of the year, the design and practical operation of the auctions planned for 2017 onwards should be clarified by the Ministry of Energy and submitted for approval by the Competition DG. In this regard, it is important to note that in May 2016 the European Court of Justice rejected the appeal of the Federal Republic of Germany against the decision of the Competition DG to consider the Law on renewables “EEG 2012” as State Aid.

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 have a negative impact on the profitability of existing plants and risk compromising further development of onshore wind power in the country.

In particular:

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

The new amendments to the RES Act should be approved by the Commission within the framework of the notification to the Competition DG activated for the previous version of the Law and not yet concluded.

United Kingdom

In May 2016 the Parliament amended the Energy Bill, introducing several changes to the renewables incentive system and, specifically, the current system of Green Certificates known as ROC (Renewable Obligation Certificates).

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

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

The time extensions are granted to plants which have obtained the following by set dates: (i) planning consent, (ii) approved connection contracts (with connection date by 31.3.2017) and (iii) proof of land rights. The set dates are established as 18 June 2015 for Great Britain and 30 September 2015 (for plants not connected to clusters) or 30 October 2015 (for plants connected to clusters) for Northern Ireland.

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

THERMOELECTRIC POWER

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

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

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

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

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

Following publication in February 2016 of the law converting the "Annual Extensions Act" 2015, the extension up to 31 December 2016 of the reduced taxation of fuels used in "cogeneration" plants such as the CCGT of Priolo was confirmed. Therefore, the rates identified by the Authority for Energy with resolution no. 16/98, reduced to 12%, shall continue to be applied.

Resolution 342/2016

On 27 June 2016 the Authority published Resolution 342/2016/E/eel, through which it launched a process for the

timely adoption of prescriptive measures and 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. According to the intentions of the AEEGSI, the measures aim to combat conduct which could constitute market abuse. The AEEGSI deems that the planning and supply strategies of several users, owners of consumption or production units fuelled by non-programmable renewable sources cannot be considered consistent with the principles of diligence, prudence, expertise and forecasting set out in the regulations in force on electricity dispatching.

HYDROELECTRIC POWER

On the issue of “green certificates”, refer to the comments set out in the chapter Wind Power – Italy.

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

Impacts on the Group

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

BUSINESS SEGMENTS

NON-PROGRAMMABLE SOURCES

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

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

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

REFERENCE MARKET ⁽¹⁾

FY 2015		1 st half	
		2016	2015
	Italian Renewable Energy Sources Market ⁽²⁾ (GWh)		
89,832	Generation from renewable sources ⁽³⁾	45,865	48,345
	of which:		
44,751	Hydroelectric	21,505	23,601
5,816	Geothermal	2,953	2,874
14,589	Wind	10,138	8,900
24,676	Photovoltaic	11,269	12,970
	Sale prices (EUR/MWh)		
52.3	Reference price of electricity - Italy (baseload) ⁽⁴⁾	37.1	49.8
100.1	Feed In premium (former Green Certificates) - Italy	100.1	100.5
50.9	Price of electricity - Central-South zone	37.6	48.2
49.4	Price of electricity - South zone	36.5	47.2
57.5	Price of electricity - Sicily	41.9	55.9
51.1	Price of electricity - Sardinia	37.6	48.2
147.8	Average selling price per unit of ERG energy - in Italy ⁽⁵⁾	135.6	146.7
96.2	Feed In Tariff - Germany ⁽⁶⁾	91.7	96.1
90.4	Feed In Tariff - France ⁽⁶⁾	88.6	91.7
80.3	Feed In Tariff - Bulgaria ⁽⁶⁾	96.7	96.7
37.1	Price of electricity - Poland	33.1	n.a.
26.0	Price of certificate of origin - Poland	16.6	n.a.
29.7	Price of electricity - Romania ⁽⁷⁾	27.6	32.0
29.5	Price of GCs - Romania ⁽⁸⁾	29.5	29.6

(1) estimated output for June

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

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

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

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

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

(7) the Romania EE price refers to the price fixed by the company via bilateral agreements (for comparative purposes, in the absence of similar bilateral agreements in the period, the market price is indicated)

(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

During the first half of 2016, domestic electricity generation (net) amounting to 129,688 GWh (-1.9%) was 35% covered by renewable sources, down slightly compared to 37% in the same period of 2015, essentially due to the lower generation from water and photovoltaic sources. In detail, this production derives from hydroelectric sources (17%), from photovoltaic sources (9%), from wind sources (8%) and from geothermal sources (2%).

With respect to the previous year, wind (+14%) and geothermal (+3%) were up, while photovoltaic production reported a net decrease (-14%), as did hydroelectric production (-9%).

REGULATORY SCENARIO

Italy

The incentive system in Italy envisaged, for on-shore wind farms in operation before the end of 2012⁷, the continuation of the green certificates system until 2015 and the conversion from 2016, for the residual period of entitlement to incentives, to a feed-in premium calculated using the same formula and paid on a quarterly basis by the last business day of the second quarter after that of pertinence. In detail, the GSE established that the payment of the incentive which replaces the Green Certificates will take place for the first quarter of 2016 by 30 September while for the second quarter of 2016 by 31 December 2016. With regard to the value of the 2015 Green Certificates withdrawal price and the 2016 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 29/2016/R/EFR dated 28 January 2016, the average annual value registered in 2015 for the electric power sales prices for incentive purposes, amounting to EUR 51.69/MWh. Therefore, the price for the withdrawal of the 2015 Green Certificates and the 2016 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year⁸, amounts to 100.08 EUR/MWh⁹.

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 auction¹⁰. As a result of the first auction, 442 MW were assigned for on-shore wind power (the total amount allocated for 2013 was 500 MW), whilst the second auction, completed on 10 June 2013, led to the assignment of the entire amount available for 2014, i.e. 399.9 MW versus a capacity demand of 1,086 MW¹¹. With the third auction, relating to the amount for 2015, which was completed on 26 June 2014, the entire amount available for onshore wind power, i.e. approximately 356 MW, was assigned once again (capacity demand greatly exceeded the available amount, at approximately 1,261 MW). Pursuant to the "Prices" Ministerial Decree, starting from 2013, moreover, for all entities accessing the incentive schemes for the generation of electricity from plants powered by renewable sources (with the exclusion of photovoltaic plants and of plants admitted to the Inter-ministerial Price Committee Order 6/92), a contribution of

⁷ There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.

⁸ Electricity sales price defined by the Italian Authority for Electricity and Gas implementing Article 13, Paragraph 3, of Italian Legislative Decree No. 387 of 29 December 2003.

⁹ It is hereby recalled that with regard to the Green Certificates for the first and second quarter of 2015, the price of EUR 96.00/GC was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.

¹⁰ Base price of 127 EUR/MWh.

¹¹ As a result of the decision by the Regional Administrative Court of Lombardy dated 14 February 2014, 66 MW were reinstated, after they had been excluded from the second auction (after the end of the period for submitting auction bids) because they belonged to the transitional period. Consequently, said capacity was subtracted from the 2015 amount.

EUR 0.5 is provided for each MWh of subsidised energy, to be paid to the Italian National Grid Operator (GSE).

As regards the new incentives for Renewable Energy Plants other than photovoltaic plants, please see the comments concerning the new Ministerial Decree of 23 June 2016 in the chapter "Reference Regulatory Framework".

Italian Stability Law no. 208/2015

By means of the approval of Italian Stability Law no. 208/2015, new regulations were launched, as from 1 January 2016, for the determination of the cadastral income of the real estate property units used for generation purposes. Specifically, in Article 1, sections 21-24 the 2016 Stability Law envisaged that for the electric power generation plants, the components of the wind turbine generators are no longer subject to taxation, with a resulting positive impact in terms of lower tax charges. More recently (June 2016), the Agency specified that in its opinion, the exemption should not be extended to the wind turbine support towers, as these are complex parts often equipped with vertical connection structures (stairways, lifts). However, all operators and their trade associations consider the exclusion of the wind turbine towers to be correct in form and substance, as it complies with the new criteria introduced by the 2016 stability law, and, thus, that the "functional" classification prevails over the specific production process of those components which, due to their specific technical-physical characteristics, are generally integrated plant parts, functional to the wind farm and certainly cannot be considered building parts.

Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type. Based on the 2014 EEG ¹² (which confirms the will to grow in the future), the tariff for new on-shore wind farms amounts to 89 EUR/MWh for 20 years (constant)¹³. For new plants built, this value falls by 0.4% for each quarter after 1 January 2016. The existing plants also have the option of choosing an alternative incentive system, of the feed-in premium type (mandatory for new plants). If this option is selected, electricity is sold directly on the market and the Operator receives, on a monthly basis, a premium equal to the difference between the basic value of the feed-in tariff and the average monthly market price of electricity, to which would be added a management premium (amounting to 4 EUR/MWh for 2015 - inclusive of the remote control bonus), decreasing over the years, which represents an approximation of the charges tied to the management of the sale of electricity on the market.

The 2009 version of the same law had introduced a System Service Bonus, i.e. 7 EUR/MWh for work carried out no later than 2010, recognised if technological enhancements are made to the plant (to improve its performance related to voltage and frequency regulation), for the first 5 years from the completion of the work.

As regards plants built starting from 2017, please see the comments concerning the new EEG 2016 law in the chapter "Regulatory Scenario".

¹² Erneuerbare Energien Gesetz, German law reform of renewable sources.

¹³ The incentive period is in reality divided up into two stages: the first of 5 years, the second of 15. The tariff for the first 5 years is confirmed for the remaining 15 if generation does not exceed 80% of the reference generation and the higher duration of the period of recognition of the incentive drops in line with the increase in generation.

France

The incentive system for on-shore wind power is of the feed-in tariff type. The incentive for existing plants is recognised for 15 years and it is updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products¹⁴. For the first 10 years of operation it is the initial tariff, depending on the year of stipulation of the agreement, and it is updated annually, whilst for the subsequent 5 years the value to be indexed is decreasing if annual hours of operation exceed 2,400. For 2006, the initial tariff value was 82 EUR/MWh. To define the starting value for new plants in subsequent years, the tariff is reduced by 2% with respect to the previous year, starting from 2008, and it is updated to take into account changes in the aforementioned indices. The value thus determined, for each plant, is then updated annually, according to the scheme described above. Further to the appeal before the Council of State against the 2008 decree for the alleged incompatibility with EC rules on state aid, the 2008 decree itself was repealed on 28 May 2014 (by virtue of the failure to notify the European Commission before its implementation), and a new decree was issued on 17 June 2014, which confirms the same incentive system (for existing facilities as well). The decree had previously been definitively approved by the European Commission's General Directorate for competition, which found the text compatible with current State aid regulations.

Bulgaria

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

On 2 March 2015, an amendment to the legislation was approved which does not permit access to the incentive system for the new plants. This measure, which did not have retroactive impacts, is justified by the achievement of the 2020 objectives already in 2013. The charges for accessing transmission and distribution networks (introduced in September 2012 for renewable source producers in operation since March 2010) were increased by about 3.7 EUR/MWh starting in July 2015. A fee was introduced as from July 2015, equal to 5% of the revenues relating to the plants fuelled by renewable sources. As from June 2014, the responsibility for balancing also for non-programmable renewable sources was introduced, which resulted in a significant charge for plants.

Romania

Incentives for renewable energy in Romania are provided through Green Certificates for the first 15 years of operation. The obligation to place a certain yearly quantity of green energy on the grid (or to purchase an equal quantity of

¹⁴ The indicators considered are ICHTrevTS ("indice du coût horaire du travail (tous salariés) dans les industries mécaniques et électriques", or index of hourly cost of labour (all personnel) in mechanical and electrical industries") and the PPEI ("indice de prix de production de l'industrie française pour l'ensemble de l'industrie"), or index of production prices of French industry for the industry as a whole).

green certificates) is on the final consumption of electricity. For wind farms commissioned before 2014, 2 green certificates are provided for each MWh generated until 2017 and 1 green certificate from 2018 onwards, and the unit price of the green certificates ranges between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed to inflation on an annual basis. The green certificates have an annual validity and, on the basis of the legislation currently in force, they are recognised on the minimum value between the envisaged energy and that effectively generated. Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in March 2014¹⁵ and approved by the European Commission – Competition DG in May 2015.

The Law introduced certain amendments to the incentive system; in particular, for existing wind farms, 1 Green Certificate is to be retained in the 1 July 2013-31 March 2017 time interval. The withheld Green Certificates will be progressively “released” starting from 1 January 2018 and in any case no later than 31 December 2020, with procedures that are still to be defined. In the meantime, the Government, following the indications of the ANRE, changed the maximum annual percentage of electricity generation from renewable sources that can benefit from incentives in 2016, from 17%, as prescribed by the previous regulations, to 12.15%. Based on the changes introduced by the new law, the ANRE has the task of defining this mandatory percentage on an annual basis.

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

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

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

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

Poland

The incentive system in Poland for the plants running by June 2016 is based on the Certificates of Origin (CO) for the first 15 years of operation, with mandatory quotas of consumption of electricity (with the exception of energy-intensive entities). The mandatory quotas are 14% and 15% for 2015 and 2016, respectively, while the quotas for the years starting from 2017 have not been defined yet. The law on providing incentive for renewable sources, approved

¹⁵ Decree No. 270/2014 approving Law 23/2014, which approves the Emergency Ordinance No. 57/2013, amending and supplementing Law No. 220/2008 for the Green Certificate incentive system.

in March 2015 (and amended in December 2015) introduced a number of measures aimed at reducing the current CO supply excess (which, what is more, do not have an expiry). In detail, as from 2016 the incentive for co-combustion “non-dedicated” plants has been halved and the incentive for hydroelectric plants with output greater than 5 MW has been written off. Nonetheless, at the end of June 2016, the new version of the law on providing incentives for renewable sources was approved which, inter alia, sets out less strict requirements to define dedicated “co-combustion”. Thus, this could possibly reduce the effectiveness of the rule that halved the number of CO awarded to “non-dedicated” co-combustion. It is currently premature to forecast the impacts that the rule could have on the balance of demand/supply of CO. However, the uncertainty linked to the regulatory framework contributed to a sharp drop in the price of CO traded on the market.

A discount auction system was also introduced, with contingents on generation, for the awarding of feed-in premiums under the form of Contracts for Difference (CfD) for 15 years (value inflated on annual basis). This system is mandatory for plants that enter into operation from July 2016. The version of the law approved in June¹⁶ also made changes to that system, changing the rules for carrying out the auctions, introducing separate technological baskets and effectively delaying the start thereof. The new version of the law has to be approved in the framework of the notification to the Competition DG activated for the previous version of the law, which has not yet been concluded by the Commission.

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

United Kingdom

The incentive system in the United Kingdom is currently based on the RO system (Renewable Obligation – the certificates granted are ROC), with annual mandatory quotas of electricity consumption, defined year by year based on the (i) expected production from Renewable Energy Plants (adding headroom of 10%) and (ii) the expected electricity consumption, with the goal of keeping the market balanced/short. The quota calculated for the period April 2016 – March 2017 amounts to 34.8% for Great Britain and 14.2% for Northern Ireland. The incentive is recognised for 20 years. Following the approval of the new Energy Bill¹ in 2016, access to that system is substantially provided for plants built by 31/3/2017, and grace periods are granted if the delay in construction is not directly attributable to the producer. For new plants fuelled by renewable energy sources, transition to a CfD-type incentive system awarded through multi-technology Dutch auctions is envisaged. The incentive is recognised for 15 years (inflated). Nonetheless, the approach to the matter of the Tories, which have been governing since May 2015, has created uncertainty concerning the future of CfD for onshore wind farms and at the moment, and currently amounts are not envisaged for this technology in the upcoming auctions (the auction planned for October 2015 has been postponed to a time to be decided).

¹⁶ Additional details are provided in the chapter “Regulatory Scenario”.

HIGHLIGHTS OF PERFORMANCE ITEMS AT REPLACEMENT COST

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

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

FY		1 st half	
2015	OPERATING RESULTS	2016	2015
345	Revenues from ordinary operations	244	199
254	EBITDA at replacement cost ⁽¹⁾	187	157
(134)	Amortisation, depreciation and write-downs ⁽¹⁾	(83)	(66)
120	EBIT at replacement cost ⁽¹⁾	104	91
95	Capital expenditures on tangible and intangible fixed assets	13	48
	MAIN FINANCIAL DATA ⁽²⁾		
1,827	Net invested capital	2,112	1,682
679	Shareholders' equity	709	694
1,148	Total net financial indebtedness	1,404	988
1,135	of which non-recourse Project Financing ⁽³⁾	1,151	1,035
74%	EBITDA margin% ⁽⁴⁾	76%	79%

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

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

(3) including cash and cash equivalents

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

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

FY		1 st half	
2015	EBITDA AT REPLACEMENT COST	2016	2015
213	Italy	145	138
41	Abroad	41	19
	of which		
12	Germany	10	6
13	France	21	5
4	Bulgaria	3	3
8	Romania	4	5
4	Poland	4	—
254	Total	187	157

The consolidated revenues reported in the first half of 2016 were significantly higher than those in the first half of 2015, mainly thanks to the sharp increase in generation abroad further to the full contribution of the new wind farms in France (187 MW), Germany (82 MW) and Poland (82 MW), as well as greater production in Italy (+14%) which more than offset the significant reduction in total sales prices in the country (-8%). As regards the decrease in the sales price, for ERG Renew

in Italy, the sales price of electricity amounted on average to 35.5 EUR/MWh, down by 23% with respect to the figure of 46.2 EUR/MWh recorded in the first half of 2015. This value corresponds to the sales price to Energy Management of the ERG Group, which reflects the formation of the price on the spot market (IPEX). Overall, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and that of the incentives (former green certificates), was 135.6 EUR/MWh, down from the value of 146.7 EUR/MWh of the first half of 2015. This decrease is linked to the sharp drop in sales prices of energy noted in the various geographic areas, while the value of the incentives / green certificates, equal to 100.1 EUR/MWh, is essentially in line with respect to the value of 100.5 EUR/MWh in the same period of 2015. In fact, it is disclosed that, as from 2016, the reference value of the incentives / green certificates is calculated on the basis of the prices of the energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) in the prices of the incentive acknowledged in the year, but will have an impact on the value of the incentive for the subsequent year. In light of the sharp drop in the PUN in 2016, an increase in the value of the incentive is therefore expected in the coming year. Sales by foreign farms were specifically concentrated in France and Germany, whose average unit revenues were 88.6 EUR/MWh and 91.7 EUR/MWh, respectively, and to a lesser extent in Bulgaria, Romania and Poland. The contribution of foreign wind farms to production was approximately 705 GWh, of which over 400 GWh deriving from the higher installed capacity compared to the first half of 2015. EBITDA at replacement cost for the first half of 2016 amounted in total to EUR 187 million, up with respect to the balances reported in the same period last year, for the reasons indicated above. The EBITDA margin amounted in total to 76%, standing at a high absolute value, though slightly decreasing on the first half of 2015 (78%). Specifically, in relation to continuing high profitability in Italy, the indicator decreased due to the increase in the percentage of production abroad, characterised by sales prices and margins lower on average.

INSTALLED POWER (MW)

FY 2015		1 st half	
		2016	2015
1,087	Italy	1,094	1,087
	of which		
239	Campania	247	239
120	Calabria	120	120
249	Puglia	249	249
79	Molise	79	79
89	Basilicata	89	89
198	Sicily	198	198
111	Sardinia	111	111
2	Other	2	2
420	Abroad	626	296
	of which		
86	Germany	168	86
128	France	252	64
82	Poland	82	42
54	Bulgaria	54	27
70	Romania	70	77
1.506	Total installed power at period end ⁽¹⁾	1,720	1,383

(1) power of plants installed at period end

The installed power at 30 June 2016 comes to 1,720 MW, up 337 MW with respect to the figures at 30 June 2015, mainly further to the acquisition of 17 wind farms in France for an additional 187 MW and 6 wind farms in Germany for 82 MW, as well as the development by ERG of wind farms for an additional 40 MW in Poland and the changes which took place as from the end of December 2015 in Bulgaria (+27 MW) and Romania (-7 MW) at the same time as the transaction which led to the winding up of the joint venture with LUKOIL.

GENERATION (GWh)

FY		1 st half	
2015		2016	2015
1,910	Italy	1,343	1,181
	of which		
414	Calabria	316	255
240	Puglia	150	139
472	Molise	317	286
155	Basilicata	96	96
164	Sicily	114	106
274	Sardinia	209	187
192	Sardegna	142	113
705	Abroad	705	301
	of which		
156	Germany	132	82
206	France	305	71
68	Poland	103	n.a.
74	Bulgaria	76	45
201	Romania	89	103
2,614	Total wind farm production	2,048	1,482

In the first half of 2016, ERG Renew's electricity output amounted to 2,048 GWh, higher than in the first half of 2015 (1,482 GWh), with higher output in Italy by around 14% (from 1,181 GWh to 1,343 GWh) and growth abroad of 134% (from 301 GWh to 705 GWh).

The increase in output in Italy (+162 GWh) is linked to the wind conditions which overall were better than those in 2015, in particular in Campania, Puglia and Sardinia.

With regard to abroad, the total increase of 404 GWh is essentially attributable to the contribution of the new farms in France, Poland and Germany.

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

LOAD FACTOR %

FY		1 st half	
2015		2016	2015
20%	Italy	28%	25%
	of which		
20%	Campania	29%	25%
23%	Calabria	29%	27%
22%	Puglia	29%	26%
22%	Molise	28%	28%
21%	Basilicata	29%	27%
16%	Sicily	24%	22%
20%	Sardinia	29%	23%
26%	Abroad	26%	27%
	of which		
21%	Germany	18%	22%
24%	France	28%	25%
37%	Poland	29%	n.a.
31%	Bulgaria	32%	38%
30%	Romania	29%	31%
21%	Load factor ⁽¹⁾	27%	25%

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

In the **first half of 2016** the overall load factor, 27%, was higher than that in 2015, with an increase from 25% to 28% in Italy and a slight decrease from 27% to 26% abroad, mainly due to a worse result in Germany and Bulgaria.

PROGRAMMABLE SOURCES

Reference market

FY 2015		1 st half	
		2016	2015
ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWh)			
315,234	Demand	151,005	154,150
1,850	Pumping consumption	1,240	944
46,381	Import/Export	22,557	22,941
270,703	Internal generation ⁽²⁾	129,688	132,153
	of which		
180,871	Thermoelectric	83,823	83,808
44,751	Hydroelectric	21,505	23,601
45,081	Other renewables	24,360	24,744
SALE PRICES (EUR/MWh)			
52.3	PUN ⁽³⁾	37.1	49.8
57.5	Sicily zone price (baseload)	41.9	55.9
57.9	Centre North zone price (peak)	40.0	53.9

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

(2) output net of consumption for auxiliary services

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

Market scenario in Italy

The demand for electricity¹⁷ of the Italian electric system in the first half of 2016 came to 151.0 TWh, in decline (-2.0%) compared with the values recorded in the first half of 2015. With regard to Sicily, region in which ERG is present with its CCGT plant, in the first half of 2016 a requirement of around 9.0 TWh was registered, down (-4.7%) with respect to the same period in 2015, while in the group of regions including Abruzzo-Lazio-the Marches-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the request for electricity came to 21.2 TWh (-2.4%).

In the same period, net internal electricity generation amounted to 129.7 TWh, down by 1.9% compared with the first half of 2015, whilst the net balance of trading with foreign countries recorded net imports of 22.6 TWh (-1.7% compared with the first half of 2015). 65% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 35% from renewable sources. With respect to the same period last year, there was stable generation from thermoelectric sources and lower production from renewable sources (-5%). Said decrease is due to the drop in photovoltaic (-13%) and hydroelectric (-9%) generation partly offset by the additional generation from other sources, in particular wind (+14%) and geothermal (+3%).

The average value of the PUN (Single National Price) in the first half of 2016 was 37.1 EUR/MWh, down by 25.6% compared with the value of the first half of 2015 (49.8 EUR/MWh).

¹⁷ Including grid losses and net of electricity consumed for the pumping plants.

Evolution of the regulatory scenario:

Thermoelectric: the Mucchetti amendment

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

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

In October 2015, the Authority also published its Resolution no. 486/2015/R/EEL; while it pertains to essential units under ordinary rules, it does clarify and revise certain parameters of the Recognised Variable Cost which also have effect on essential units under Italian Law Decree no. 91/2014.

Lastly, also in October 2015, the AEEGSI approved Resolution 496/2015 which updated and extended the regime pursuant to resolution 521/2014 to 2016.

The application period for the regulations of the essential units on the basis of Italian Decree Law 91/2014 and resolution 521/2014, as amended, ended on 28 May 2016 as result of the bringing on stream of the afore-mentioned doubling of the Rizziconi-Sorgente power line.

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

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

The advance on the reintegration consideration for the first quarter of 2016 will be requested by September, pursuant to Article 3.1.aa.2) of resolution 521/2014, as amended by resolution 496/2015.

Hydroelectric: concession fees

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

Italian Stability Law no. 208/2015

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

Remarks on the period performance highlights

As from the end of 2015, the ERG Group is present in a differentiated manner in the sector of **programmable sources**, handled by the Power Generation business units in terms of organisation. In particular, the ERG Group operates:

- in the **hydroelectric sector**: via the investment in ERG Hydro S.r.l., owner of the Terni hydroelectric complex (527 MW), including a system of programmable and flexible plants throughout central Italy;
- 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).

The ERG Group has therefore concluded an important industrial development process, completing the transformation of the pre-existing portfolio of thermoelectric assets in Sicily (which also included the 528 MW IGCC plant sold off in 2014 to LUKOIL at the same time as the early termination of the "CIP 6" agreement), in a portfolio of assets differentiated by technology, geographic area and featuring high flexibility, thanks to the purchase at the end of 2015 of the Terni Hydroelectric Complex, whose concessions expire in 2029.

Summary of the period performance highlights

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

OPERATING RESULTS

FY 2015	(EUR million)	1 st half	
		2016	2015
602	Revenues from ordinary operations	288	302
115	EBITDA at replacement cost⁽¹⁾	93	52
(34)	Amortisation, depreciation and write-downs ⁽¹⁾	(44)	(15)
81	EBIT at replacement cost⁽¹⁾	48	37
9	Capital expenditures on tangible and intangible fixed assets	5	3
19%	EBITDA margin%	32%	17%

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

Thermoelectric power

OPERATING RESULTS

FY 2015	(EUR million)	1 st half	
		2016	2015
592	Revenues from ordinary operations	228	302
107	EBITDA at replacement cost⁽¹⁾	52	52
(30)	Amortisation, depreciation and write-downs ⁽¹⁾	(15)	(15)
78	EBIT at replacement cost⁽¹⁾	37	37
9	Capital expenditures on tangible and intangible fixed assets	4	3
18%	EBITDA margin%	23%	17%

(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

During the first half of 2016 ERG Power's net electricity generation amounted to 1,293 GWh, up with respect to the first half of 2015 (1,211 GWh) also due to the shorter duration of the shutdown for scheduled general maintenance of module 2 carried out in 2016 in relation to the scheduled general maintenance of module 1 of the CCGT plant in the 1st half of 2015. The revenues decreased both further to the reduction in the overall quantities sold, and further to the general reduction in sales prices for electricity and utilities.

Note that in the 1st half of 2015 and up to 27 May 2016, this reduction in prices on the Sicily market was due to the application of the legislation on the Essential Units which posed a maximum threshold for the supply price corresponding to the variable production cost.

The net supply¹⁸ of steam to captive customers of the petrochemical site of Priolo Gargallo involving around 452 thousand tons, increased with respect to the 388 thousand tons in the first half of 2015. Approximately one-fourth of ERG Power's energy output was allocated to cover the requirements of the customers of the Priolo industrial site, including the net supply of steam in this energy.

18 i.e. the supply of steam to the industrial site of Priolo Gargallo excluding pipeline losses, net of steam withdrawal from customers.

The EBITDA at replacement cost in the first half of 2016 was EUR 52 million (in line with that reported in the same period of 2015) despite the decrease in the sales prices, offset by the significant decrease in the price of gas and consequent increase in the margin (Spark spread).

As indicated on the section relating to the evolution of the reference legislative framework, up to 27 May 2016 – the last day that the UESSE regime was in force – the period was characterised by a drop in prices on the spot market in the Sicily area as a result of the application of Italian Decree Law no. 91/2014, and led to a reduction in the margins on the energy markets (MGP and MI) and on the dispatch services (MSD). These reductions were mitigated by the consideration reintegrating the generation costs due to the ERG Power production units, defined Essential Units for the Safety of the Electricity System pursuant to the afore-mentioned Italian Decree Law no. 91/2014.

The achievement of results in line with the last year is ascribable to the consequences of the entry into force from the end of May 2016 of the afore-mentioned Sorgente-Rizziconi power line, partially mitigated by the improvement in the performances of the ERG Power CCGT plant and the industrial efficiency actions achieved in the period. Again in the first half of 2016, the plant continued to benefit from great reliability and efficiency, pursued by means of targeted investment measures, as well as via the first scheduled general maintenance carried out between March and April 2015 on module 1 of the ERG Power CCGT plant.

The positive results also reflect the efficacy of the management of the energy with the adoption of effective coverage of the generation margin. These policies contemplate, inter alia, the multi-year forward sale of electricity to IREN Mercato, the use of instruments for hedging the price risk and the sale of steam and electricity, through multi-year agreements, to the customers of the petrochemical site in Priolo Gargallo.

Hydroelectric power

OPERATING RESULTS

December 2015	(EUR million)	1 st half	
		2016	2015
11	Revenues from ordinary operations	61	–
8	EBITDA at replacement cost ⁽¹⁾	41	–
(5)	Amortisation, depreciation and write-downs ⁽¹⁾	(29)	–
3	EBIT at replacement cost ⁽¹⁾	12	–
–	Capital expenditures on tangible and intangible fixed assets	1	–
74%	EBITDA margin%	68%	0%
84	Total hydroelectric plants production	751	–

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

The revenues, amounting to EUR 61 million, relate to sales of electricity for EUR 31 million, revenues from the feed in premium (former green certificates) for EUR 24 million, revenues from MSD for EUR 5 million and other revenues for roughly EUR 1 million.

The costs, amounting in total to EUR 20 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for the first half of 2016 was EUR 41 million.

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

ERG Hydro's overall production (751 GWh) therefore benefited from an average unit revenue, considering the sales price of the energy and that of the replacement incentives, equal in total to around EUR 80/MWh.

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

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

The level of the reservoirs of lakes Turano, Salto and Corbara were respectively around 532, 528 and 131 metres above sea level, with an increase with respect to the historic average corresponding overall to around 46 GWh.

The final load factor in the period came to 33% and was affected by the scarce water availability in the period.

CAPITAL EXPENDITURE

Note that the figure of capital expenditure for the period does not include **two important acquisitions** carried out in the period in the area of Non-Programmable Sources:

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

The operation involved an initial outlay of around EUR 13 million, in addition to the investments made downstream of the acquisition of the project, illustrated in the section below. The total estimated investment for construction of the farm is approximately EUR 80 million, already including the initial consideration paid for the purchase of the company.

The capital expenditure in tangible and intangible fixed assets of the ERG Group in the first half of 2016 was EUR 19 million (EUR 52 million in the first half of 2015), including EUR 17 million for tangible fixed assets (EUR 51 million in the first half of 2015) and EUR 2 million for intangible fixed assets (EUR 1 million in the first half of 2015).

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

FY		1 st half	
		2016	2015
2015	(EUR million)		
95	Non-programmable sources ⁽¹⁾	13	48
95	Wind power	13	48
9	Programmable sources	5	3
9	Thermoelectric power	4	3
–	Hydroelectric power	1	–
2	Corporate	1	1
106	Total	19	52

(1) the adjusted capital expenditure of the Non-programmable Sources in the first half 2015 includes ERG's share of the capital expenditure made by LUKERG Renew

Non-programmable sources

Capital expenditure in the first half of 2016 mainly referred to the outlays incurred by ERG Renew as a result of the start of works for the construction of the afore-mentioned wind farm in Northern Ireland. More specifically, the farm in Brockaghboy will be composed of nineteen 2.5 MW Nordex N90 wind turbines, for a total of 47.5 MW, and construction is expected to be completed, in line with the timing for connection to the distribution network, between the first and third quarter of 2017.

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

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

Programmable sources

The investments in the first half of 2016 (5.0 million) mainly refer to ERG Power (3.8 million), which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants.

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

The figure also includes the investments made by ERG Hydro (1.2 million).

TOTALERG

ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A in ERG Petroli S.p.A. The Company is positioned as one of the foremost operators in the downstream market. As indicated in the Introduction, as from the Interim management report at 31 March 2015 the adjusted balances of the Group no longer include the contribution of the joint venture TotalErg since it is no longer considered to be a core activity in the new strategic and industrial set up of the Group.

The investment will continue to be consolidated using the equity method. Given the importance of the investments and in continuity with the disclosure indicated in the previous financial reports, this section contains a summary of the economic and financial indicators and the operating performance for the period.

Highlights of TotalErg performance

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

FY		1 st half	
2015	(EUR million)	2016	2015
OPERATING RESULTS			
144	EBITDA at replacement cost ⁽¹⁾	53	53
(82)	Amortisation, depreciation and write-downs	(36)	(41)
61	EBIT at replacement cost ⁽¹⁾	17	12
24	Net profit (loss) at replacement cost ⁽²⁾	5	(3)
65	Capital expenditures on tangible and intangible fixed assets	27	25
MAIN FINANCIAL DATA			
530	Net invested capital	497	535
236	Shareholders' equity	251	280
294	Total net financial indebtedness	246	255

(1) the figures shown do not include the inventory gains (losses) of around +17 million in the first half of 2016, (+34 in the first half of 2015 and -61 in 2015). They also do not include non-recurring items amounting to around -0.9 million in the first half of 2016 (+7 in the first half of 2015 and +4.4 in 2015).

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

TotalErg operates in the marketing sector via its Italy Network, comprising 2,591 stations (of which 1,664 are owned by the Group and 927 are leased), compared with 2,654 stations at 30 June 2015 and 2,608 at 31 December 2015. You are hereby reminded that at the end of 2012, the network comprised 3,248 stations and that the decrease in sales outlets is due to the process for restructuring of the fuel network continued over the last few years, which led to the closure of outlets which have a low fuel turnover, the modernisation / automation of those owned which have a higher fuel turnover and the termination of contracts for third party stations which are not very profitable.

TotalErg also operates on the wholesale market by selling petroleum products mainly to companies that in turn resell

them to end users on their own local markets and directly to consumers through the subsidiaries Restiani and Eridis, as well as on the Specialities market, via the marketing of Lubricants, Bitumen and LPG. TotalErg also operates in the refining and logistics sector, by means of the Sarpom Refinery in Trecate, located in one of the areas featuring the greatest intensity of consumption, with a total annual balanced distillation capacity, as far as TotalErg's share is concerned, of 1.6 million tons (approximately 30 thousand barrels/day). The Sarpom Refinery is equipped with catalytic conversion, more focused on the production of light distillates and it processes mainly crude oils with low sulphur content. EBITDA at replacement cost in the first half of 2016 amounted to approximately EUR 53 million, in line with respect to that reported in the same period of the previous year (EUR 53 million).

With regard to the marketing sector, the results were affected by an unfavourable market scenario, distinguished by demand up slightly with respect to the first half of 2015 but with market margins down as a result of the difficult competitive context, also characterised by a significant and progressive rise in prices of the commodities with respect to the minimum at the beginning of the year, which further compressed margins. These effects have been partly mitigated by the cost containment and efficiency action put together by the company and by the process for the restructuring of the fuel network. In the Wholesale and Specialties businesses, the operating results for the period decreased. With regard to refining and logistics, the results of the first half 2016 were higher than those reported in the same period of the previous year, also benefitting from higher quantities processed compared to 2015 (804 thousand tonnes compared to 775 thousand tonnes in the first half of 2015) and unit contribution margins higher than those recorded in the first half of 2015. Note that the transformation of the Rome Refinery into a logistics hub has now been completed and the consequent achievement of the target configuration is making it possible to optimise the operations involved in receiving products by sea and the storage and shipment of finished products.

EBIT at replacement cost, + EUR 5 million compared to - EUR 3 million in the first half of 2015, benefitted from lower amortisation and depreciation and lower financial expenses for the period.

The net financial position of TotalErg at 30 June 2016 amounts to EUR 246 million, lower than the EUR 294 million at 31 December 2015.

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

TotalErg capital expenditure

During the first half of 2016, TotalErg made investments for around EUR 27 million, up on the same period in 2015 (EUR 25 million).

Most of the capital expenditure (approximately 69%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.) and the activities tied to the optimisation and enhancement of the Rome logistical facility. A significant portion was also destined to Health, Safety and Environment maintenance and improvements.

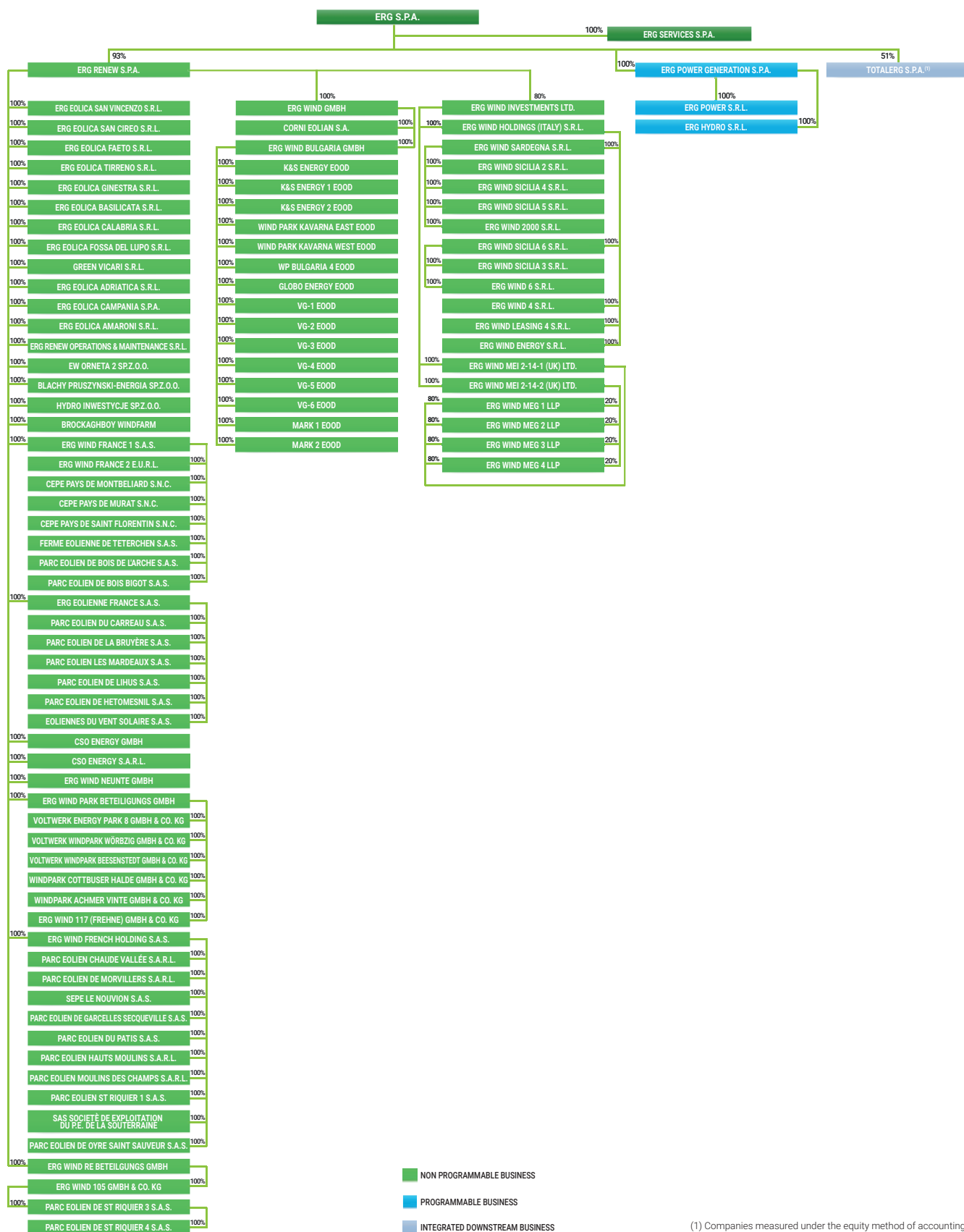
FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 30 June 2016.

Compared with 31 December 2015, the following is noted:

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



(1) Companies measured under the equity method of accounting

FINANCIAL STATEMENTS

INCOME STATEMENT

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

Please see the section "Alternative performance indicators" for the analysis of the results net of these items which more fully represent the operating performance of the group.

It is hereby specified that comparison with the figures for the first half of 2015 is influenced by the following results:

- French wind farms acquired by the Macquarie European Infrastructure Fund in July 2015;
- the commissioning of the wind farms in Poland between the third quarter of 2015 and the first quarter of 2016 by ERG Hydro S.r.l., which was acquired in December 2015;
- the wind farms in Romania and Bulgaria, the economic contribution of which is consolidated on a line by line basis as from 1 January 2016, following the liquidation of the LUKERG Renew GmbH joint venture at the end of 2015;
- the wind farms in France and Germany acquired in February 2016 from Impax Asset Management Group.

RECLASSIFIED INCOME STATEMENT

FY 2015	(EUR million)	1 st half	
		2016	2015
920.3	Revenues from ordinary operations	530.2	484.1
16.3	Other revenues and income	8.1	5.8
936.6	Total revenues	538.3	489.9
(412.6)	Costs for purchases and changes in inventory	(131.0)	(211.7)
(157.5)	Costs for services and other operating costs	(104.1)	(68.1)
(58.2)	Personnel costs	(32.0)	(25.8)
308.3	EBITDA	271.2	184.4
(163.0)	Amortisation, depreciation and write-downs of fixed assets	(128.7)	(77.4)
145.2	EBIT	142.5	107.0
(54.8)	Net financial income (expenses)	(46.0)	(27.3)
(54.2)	Net income (loss) from equity investments	8.2	13.1
36.2	Profit (loss) before taxes	104.8	92.8
(12.6)	Income taxes	(29.2)	(19.2)
23.7	Profit for the period	75.5	73.6
(3.1)	Minority interests	(3.0)	(3.4)
20.6	Group's net profit (loss)	72.5	70.1

Revenues from ordinary operations

2016 first half revenues were EUR 530 million, compared with EUR 484 million in the first half of 2015. The change is a result of the following factors:

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

Other revenues and income

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

Costs for purchases and changes in inventory

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

In the first half of 2016, these are EUR 133 million, down by EUR 80 million from the first half of 2015, mainly on account of lower costs for purchases of gas and electricity.

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

Costs for services and other operating costs

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

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

Amortisation, depreciation and write-downs

Amortisation and depreciation refer to wind farms, the plants of the hydroelectric sector and the CCGT plant and were significantly higher with respect to those in the same period in 2015 as a consequence of the afore-mentioned change in scope.

Net financial income (expenses)

Net financial expenses in the first half of 2016 totalled EUR 46 million, compared with EUR 27 million in the first half of 2015. The increase was essentially attributable to the higher medium/long-term interest expense and the lower income relating to the liquidity handled as a consequence of the significant additional average indebtedness for the period (approximately EUR 1.6 billion) following the acquisitions made when compared with the same period last year (approximately EUR 300 million) and non-recurring expenses of over EUR 8 million relating to the refinancing of Tranche A of the ERG Hydro acquisition loan and the prepayment of the bank loan taken out by the Romanian company Corni Eolian S.A.

Net of the non-recurring expenses above, net financial expenses at replacement cost for the first half of 2016 total EUR 38 million compared to EUR 31 million in the first half of 2015 (included in the same portion of LUKERG Renew joint venture).

Specifically, the item mainly includes net short-term financial income of approximately EUR 1 million (EUR 5 million in the first half of 2015) deriving mainly from lesser cash management, and medium-long term financial expenses of approximately EUR 39 million (EUR 32 million in the first half of 2015), resulting from the higher financial indebtedness of the period; the medium and long term amounts also reflect the effects of the derivatives hedging against the risk of interest rate fluctuation.

Net income (loss) from equity investments

In the first half of 2016, the item reflects the results of the joint venture TotalErg S.p.A. including the changes in the value of the inventory (EUR 8 million), while the comparative figure for 2015 also includes, in addition to the results of TotalErg S.p.A. (EUR 13 million), the results of LUKERG Renew GmbH (EUR 0.7 million) carried at equity.

At replacement cost, not including the changes in the value of the inventory, the income of TotalErg in the first half of 2016 increased compared to the same period last year (EUR 3 million compared to - EUR 1 million in 2015).

Income taxes

Income taxes in the first half of 2016 were EUR 29 million (EUR 19 million in the same period in 2015).

The tax rate obtained from the ratio between income taxes and profit before taxes amounted to 28% (21% in the first half of 2015).

The tax rate at replacement cost, obtained from the ratio between income taxes and profit before taxes net of non-recurring items, amounted to 28% (28% in the first half of 2015).

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30.06.2015	(EUR million)	30.06.2016	31.12.2015
2,114.1	Fixed assets	3,454.1	3,223.9
200.3	Net working capital	313.1	202.1
(4.1)	Employees' severance indemnities	(6.4)	(5.5)
342.9	Other assets	369.9	324.7
(517.1)	Other liabilities	(697.6)	(621.1)
2,136.0	Net invested capital	3,433.2	3,124.2
1,682.4	Group Shareholders' Equity	1,540.7	1,626.0
51.5	Minority interests	52.4	50.3
402.1	Net financial indebtedness	1,840.1	1,447.9
2,136.0	Shareholders' equity and financial debt	3,433.2	3,124.2
19%	Financial leverage	54%	46%

At 30 June 2016 net invested capital amounted to EUR 3,433 million, up with respect to 31 December 2015.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 54% (46% at 31 December 2015). The increase in the financial leverage also reflects the effects of the acquisition of the French and German wind farms.

Fixed assets

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

Net working capital

This balance includes the spare part inventories, the receivables mainly for green certificates, the sale of electric power with application of the incentive tariff, for the recovery of the costs linked to the regulation of the Essential Units of ERG Power Generation (Mucchetti Decree), and the trade payables mainly regarding the purchase of electric power and gas, the maintenance of the wind farms and other trade payables. The increase is due to the receivables accrued on sales of electricity at feed-in tariffs and Essential Units under ordinary rules which have not yet been collected, for which a partial collection is expected at the end of the year.

Other assets

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

Other liabilities

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

Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

30.06.2015	(EUR million)	30.06.2016	31.12.2015
1,206.2	Medium-long-term financial indebtedness	1,994.6	1,987.8
(804.1)	Short term financial indebtedness (cash and cash equivalents)	(154.5)	(540.0)
402.1	Total	1,840.1	1,447.9

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

30.06.2015	(EUR million)	30.06.2016	31.12.2015
–	Medium/long-term bank borrowings	667.4	694.6
–	Current portion of mortgages and loans	–	–
154.7	Medium/long-term financial payables	166.5	153.4
154.7	Total	833.9	848.0
1,197.2	Total Project Financing	1,284.9	1,284.6
(145.8)	Current portion of Project Financing	(124.2)	(144.7)
1,051.4	Medium/long-term Project Financing	1,160.8	1,139.9
1,206.2	TOTAL	1,994.6	1,987.8

The “Medium/long-term bank borrowing” at 30 June 2016 total EUR 667 million (EUR 695 million at 31 December 2015), and they refer to:

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

“Medium/long-term financial payables” include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 166 million (EUR 153 million at 31 December 2015).

The payables for “Medium/long-term Project Financing” (EUR 1,285 million at 30 June 2016) are for:

- loans of EUR 1,151 million issued to companies in the Non-programmable Renewable Energy Sources business for

the construction of wind farms, of which EUR 510 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 89 million;

- EUR 134 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

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

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

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

SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30.06.2015	(EUR million)	30.06.2016	31.12.2015
116.4	Short-term bank borrowings	93.8	110.0
–	Current portion of mortgages and loans	–	–
4.9	Other short-term financial debts	5.8	68.7
121.3	Short-term financial liabilities	99.5	178.7
(941.8)	Cash and cash equivalents	(224.2)	(627.0)
(29.7)	Securities and other short-term financial receivables	(18.0)	(92.9)
(971.5)	Short-term financial assets	(242.2)	(719.8)
145.8	Short-term Project Financing	124.2	144.7
(99.8)	Cash and cash equivalents	(136.1)	(143.6)
46.0	Project Financing	(11.9)	1.1
(804.1)	TOTAL	(154.5)	(540.0)

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

The amount of the cash and cash equivalents essentially decreased during the half year further to the partial early repayment of the Corporate loan, the purchases during the period and the distributions of dividends to shareholders. “Short-term financial assets” also comprise short-term securities for use as liquidity.

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

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

FY		1 st half	
2015	(EUR million)	2016	2015
	CASH FLOWS FROM OPERATING ACTIVITIES		
207.2	Adjusted cash flow from current operations ⁽¹⁾	231.6	140.1
(125.5)	Income tax paid	(8.7)	(98.8)
29.2	Change in working capital	(109.8)	(11.0)
81.2	Change in other operating assets and liabilities	(29.0)	13.7
192.1	TOTAL	84.2	44.0
	CASH FLOWS FROM INVESTING ACTIVITIES		
(113.2)	Net capital expenditures on tangible and intangible fixed assets	(15.6)	(50.6)
(1.4)	Net capital expenditures in financial fixed assets	4.4	0.5
(0.5)	Balance on the sale price of ERG Oil Sicilia	–	(0.5)
(115.1)	Total	(11.2)	(50.6)
	CASH FLOW FROM SHAREHOLDERS' EQUITY		
(71.4)	Distributed dividends	(142.8)	(71.4)
5.2	Other changes in equity ⁽³⁾	(16.0)	12.9
(66.2)	Total	(158.8)	(58.5)
(1,128.6)	CHANGE IN SCOPE OF CONSOLIDATION ⁽²⁾	(306.5)	(6.9)
(1,117.8)	CHANGE IN NET FINANCIAL INDEBTEDNESS	(392.3)	(72.0)
330.1	INITIAL NET FINANCIAL INDEBTEDNESS	1,447.9	330.1
1,117.8	CHANGE IN THE PERIOD	392.3	72.0
1,447.9	FINAL NET FINANCIAL INDEBTEDNESS	1,840.1	402.1

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

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

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

Net financial indebtedness was EUR 1,840 million, up EUR 392 million compared with the 31 December 2015 figure mainly due to the acquisition of the French and German wind farms from the Impax group (EUR 293 million), the distribution of dividends (EUR 143 million), as well the investments during the period (EUR 19 million) which are mainly connected to the entrance into the UK market (EUR 13 million). The operating cash flows (EUR 84 million) partly offset these effects, despite the negative trend of the working capital in the period (- EUR 110 million), linked to change in the collection times of the incentive tariff in Italy and the regime of the Essential Units, envisaged to be absorbed by year end.

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

ALTERNATIVE PERFORMANCE INDICATORS

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

The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting. Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method used by other operators and so these might not be fully comparable.

The components used to determine the calculation of results at replacement cost are described below.

Non-recurring items include significant but unusual earnings.

Inventory gains (losses)¹⁹ are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

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

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

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

¹⁹ The inventory gains and losses refer solely to the item "income from equity investments" and they refer to the joint venture TotalErg.

Reconciliation with operating results at replacement cost

EBITDA

FY 2015	(EUR million)	2016	1 st half 2015
308.3	EBITDA	271.2	184.4
	Exclusion of non-recurring items:		
	Corporate		
1.3	- Ancillary charges - extraordinary operations	–	–
11.2	- Ancillary charges transactions concerning ERG Hydro	–	–
–	- Ancillary charges on other transactions	–	0.9
2.6	- Write-down of environmental certificates	–	2.6
–	- Income and charges - previous years	–	–
1.7	- Charges for company reorganisation	–	–
	Programmable sources		
1.7	- Charges for company reorganisation	0.3	0.9
5.2	- Ancillary charges transactions concerning ERG Hydro	–	–
	Non-programmable sources		
–	- Charges for company reorganisation	0.9	–
6.3	- Ancillary charges - extraordinary operations	0.9	0.6
338.1	EBITDA at replacement cost	273.3	189.3
11.9	LUKERG Renew 50% contribution at replacement cost	–	8.4
350.0	EBITDA at adjusted replacement cost	273.3	197.6

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

FY 2015	(EUR million)	2016	1 st half 2015
(163.0)	Amortisation and depreciation at replacement cost	(128.7)	(77.4)
(7.8)	LUKERG Renew 50% contribution at replacement cost	–	(3.9)
(170.9)	Amortisation and depreciation at adjusted replacement cost	(128.7)	(81.3)

EBIT

FY 2015	(EUR million)	2016	1 st half 2015
175.1	EBIT at replacement cost	144.6	111.9
4.1	LUKERG Renew 50% contribution at replacement cost	–	4.4
179.1	EBIT at adjusted replacement cost	144.6	116.3



GROUP'S NET PROFIT (LOSS)

FY 2015	(EUR million)	1 st half	
		2016	2015
20.6	Group's net profit (loss)	72.5	70.1
21.9	Exclusion of inventory Gains / Losses	(6.0)	(11.8)
	Exclusion of non-recurring items:		
0.5	Exclusion for capital gain on sale of ERG Oil Sicilia	–	0.5
(2.9)	Exclusion of write-off resulting from Robin Tax on deferred tax assets and liabilities	–	(2.9)
13.1	Exclusion of ancillary charges - ERG Hydro acquisition	–	–
1.9	Exclusion of write-down of environmental certificates	–	1.9
6.4	Exclusion of ancillary charges - extraordinary operations	0.9	0.6
1.6	Exclusion of TotalErg non-recurring items	0.3	(2.6)
–	Exclusion of contribution and other proceeds (charges) pertaining to prior years	–	–
–	Exclusion of ancillary charges on other transactions	–	0.4
–	Exclusion of loan prepayment effects	5.9	–
(8.4)	Exclusion of tax adjustment effects	–	–
2.5	Exclusion of charges for company reorganisation	0.8	0.6
0.3	Exclusion of extraordinary gains - LUKERG joint venture dissolution	–	–
0.9	Exclusion of provision for equity investment risks	–	–
38.0	Exclusion of financial charges on minorities option	–	–
96.3	Group net profit (loss) at replacement cost ⁽¹⁾	74.3	56.8

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

SIGNIFICANT EVENTS AFTER THE HALF YEAR

13
July
2016

Massimo Derchi, the Chief Executive Officer of ERG Renew S.p.A. and Key Manager resigned from all positions in order to pursue professional

opportunities outside the ERG Group.

On that same date, the Board of Directors of ERG Renew S.p.A. met to appoint as the Chief Executive Officer Luca Bettonte, a former Director of ERG Renew S.p.A. from 2008 and currently the Chief Executive Officer of ERG S.p.A., and to co-opt as a director of ERG Renew S.p.A. Pietro Tittoni, a Key manager, who was also given the position of General Manager.

03
August
2016

ERG Wind France 1 S.a.s., French company controlled by ERG Renew S.p.A. has signed a facility agreement on a non-recourse portfolio project

finance basis for the six wind farms for a total installed capacity of 63.4 MW owned by its subsidiaries located in France. The wind farms entered into operation between 2005 and 2008 and they were acquired by ERG Renew on 27 July 2015 from the Macquarie European Infrastructure Fund. The financing, for an amount of Euro 42 million and a tenor of 9.5 years, has been signed by UniCredit Bank AG acting as a lender and as Mandated Lead Arranger (MLA).

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2016 is as follows.

Non-programmable sources

ERG Renew continues with its international development strategy, thanks to which already at the beginning of 2016 it achieved 626 MW of installed power abroad, equal to 37% of the 1,720 MW installed in total, permitting the Group to become the eighth on-shore wind operator in Europe.

2016 will benefit in particular from the full contribution of the three new wind farms in Poland, the construction of which was progressively completed in 2015 for a total installed capacity of 82 MW, the acquisition in July 2015 of another six farms in France for a capacity of 63 MW and the increase in the installed capacity by 20 MW in Bulgaria and Romania, (further to the winding up at the end of 2015 of the LUKERG Renew joint venture) and the purchase at the beginning of 2016 of eleven wind farms in France (124 MW) and six in Germany (82 MW) with a total installed capacity of 206 MW. We also reiterate that two companies specialised in asset management activities which will contribute to the attainment of synergies and the development of the presence of ERG as industrial operator in the two countries were also acquired in the aforementioned transaction. Lastly, activities aimed at further growth of the company continue, through the assessment of new investment opportunities, particularly abroad and which in 2016 will see the company involved in the construction of a new plant, for around 47.5 MW, in Northern Ireland (UK).

The 2016 results, at EBITDA level, are therefore expected to rise significantly thanks to the contribution of the new plants, despite the impact of energy prices which have decreased significantly with respect to 2015. This impact, in 2016, will also be affected by the new incentive development mechanism in Italy, which links the latter to a final PUN (national single price) value registered in the previous year (2015).

Programmable sources

The ERG Group has finalised a transaction of great strategic importance, which makes it possible to diversify the sources of production entering into the hydroelectric sector with a significant dimension, consistent with the growth strategy in the renewables sector by means of investments in high quality assets.

Thanks to this diversification, the 2016 results of the programmable sources are expected to rise overall when compared with 2015.

- **Hydroelectric:** further to the transaction finalised on 30 November 2015, ERG Power Generation acquired the entire hydroelectric business of E.ON Produzione, comprising a portfolio of plants present in Umbria, the Marches and Lazio, with an overall capacity of 527 MW; the contribution of the newly formed ERG Hydro will make it possible to

significantly increase the economic results and cash generation, while the considerable increase in the generation portfolio will make it possible to improve the results thanks to the additional Energy Management activities.

- **Thermoelectric:** with regard to the ERG Power plant, decreasing results are envisaged as from the commissioning of the Sorgente-Rizziconi power line, which began on 28 May 2016. However, until that date, results were satisfactory and in line with 2015. Furthermore, the flexibility and efficiency of the ERG Power CCGT plant, the long-term supply agreements and the action for coverage of the generation margin will make it possible to maintain profitability higher than that registered on average by the same types of plant in Italy.

Overall in 2016, an EBITDA of around EUR 440 million is expected, in line with the indications provided to the Financial Community at the time of Presentation of the 2015-2018 Plan (EUR 350 million in 2015), thanks to the higher than budgeted contribution from the plant performance Energy Management and monitoring of the cost centres. These effects will in fact make it possible to offset the negative impact from electricity prices which are decidedly lower than Plan expectations.

RISKS AND UNCERTAINTIES FACING THE BUSINESS OUTLOOK

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

Genoa, Italy, 5 August 2016

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





Half-Year Condensed Consolidated Financial Statements

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	Notes	30.06.2016	31/12/2015
Intangible Fixed Assets	1	952,389	845,731
Goodwill	2	141,098	141,098
Property, plant and machinery	3	2,173,669	2,054,525
Equity investments:	4	147,905	143,569
<i>carried at equity</i>		146,502	142,210
<i>other investments</i>		1,403	1,363
Other non-current financial assets	5	39,086	38,943
<i>of which towards related parties</i>	38	331	330
Deferred tax assets	6	168,357	173,026
Other non-current assets	7	51,934	42,876
Non-current assets		3,674,438	3,439,768
Inventories	8	23,022	21,224
Trade receivables	9	419,396	343,450
<i>of which towards related parties</i>	38	3,680	2,324
Other receivables and current assets	10	149,607	108,821
<i>of which towards related parties</i>	38	52,458	14,659
Current financial assets	11	17,980	92,861
<i>of which towards related parties</i>	38	8,746	8,491
Cash and cash equivalents	12	360,226	770,564
Current assets		970,231	1,336,920
Assets held for sale		-	-
TOTAL ASSETS		4,644,669	4,776,688
Group Shareholders' Equity	13	1,540,701	1,625,959
Minority interests	14	52,366	50,338
Shareholders' Equity		1,593,067	1,676,297
Employees' severance indemnities	15	6,384	5,512
Deferred tax liabilities	16	281,542	254,676
Provisions for non-current liabilities and charges	17	127,207	117,748
Non-current financial liabilities	18	1,994,631	1,987,829
<i>of which towards related parties</i>	38	-	-
Other non-current liabilities	19	123,675	122,858
<i>of which towards related parties</i>	38	-	-
Non-current liabilities		2,533,439	2,488,623
Provisions for current liabilities and charges	20	52,615	53,886
Trade payables	21	128,673	162,101
<i>of which towards related parties</i>	38	189	210
Current financial liabilities	22	223,697	323,451
<i>of which towards related parties</i>	38	-	-
Other current liabilities	24	113,178	72,330
<i>of which towards related parties</i>	38	3,142	14,040
Current liabilities		518,163	611,768
Liabilities held for sale		-	-
TOTAL LIABILITIES AND EQUITY		4,644,669	4,776,688

INCOME STATEMENT

(EUR thousand)	Notes	1 st half 2016	1 st half 2015
Revenues from ordinary operations	27	530,177	484,847
<i>of which towards related parties</i>	38	5,779	7,259
Other revenues and income	28	8,114	4,744
<i>of which towards related parties</i>	38	730	1,289
<i>of which non-recurring items</i>	37		
Changes in raw materials inventories	29	1,867	755
Cost of purchases	30	(132,910)	(212,469)
<i>of which towards related parties</i>	38	(30)	(56)
Costs for services and other costs	31	(104,089)	(67,747)
<i>of which towards related parties</i>	38	(5,821)	(6,252)
<i>of which non-recurring items</i>	37	(932)	(4,489)
Personnel costs	32	(31,974)	(25,759)
<i>of which non-recurring items</i>	37	(1,159)	(398)
EBITDA		271,185	184,371
Amortisation, depreciation and write-downs of fixed assets	33	(128,676)	(77,377)
Financial income	34	12,347	17,144
<i>of which towards related parties</i>	38	–	1,143
Financial expenses	34	(58,316)	(44,459)
<i>of which towards related parties</i>	38	–	
<i>of which non-recurring items</i>	37	(7,211)	
Net financial income (expenses)	35	(45,969)	(27,315)
Net income (loss) from investments carried at equity		8,179	(64,871)
Other net income (loss) from equity investments		44	78,503
<i>of which non-recurring items</i>	37	5,690	14,449
Net income (loss) from equity investments	36	8,223	13,632
PROFIT (LOSS) BEFORE TAXES		104,763	93,310
Income taxes	36	(29,216)	(19,227)
<i>of which non-recurring items</i>	37	211	4,426
NET PROFIT (LOSS)		75,547	74,083
Net Profit (loss) from discontinued operations		–	(500)
<i>of which non-recurring items</i>	37	–	(500)
NET PROFIT (LOSS) FOR THE PERIOD		75,547	73,583
Minority interests		(3,044)	(3,444)
<i>of which non-recurring items</i>	37	523	(189)
GROUP SHARE OF NET PROFIT		72,503	70,139

(EUR)	Notes	1 st half 2016	1 st half 2015
Basic earnings per share from continuing operations	41	0.529	0.519
Diluted earnings per share from continuing operations	41	0.529	0.519
Group basic earnings per share	41	0.508	0.491
Group diluted earnings per share	41	0.508	0.491

OTHER COMPREHENSIVE INCOME

(EUR thousand)	1 st half 2016	1 st half 2015
NET PROFIT (LOSS) FOR THE PERIOD	75,547	73,583
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	(119)	(582)
Income taxes referred to the change in the employees' severance indemnities provision	33	160
	(86)	(422)
Changes that will be reclassified in the income statement		
Changes in the cash flow hedge reserve	(15,918)	18,678
Income taxes referred to the change in the cash flow hedge reserve	(4,304)	(4,324)
	(11,614)	14,354
Changes that will be reclassified in the income statement		
Changes in the translation reserve	(4,984)	–
Income taxes referred to the change in the translation reserve	685	–
	(4,299)	–
Other components of comprehensive income after tax	(15,999)	13,932
Comprehensive net income (loss)	59,549	87,515
- Minority interests	(2,027)	(4,138)
Comprehensive net income (loss) pertaining to the Group	57,521	83,377

STATEMENT OF CASH FLOWS

(EUR thousand)	1 st half 2016	1 st half 2015
CASH FLOWS FROM OPERATING ACTIVITIES (A):		
Net Profit (loss) for the period	75,547	73,583
- Amortisation, depreciation and write-downs of fixed assets	128,676	77,377
- Net change in provision for liabilities and charges	2,036	(16,495)
- Net change in deferred tax assets and liabilities	(4,217)	4,132
- Write-down of receivables and green certificates	–	2,581
- Net capital gain/loss on sale of non-current assets	–	161
- Portion of income/expenses from investments carried at equity	(8,542)	(15,772)
- Sale of the equity investment in ERG Oil Sicilia S.r.l.	–	(500)
- Net change in employees' severance indemnities	872	(586)
Cash flows before changes in working capital	194,372	124,481
- Change in other operating assets and liabilities:		
- Change in inventories	(1,788)	29,883
- Change in trade receivables	(71,795)	110,297
- Change in trade payables	(36,367)	(153,863)
- Net change in other receivables/payables and other assets/liabilities	32	(69,526)
Total	(109,918)	(83,209)
CASH FLOWS FROM INVESTING ACTIVITIES (B):		
Acquisitions of intangible fixed assets and goodwill	(1,524)	(991)
Acquisition of property, plant, and machinery	(17,131)	(51,218)
Acquisition of equity investments and other non-current financial assets	(27)	(349)
Net change in other increases/decreases in fixed assets	2,027	–
Collection of balance of Ergo Hydro S.r.l. acquisition	10,510	–
Disposals of intangible fixed assets and goodwill	2	–
Disposals of property, plant and machinery and related capital gains/losses	1,011	1,656
Disposals of equity investments and other non-current financial assets	4,850	3,061
Total	(282)	(47,842)
CASH FLOWS FROM FINANCING ACTIVITIES (C):		
New non-current loans	325,000	–
Repayment of non-current loans	(530,156)	(13,583)
Net change in loans to Group companies not consolidated line by line	–	–
Net change in other non-current financial liabilities	–	(107,740)
Net change in short-term bank borrowings	–	36,374
Net change in other current financial assets/liabilities	18,428	29,141
Share capital increases/repayments	–	–
Acquisition of treasury shares	–	–
Dividends paid to third parties	(142,800)	(71,402)
Share capital increase	–	–
Other changes in shareholders' equity	(15,975)	12,875
Total	(345,503)	(114,335)
CHANGE IN THE SCOPE OF CONSOLIDATION (D)	(149,007)	(6,872)
NET CASH FLOW FOR THE YEAR (A+B+C+D)	(410,338)	(127,777)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	770,564	1,169,359
NET CASH FLOWS FOR THE YEAR	(410,338)	(127,777)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	360,226	1,041,583
ADDITIONAL CASH FLOWS INFORMATION	1st half 2016	1st half 2015
Income taxes paid	8,690	98,720
Interest paid	23,640	13,065

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Reserves	Net Profit (loss) for the year	Total	Minority interests	Total shareholders' equity
BALANCE AT 31.12.2014	15,032	1,586,631	69,804	1,671,465	47,387	1,718,852
Allocation of 2014 profit	–	69,804	(69,804)	–	–	–
Dividends	–	(71,402)	–	(71,402)	–	(71,402)
Other changes	–	(999)	–	(999)	(58)	(1,057)
Net Profit (loss) for 1 st half 2015	–	–	70,139	70,139	3,444	73,583
Actuarial change in employees' severance indemnities provision	–	(412)	–	(412)	(10)	(422)
Changes in the cash flow hedge reserve	–	13,650	–	13,650	704	14,354
Comprehensive net income (loss)	–	13,238	70,139	83,377	4,138	87,515
BALANCE AT 30.06.2015	15,032	1,597,272	70,139	1,682,440	51,469	1,733,907
BALANCE AT 31.12.2015	15,032	1,590,302	20,626	1,625,959	50,338	1,676,297
Allocation of 2015 profit	–	20,626	(20,626)	–	–	–
Dividends	–	(142,800)	–	(142,800)	–	(142,800)
Other changes	–	23	–	23	2	25
Net Profit (loss) for 1 st Half 2016	–	–	72,503	72,503	3,044	75,547
Actuarial change in employees' severance indemnities provision	–	(86)	–	(86)	–	(86)
Changes in the translation reserve	–	(3,914)	–	(3,914)	(385)	(4,299)
Changes in the cash flow hedge reserve	–	(10,983)	–	(10,983)	(632)	(11,615)
Comprehensive net income (loss)	–	(14,983)	72,503	57,521	2,027	59,549
SALDO AL 30.06.2016	15,032	1,453,167	72,503	1,540,701	52,366	1,593,067



NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

THE GROUP

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

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

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Half-year Financial Report for the six-month period ended 30 June 2016, prepared on the basis of the indications contained in Article 154-ter of the Italian Consolidated Finance Act, was prepared in condensed form in accordance with IAS 34 "Interim Financial Reporting" and, with respect to recognition and measurement standards, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, including also all International standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and by the former Standing Interpretations Committee (SIC).

In accordance with IAS 34 the Half-year Condensed Consolidated Financial Statements do not include all additional information required in the annual Consolidated Financial Statements for which, therefore, reference is made to the Group's annual Consolidated Financial Statements as of and for the year ended 31 December 2015.

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

The Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2016 are subjected to a limited review in accordance with Italian CONSOB resolution no. 10867 dated 31 July 1997.

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

ACCOUNTING STANDARDS AND CONSOLIDATION PRINCIPLES

The Half-year Condensed Consolidated Financial Statements for the six-month period ended 30 June 2016 were prepared by applying the same consolidation principles and accounting policies used for the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2015, with the exceptions indicated below.

Accounting standards, amendments and interpretations applied starting on 1 January 2016

Following is a brief description of the IFRS in effect from 1 January 2016

- On 24 November 2015, the EU regulation 2015/2173 was issued which implement certain minor modifications to **IFRS 11 - Joint Arrangements**. In particular, new guidelines were introduced regarding the accounting for investments in Joint Operations that constitute a business pursuant to IFRS 3 - Business Combinations.

These amendments must be applied prospectively from 1 January 2016. The adoption of these amendments had no effect on the condensed consolidated financial statements at 30 June 2016.

- On 2 December 2015, the EU regulation 2015/2231 was issued which implement certain minor amendments to **IAS 16 (Property, plant and machinery)** and **IAS 38 (Intangible Assets)**. In particular, it was clarified that the revenue based amortization/depreciation method can no longer be applied. Insofar as intangible assets only, this indication is considered an assumption that can only be overcome upon verification of one of the following circumstances: (i) the right to use an intangible asset is related to reaching a specific revenue threshold; or (ii) when it can be proven that the achievement of the revenues and usage of the economic benefits from the asset are very closely related. These amendments must be applied prospectively from 1 January 2016. The adoption of these amendments had no effect on the condensed consolidated financial statements at 30 June 2016.

- On 15 December 2015, the EU regulation 2015/2343 was issued which implement the document **Annual Improvements to IFRSs: 2012-2014 Cycle**. The main amendments pertain to:

- IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations
- IFRS 7 - Financial Instruments: additional information
- IAS 19 – Employee Benefits;
- IAS 34 – Interim Financial Reporting;

These amendments must be applied prospectively from 1 January 2016.

The adoption of these amendments had no significant effect on the condensed consolidated financial statements at 30 June 2016.

- On 18 December 2015, the EU regulation 2015/2406 was issued which implement certain modifications to **IAS 1 (Presentation of Financial Statements) - Disclosure Initiative**. The main amendments pertain to:
 - materiality: it is specified that the concept of materiality is applicable to the financial statements overall and the inclusion of immaterial information may adversely affect the usefulness of the financial disclosure;
 - disaggregation and subtotals: it is clarified that the specific items comprising the separate income statement or statement of comprehensive income and the statement of financial position and cash flow may be disaggregated. Furthermore, new requirements are introduced for the usage of subtotals;

- structure of the notes: it is specified that companies are allowed a certain degree of flexibility regarding the order with which they present the notes to the financial statements. In establishing this order, a company must take into account the requirements of comprehensiveness and comparability of the financial statements;
- equity investments carried at equity: the portion of other components of the statement of comprehensive income regarding equity investments in associates and joint ventures carried at equity must be subdivided between reclassifiable and non reclassifiable in the separate income statement.

These amendments are applicable from 1 January 2016.

The adoption of these amendments had no significant effect on the condensed consolidated financial statements at 30 June 2016.

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

At the date of these Financial Statements the competent bodies of the European Union had not yet completed the endorsement process required for the adoption of the amendments and standards described below.

- **IFRS 14** – Regulatory Deferral Accounts.
- **IFRS 15** Revenue from Contracts with Customers.
- **IFRS 9** – Financial Instruments.
- Amendments to **IAS 27**: Equity Method in Separate Financial Statement.
- Amendments to **IFRS 10** and **IAS 28**: Sale or Contribution of Assets between an Investor and its Associate or joint venture.

USE OF ESTIMATES - RISKS AND UNCERTAINTIES

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

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

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

- the estimate of the revenues from ordinary operations which referred to the Business Power (as referred to particularly in the chapter below);
- provisions for bad debt, inventory obsolescence and asset write-downs;
- the definition of the useful life of fixed assets and the related amortisation and depreciation;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the evaluation

processes involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay, and quantifying the related amount;

- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected composition and renewal of tax consolidation regimes;

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

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

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

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

Executing the provisions of the aforesaid Law Decree, on 24 October 2014 the Authority published the Instruction no. 521/2014/R/EEL, pertaining to provisions on essential facilities in Sicily, directed at regulating the offering and remuneration criteria for units defined as essential in accordance with Decree Law.

In October 2014, the Authority also published its Resolution no. 500/2014/R/EEL; while it pertains to essential units under ordinary rules, it does clarify and revise certain parameters of the Recognised Variable Cost which also have effect on essential units under Italian Law Decree no. 91/2014.

Lastly, with its Resolution 667/2014/R/EEL, the AEEGSI approved a number of significant parameters for the calculation of the Recognised Generation Costs of the essential units under Italian Decree Law no. 91/2014.

The period for application of the discipline to the units which are essential pursuant to Law Decree 91/2014 and the resolution 521/2014 as subsequently amended and supplemented, ended on 28 May 2016 following the commissioning of the aforementioned doubling of the Rizziconi-Sorgente power line.



With regard to the consideration for the in reintegration of the generation costs for 2015, we reiterate that at 31 December 2015, the advent amount was collected for the first half of 2015. In July 2016, the balance for the entire year 2015 was requested.

By September 2016, the advance for the consideration for the 2016 reintegration for the first quarter of 2016 will be requested pursuant to article 3.1 aa.2) of resolution 521/2014, as amended with resolution 496/2015.

IMPAIRMENT TEST

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

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

With regard to the Group assets, except as indicated in the paragraph below no impairment indicators emerged that would require changing the carrying value of goodwill and intangible assets allocated to the aforesaid Cash Generating Units and therefore the carrying values already verified for the Consolidated Financial Statements at 31 December 2015 are confirmed.

Wind Farms in Poland

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

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

It is finally noted that insofar as verification of the value of the equity investment in TotalERG, and no indicators of impairment were evident that would require adjustment of the value of the investee, thereby confirming the values already verified for the financial statements at 31 December 2015.

CONSOLIDATION PRINCIPLES

Scope of consolidation

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

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

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

No companies were consolidated using the proportional method.



LIST OF GROUP COMPANIES

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

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

	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)
ERG S.p.A.					
ERG Power Generation S.p.A.	Genoa	100%	100%	6,000	309,355
ERG Renew S.p.A.	Genoa	93%	93%	107,692	679,485
ERG Services S.p.A.	Genoa	100%	100%	1,200	10,128
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	784,342
ERG Power S.r.l.	Genoa	100%	100%	5,000	125,734
ERG Renew S.p.A.					
Blachy Pruszyński-Energy SPZ.O.O.	Rzgów (Poland)	100%	93%	3,000	699
Brockaghboy Windfarm Ltd.	Belfast (Northern Ireland)	100%	93%	–	(395)
CSO Energy GmbH	Leisnig (Germany)	100%	93%	210	228
CSO Energy S.a.r.l.	Paris (France)	100%	93%	1,415	237
ERG Eolica Adriatica S.r.l.	Genoa	100%	93%	10	45,188
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	93%	10	1,827
ERG Eolica Basilicata S.r.l.	Genoa	100%	93%	38	4,120
ERG Eolica Calabria S.r.l.	Catanzaro	100%	93%	10	154
ERG Eolica Campania S.p.A.	Genoa	100%	93%	120	31,644
ERG Eolica Faeto S.r.l.	Genoa	100%	93%	10	7,345
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	93%	50	20,589
ERG Eolica Ginestra S.r.l.	Genoa	100%	93%	10	1,250
ERG Eolica S. Ciro S.r.l.	Genoa	100%	93%	3,500	19,430
ERG Eolica S. Vincenzo S.r.l.	Genoa	100%	93%	3,500	18,663
ERG Eolica Tirreno S.r.l.	Camporeale	100%	93%	10	26
ERG Eolienne France S.a.s.	Paris (France)	100%	93%	21,625	27,025
ERG Renew Operations & Maintenance S.r.l. (3)	Genoa	100%	93%	10	4,676
ERG Wind 105 GmbH	Leisnig (Germany)	100%	93%	1	(437)
ERG Wind France 1 S.a.s.	Paris (France)	100%	93%	1,097	(7,329)
ERG Wind French Holdings S.a.s.	Paris (France)	100%	93%	1,410	943
ERG Wind GmbH	Vienna (Austria)	100%	93%	20,508	(176)
ERG Wind Investments Ltd.	Gibraltar	100%	93%	–	78,406
ERG Wind Neunte GmbH	Leisnig (Germany)	100%	93%	25	56
ERG Wind Park Beteiligungs GmbH	Leisnig (Germany)	100%	93%	25	20
ERG Wind RE Beteiligungs GmbH	Leisnig (Germany)	100%	93%	25	20
EW Orneta 2 Z.O.O.	Szczecin (Poland)	100%	93%	32,675	29,612
Green Vicari S.r.l.	Camporeale	100%	93%	119	13,054
Hydro Inwestycje SPZ.O.O.	Warsaw (Poland)	100%	93%	5	(784)

(1) data referring to the latest approved financial statements

(2) data in millions of Euro except for Brockaghboy Windfarm Ltd. which is expressed in millions of GBP, and Blachy Pruszyński SPZ.O.O., EW Orneta 2 SPZ.O.O., Hydro Inwestycje SPZ.O.O. expressed in thousands of Zloty

(3) the secondary headquarters were established in Chartres (France) on 29 February 2016

	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	93%	37	(3,216)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	93%	1,114	(571)
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	93%	1,114	(266)
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	93%	1,060	(109)
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	93%	861	1,949
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	93%	1,097	(1,379)
ERG Wind 105 GmbH					
Parc Eolien de St Riquier 3 S.a.s.	Paris (France)	100%	93%	37	(714)
Parc Eolien de St Riquier 4 S.a.s.	Paris (France)	100%	93%	37	(693)
ERG Wind France 1 S.a.s.					
ERG Wind France 2 S.a.r.l.	Paris (France)	100%	93%	1	(11)
Cepe Pays De Montbeliard S.n.c.	Paris (France)	100%	93%	365	(3,530)
Cepe de Murat S.n.c.	Paris (France)	100%	93%	444	2,919
Cepe de Saint Florentin S.n.c.	Paris (France)	100%	93%	251	(4,242)
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	93%	100	1,766
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	93%	100	3,242
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	93%	80	2,186
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.ar.l.	Paris (France)	100%	93%	8	(1,074)
Parc Eolien de Morvilers Sarl	Paris (France)	100%	93%	8	(751)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	93%	37	(183)
Parc Eolien du Patis S.a.s.	Paris (France)	100%	93%	1,164	1,176
Parc Eolien Hauts Moulins	Paris (France)	100%	93%	15	(1,847)
Parc Eolien Moulins des Camps	Paris (France)	100%	93%	15	(1,614)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	93%	37	(620)
Parc Eolien de la Souterraine	Paris (France)	100%	93%	505	297
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	93%	37	(839)
SEPE du Nouvion S.a.s.	Paris (France)	100%	93%	37	(256)

(1) data referring to the latest approved financial statements

(2) EUR thousand



	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)
ERG Wind GmbH					
Corni Eolian S.A.	Costanza (Romania)	100%	93%	152,000	123,913
ERG Wind Bulgaria GmbH	Vienna (Austria)	100%	93%	35	4,022
ERG Wind Bulgaria GmbH					
Globo Energy EOOD	Sofia (Bulgaria)	100%	93%	4,379	4,519
K&S Energy EOOD	Sofia (Bulgaria)	100%	93%	3,179	3,164
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	93%	3,024	3,708
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	93%	3,051	3,749
Mark 1 EOOD	Sofia (Bulgaria)	100%	93%	4,113	4,552
Mark 2 EOOD	Sofia (Bulgaria)	100%	93%	4,113	4,388
VG-1 EOOD	Sofia (Bulgaria)	100%	93%	1,520	1,594
VG-2 EOOD	Sofia (Bulgaria)	100%	93%	3,034	2,707
VG-3 EOOD	Sofia (Bulgaria)	100%	93%	3,057	2,952
VG-4 EOOD	Sofia (Bulgaria)	100%	93%	2,955	4,073
VG-5 EOOD	Sofia (Bulgaria)	100%	93%	3,059	2,916
VG-6 EOOD	Sofia (Bulgaria)	100%	93%	3,023	2,740
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	93%	505	777
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	93%	175	737
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	93%	2,157	2,374

(1) data referring to the latest approved financial statements

(2) EUR thousand

	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)
ERG Wind Investments Ltd.					
ERG Wind Holdings (Italy) S.r.l.	Genoa	100%	93%	212	883,700
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	93%	–	(3,346)
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	93%	–	(333)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind Sardegna S.r.l.	Genoa	100%	93%	77	38,604
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	93%	77	29,678
ERG Wind 4 S.r.l.	Genoa	100%	93%	6,633	57,445
ERG Wind Energy S.r.l.	Genoa	100%	93%	1,000	82,116
ERG Wind Leasing 4 S.r.l.	Genoa	100%	93%	10	270
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa	100%	93%	77	39,251
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	93%	77	12,335
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	93%	77	18,024
ERG Wind 2000 S.r.l.	Genoa	100%	93%	77	25,167
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	93%	77	47,630
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	93%	77	29,035
ERG Wind MEI 2-14-1 Ltd.					
ERG Wind MEG 1 LLP ⁽³⁾	London (UK)	80%	93%	33,168	21,474
ERG Wind MEG 2 LLP ⁽³⁾	London (UK)	80%	93%	28,010	18,446
ERG Wind MEG 3 LLP ⁽³⁾	London (UK)	80%	93%	33,585	23,594
ERG Wind MEG 4 LLP ⁽³⁾	London (UK)	80%	93%	29,721	20,486

(1) data referring to the latest approved financial statements

(2) EUR thousand

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

	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)
ERG Wind Park Beteiligungs GmbH					
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Leisnig (Germany)	100%	93%	1	(407)
Voltwerk Energy Park 8 GmbH & Co. KG	Leisnig (Germany)	100%	93%	–	–
Voltwerk Windpark Worbzig GmbH	Leisnig (Germany)	100%	93%	–	1,233
Voltwerk Windpark Beesenstedt GmbH	Leisnig (Germany)	100%	93%	1	2,344
Windpark Cottbuser Halde GmbH	Leisnig (Germany)	100%	93%	5	(3,753)
Windpark Achmer Vinte GmbH	Leisnig (Germany)	100%	93%	7,500	(3,142)

(1) data referring to the latest approved financial statements

(2) EUR thousand



List of equity investments **measured with the equity**:

Company	Registered Office	Direct Share	Group's Share	Share Capital (1) (2)	Shareholders' Equity (1) (2)	Book Value at 30.06.2016
(EUR thousand)						
ERG S.p.A.						
TotalErg S.p.A. (3)	Rome	51.00%	51.00%	47,665	161,401	133,347
Joint ventures						133,347
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (3)	Melilli	24.41%	24.41%	28,100	49,735	13,155
Associates						13,155
TOTAL						146,502

(1) 2015 data for joint ventures; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies

(2) EUR thousand

(3) in Joint Venture with Total Raffinage Marketing

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

List of companies **consolidated at cost**:

Company	Registered Office	Direct Share	Group's Share	Share Capital (1) (2)	Shareholders' Equity (1) (2)	Book Value at 30.06.2016
(EUR thousand)						
ERG S.p.A.						
ERG Petroleos S.A. (3)	Madrid (E)	100.00%	100.00%	3,050	(5,521)	–
ERG Renew S.p.A.						
Eolico Troina S.r.l. in liquidation	Palermo	99.00%	91.93%	20	250	25
ERG Eolica Lucana S.r.l.	Genoa	100.00%	92.86%	10	9	375
ERG Wind Bulgaria S.r.l.	Genoa	100.00%	92.86%	–	–	40
ISAB Energy Solare S.r.l.	Genoa	100.00%	92.86%	100	186	123
Subsidiaries						563
ERG Renew S.p.A.						
Longburn Wind Farm Ltd.	Seebeck House (UK)	50.00%	50.00%	–	–	175
Sandy Knove Wind Farm Ltd.	Seebeck House (UK)	50.00%	50.00%	–	–	175
Joint ventures (4)						349
ERG S.p.A.						
CAF Interreg. Dipendenti S.r.l.	Vicenza	0.04%	0.06%	276	1,026	–
Emittenti titoli S.p.A.	Milan	0.51%	0.51%	4,264	15,997	26
Meroil S.A.	Barcellona (E)	0.87%	0.87%	19,077	49,690	310
R.U.P.E. S.p.A.	Genoa	4.86%	4.86%	3,058	3,069	155
Other companies						491
TOTAL						1,403

(1) 2015 data for joint ventures; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies

(2) EUR thousand

(3) company under liquidation. In view of the negative net equity of ERG Petroleos. a provision for risks on equity investments of approximately EUR 5.5 million has been allocated

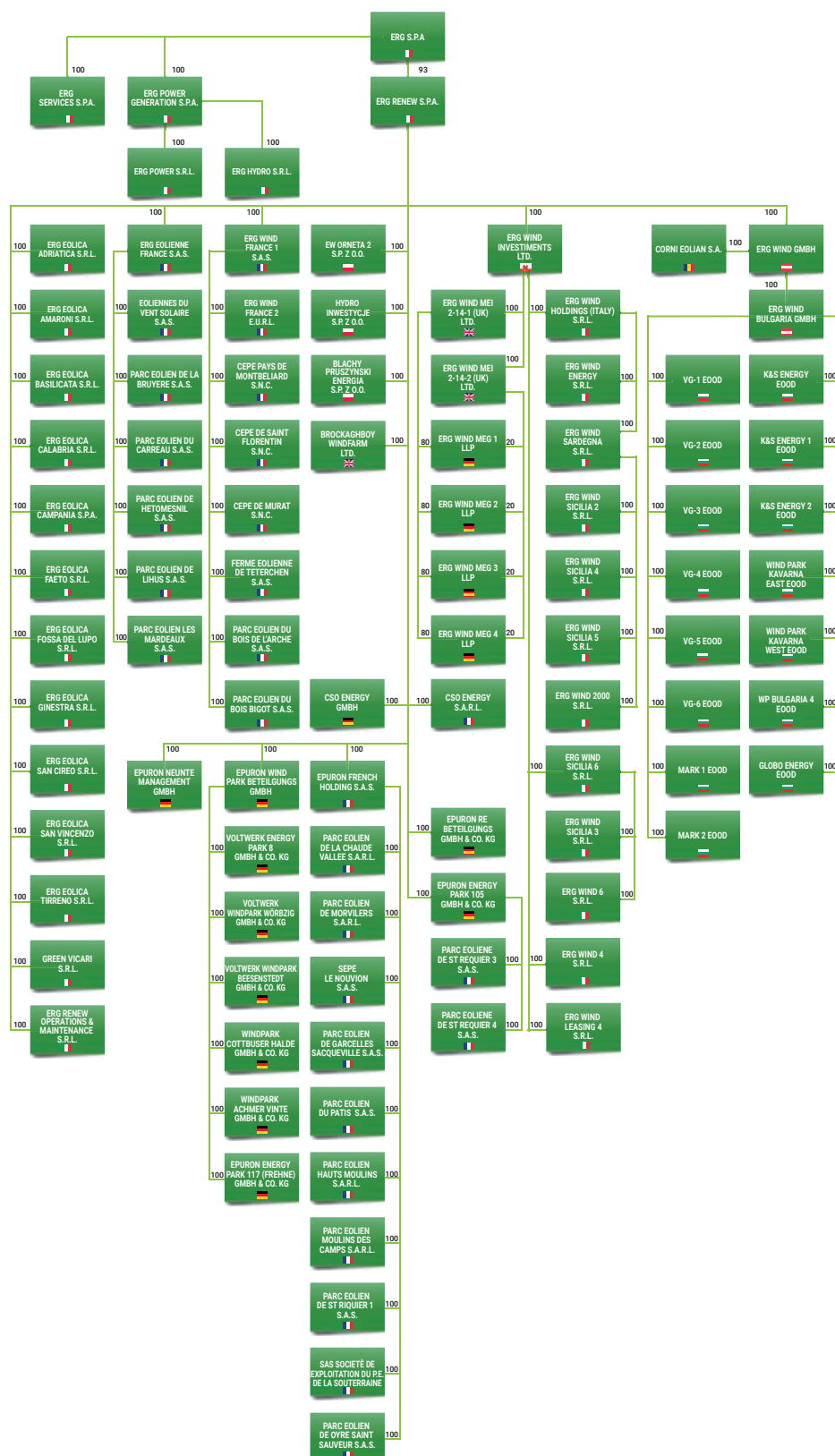
(4) companies measured at cost as they are not yet operational

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

- On **2 February 2016** ERG Renew S.p.A. finalised an agreement to purchase eleven wind farms in France from a fund managed by the Impax Asset Management Group, with an installed output of 124 MW, along with six in Germany, with an installed output of 82 MW, for a total of 206 MW. The wind farms, which became operative between 2009 and 2014 in France and 2004 and 2014 in Germany, have an estimated average annual production of approximately 410 GWh. For additional details, please refer to the paragraph **Changes in the scope of consolidation**.
- On **29 February 2016** ERG Renew S.p.A. acquired 100% of the share capital of Brockaghboy Windfarm Ltd. ("BWF") from TCI Renewables ("TCI"), a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland, in the region of Londonderry, with planned capacity of 45 MW and energy output estimated at over 150 GWh when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO₂ emissions. For additional details, please refer to the paragraph **Changes in the scope of consolidation**.
- On **1 April 2016** ERG Renew S.p.A. sold all shares of the French companies Parc Eolien du Bois de l'Arche S.A.S., Parc Eolien du Bois Bigot S.A.S., Ferme Eolienne de Teterchen S.A.S. to ERG Wind France 1 S.A.S.. The transaction has had no impact in these Consolidated Financial Statements as it took place under common control.
- On **6 April 2016** ERG S.p.A. sold the entire equity investment held in I-Faber S.p.A. (23%) to Unicredit S.p.A. against EUR 4.2 million, in line with the book value. The sale therefore had no effect on the income statement.
- On **13 April 2016** ERG Renew S.p.A. perfected the purchase of 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.
It is specified that the transaction did not affect these financial statements since, in previous financial statements, in consideration of the put and call option, the acquisition of the shares attributable to the minority shareholder with consequent modification of the Group shareholders' equity insofar as the relative minority interests was considered certain.
- On **31 May 2016** the company ERG Wind Bulgaria S.r.l. was established.

Regarding restrictions and guarantees on the equity investments held by the Group, please refer to **Note 25 – Covenants and negative pledge** herein and **Note 26** of the 2015 Consolidated Financial Statements.

SCOPE OF CONSOLIDATION AT 30 JUNE 2016



CHANGE IN THE SCOPE OF CONSOLIDATION

Details regarding the main transactions involving the Group's equity investments that modified the scope of consolidation are provided below:

The effects of the transactions on the Group's consolidated statement of financial position are summarised in the following table.

(EUR thousand)	CHANGE IN THE SCOPE OF CONSOLIDATION			TOTAL
	Brockaghboy Windfarm Ltd.	Companies from Impax Asset Management Group (C.G.U. France)	Companies from Impax Asset Management Group (C.G.U. Germany)	
Intangible Fixed Assets	6,487	87,017	44,254	137,758
Goodwill	–	–	–	–
Property, plant and machinery	6,781	135,351	58,973	201,106
Equity investments	–	–	–	–
Other financial assets	–	756	5	761
Deferred tax assets	–	1,819	427	2,246
Other non-current assets	244	5,354	2,954	8,552
Non-current assets	13,512	230,297	106,613	350,422
Inventories	–	11	–	11
Trade receivables	–	566	3,585	4,151
Other receivables and current assets	–	4,104	255	4,359
Current financial assets*	–	44	1	45
Cash and cash equivalents*	(5,983)	(23,743)	(8,392)	(38,118)
Current assets	(5,983)	(19,018)	(4,551)	(29,552)
	–	–	–	
TOTAL ASSETS	7,529	211,278	102,062	320,870
Shareholders' Equity	–	–	–	–
Employees' severance indemnities	–	–	–	–
Deferred tax liabilities	–	25,099	12,899	37,998
Provisions for non-current liabilities and charges	–	3,596	2,556	6,152
Non-current financial liabilities*	7,529	134,285	75,039	216,853
Other non-current liabilities	–	–	–	–
Non-current liabilities	7,529	162,981	90,494	261,004
Provisions for current liabilities and charges	–	–	–	–
Trade payables	–	556	2,383	2,939
Current financial liabilities*	–	42,944	8,580	51,524
Other current liabilities	–	4,798	605	5,403
Current liabilities	–	48,298	11,568	59,866
	–	–	–	
TOTAL LIABILITIES AND EQUITY	7,529	211,278	102,062	320,870
* Impact on Net Financial Position	(13,512)	(200,928)	(92,010)	(306,450)



Acquisition of Brockaghboy Windfarm Ltd.

On **29 February 2016** ERG Renew Acquired 100% of the share capital of Brockaghboy Windfarm Ltd. ("BWF") from TCI Renewables ("TCI"), a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland, in the region of Londonderry, with planned capacity of 45 MW and energy output estimated at over 150 GWh when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO₂ emissions.

ERG Renew started work on the construction of the wind farm in the second quarter of 2016 and complete construction by the end of the first quarter of 2017.

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

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

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

Determination of the total price of the acquisition

The price of the acquisition was EUR 13.3 million of which EUR 6.0 million for acquisition of 100% of the share capital of the target company and EUR 7.5 million for repayment of the loans existing at the date that control of the target company was acquired. The costs incurred to finalise the transaction of EUR 0.5 million were not included in the consideration transferred and these costs are recognised in the income statement for the current year under services and costs.

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

The 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:

(Euro thousand)	Asset Acquisition	Purchase Price Allocation ⁽¹⁾	Brockaghboy Windfarm Ltd.
Intangible Fixed Assets	–	6,487	6,487
Goodwill	–	–	–
Property, plant and machinery	6,781	–	6,781
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	–	–	–
Other non-current assets	244	–	244
Non-current assets	7,025	6,487	13,512
Inventories	–	–	–
Trade receivables	–	–	–
Other receivables and current assets	–	–	–
Current financial assets*	–	–	–
Cash and cash equivalents*	–	(5,983)	(5,983)
Current assets	–	(5,983)	(5,983)
TOTAL ASSETS	7,025	504	7,529
Shareholders' Equity	(504)	504	–
Employees' severance indemnities	–	–	–
Deferred tax liabilities	–	–	–
Provisions for non-current liabilities and charges	–	–	–
Non-current financial liabilities*	7,529	–	7,529
Other non-current liabilities	–	–	–
Non-current liabilities	7,529	–	7,529
Provisions for current liabilities and charges	–	–	–
Trade payables	–	–	–
Current financial liabilities*	–	–	–
Other current liabilities	–	–	–
Current liabilities	–	–	–
TOTAL LIABILITIES	7,025	504	7,529
* Impact on Net Financial Position	(7,529)	(5,983)	(13,512)

(1) provisional attribution

We provide here below a commentary on the amounts presented:

In the column **Asset Acquisition**:

- property, plant and machinery, civil works under construction;
- non-current financial liabilities: payables to shareholders existing at the time of acquisition. The fair value of the acquisition is very close to the nominal value.

In the column **Purchase Price Allocation**:

- intangible fixed assets: capital gains 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;
- current financial liabilities: value of the consideration for acquisition of 100% of the share capital of the target company.

Acquisition from Impax Asset Management Group

On **2 February 2016** ERG Renew finalised an agreement to purchase eleven wind farms in France from a fund managed by Impax Asset Management Group, with an installed output of 124 MW, along with six in Germany, with an installed output of 82 MW, for a total of 206 MW. The scope of the transactions also includes two companies, one French and one German, which provide technical, operational and commercial assistance, via a team comprising twenty-eight professionals, to wind farm operators in France, Germany and Poland, both captive and third parties, for a total of around 800 MW (of which 206 MW subject to purchase and another 83 MW belonging to ERG Renew in Germany).

The value of the acquisition comes to around EUR 290 million in terms of enterprise value, equal to a multiple of approximately EUR 1.4 million per MW. The farms are already entirely financed with limited recourse Project Financing. These Half-year Condensed Consolidated Financial Statements reflect the impact of the consolidation of the new French and German companies from 1 January 2016, considering as non-significant the effects on the Income Statement for the period from the closing date to the actual consolidation date.

Determination of the total price of the acquisition

The price of the acquisition was EUR 135.5 million of which EUR 56.3 million for acquisition of 100% of the share capital of the target company and EUR 79.2 million for repayment of the loans existing at the date that control of the target company was acquired. The costs incurred to finalise the transaction of EUR 0.4 million were not included in the consideration transferred and these costs are recognised in the income statement for the current year under services and costs.

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

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

Two cash generating units belonging to the wind farms located in France and Germany were identified at the time of the purchase price allocation. The amounts allocated to the two different CGUs are shown separately in the table below.

Allocations to the Cash Generating Unit “Impax Asset Management France”

(Euro thousand)	Asset Acquisition	Purchase Price Allocation ⁽¹⁾	Acquisition from Impax Asset Management Group (C.G.U. France)
Intangible Fixed Assets	10,557	76,460	87,017
Goodwill	–	–	–
Property, plant and machinery	135,351	–	135,351
Equity investments	–	–	–
Other financial assets	756	–	756
Deferred tax assets	1,621	198	1,819
Other non-current assets	5,354	–	5,354
Non-current assets	153,639	76,658	230,297
Inventories	11	–	11
Trade receivables	566	–	566
Other receivables and current assets	4,104	–	4,104
Current financial assets*	44	–	44
Cash and cash equivalents*	19,475	(43,218)	(23,743)
Current assets	24,200	(43,218)	(19,018)
TOTAL ASSETS	177,839	33,440	211,278
Shareholders' Equity	(7,741)	7,741	–
Employees' severance indemnities	–	–	–
Deferred tax liabilities	–	25,099	25,099
Provisions for non-current liabilities and charges	2,996	600	3,596
Non-current financial liabilities*	134,285	–	134,285
Other non-current liabilities	–	–	–
Non-current liabilities	137,281	25,699	162,981
Provisions for current liabilities and charges	–	–	–
Trade payables	556	–	556
Current financial liabilities*	42,944	–	42,944
Other current liabilities	4,798	–	4,798
Current liabilities	48,298	–	48,298
TOTAL LIABILITIES AND EQUITY	177,839	33,440	211,278
* Impact on Net Financial Position	(157,710)	(43,218)	(200,928)

(1) provisional attribution

We provide here below a commentary on the amounts presented:

In the column **Asset Acquisition**:

- intangible fixed assets: concessions relative to wind farms;
- property, plant and machinery: mainly turbines, blades and transformers;
- other financial assets: securities and security deposits;
- other non-current assets: long-term tax receivables;
- trade receivables: relative to the sale of electricity;

- other current receivables and assets: portions of deferred expenses;
- provisions for liabilities and charges: relative mainly to wind farm dismantling expenses;
- non-current financial liabilities: long-term portion of the bank and borrowings for project financing and the payable to shareholders in existence at the time of the acquisition. The fair value at the acquisition date is very close to the nominal value;
- non-current financial liabilities: short term portion of the bank borrowings for project financing and the payable to shareholders in existence at the time of the acquisition. The fair value of the acquisition is very close to the nominal value.

In the column **Purchase Price Allocation**:

- 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: the value of the deferred tax liabilities recognised against the attribution above;
- current financial liabilities: value of the consideration for acquisition of 100% of the share capital of the target company in France.

Allocations to the Cash Generating Unit “Impax Asset Management Germany”

(Euro thousand)	Asset Acquisition	Purchase Price Allocation ⁽¹⁾	Acquisition from Impax Asset Management Group (C.G.U. Germany)
Intangible Fixed Assets	341	43,913	44,254
Goodwill	–	–	–
Property, plant and machinery	58,973	–	58,973
Equity investments	–	–	–
Other financial assets	5	–	5
Deferred tax assets	427	–	427
Other non-current assets	2,954	–	2,954
Non-current assets	62,700	43,913	106,613
Inventories	–	–	–
Trade receivables	3,585	–	3,585
Other receivables and current assets	255	–	255
Current financial assets*	1	–	1
Cash and cash equivalents*	4,660	(13,052)	(8,392)
Current assets	8,501	(13,052)	(4,551)
TOTAL ASSETS	71,201	30,861	102,062
Shareholders' Equity	(18,126)	18,126	–
Employees' severance indemnities	–	–	–
Deferred tax liabilities	164	12,735	12,899
Provisions for non-current liabilities and charges	2,556	–	2,556
Non-current financial liabilities*	75,039	–	75,039
Other non-current liabilities	–	–	–
Non-current liabilities	77,759	12,735	90,494
Provisions for current liabilities and charges	–	–	–
Trade payables	2,383	–	2,383
Current financial liabilities*	8,580	–	8,580
Other current liabilities	605	–	605
Current liabilities	11,568	–	11,568
TOTAL LIABILITIES AND EQUITY	71,201	30,861	102,062
* Impact on Net Financial Position	(78,958)	(13,052)	(92,010)

(1) provisional attribution

We provide here below a commentary on the amounts presented:

in the column **Asset Acquisition**:

- intangible fixed assets: concessions relative to wind farms;
- property, plant and machinery: mainly turbines, blades and transformers;
- trade receivables: relative to the sale of electricity;
- provisions for liabilities and charges: relative mainly to wind farm dismantling expenses;

- non-current financial liabilities: a long-term portion of the bank borrowings for project financing and the payable to shareholders in existence at the time of the acquisition. The fair value at the acquisition date is very close to the nominal values;
- current financial liabilities: short-term portion of the bank and borrowings for project financing and the payable to shareholders in existence at the time of the acquisition. The fair value at the acquisition date is very close to the nominal values.

in the column **Purchase Price Allocation**:

- 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: the value of the deferred tax liabilities recognised against the attribution above;
- current financial liabilities: value of the consideration for acquisition of 100% of the share capital of the target company in Germany.

Effect of the acquisition on the Group results

The contribution of the acquisition from Impax Asset Management Group on the Group result between the date of the first consolidation (1 January 2016) and the reference date of these half-year condensed consolidated financial statements was as follows:

(EUR million)	
Total revenues	21,259
EBITDA	15,559
EBIT	3,568
Net income	(1,792)

JOINT VENTURE

TotalErg S.p.A.

ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A. in ERG Petroli S.p.A. The Company is positioned as one of the foremost operators in the downstream market. Thanks to the joint venture, ERG benefited from a strengthened competitive position on the market, achieving significant commercial and cost synergies, in partnership with one of the world's largest players in the Oil industry. The company has been consolidated according to the equity method since 1 July 2010.

It is hereby specified that at 1 January 2015 the adjusted income and equity values shown in the Report on Operations include the contribution of the joint venture TotalErg S.p.A. as it is no longer considered to be a core activity in the Group's new strategic and business structure.

The Group exercises joint control over the following smaller companies:

Priolo Servizi S.C.P.A.

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

Longburn Wind Farm Ltd. and Sandy Knove Wind Farm Ltd.

UK company of which ERG Renew S.p.A. acquired a 50% share on 19 June 2015. The purchase of the companies, which are not yet operational, is focused on developing two wind projects located in Scotland, of 60 MW and 49 MW respectively.

IFRS 12

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

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

Measurements and significant assumptions

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

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

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

Equity investments in subsidiaries

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

With regard to the nature and extent of restrictions to the Group’s capability to access or use assets and to extinguish liabilities, please refer to **Note 25 – Covenants and negative pledges**.

The consequences of the changes in the shareholdings in subsidiaries that took place in 2015 are expressed in the paragraph **Changes in the scope of consolidation**.

With regard to provisions that can limit the distribution of dividends or other distributions of capital, it should be recalled that within the Project Financing agreements, the distribution of the available portions of shareholders’ equity to the Shareholders is subject to meeting the conditions prescribed by the project financing agreement, which impose the attainment of determined financial coverage ratios and the absence of default situations. For the details of the constraints and of the accounting values of the assets and liabilities to which such restrictions apply by individual company please refer to **Note 25 – Covenants and negative pledges**.

Investments in joint control arrangements and associates

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

In view of the Group’s 51% share in TotalErg S.p.A., it is considered a joint venture by virtue of the shareholders’

agreements, providing for equally shared governance. For the summary of the economic and financial data of the Joint Ventures and associates, please see the following tables:

SUMMARY OF THE MAIN INCOME AND EQUITY DATA

(EUR thousand)	TOTALERG		PRIOLO SERVIZI	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Non-current assets	623,798	631,480	83,739	83,026
Current financial assets	59,196	106,378	1	–
Cash and cash equivalents	52,757	105,253	1	–
Current assets	1,072,461	991,588	10,973	12,040
Total assets	1,696,259	1,623,068	94,712	95,066
Non-current financial liabilities	204,071	204,071	–	–
Non-current liabilities	294,540	299,611	1,681	1,321
Current financial liabilities	105,506	201,699	24,256	27,628
Current liabilities	1,150,811	1,087,865	39,139	44,010
Shareholders' equity	250,908	235,593	53,892	49,735
Total shareholders' equity	1,696,259	1,623,069	94,712	95,066

	1 st half 2016	1 st half 2015	1 st half 2016	1 st half 2015
Revenues	1,808,254	2,419,168	25,985	27,437
Profit (loss) from operating assets during the period	16,436	25,872	332	358
other components of comprehensive income	4,456	1,211	–	–
Total statement of comprehensive income	20,892	27,083	332	358
Amortisation and depreciation	(35,313)	(40,042)	(3,989)	(2,834)
Interest income	(118)	–	–	–
Interest expense	(9,952)	(14,180)	(358)	(446)
Income taxes	(8,075)	(13,945)	(465)	(649)

RECONCILIATION WITH THE CARRYING VALUE OF THE EQUITY INVESTMENT

(EUR thousand)	TOTALERG		PRIOLO SERVIZI	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
ERG Group's share	51%	51%	24%	24%
Group's share of shareholders' equity	127,963	120,152	13,155	12,140
Purchase Price Allocation / other consolidation adjustments	5,384	5,668	–	–
Carrying value of the equity investment	133,347	125,820	13,155	12,140

MINORITIES OPTION

In **December 2013**, ERG announced that it had entered into an agreement with Unicredit, whereby the Banking Institution became a shareholder of ERG Renew S.p.A. through the acquisition of a minority interest equal to 7.14% of the share capital, through a reserved capital increase, for a price of EUR 50 million.

The agreement provides for a lock-up period of four years from the closing of the transaction (**16 January 2014**), without prejudice to ERG's right to list ERG Renew S.p.A. (IPO ERG Renew S.p.A.), and Unicredit will be allowed to sell (option) the equity investment to ERG S.p.A. in the event that the ERG Renew S.p.A. IPO fails.

In particular, the main terms of the transaction are as follows:

- **Lock-up period**

4 years from the transaction closing date (January 2014) except for the possibility of listing ERG Renew S.p.A.

- **IPO Period**

Between the 2nd and the 4th anniversary of the transaction closing date, therefore from January 2016 to January 2018: sale of the ERG Renew S.p.A. shares with a minimum guaranteed yield of 2% per annum or corresponding to inflation, should the placement price not allow this.

- **Option in the event of failure of the IPO**

Exercisable within 12 months from the end of the IPO period, therefore between January 2018 and January 2019: sale of ERG Renew S.p.A. shares to ERG S.p.A. at fair value, but with a floor and a cap corresponding to an IRR of 2% (floor) and 15% (cap).

Pursuant to IAS 32, the assignment of a put option under the terms described above requires initial recognition of a liability corresponding to the estimated repayment amount expected at the time that the option is exercised: to this end, a liability of EUR 50 million was recognized in the **2014 Financial Statements**.

In **December 2015** the Management of the Group presented the business plan for 2016-2018, outlining the strategic vision for the medium term in which the assumption of a new listing of ERG Renew S.p.A. is less probable.

In this changed context, it was therefore appropriate to determine the adjustment of the liability, opting for application of the valuation at fair value criterion for the liabilities in compliance with the requirements of IAS 39.

In the 2015 financial statements, the value of the option was therefore estimated, using as a precaution the assumption of exercise at the last possible time and considering as a value of the underlying, which would benefit from the current level of discount rates to reach the cap value.

This measurement, calculated prudentially, shows a maximum final liability estimate, required in order to extinguish the obligation, which corresponds to EUR 88 million, a recognized among "**Other non-current liabilities**" (**Note 19**).

There is no significant element regarding the updating of the aforementioned values.

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE FIXED ASSETS

	Concessions and licences	Other intangible fixed assets	Assets in progress	Total
Historical cost	942,647	50,635	223	993,505
Depreciation	(105,112)	(42,662)	–	(147,774)
BALANCE AT 31.12.2015	837,535	7,973	223	845,731
Changes during the period:				
Change in the scope of consolidation	137,437	322	–	137,758
Acquisitions	55	856	613	1,524
Capitalisation/reclassification	–	958	(617)	341
Disposals and divestments	(2)	(1)	–	(3)
Depreciation	(30,968)	(1,923)	–	(32,891)
Write-downs	–	–	–	–
Other changes	(107)	31	4	(72)
Historical cost	1,082,455	52,522	223	1,135,200
Depreciation	(138,505)	(44,306)	–	(182,811)
BALANCE AT 30.06.2016	943,950	8,216	223	952,389

The change in the scope of consolidation relates primarily to:

- the acquisition of the French and German companies acquired from Impax Asset Management Group against an amount of EUR 130,869 thousand;
- the acquisition of the UK Company Brockaghboy Windfarm Ltd., which owns the authorizations required for realization of the wind farm in Northern Ireland, against an amount of EUR 6,341 thousand.

For additional details, please refer to the paragraph **Scope of consolidation**.

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

The other intangible assets refer to software licenses and start up and expansion costs.

NOTE 2 - GOODWILL

"Goodwill", equal to EUR 141,098 thousand (EUR 141,098 at 31 December 2015), 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 was allocated to the cash-generating units corresponding to the following segments:

- Non-programmable renewable sources EUR 125,929 thousand;
- Non-programmable renewable sources (hydroelectric) EUR 15,169 thousand.

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

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

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

NOTE 3 - PROPERTY, PLANT AND MACHINERY

	Land and buildings	Plant and machinery	Other assets	Assets under construction	Total
Historical cost	214,195	3,394,669	22,988	71,311	3,703,163
Amortisation, depreciation and write-downs	(96,717)	(1,535,807)	(16,114)	–	(1,648,638)
BALANCE AT 31.12.2015	117,478	1,858,862	6,874	71,311	2,054,525
Changes during the period:					
Change in the scope of consolidation	238	193,990	148	6,730	201,106
Acquisitions	40	2,418	316	14,357	17,131
Increases	–	2,785	–	–	2,785
Capitalisation/reclassification	12,588	42,693	1,140	(56,763)	(341)
Disposals and divestments	1	(945)	(68)	–	(1,012)
Depreciation	(3,489)	(91,372)	(628)	–	(95,489)
Write-downs	(57)	24	–	–	(33)
Other changes	(26)	(2,456)	(1)	(2,519)	(5,002)
Historical cost	227,065	3,728,606	23,646	33,116	4,012,433
Amortisation, depreciation and write-downs	(100,292)	(1,722,607)	(15,865)	–	(1,838,764)
BALANCE AT 30.06.2016	126,773	2,005,999	7,781	33,116	2,173,669

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

The change in the scope of consolidation relates primarily to:

- the acquisition of the French and German companies acquired from Impax Asset Management Group against an amount of EUR 194,324 thousand;
- the acquisition of the UK Company Brockaghboy Windfarm Ltd, which owns the authorizations required for realization of the wind farm in Northern Ireland, against an amount of EUR 6,781 thousand.

The acquisitions mainly refer to investments relative to the wind farm under construction in Northern Ireland and also include capitalized interests of EUR 0.8 million.

For a more detailed analysis of the acquisitions, please refer to the chapter **Capital expenditures** in the **Report on Operations**.

Regarding restrictions and guarantees on the equity investments held by the Group, please refer to **Note 25 – Covenants and negative pledge** herein and **Note 26** of the 2015 Consolidated Financial Statements.

NOTE 4 - EQUITY INVESTMENTS

	Equity investments				Total
	Subsidiary companies	Joint venture	Associates	Other companies	
BALANCE AT 31.12.2015	523	126,169	16,390	491	143,569
Changes during the period:					
Acquisitions/share capital increases	40	–	–	–	40
Write-downs/use of provision to cover losses	–	–	–	–	–
Disposals and divestments	–	–	(4,250)	–	(4,250)
Measurement of investments using the equity method	–	7,527	1,015	–	8,542
BALANCE AT 30.06.2016	563	133,696	13,155	491	147,905

The disposals/divestments refer to the sale of the equity investment held in I-Faber S.p.A., a company consolidated at equity up to 31 December 2015.

The EUR 8,542 thousand positive change arising from companies measured under the equity method of accounting is due to the performance of the investee companies in the period. The positive result refers in particular to the investee TotalErg.

For further details, please refer to the previous section, **List of Group companies**.



Equity investments owned at 30 June 2016 were as summarised below:

	Measured at equity	Measured at cost	Total
Equity investments:			
in non-consolidated subsidiaries	–	563	563
in joint ventures	133,347	349	133,696
in associates	13,155	–	13,155
in other companies	–	491	491
Total	146,502	1,403	147,905

A breakdown of the equity investments has been given in the schedules showing the scope of consolidation.

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

The “Other non-current financial assets” of EUR 39,086 thousand (EUR 38,943 thousand at 31 December 2015) mainly consist of receivables from contribution pursuant to Law 488/92, pertaining to wind farms acquired as part of the ERG Wind transaction, which are restricted in the dedicated Escrow Account established by Article 61, Paragraph 23, of Italian Law Decree no. 112/2008 (converted by Law no. 133/2008) and awaiting the decision of the Court of Avellino, amounting to EUR 32 million. Pending the ruling, the Ministry of Economic Development revoked the contributions pursuant to law 488/92 which had been assigned to the beneficiary companies, with decrees notified respectively on 29 October and 3 November 2014. An extraordinary appeal was promptly filed against the cancellation decrees, with a request for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension request and on the merits of the appeal. Pending this appeal, on 27 July 2015, the payment forms were served to the company against which the ERG Wind company’s appeal before the Court of Genoa, submitting a further appeal for precautionary suspension. The appeal was accepted, therefore suspending the efficacy of the payment forms, subject to submission of appropriate bank guarantees by the appellant companies. In view of the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 Financial Statements within the definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 19 -Other non-current liabilities**).

The item also includes a financial receivables from subsidiaries which are not consolidated on a line by line basis of EUR 0.3 million, financial receivables from third parties from disposal of equity investment (EUR 1.8 million) and security deposits.

NOTE 6 - DEFERRED TAX ASSETS

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis and on the tax losses that can be carried forward. The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (27.5% or 24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.90% - 5.12%). Deferred tax assets at 30 June 2016 amounting to EUR 168,866 thousand

(EUR 173,026 thousand at 31 December 2015) were mainly recognised over derivative financial instruments, provisions for liabilities and charges as well as the reportable tax losses of the period, and they are deemed recoverable also considering the expected future taxable income in the medium term, and the surplus ACE [Aiuto Crescita Economica - Economic Growth Assistance] which has accrued but has not yet been used. In addition, deferred tax assets relating to excess interest expenses that can be carried forward, amounting to approximately EUR 45 million, referred to the ERG Wind Group, acquired in 2013, were not recognised in the financial statements.

NOTE 7 - OTHER NON-CURRENT ASSETS

Other non-current assets amounting to EUR 51,933 thousand (EUR 42,876 thousand at 31 December 2015) 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 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 19**);
- tax receivables relative to VAT (EUR 16 million).

NOTE 8 - INVENTORY

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

	30.06.2016	31.12.2015
Customer trade receivables	422,489	348,774
New loans to Group companies not consolidated line by line	3,929	2,324
Bad debt provision	(7,022)	(7,648)
Total	419,396	343,450

The item mainly includes the receivables for environmental certificates, incentives and for the sale of electricity to third parties and sale of utilities to operators at the Priolo plant.

The increase is due mainly to the incentives relative to the first half of 2016 still to be collected. For information concerning related-party receivables, reference is made to **Note 38 – Related parties**.

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

The bad debt provision is deemed to be sufficient to address the risk of potential non-collectability of overdue receivables.



NOTE 10 - OTHER CURRENT RECEIVABLES AND ASSETS

	30.06.2016	31.12.2015
Tax receivables	50,337	52,662
Group VAT receivables from TotalErg Group	50,576	10,141
IRES receivables from tax consolidation from TotalErg Group	–	2,607
Advances to suppliers and deferred costs	31,967	29,479
Sundry receivables	16,727	13,932
Total	149,607	108,821

Tax receivables mainly comprise VAT and income taxes receivables.

“Sundry receivables” comprise, inter alia, receivables from Group companies not consolidated line by line and the portions of deferred costs in subsequent periods. The item also includes receivables 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 transactions and revoked by the Ministry of Economic Development as commented more thoroughly in **Note 20**, to which reference is made for additional details.

NOTE 11 - CURRENT FINANCIAL ASSETS

	30.06.2016	31.12.2015
Financial receivables from ERG Petroleos S.A.	8,746	8,620
Other short-term financial receivables	9,235	84,241
Total	17,980	92,861

The decrease in this item refers mainly to the collection in the period of a receivable belonging to the subsidiary from the previous parent company amounting to EUR 75 million, as part of the acquisition operation described under paragraph **Acquisition of Italian hydroelectric assets from E.ON of 527 MW** in the 2015 financial statements.

At 30 June 2016 the item includes also financial receivables from third parties for the development of wind farms abroad amounting to EUR 3.5 million.

NOTE 12 - CASH AND CASH EQUIVALENTS

	30.06.2016	31.12.2015
Bank and postal deposits	360,219	768,371
Cash and notes on hand	7	2,193
Total	360,226	770,564

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 the Group works with. The item includes the amount in the accounts of ERG Power S.r.l. and the companies belonging to the ERG Renew Group according to the restrictions on use set forth in the relative project financing.

Regarding restrictions on the cash and cash equivalents, please refer to **Note 25 – Covenants and negative pledge** herein and **Note 26** of the 2015 Consolidated Financial Statements.

At 30 June 2016, the liquidity subject to the different restrictions prescribed by Project Financing agreements amounted to approximately EUR 136 million (EUR 144 million at 31 December 2015).

The lesser liquidity is due to acquisitions of wind farms in France and Germany.

NOTE 13 - GROUP SHAREHOLDERS' EQUITY

Share Capital

Fully paid-in share capital at 30 June 2016 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2015).

At 30 June 2016, the parent Company's Shareholders Register, relative to holders of significant interests, shows the following:

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

At 30 June 2016, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

On 3 May 2016, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 24 April 2015, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million sixty four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code,



for 12 months as from 3 May 2016, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale and in any case no lower than the per-share value of the Company's equity as reported by the latest approved financial statements.

At 30 June 2016 ERG S.p.A. held 7,516,000 treasury shares, amounting to 5.0% of the share capital.

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

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

Other Reserves

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

NOTE 14 - MINORITY INTERESTS

Minority interests arise from the line-by-line consolidation of the following companies that have other shareholders:

	% of minority shareholders	Minority shares
ERG Renew S.p.A.	7.14%	52,366
Total		52,366

Lastly, within the agreements for the acquisition of the ERG Wind Group a put and call option on the remaining 20% of the capital was provided, which could be exercised no earlier than three years after the closing date. In consideration of the terms of the option and of the method for calculating its exercise price, for purposes of prior financial statement, the acquisition of the minority shares was assumed to be certain, with the consequent inclusion of minority shares in the Group's equity.

This option was exercised in April 2016.

NOTE 15 - EMPLOYEES' SEVERANCE INDEMNITIES

This item, totalling EUR 6,384 thousand (EUR 5,512 thousand at 31 December 2015), includes the estimated liability relating to the severance indemnities payable to employees when they terminate their employment.

NOTE 16 - 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 (27.5% or 24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.9% - 5.12%).

The deferred taxes at 30 June 2016 of EUR 281,542 thousand (EUR 254,676 at 31 December 2015), were allocated mainly on the capital gains from the business combinations and tax amortisations which exceeded the economic - technical amortisations.

NOTE 17 - PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

	30.06.2016	Increases	Decreases	Reclassifications	Change in scope of consolidation	31.12.2015
Dismantling provisions	36,685	3,341	–	–	4,779	28,565
Priolo site provision	80,809	–	(644)	1,106	–	80,346
Other provisions	9,713	817	(144)	–	204	8,836
Total	127,207	4,158	(788)	1,106	4,983	117,747

The provisions for non-current liabilities and charges and liabilities which refer to:

- the Priolo site as commented in further detail under **Note 26 - Contingent liabilities and disputes**, which are mainly consequent to the exit from the Oil sector;
- expenses for the restoration of the site on which the wind farms recognised against major tangible fixed assets operate.

The increases for the period referred to the expenses for the restoration of the farms located in Poland which entered into operation during 2016.

The decreases during the period mainly refer to use is against expenses incurred for the period relative to the refining operations of previous years.

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

NOTE 18 - NON-CURRENT FINANCIAL LIABILITIES

	30.06.2016	31.12.2015
Medium/long-term mortgages and loans	667,401	694,573
- current portion of medium/long-term loans	–	–
	667,401	694,573
Medium/long-term Project Financing	1,284,907	1,284,578
- current portion of Project Financing	(124,151)	(144,718)
	1,160,756	1,139,860
Other medium/long-term financial payables	166,474	153,396
Total	1,994,631	1,987,829

Medium/long-term mortgages and loans

The mortgages and loans at 30 June 2016 total EUR 667.4 million (EUR 694.6 million at 31 December 2015), and they refer to:

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

The loans are presented net of commission cost and other ancillary costs totalling EUR 8.5 million. These costs were recognised according to the amortized cost method in application of IAS 39 against an amount of EUR 0.9 million.

At 30 June 2016 the weighted average interest rate on mortgages, loans and project financing was 1.55% (1.52% at 31 December 2015). The rate indicated does not take into account interest rate hedges.

Medium/long-term Project Financing

The following tables show the main characteristics of existing Project Financing at 30 June 2016:

			ASSOCIATED PROJECT FINANCING			
Company	Wind Farm / Thermoelectric Plant	Net carrying amount of the asset	Carrying value of the financial liability	Throughput / Expiration		Hedge
ERG Wind Investments	ERG Wind Group wind farms	430,588	510,186	2008	2022	IRS: average fixed rate 4.46%
ERG Eolica Adriatica	Rotello - Ascoli Satriano	140,650	118,940	2009	2022	IRS: fixed rate 4.85%
ERG Eolica Fossa del Lupo	Fossa del Lupo	122,245	88,810	2012	2025	IRS: fixed rate 2.26%
ERG Eolica Campania	Bisaccia 2 - Foiano - Molinara - Baselice - Lacedonia 2	90,967	51,428	2009	2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Ginestra	63,348	32,040	2010	2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Amaroni	33,926	24,967	2013	2026	IRS: fixed rate 1.68%
Green Vicari	Vicari	25,023	15,720	2008	2019	IRS: fixed rate 2.235%
ERG Eolica Faeto	Faeto	18,919	18,946	2007	2021	IRA from 1 January 2016 fixed rate 2.13%
Eoliennes du Vent Solaire	Plogastel Saint Germaine (France)	4,950	5,497	2011	2025	Fixed rate loan
Parc Eolien les Mardeaux	Les Mardeaux (France)	2,634	3,676	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil	Hetomesnil (France)	2,762	2,996	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus	Lihus (France)	2,859	2,831	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de la Bruyere	La Bruyere (France)	2,558	2,580	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien du Carreau	Carreau (France)	2,166	2,634	2005	2019	IRS: average fixed rate 5.39%
ERG Eolica Basilicata	Palazzo San Gervasio	40,824	38,009	2010	2031	IRS: fixed rate 2.77%
EW Orneta 2 SPZ.O.O.	Radziejów (Poland)	57,505	37,906	2015	2029	IRS: fixed rate 1.46%
K & S Energy EOOD	Kavarna/Hrabovo (Bulgaria)	52,820	25,000	2012/13	2018	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
ERG Power	CCGT plant	343,381	134,230	2010	2021	IRS: fixed rate 2.77%
Parc Eolien Du Patis S.a.s.	Jallais (France)	8,633	7,795	2013	2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Secqueville S.a.s.	Caen Garcelles (France)	8,368	6,893	2007	2023	IRS: fixed rate 3.75%
SAS Societ� de exploitation du P.E. de la Souterraine	La Souterraine (France)	9,199	7,458	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur S.a.s.	Oyr� (France)	13,079	10,576	2014	2029	40% fixed rate loan
Parc Eolien St Riquier 1 S.a.s.	St Riquier 1 (France)	11,335	11,170	2009	2027	Fixed rate loan
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Frehne I & II (Germany)	17,273	13,833	2013	2030	fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Achmer Vinte (Germany)	3,777	7,688	2006	2021	Fixed rate loan
Windpark Cottbuser Halde GmbH & Co. KG	Cottbus (Germany)	26,392	22,754	2007	2025	Fixed rate loan
Parc Eolien Chaude Vall�e S.a.r.l.	Chaude Vall�e (France)	12,640	12,984	2011	2027	85% fixed rate loan
Parc Eolien Hauts Moulins S.a.r.l.	Hauts Moulins (France)	13,620	13,007	2012	2028	86% fixed rate loan
Parc Eolien de Morvillers S.a.r.l.	Morvillers (France)	13,572	13,691	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S.a.r.l.	Moulins des Champs (France)	13,522	12,892	2012	2028	85% fixed rate loan
Parc Eolien de St Riquier 3 S.a.s.	St Riquier 3 (France)	16,712	15,000	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	St Riquier 4 (France)	14,369	12,768	2014	2028	Fixed rate loan
Total			1,284,907			

For further details relative to the new project financing compared to the 2015 Consolidated Financial statements, please see **Note 25 – Covenants and negative pledge**.

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

	Mortgages and loans	Project Financing
by 30.06.2017	–	124,151
by 30.06.2018	–	140,806
by 30.06.2019	117,250	159,902
by 30.06.2020	242,250	158,330
by 30.06.2021	307,901	701,718
later than 30.06.2021	–	
Total	667,401	1,284,907
	30.06.2016	31.12.2015
Secured by Group tangible assets		
with maturities up to June 2021	1,284,907	1,297,324
Not secured		
with maturities up to June 2021	667,401	13,583
Total	1,952,308	1,310,907

Please also refer to **Note 25 – Covenants and negative pledges** herein and **Note 26** of the 2015 Consolidated Financial Statements.

Other medium/long-term financial payables

Other medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 166 million (EUR 153 million at 31 December 2015), whose details are provided below:

	Issuing bank	Contract	Maturity	Payable for fair value	
(EUR thousand)				30.06.2016	31.12.2015
ERG Wind Investment Ltd.	RBS	IRS	31/12/22	(56,081)	(54,873)
ERG Wind Investment Ltd.	BOS	IRS	31/12/22	(41,990)	(41,077)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(9,162)	(9,254)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(9,162)	(9,254)
ERG Eolica Adriatica S.r.l.	RBS	IRS	15/06/22	(9,162)	(9,254)
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(3,120)	(2,643)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(2,683)	(2,273)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(2,059)	(1,744)
ERG Eolica Campania S.p.A.	RBS	IRS	31/05/20	(1,396)	(1,572)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(1,533)	(1,439)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(1,533)	(1,439)
ERG Eolica Ginestra S.r.l.	Barclays	IRS	30/06/25	(1,533)	(1,439)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(851)	(602)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/26	(851)	(602)
Green Vicari S.r.l.	BNL	IRS	30/06/19	(149)	(319)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(547)	(537)
ERG Eolica Faeto S.r.l.	UniCredit	IRS	31/12/21	(547)	(537)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(148)	(179)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(154)	(187)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(139)	(169)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(145)	(176)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(142)	(173)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(148)	(180)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(149)	(181)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(155)	(188)
Parc Eolien du Carreau S.a.s.	HSH	IRS	30/12/19	-	(54)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30/06/31	(1,245)	(584)
ERG Eolica Basilicata S.r.l.	Credit Agricole	IRS	30/06/31	(1,245)	(584)
EW Ormeta 2 SPZ.O.O.	ING	IRS	31/12/29	(280)	(49)
EW Ormeta 2 SPZ.O.O.	Bank Pekao	IRS	31/12/29	(280)	(49)
K & S Energy EOOD	Raiffeisen Bank	IRS	31/12/18	(456)	(495)
K & S Energy EOOD	Raiffeisen Bank	IRS	31/12/18	(114)	(118)
Corni Eolian S.A.	Raiffeisen Bank	IRS	31/12/25	-	(1,478)
Corni Eolian S.A.	ING	IRS	31/12/25	-	(1,478)
ERG Power S.r.l.	BNP Paribas BNL	IRS	31/12/21	(2,254)	(2,390)
ERG Power S.r.l.	IntesaSanpaolo	IRS	31/12/21	(2,254)	(2,390)
ERG Power S.r.l.	Credit Agricole	IRS	31/12/21	(1,806)	(1,915)
ERG Power S.r.l.	Santander	IRS	31/12/21	(358)	(380)
ERG Power S.r.l.	Centrobanca	IRS	31/12/21	(358)	(380)
ERG Power S.r.l.	ING	IRS	31/12/21	(358)	(380)
ERG S.p.A.	ING	IRS	06/08/20	(602)	(60)
ERG S.p.A.	BNP Paribas BNL	IRS	06/08/20	(580)	(37)
ERG S.p.A.	UniCredit	IRS	06/08/20	(607)	(64)
ERG S.p.A.	Barclays	IRS	06/08/20	(570)	(28)
ERG S.p.A.	IntesaSanpaolo	IRS	06/08/20	(603)	(60)
ERG S.p.A.	Credit Agricole	IRS	06/08/20	(616)	(73)
ERG S.p.A.	Natixis	IRS	06/08/20	(607)	(64)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(365)	-
ERG S.p.A.	Mediobanca	IRS	15/03/21	(2,946)	-
ERG S.p.A.	UniCredit	IRS	21/04/21	(572)	-
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	02/08/27	(369)	-
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	30/07/27	(375)	-
Parc Eolien de Garcelles Secqueville S.a.s.	Nord LB	IRS	30/06/23	(927)	-
SAS Societ� de exploitation du P.E. de la Souterraine	Credit Cooperatif	IRS	29/12/28	(927)	-
Parc Eolien de Oyre Saint Sauveur S.a.s.	Natixis	IRS	01/07/29	(584)	-
Parc Eolien St Riquier 1 S.a.s.	Saar	IRS	31/12/24	(198)	-
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Commerzbank	IRS	31/12/29	(341)	-
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Commerzbank	IRS	31/12/30	(139)	-
Total				(166,474)	(153,396)

NOTE 19 - OTHER NON-CURRENT LIABILITIES

	30.06.2016	31.12.2015
Liability from minorities conditioned sale option	88,000	88,000
Wind Group acquisition price	9,821	9,821
Payables for prior taxes from foreign company mergers	18,594	18,594
Portions of income deferred in subsequent periods	1,682	1,806
Payables due to employees	1,025	684
Other minor entries	4,553	3,953
Total	123,675	122,858

The other non-current liabilities, amounting to EUR 123,675 thousand (EUR 122,858 thousand at 31 December 2015), mainly comprise the liability connected with the valuation of the conditioned sale option granted to minorities within the scope of the ERG Renew S.p.A. capital increase of 16 January 2014, as further commented under the paragraph

Minorities option.

NOTE 20 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	30.06.2016	Increases	Decreases	Reclassifications	Change in scope of consolidation	31.12.2015
Provision for interest and revaluation under Law 488/1992	15,057	–	–	–	–	15,057
Provision for restructuring and similar	1,270	–	(647)	–	–	1,917
Provision for legal and tax risks	9,323	277	(677)	–	40	9,683
Provision for environmental risks	441	–	–	–	–	441
Provision for equity investments	5,672	–	–	–	–	5,672
Provision for miscellaneous Oil business expenses	1,051	–	(372)	–	–	1,423
Provision for risks concerning contingent expenses of foreign companies	9,005	–	–	–	–	9,005
Provision for risks ERG Nuove Centrali S.p.A.	3,985	–	–	–	–	3,985
Provisions for hydroelectric sector risks	1,224	–	(1,060)	–	–	2,284
Other provisions	4,989	1,173	(25)	(1,106)	529	4,418
Total	52,019	1,450	(2,780)	(1,106)	569	53,886

Provisions for current liabilities and charges amounted, at 30 June 2016, to EUR 52,019 thousand (EUR 53,886 thousand at 31 December 2015) and they comprise:

- the provision for expenses tied to interest and revaluations on the contributions under Italian Law 488/1992 (EUR 15.1 million) relating to wind farms acquired within the scope of the ERG Wind transactions and revoked by the Ministry of Economic Development as commented more thoroughly in **Note 5**. It is hereby noted that the risks connected to the revocation of the aforementioned contributions are covered in the ERG Wind acquisition agreements by specific indemnification obligations issued by the seller and therefore we have allocated the relative credit in "Other current assets";

- the restructuring and similar provisions (EUR 1.2 million) refer to costs relating to the initiated personnel redundancy procedures and to the costs for restructuring the asset portfolio;
- the "Provision for legal risks" (EUR 9.3 million) related to risks arising from ongoing legal disputes;
- the provision for environmental risks (EUR 0.4 million) pertaining to reclamation costs;
- the "Provision for equity investments" (EUR 5.7 million) refers mainly to the subsidiary ERG Petroleos, which is no longer operational and under liquidation;
- the provision for miscellaneous oil business expenses (EUR 1.1 million) mainly refers to demurrage and ancillary freight expenses which are relative to the former Supply & Trading business;
- the provision for contingent risks of foreign companies (EUR 9.0 million) refers to contingent risk concerning Romania;
- the provision for risks (4.0 million) concerning contingent expenses of foreign companies for settlement of prior period expenses and disputes from the operation of now dismantled plants;
- the provision for hydroelectric sector risks (EUR 1.2 million) refers to various expenses inherent in the operations of ERG Hydro S.r.l.;
- the other provisions for risks and charges mainly refer to expenses considered to be probable as part of business relations and expenses considered to be probable for service rights payable to Municipalities.

The increases during the period refer mainly to legal items referring to the wind farm business itself.

Decreases during the period refer mainly to the usage of the provisions:

- for strategic restructuring of the Group and staff redundancy procedures (EUR 0.6 million),
- relative to prior period disputes (EUR 0.8 million),
- referring to the former oil business (EUR 0.4 million).

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

NOTE 21 - TRADE PAYABLES

	30.06.2016	31.12.2015
Trade payables	128,681	162,055
Payables to Group companies not consolidated line by line	(8)	46
Total	128,673	162,101

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



NOTE 22 - CURRENT FINANCIAL LIABILITIES

	30.06.2016	31.12.2015
Short-term bank borrowings	93,790	110,028
Other short-term financial payables		
Current portion of medium/long-term bank borrowings	–	–
Short-term Project Financing	124,151	144,718
Other financial payables	5,756	68,705
	129,907	213,423
Total	223,697	323,451

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

- at 30 June 2016, short-term borrowings amounted to 16% of total credit lines granted (17% at 31 December 2015);
- the average drawn on the short-term credit lines during the year was 13% of the total amounts granted (16% at 31 December 2015);
- these lines are revocable and unsecured;
- at 30 June 2016, the weighted average interest rate on short-term borrowings was 0.18% (0.20% at 31 December 2015).

It is hereby specified that the decrease in other financial payables is connected to payment in the half year of the percentages of the balances relative to the estimated consideration for the ERG Hydro operation, against corresponding higher liquidity levels upon acquisition, which took place at the end of 2015.

NOTE 23 - NET FINANCIAL POSITION

(EUR thousand)	Notes	30.06.2016	31.12.2015
Medium/long-term bank borrowings	18	667,401	694,573
- Current portion of mortgages and loans	18, 22	–	–
Medium/long-term financial payables	18	166,474	153,396
Total		833,875	847,969
Medium/long-term Project Financing	18	1,284,907	1,284,578
- current portion of Project Financing	18, 22	(124,151)	(144,718)
Total		1,160,756	1,139,860
Medium/long-term financial indebtedness/ (Medium/long term financial assets)		1,994,631	1,987,829
Short-term bank borrowings	22	93,790	110,028
Short-term financial debts	22	5,756	68,705
Total		99,546	178,733
Cash and cash equivalents	12	(224,172)	(670,772)
Securities and other short-term financial receivables	11	(17,980)	(92,861)
Total		(242,152)	(763,633)
Short-term Project Financing	18, 22	124,151	144,718
Cash and cash equivalents	12	(136,054)	(99,792)
Total		(11,903)	44,926
Net short-term financial indebtedness/ (Short-term financial assets)		(154,509)	(539,974)
NET FINANCIAL POSITION		1,840,122	1,447,855

Net financial indebtedness amounted to EUR 1,840 million, up by EUR 392 million compared to 31 December 2015, mainly by effect of the following impacts and the cash flow of the period:

- +EUR 293 million relative to the Impax **acquisition**
- +EUR 143 million relative to distribution of dividends by shareholders
- - EUR 44 million of cash flow during the period net of the investments and changes in operating capital.

Net financial indebtedness includes financial liabilities related to the fair value of interest rate hedging derivatives, amounting to approximately EUR 166 million (EUR 153 million at 31 December 2015).



NOTE 24 - OTHER CURRENT LIABILITIES

	30.06.2016	31.12.2015
Excise duties payable to tax authorities	87,106	26,088
Payables due to employees	6,031	10,252
Payables due to social security institutions	4,123	5,345
Payables for tax consolidation to TotalErg S.p.A.	2,235	13,533
Other current liabilities	13,683	17,111
Total	113,178	72,330

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

It is hereby noted that in the first half of 2016 taxes were paid, net of offsetting, of approximately EUR 0.8 million in settlement of 2015 and as an advance for 2016. We moreover note that approximately EUR 7.9 million were paid to TotalErg and subsidiaries as part of the tax consolidation agreements, in remuneration of the losses brought forward and used.

NOTE 25 - COVENANTS AND NEGATIVE PLEDGES

Regarding the covenants and negative pledges, at 30 June 2016 we note the following new items with respect to the information provided in **Note 26** of the 2015 Consolidated Financial statements.

Corporate acquisition loan ERG S.p.A.

ERG S.p.A. has the following loans outstanding:

- Syndicated corporate acquisition loan stipulated on 07.08.2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (Unicredit, IntesaSanpaolo, BnpParibas, Credit Agricole, Ing, Natixis, Barclays);
- bilateral corporate loan with UBI Banca spa, stipulated on 26.02.2016;
- bilateral corporate loan with Mediobanca spa, stipulated on 11.03.2016;
- bilateral corporate loan with Unicredit spa, stipulated on 21.04.2016.

The loan contracts indicated above provide for the following financial covenant, and failure to comply with the latter will constitute an "event of default" pursuant to the relative financing agreements.

The net financial indebtedness and gross operating margin (NET DEBT/EBITDA) ratio referring to the Consolidated Financial Statements of the ERG Group must be lower or equal to 4.50 beginning from 31.12.2016, with values progressively decreasing up to the final value of 3.75 at 31.12.2020, according to the following scale which corresponds to the respective calculation dates:

- 4,50 at 31.12.2016 and 30.06.2017:
- 4,25 at 31.12.2017 and 30.06.2018:
- 4,00 at 31.12.2018 and 30.06.2019:
- 3,75 at 31.12.2019; 30.06.2020; 31.12.2020.

In the event that the covenants are not complied with, the contracts provide the borrower with the possibility of intervening with an "equity cure" which will be taken under consideration as a reduction of the net financial indebtedness. The contract also provides for a standard negative pledge for loan contracts of a similar type, prohibiting the usage of any third party lenders' assets as guarantees.

Loan granted in December 2013 to Corni Eolian S.A.

On 4 May 2016, the Corni Eolian S.A. loan was extinguished early.

Loan acquired as part of the Impax Asset Management Group business combination

Loan taken out by [Parc Eolien de Garcelles-Secqueville S.a.s.](#) from Norddeutsche Landesbank on 19 March 2007, expiring on 30 June 2023.

- Calculation of a specific financial covenant is not envisaged.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- As no calculation is envisaged for a specific financial covenant, the only condition required in order to proceed to the distribution is that the DSRA (Debt Service Reserve Account) be fully constituted.

Loan taken out by [Parc Eolien de la Chaude Vallée S.a.r.l.](#) from Natixis and Bpfrance on 7 October 2011, expiring on 30 September 2027.

- The main financial covenant is the DSCR (debt service coverage ratio) which historically must exceed 1.05. Failure to comply with the minimum DSCR value constitutes a default event in terms of the loan.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- A main condition underlying distribution is that the DSCR be higher than 1.15.

Loan taken out by [Parc Eolien Hauts Moulins S.a.r.l.](#) from Landesbank Baden-Württemberg on 13 June 2012, expiring on 30 November 2028.

- The main financial covenants are 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 du Pâtis S.a.s.** from Le Crédit Coopératif on 14 June 2013, expiring on 31 July 2027.

The main financial covenants are:

- the DSCR (debt service coverage ratio) which historically must exceed 1.05;
- the outstanding debt/equity ratio (shareholders' equity + shareholder loans) 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 Le Crédit Coopératif on 11 October 2013, expiring on 31 December 2028.

The main financial covenants are:

- the DSCR (debt service coverage ratio) which historically must exceed 1.05.
- the outstanding debt/equity ratio (shareholders' equity + shareholder loans) must be higher than or equal to 82.35/17.65.

Failure to comply with either covenant constitutes a default event in terms of the loan.

- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by **Parc Eolien de Morvillers S.a.r.l.** from Natixis and Bpfrance on 23 August 2012, expiring on 30 November 2027.

- The main financial covenants are the DSCR (debt service coverage ratio) which historically must exceed 1.05. Failure to comply with the minimum DSCR value constitutes a default event in terms of the loan.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- A main condition underlying distribution is that the DSCR be higher than 1.15.

Loan taken out by **Parc Eolien Moulins des Champs S.a.r.l.** from Landesbank Baden-Württemberg on 13 June 2012, expiring on 30 November 2028.

- The main financial covenants are 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 any 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 S.a.s.](#) 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 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 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 on 30 December 2030.

- The main financial covenant is the DSCR (debt service coverage ratio) which historically must exceed 1.05 and exceed 1.10 on a perspective 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 - Debt Service Reserve Account higher than 1.10 fully constituted.

NOTE 26 - CONTINGENT LIABILITIES AND DISPUTES

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

Priolo Site

As indicated in the 2013 Financial Statements, on 30 December 2013 ERG S.p.A. had sold the final share held in ISAB S.r.l., definitively exiting the Coastal Refining business.

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

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

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it should be recalled that on 6 April 2011 the Provincial Tax Commission of Siracusa partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, declaring them from 2007 onwards. The first degree decision was challenged within the deadline by the Inland Revenue Agency with appeal relative to the period subsequent to 2006. During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments. The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG. Following a thorough evaluation of the reasons for the appeal decision, the company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of "harbour" in accordance with Italian Law 84/94 and to the alleged novating or retroactive validity of Article 1, Paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Regional Tax Commission of Siracusa allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. The date of the hearing has not yet been set. Starting from 2007, the related taxes had already been recognised in the Consolidated Income Statement under the accrual basis, while no provision had been made for the years from 2001 to 2006.
- with reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, in that the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and LUKOIL.

With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site), and by the agreement executed with LUKOIL (new owner), the risk is



as follows: (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 – 1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable. The following limitations apply to ERG's contractual liability to LUKOIL: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and in case of uncertain identification of the period to which the potential damage is referred, a time shift until 2018 is applied.

The agreement with LUKOIL prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). Up to EUR 33.4 million, the costs shall be divided between ERG and LUKOIL (51% and 49%).

- with reference to the **site commercial transactions**, there are both receivables and payables, mainly related to supplies of petroleum products and utilities pertaining to previous years.

At the time of preparation of these Financial Statements, the Management of the Group, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, noting the substantial absence of new elements and confirming, therefore, the appropriateness of the measurements made previously. At 30 June 2016, therefore, the provision for liabilities is deemed adequate and only a partial use is reported, amounting to approximately EUR 0.6 million, plus an increase of approximately EUR 1 million connected to the reclassification of lesser funds, also connected to site issues.

TotalErg

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

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

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

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

Moreover, on the same date TotalErg received a Report on Findings for alleged tax irregularities pertaining to Total

Italia for the years 2007, 2008, 2009, of a substantially similar nature and amount, for each year, to those referenced above, hence referred to periods prior to the establishment of the TotalErg joint venture.

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

On **26 June 2015** in its capacity as the tax consolidating entity, ERG S.p.A. and TotalErg S.p.A., in its capacity as the consolidated entity (formerly ERG Petroli S.p.A.), were served an assessment notice for IRES for tax year 2007. TotalErg S.p.A. was served an assessment notice for IRAP and VAT for the same year.

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

On **6 July 2015** assessment notices for IRAP, IRES and VAT referring to 2007, 2008 and 2009 were served to TotalErg S.p.A., in its capacity as the incorporating entity of Total Italia S.p.A.

Compared to the specific comments made in the official tax audit report of 6 August 2014 served to TotalErg S.p.A. which amounted to EUR 2,864 million of non-deductible costs, the assessment notices considerably reduce the amount in this case as well, to approximately EUR 6 million.

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

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

In consideration of the above, no liabilities were recognized.

At the date that this document was published, no assessment notice had been served to the company for 2010, the year for which the aforementioned assessment notice of 6 August 2014 included disputes similar to those indicated above and referring mainly to the period prior to the constitution of the joint venture, covering assets belonging mainly to Total Italia.

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

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

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

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

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

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

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

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

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

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

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

ERG Eolica Ginestra

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

Tremonti ter, proposing that IRES taxation be applied again for 2010 on 50% of the investments on which the company had received a tax benefit.

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

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

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

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

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

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

Law 488/92 contributions by ERG Wind

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

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

During 2007, the confiscation of the Law 488 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. Subsequently, following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010 the wind farms which have been under precautionary attachment were released, upon attachment of the aforementioned amounts. These amounts were then transferred to the Single Guarantee Fund.

In March and April 2014, the companies that were the recipients of the 488 incentives received from the Ministry of Economic Development the orders communicating the initiation of the procedures for the revocation of the aforementioned incentives.

On 6 February 2015, the Ministry of Economic Development was served extraordinary appeals by the companies appealing before the Council of State including a request of stay and cautionary suspension of the efficacy of the appealed orders. On 7 October 2015, the Council of State responded with a merely interlocutory ruling without making any decision regarding suspension of the revocation orders.

On 27 July 2015, the companies were served the payment notices against which civil proceedings for the defence were initiated which are currently in the investigation phase. As part of these proceedings, on 18 September 2015, the Civil Judge ruled the tax assessment suspended against the submission of a bank guarantee for the entire value of the latter (EUR 44 million). The ruling is expected by the end of the year at the latest. In order to avoid the civil

proceeding being concluded at first instance prior to the issuing of the ruling by the Council of State, jurisdiction was questioned and consequently suspension of the civil proceedings was obtained until the ruling by the Court of Cassation regarding jurisdiction in the last months. It is expected that the Court of Cassation will require one and a half years before pronouncing its ruling (October - December 2017).

Given the lack of a ruling by the Council of State and in consideration of the acceleration of the civil proceedings, on 10 March 2016 an arbitration was initiated against the Seller, given the repeated negation by the latter of the relative indemnification obligations pursuant to the contract. The arbitrators of the parties involved have been appointed and, on 27 July 2016, the President of the board of arbitrators was appointed.

It is hereby reiterated that the risks connected to the revocation of the aforementioned grants are covered in the ERG Wind acquisition agreements by specific indemnification obligations provided by the seller: in consideration of the aforementioned agreements, a liability equal to the amount of the aforementioned receivables was allocated in the 2013 financial statements as part of the definition of the purchase price allocation as a potential adjustment to that consideration for the acquisition of the ERG Wind Group (**Note 19 – Other Non-current liabilities**).

In consideration of the guarantees described and based on the amounts recognized in previous years, additional provisions are not required to be made.

ERG Wind Investments Tax Audit

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

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

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

Following the proceedings initiated against Provincial Division I of Rome and the documentation produced, the comment made within the PVC regarding failure to apply withholding on interest paid to non-resident individuals as part of the existing project financing of EUR for 14 million was removed.

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

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

To date, no date has been set for the hearing. It is furthermore noted that against the tax assessment ERG Renew S.p.A. has activated the guarantee under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie declared that the assessment can be considered as a "Seller Driven Matter"²⁰ only for the 2010 and 2011 tax periods.

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

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

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

ERG Wind Holdings (Italy) Tax Audit

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

From the aforementioned investigation, except for certain comments of an insignificant amount, only one comment emerged regarding registration tax referring to an extraordinary transaction that took place in 2012 relative to the transfer of business units consisting of electricity production plants (held on the basis of business leases) from 16 UK LLPs to ERG Wind Energy S.r.l. and subsequent assignment to the two shareholders (two UK Ltd. companies) of the equity investment in ERG Wind Energy S.r.l..

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

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

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

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

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

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

No hearing date has been set yet.

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

It is furthermore noted that against the tax assessment in issue, ERG Renew S.p.A. has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie has confirmed that the assessment can be considered to be a "Seller Driven Matter"²¹.

²¹ Engie recognizes its liability based on the aforementioned Share and Purchase Agreement.

INCOME STATEMENT ANALYSIS

It is hereby specified that the comparison with the first half of 2015 is influenced by the following results:

- the French wind farms acquired from Macquarie European Infrastructure Fund in July 2015;
- the commissioning of the wind farms in Poland between the third quarter of 2015 and the first quarter of 2016;
- ERG Hydro S.r.l., acquired in December 2015;
- the wind farms in Bulgaria and Romania, the financial contribution of which is consolidated on a line by line basis from 1 January 2016 following the winding up of the LUKERG Renew GmbH joint venture at the end of 2015;
- the wind farms in France and Germany acquired in February 2016 from Impax Asset Management Group.

NOTE 27 - REVENUES FROM ORDINARY OPERATIONS

	1 st half 2016	1 st half 2015
Revenues from sales	526,174	482,186
Revenues from services	4,003	2,661
Total	530,177	484,847

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

	1 st half 2016	1 st half 2015
Wind power sector	244,455	182,332
Thermoelectric sector	224,317	301,807
Hydroelectric sector	60,675	–
Corporate	730	708
Total	530,177	484,847

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

- the sales of **electricity** produced by the wind farms and thermoelectric installations and, from December 2015, the hydroelectric plants, as well as sales on organised markets through physical bilateral agreements. The electricity is sold on wholesale, channels to industrial operators of the Priolo Site and 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 during the half year of the wind farms in operation which belong to the ERG Renew Group and the ERG Hydro hydroelectric plants. The incentive development mechanism in Italy

which represents almost all the Group's revenue for Green Certificates, is calculated at the price of EUR 100.1/MWh determined on the basis of the presumable realisable value. With reference to the regulations pertaining to incentives, please refer to the paragraph Preparation criteria.

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

The following table shows the breakdown of revenues from sales:

	1 st half 2016	1 st half 2015
Sales to Group companies not consolidated line by line	5,055	6,358
Sales to third parties	521,119	475,828
Total	526,174	482,186

NOTE 28 - OTHER REVENUES AND INCOME

	1 st half 2016	1 st half 2015
Indemnifications	410	633
Expense recoveries	199	167
Capital gains on disposals	1	105
Non-recurring income	1,236	527
Other revenues	6,268	3,312
Total	8,114	4,744

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

NOTE 29 - CHANGES IN RAW MATERIALS INVENTORIES

The changes in raw material inventories, relative to the spare parts which are recognised at the lower of the cost calculated using the weighted average cost method and the market value equal +EUR 1.9 million (EUR 0.8 million in the first half of 2015).

NOTE 30 - COST OF PURCHASES

The amount for the first half of 2016 is equal to EUR 133 million (EUR 212 million in the first half of 2015) and refer mainly to the purchase of electricity from GME and gas from Edison and Gazprom S.p.A. The decrease is mainly connected to lower costs for the purchase of gas and electricity.

NOTE 31 - COSTS FOR SERVICES AND OTHER COSTS

	1 st half 2016	1 st half 2015
Service costs	79,342	49,639
Rents and leases	15,592	8,049
Write-downs of receivables	–	2,581
Accruals of provisions for liabilities and charges	1,418	836
Duties and taxes	3,646	4,800
Other operating expenses	4,091	1,842
Total	104,089	67,747

The breakdown of **Service costs** was as follows:

	1 st half 2016	1 st half 2015
Commercial, distribution and transportation costs	16,121	6,038
Repairs and maintenance	15,197	9,515
Utilities and supplies	3,624	1,036
Insurance	4,988	3,783
Consulting services	8,819	6,222
Advertising and promotions	568	271
Other services	30,025	22,774
Total	79,342	49,639

- The **commercial costs**, for distribution and transport refer to ancillary costs relative to the distribution of electricity. The increase is mainly due to the increase in the volumes of electricity supplied to a final site customer that is connected to the national grid interconnection points.
- **Repairs and maintenance** mainly consist of the costs for routine maintenance of electricity generation plants. The increase is tied to the change in the scope of consolidation.
- **Other services** refer to the emoluments paid to Directors and Statutory Auditors, the costs relative to services provided by the joint venture Priolo Servizi to the ERG Power CCGT plant at the industrial site of Priolo Gargallo (EUR 6 million), bank expenses, general overheads and ancillary personnel costs. The increase is tied mainly to the change in the scope of consolidation.

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



NOTE 32 - PERSONNEL COSTS

	1 st half 2016	1 st half 2015
Salaries and wages	22,200	17,893
Social security contributions	6,560	5,350
Employees' severance indemnities	1,348	1,255
Other costs	1,866	1,261
Total	31,974	25,759

The other costs include additional employees' severance indemnities.

The increase is tied mainly to the change in the scope of consolidation.

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

	1 st half 2016	1 st half 2015
Executives	42	44
Managers	163	148
Staff	342	269
Workmen	167	142
Total	713	603

At 30 June 2016, the total number of employees was 722.

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 33 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	1 st half 2016	1 st half 2015
Amortisation of intangible fixed assets	32,892	11,818
Depreciation of tangible fixed assets	95,482	64,719
Write-downs of fixed assets	302	840
Total	128,676	77,377

The increase in the value of the depreciation/amortisation is mainly due to the change in the scope of consolidation following the acquisitions by ERG Hydro S.r.l., the wind farms in France and Germany and the capitalisations of the parks in Poland.

NOTE 34 - NET FINANCIAL INCOME (EXPENSES)

	1 st half 2016	1 st half 2015
Income		
Foreign currency exchange gains	1,146	–
Interest income on bank accounts	1,261	5,222
Other financial income	9,940	11,922
	12,347	17,144
Charges		
Foreign currency exchange losses	(665)	(21)
Interest on short-term bank borrowings	(4,142)	(74)
Interest on medium/long-term bank borrowings	(21,528)	(12,991)
Other financial expenses	(31,981)	(31,373)
	(58,316)	(44,459)
Total	(45,969)	(27,315)

The lower interest income mainly reflects the decrease in the cash and cash equivalents following the consolidation of the process of strengthening the Group as a major independent operator in the production of electricity from renewable sources, with the acquisition made in 2015 and the first half of 2016.

The increase in the interest on bank borrowings compared to 2015 is mainly due to the effects of the change in the scope of consolidation.

“Other financial income” and “Other financial expenses” refer mainly to the results of the derivatives; the other financial expenses also include the effect on the Income Statement (EUR 9 million in the period) of the fair value measurement of the loan to ERG Wind Investments Ltd, adjusted downwards by EUR 159 million at the time of the acquisition, because it had originally been stipulated at more advantageous conditions than those proposed by the market at the time of the acquisition.

NOTE 35 - NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The income and loss from equity investments of EUR 8,223 thousand (EUR 13,632 thousand in the first half of 2015) mainly includes the Group's portion of the TotalErg S.p.A. joint venture (+EUR 8.1 million). We recall that the comparative data for the same period in 2015 included, in addition to the results for TotalErg S.p.A., also the results for LUKERG Renew GmbH carried at equity.

NOTE 36 - INCOME TAXES

	1 st half 2016	1 st half 2015
Current income taxes	29,569	23,438
Taxes from previous years	619	(322)
Deferred taxes	(972)	(3,889)
Total	29,216	19,227

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

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

Additionally, deferred tax liabilities amounting to EUR 19.4 million (EUR 17.8 million in the first half of 2015), calculated on the fair value of derivatives accounted for under the cash flow hedge rule, were accrued directly to shareholders' equity.

We 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. We therefore note that the rate used for calculation of the prepaid taxes is equal to the nominal IRES rate of 27.5% for income items recognised for tax purposes by 31.12.2016, and the 24% rate is applicable to fiscal changes from 01.01.2017, increased, where applicable, by the IRAP rate (3.9%).

Reconciliation between reported and theoretical tax charges

IRES (Corporate tax)	
Profit (loss) before taxes	104,763
Theoretical IRES taxation at 27.5%	28,810
Impact of consolidation adjustments not relevant to the calculation of taxes	(2,565)
Impact of permanent tax changes	(4,058)
Current and deferred IRES	22,187
IRAP	
EBIT	142,509
Bad debts	–
Total	142,509
Theoretical IRAP at 3.5%	4,988
Effect stemming from IRAP rate increase for some companies	1,012
Impact of permanent differences and consolidation adjustments not relevant to the calculation of income taxes	410
Current and deferred IRAP	6,410
Total theoretical taxes	33,798
Total IRES and IRAP in the Consolidated Financial Statements	28,597
Taxes from previous year	619
Substitute taxes	–
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS	29,216

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

The aforesaid reconciliation is calculated on a “Profit (loss) before taxes” that already takes into account reclassifications for IFRS 5 purposes.

NOTE 37 - NON-RECURRING ITEMS

(EUR thousand)	1 st half 2016		1 st half 2015	
Revenues from ordinary operations		–		–
Other revenues		–		–
Cost of purchases		–		–
Changes in inventories		–		–
Costs for services and other costs	1)	(932)	1)	(4,489)
Personnel costs	2)	(1,159)	2)	(398)
Amortisation, depreciation and write-downs of fixed assets		–		–
Net financial income (expenses)	3)	(7,211)		–
Net income (loss) from equity investments	4)	5,690	3)	14,449
Income taxes	5)	211	4)	4,426
Minority interests	6)	523	5)	(189)
Group net profit (loss) (continuing operations)		(2,879)		13,799
Net profit (loss) from discontinued operations			6)	(500)

1st Half 2016

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

1st Half 2015

- 1) service and other costs refer to expenses for extraordinary operations, the staff redundancy procedure pursued in 2015 and the write-down of the environmental certificates classified as current assets;
- 2) the personnel costs inherent in the staff redundancy procedure pursued in 2015;
- 3) the income (expenses) from net equity investment mainly referring to the ERG Group portion of the profits on the inventories of investing TotalErg;
- 4) the taxes relative to the derecognition of the additional Robin Tax relative to deferred taxes which arose in the Purchase Price Allocation of prior years in addition to the tax effect of the above-mentioned items;
- 5) the result of minority shareholders insofar as the portion held by the minority shareholders of non-recurring items relative to the ERG Renew Group;
- 6) the net result of discontinued operations reflect the negative balance which partially adjust the provisional price, consequent to the sale of ERG Oil Sicilia S.r.l.

NOTE 38 - RELATED PARTIES

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

Statement of Financial Position

	Non-current financial assets	Trade receivables	Other receivables and current assets	Current financial assets	Non-current financial liabilities	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
LUKERG Renew GmbH	–	–	–	–	–	–	–	–	–
TotalErg S.p.A.	–	648	50,576	–	–	–	189	–	3,142
Priolo Servizi S.C.P.A.	–	2,089	–	–	–	–	–	–	–
San Quirico S.p.A.	–	943	1,882	–	–	–	–	–	–
ISAB Energy Solare S.r.l.	331	–	–	–	–	–	–	–	–
ERG Petroleos S.A.	–	–	–	8,746	–	–	–	–	–
ERG Eolica Lucana S.r.l.	–	–	–	–	–	–	–	–	–
ERG Eolico Troina S.r.l.	–	–	–	–	–	–	–	–	–
Total	331	3,680	52,458	8,746	–	–	189	–	3,142
<i>% of the total item</i>	0%	1%	35%	49%	0%	0%	0%	0%	3%

Income Statement

	Revenues from ordinary operations	Other revenues and income	Cost of purchases	Costs for services and other costs	Financial income	Financial expenses
LUKERG Renew GmbH	–	–	–	–	–	–
TotalErg S.p.A.	514	292	(30)	–	–	–
Priolo Servizi S.C.P.A.	5,265	138	–	(5,821)	–	–
San Quirico S.p.A.	–	300	–	–	–	–
Fondazione Edoardo Garrone	–	–	–	–	–	–
ISAB Energy Solare S.r.l.	–	–	–	–	–	–
Total	5,779	730	(30)	(5,821)	–	–
<i>% of the total item</i>	2%	9%	0%	6%	0%	0%

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

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

We note that ERG S.p.A. has renewed the option for the 2016-2018 domestic tax consolidation with the subsidiaries (including indirect subsidiaries) TotalErg S.p.A., Gestioni Europa S.p.A., ERG Power Generation S.p.A., ERG Eolica San Vincenzo S.r.l., ERG Eolica Faeto S.r.l., ERG Eolica Fossa del Lupo S.r.l. and ERG Eolica Tirreno S.r.l.



Moreover, ERG S.p.A. has exercised the option for the 2016-2018 domestic tax consolidation with the subsidiaries (including indirect subsidiaries) ERG Power S.r.l., ERG Hydro S.r.l. and ERG Wind Bulgaria S.r.l.

In the previous three-year period (2013-2015) ERG Power S.r.l. was included in the scope of the "domestic tax consolidation" of San Quirico S.p.A.

We note that the other revenues in the Half-year Condensed Consolidated Financial Statements include a residual flat rate consideration of EUR 300 thousand paid by San Quirico S.p.A. to the subsidiary ERG S.p.A. following the agreements regarding the equity investment of ERG Power S.r.l. in the tax consolidation of San Quirico S.p.A..

Additionally, in June 2016 EUR 100 thousand were paid to the Edoardo Garrone Foundation as a contribution for 2016.

NOTE 39 - EARNINGS PER SHARE

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

	1 st half 2016	1 st half 2015
Group share of net profit ⁽¹⁾	72,503	70,139
Average number of shares outstanding ⁽²⁾	142,804,000	142,804,000
Basic earnings per share from continuing operations ⁽³⁾	0.529	0.519
Diluted earnings per share from continuing operations ⁽³⁾	0.529	0.519

(1) EUR thousand

(2) unit

(3) EUR

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

NOTE 40 - SEGMENT INFORMATION

Segment information is presented in accordance with IFRS 8 - Operating segments. The information is broken down by business segment.

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

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

(EUR million)	Wind	Thermo-electric	Hydro-electric	Corporate	Total replacement cost	Reconciliation items	Total reported	Discontinued operations	Total continuing operations
30.06.2016									
Total revenues	244	228	61	16	549				
Intra-segment revenues	–	(3)	–	(15)	(18)				
Net revenues from ordinary operations	244	224	61	1	530	–	530	–	530
EBITDA	187	52	41	(6)	273	(2)	271	1	272
Amortisation, depreciation and write-downs	(83)	(15)	(29)	(1)	(129)	–	(129)	–	(129)
EBIT at replacement cost	104	37	12	(7)	145	(2)	143	1	144
Capital expenditures in fixed assets	13	4	1	1	19	–	19	–	18.66

(EUR million)	Wind	Thermo-electric	Hydro-electric	Corporate	Total replacement cost	Reconciliation items	Total reported	Discontinued operations	Total continuing operations
30.06.2015									
Total revenues	199	302	–	11	513				
Intra-segment revenues	(4)	(1)	–	(10)	(15)				
Net revenues from ordinary operations	195	301	–	1	497	(13)	484	1	485
EBITDA	157	52	–	(11)	198	(13)	184	–	184
Amortisation, depreciation and write-downs	(66)	(15)	–	(1)	(81)	4	(77)	–	(77)
EBIT at replacement cost	91	37	–	(12)	116	(9)	107	–	107
Capital expenditures in fixed assets	48	3	–	1	52	–	52	–	52

Amounts shown in the “Corporate” column mainly relate to structural costs not attributable to operational segments. For details and the reconciliation entries, please refer to the [Alternative performance indicators](#) section in the [Interim Report on Operations](#).

NOTE 41 - DIVIDENDS

The dividends paid by ERG S.p.A. in the first half of 2016 (EUR 142.8 million) and in the first half of 2015 (EUR 71.4 million), as resolved upon approval of the Financial Statements for the previous year, amounted respectively to EUR 1.00 (of which EUR 0.50 is the non-recurring component) and EUR 0.50 for each of the shares with dividend rights as of the coupon date.



NOTE 42 - FINANCIAL INSTRUMENTS

30.06.2016

	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	Other liabilities	Hedging derivatives	Total	of which non current	Fair value
Investments in other companies	–	–	1,403	–	–	1,403	–	–
Financial receivables	–	16,620	38,755	–	–	55,375	39,086	–
Derivative financial instruments	–	–	–	–	1,546	1,546	–	1,546
Trade receivables	–	419,396	–	–	–	419,396	–	–
Financial securities classified as current assets	–	–	–	–	–	–	–	–
Other receivables	–	107,649	–	–	–	107,649	34,016	–
Cash and cash equivalents	–	360,226	–	–	–	360,226	–	360,226
Total assets	–	903,891	40,158	–	1,546	945,595	73,102	361,772
Mortgages and loans	–	–	–	667,401	–	667,401	667,401	–
Non-recourse Project Financing	–	–	–	1,284,907	–	1,284,907	1,160,756	–
Short-term bank borrowings	–	–	–	93,790	–	93,790	–	–
Financial payables	–	–	–	5,756	–	5,756	–	–
Derivative financial instruments	–	–	–	–	166,474	166,474	166,474	166,474
Trade payables	–	–	–	128,673	–	128,673	–	–
Other payables	–	–	–	135,478	–	135,478	121,950	135,478
Total liabilities	–	–	–	2,316,005	166,474	2,482,479	2,116,581	301,952

31.12.2015

	FVTPL ⁽¹⁾	L&R ⁽²⁾	AFS ⁽³⁾	Other liabilities	Hedging derivatives	Total	of which non current	Fair value
Investments in other companies	–	–	1,363	–	–	1,363	–	–
Financial receivables	–	131,642	1	–	–	131,643	38,943	–
Derivative financial instruments	–	–	–	–	25	25	–	25
Trade receivables	–	343,450	–	–	–	343,450	86,477	–
Financial securities classified as current assets	–	–	–	–	–	–	–	–
Other receivables	–	71,213	–	–	–	71,213	34,490	–
cash and cash equivalents	–	770,564	–	–	–	770,564	–	770,564
Total assets	–	1,316,869	1,364	–	25	1,318,258	159,910	770,589
Mortgages and loans	–	–	–	694,573	–	694,573	694,573	–
Non-recourse Project Financing	–	–	–	1,284,578	–	1,284,578	1,139,860	–
Short-term bank borrowings	–	–	–	110,028	–	110,028	–	–
Financial payables	–	–	–	68,516	–	68,516	–	–
Derivative financial instruments	–	–	–	–	153,585	153,585	153,396	153,585
Trade payables	–	–	–	162,101	–	162,101	–	–
Other payables	–	–	–	150,153	–	150,153	121,031	150,153
Total liabilities	–	–	–	2,469,949	153,585	2,623,534	2,108,860	303,738

(1) FVTPL: fair value through profit or loss

(2) L&R: Loans and receivables

(3) AFS: Available for sale financial investments

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

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

	Level 1	Level 2	Level 3
Financial assets			
- FVTPL	–	–	–
- AFS	–	–	–
- Hedging derivatives	1,546		–
Total	1,546	–	–
Financial liabilities			
- FVTPL	–	–	–
- Hedging derivatives	–	166,474	–
Total	–	166,474	–

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 Flows	- Deposit rates (Euribor) - Swap rates	- Reuters	Level 2
	Interest Rate Option (Cap, Collar)	Black & Scholes	- Deposit rates (Euribor) - Swap rates - Short-term rate implicit volatility	- Reuters - ICAP (via Reuters)	Level 2
Currency exchange rate derivatives	FX Forward	Discounted Cash Flows	- Zero coupon curves of the reference currencies - ECB spot rates	- Reuters	Level 2
	FX Option	- Black & Scholes - Edgeworth Expansion - Monte Carlo	- Zero coupon curves of the reference currencies - ECB spot rates - Exchange rate implicit volatility	- Reuters	Level 2
Commodity derivatives	Commodity Swap	Discounted Cash Flow	- Official stop quotes on reference commodities	- Platt's (Sarus)	Level 2
	- Crude oils		- Forward prices quoted on OTC markets	- Reuters	
	- Petroleum		- Forward prices derived (i.e. linear regression) from OTC		
	- Crack spread		- Zero coupon curves on Euro and US Dollar		
	- Gas formulas		- BCE spot exchange		
	Commodity Futures	Listed instrument	- Official settlement prices - Source: ICE	- Reuters	Level 1
	Contract for Difference (CfD)	Discounted Cash Flows	- Forward national single price quoted on the OTC market - Zero coupon curve on the Euro	- TFS - Reuters	Level 2

NOTE 43 - DISCLOSURE ON RISKS

With regards to the types of risks connected with the Group's business, the related hedging policies, the derivatives and the levels of observability of fair value, there were no significant changes from the 2015 Consolidated Financial Statements.

Summary of derivative instruments used

The derivative financial instruments arranged by ERG, designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks were as follows as at 30 June 2016:

Type	Hedged risk	Underlying financial		Fair Value at 30.06.2016
Cash Flow Hedging Instruments				(EUR thousand)
A	Interest Rate Swap and Interest Rate Caps	Economic interest rate risk	1,530 EUR million	(166,474)
B	Gas price risk swaps	Commodity transaction risk	998 thousand of MWh	1,246
Total cash flow hedging instruments				(165,228)
Non-Hedge Accounting Instruments				
C	Gas price risk swaps	Commodity transaction risk	184 thousand of MWh	37
D	Electricity price risk hedging CFD	Commodity transaction risk	151 thousand of MWh	263
Total non-hedge accounting instruments				300
TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS				(164,928)

A. Interest Rate Swaps and Interest Rate Caps and Collars

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

The underlying financial instruments lie in the following companies:

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

At 30 June 2016, there was a total negative fair value in the amount of EUR 166.5 million. The change is recognised in the Cash Flow Hedge reserve.

B. Gas price risk swaps

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

At 30 June 2016, there was a total positive fair value in the amount of EUR 1.2 million.

C. Gas price risk swaps

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

At 30 June 2016 there was a total positive fair value of an immaterial amount.

D. Electricity price risk hedging CFD

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

At 30 June 2016 there was a total positive fair value of an immaterial amount.

NOTE 44 - OTHER INFORMATION

Disclosures on significant events occurring after the reporting period are provided in the relevant section of the **Interim Report on Operations**.

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

On 5 August 2016, the Board of Directors of ERG S.p.A. authorised the publication of the Half-Year Financial Report together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, Italy, 5 August 2016

On behalf of the Board of Directors

The Chairman

Edoardo Garrone





REPRESENTATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-bis, subsections 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998, represent as to:
 - the suitability in relation to the characteristics of the business and
 - the actual application of said procedures for the preparation of the Half-year Condensed Consolidated Financial Statements as of and for the first half of 2016.
2. In this regard, the following is pointed out:
 - the suitability of the administrative and accounting procedures for the preparation of the half-year condensed consolidated financial statements of ERG S.p.A. at 30 June 2016 was verified by the assessment of the System of Internal Control over Financial Reporting. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
 - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore represented that:
 - the Half-year Condensed Consolidated Financial Statements of the ERG Group at 30 June 2016:
 - were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
 - match the underlying accounting books and records;
 - are suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;
 - the Half-year Financial Report includes a reliable analysis of the references to the significant events occurred in the first six months of the year and to their impact on the Half-year Condensed Consolidated Financial Statements, as well as a description of the main risks and uncertainties for the six remaining months of the year. The Half-year Financial Report also includes a reliable analysis of the information on significant transactions with related parties.

Genoa, Italy, 5 August 2016

The Chief Executive Officer

Luca Bettonte

The Financial Reporting Manager

Paolo Luigi Merli

AUDITORS' REPORT ON THE LIMITED AUDIT



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

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

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of ERG S.p.A. and subsidiaries (the "ERG Group"), which comprise the consolidated statement of financial position as of June 30, 2016, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the six month period then ended, and the related explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova
Palermo Parma Roma Torino Treviso Verona

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Partita IVA: IT 03049560166

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of ERG Group as at June 30, 2016 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
August 5, 2016

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



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