ANNUAL REPORT

AS AT 31DECEMBER 2016

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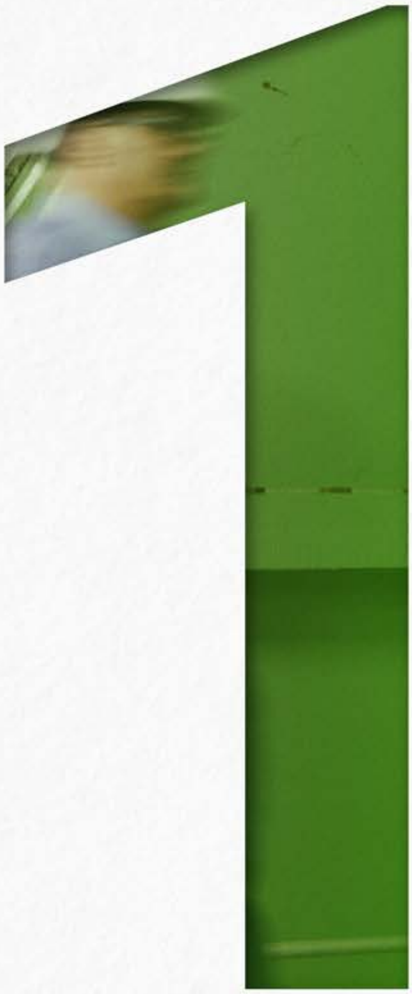


Report on Operations

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

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 provisions of Article 148, Paragraph 3 of the Consolidated Finance Law.
4 With reference to the provisions of Article 148, Paragraph 3 of the Consolidated Finance Law and the matters contained in the current Corporate Governance Code furthered by Borsa Italiana S.p.A.
5 Appointed on 3 May 2016.

INTRODUCTION

The Consolidated Financial Statements as at and for the year ended 31 December 2016 were prepared in accordance with the Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS and International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).
This document was audited by the independent auditor Deloitte & Touche S.p.A. in accordance with CONSOB (Italian Stock Exchange Regulator) regulations.

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

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

RESULTS AT REPLACEMENT COST

To enhance understandability of business performance, the operating results are also shown at replacement cost, excluding non-recurring items[6] and inventory gains (losses)[7].
At the end of 2015, the winding up of the LUKERG Renew GmbH joint venture (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated line-by-line as from 1 January 2016.
In consideration of the commented change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which included ERG's portion of the economic results at replacement cost of the LUKERG Renew GmbH joint venture (50%).

6 Non-recurring items include significant but unusual earnings.
7 TotalErg's equity contribution is reported net of inventory gains (losses) and non-recurring items.

CHANGE IN THE BUSINESS SCOPE

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

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

BUSINESS DESCRIPTION

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

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

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

Non-programmable sources

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

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

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

Programmable sources

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

- ERG Power S.r.l.: a company which owns the so-called "Centrale Nord" (480 MW) located in the industrial estate in Priolo Gargallo (SR) in Sicily, which operated up to 27 May 2016 as an Essential Unit on the basis of the Mucchetti Amendment[8]. This is a high-output co-generation plant (C.A.R.), based on latest generation combined cycle technology using natural gas, which came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, other utilities;

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

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

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

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

One Company

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

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

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

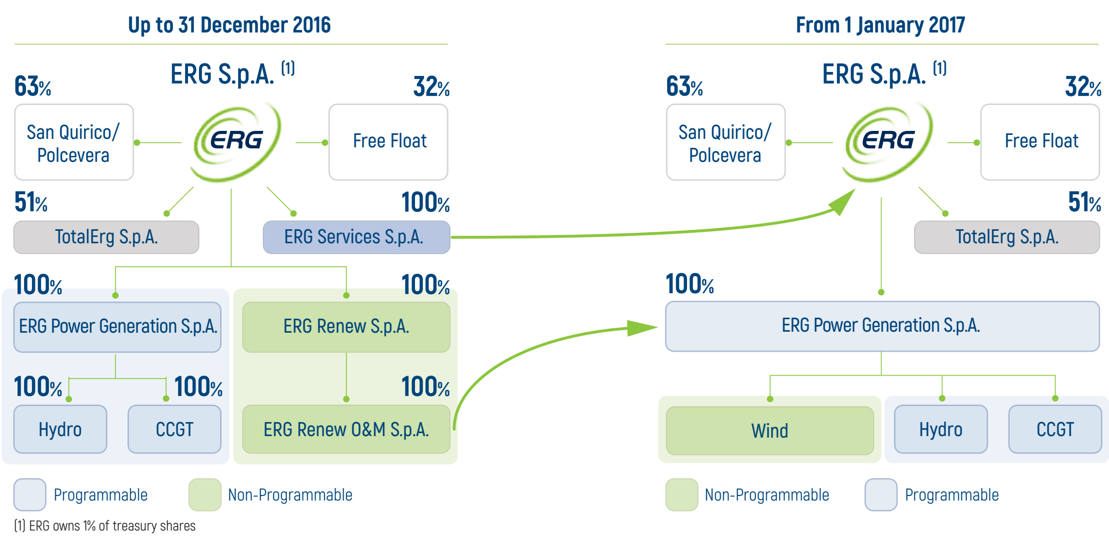
Therefore, in mid-2016 an internal project was launched, directed and implemented by the members of the Human Capital Committee, which led to the development of a new organisational structure featuring a strong focus on process logic, aiming for the utmost organisational simplification, by creating specific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

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

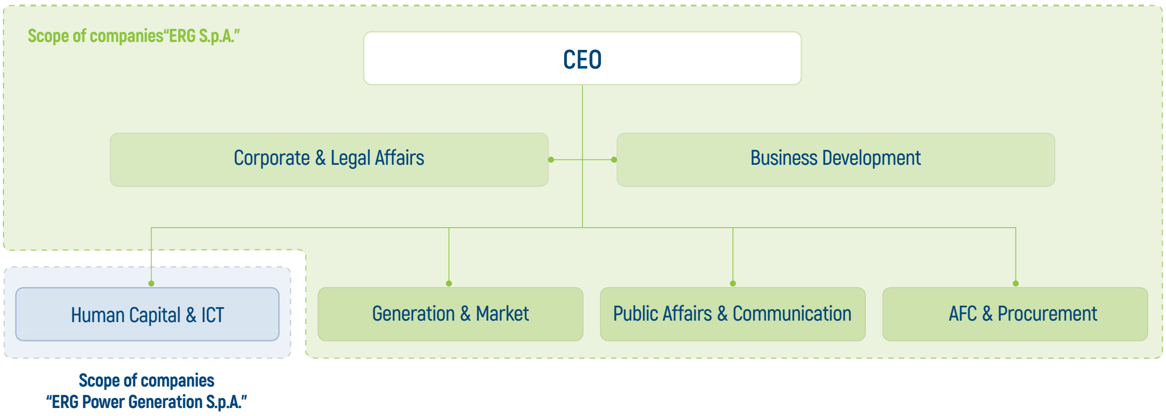
- ERG S.p.A. – corporate – which guarantees strategic guidance, is directly responsible for business development processes and ensures the management of all the business support processes. The company is organised into the following 5 areas;
  - Business Development, with the mission of ensuring business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

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

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



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



ERG'S STOCK MARKET PERFORMANCE

At 30 December 2016 the closing price of ERG's shares was EUR 10.20, down (-18,2%) from the end of 2015, whilst in the same period the FTSE All Share index declined by 9.9%, the FTSE Mid Cap index by 8.0% and the Euro Stoxx Utilities Index by 8.1%. During the period under review, the listed price of the ERG stock disclosed a minimum of EUR 8.88 (9 November) and a maximum of EUR 12.45 (4 January).

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

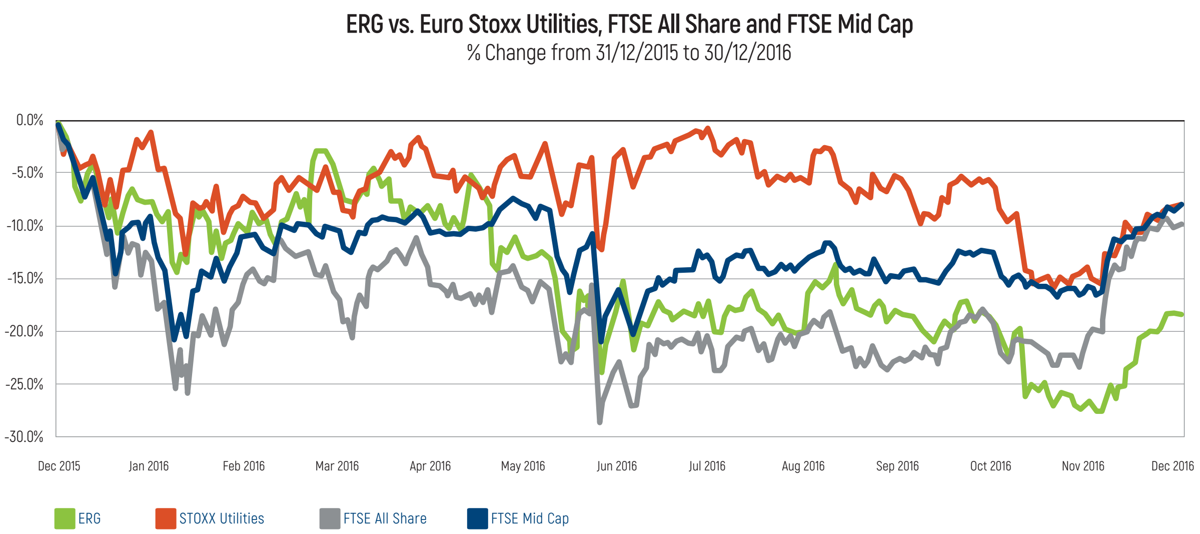
Stock price	**EUR**
Reference price at 30/12/2016	10.20
Highest price (04/01/2016) [1]	12.45
Lowest price (09/11/2016) [1]	8.88
Average price	10.61

[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 (01/11/2016)	47,452
Average volume	244,424

Market capitalisation at 30 December 2016 was approximately EUR 1,535 million (EUR 1,874 million at the end of 2015). The average number of shares outstanding in 2016 came to 144,142,788 (exact number at year-end 148,816,800).

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



PERFORMANCE HIGHLIGHTS

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

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

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

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

(1) does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes
(2) including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates
(3) in tangible and intangible fixed assets. Do not include the M&A investments amounting to EUR 306 million in 2016 and EUR 1.1 billion in 2015.
(4) Single National Price
(5) the values of the Feed-In Tariff abroad refer to the prices obtained by ERG Renew plants
(6) the Electricity price Romania refers to the price set by the company with bilateral agreements
(7) price referred to the unit value of the green certificate

PERFORMANCE HIGHLIGHTS BY SECTOR

	YEAR	
(EUR million)	2016	2015
REVENUES FROM ORDINARY OPERATIONS		
Non-programmable sources	**423**	**345**
Wind power	423	345
Programmable sources	**601**	**602**
Thermoelectric power [1]	479	592
Hydroelectric power	122	11
Corporate	**32**	**22**
Intra-segment revenues	*(31)*	*(25)*
Total revenues from ordinary operations	**1,025**	**944**
EBITDA		
Non-programmable sources	**308**	**254**
Wind power	308	254
Programmable sources	161	115
Thermoelectric power [1]	**77**	**107**
Hydroelectric power	84	8
Corporate	**(13)**	**(19)**
EBITDA at replacement cost	**455**	**350**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
Non-programmable sources	**(163)**	**(134)**
Wind power	(163)	(134)
Programmable sources	**(88)**	**(34)**
Thermoelectric power	(30)	(30)
Hydroelectric power	(58)	(5)
Corporate	**(3)**	**(3)**
Amortisation and depreciation at replacement cost	**(254)**	**(171)**
EBIT		
Non-programmable sources	**145**	**120**
Wind power	145	120
Programmable sources	**73**	**81**
Thermoelectric power [1]	47	78
Hydroelectric power	26	3
Corporate	**(16)**	**(22)**
EBIT at replacement cost	**202**	**179**
CAPITAL EXPENDITURE ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
Non-programmable sources	**44**	**95**
Wind power	44	95
Programmable sources	**13**	**9**
Thermoelectric power	10	9
Hydroelectric power	4	–
Corporate	**3**	**2**
Total capital expenditure	**60**	**106**

(1) includes Energy Management contribution

SALES

POWER

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

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

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table[9]:

SOURCES OF ELECTRIC POWER (GWh)	2016	2015
ERG Renew - wind power generation in Italy	2,220	1,910
ERG Renew - wind power generation Abroad	1,281	705
ERG Power Generation - thermoelectric generation	2,693	2,632
ERG Power Generation - hydroelectric generation	1,358	84
ERG Power Generation - purchases	4,751	4,782
Total	**12,303**	**10,113**

SALES OF ELECTRIC POWER (GWh)	2016	2015
Electric power sold to captive customers	542	535
Electric power sold to IREN	2,020	2,015
Electric power sold wholesale	9,741	7,563
- of which Italy	*8,460*	*6,858*
- of which Abroad	*1,281*	*705*
Total	**12,303**	**10,113**

In 2016, moreover, steam sales[10] amounted to 752 thousand tons (802 thousand in 2015).

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

9 Electric power sources refer to the output of the Group’s plants and to the purchases made on wholesale markets; uses include sales made through physical bilateral agreements and on the spot and forward markets.
10 Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

COMMENTS ON THE YEAR'S PERFORMANCE

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

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

Non-programmable sources: EBITDA of EUR 308 million, up sharply on the previous year (EUR 254 million), both in Italy and abroad. In Italy, this was result of better wind conditions and greater production, which more than offset a decidedly lower trend in prices. Abroad, this was thanks to the significant increase in production, in light of the contribution of the new wind farms in France, Germany and Poland, in a less profitable price scenario also in this case. Almost all wind power generation in Italy in 2016 and 2015 benefited from the feed-in premium (former Green Certificates), for an unchanged unit amount as a result of the new regulatory framework[11].

Programmable sources: EBITDA of EUR 161 million, higher than in the previous year (EUR 115 million) as a result of the contribution provided by the newly acquired hydroelectric complex equal to EUR 84 million, in spite of the reduced rainfall observed in the period. The thermoelectric result, amounting to EUR 77 million, remained at high levels, albeit decreasing compared to last year's EUR 107 million thanks to the high efficiency of the plants, to the increased spark spreads and to the results of the Energy Management activities both hedging the generation margin and in the area of Dispatching Services.
Since 28 May 2016, ERG Power's CCGT plant has no longer been subject to the current regulations pertaining to Essential Units for the security of the electrical system, and, since that date, has no longer benefitted from the "reintegration consideration" granted in exchange for restrictions imposed on plant modulation (which instead had been in force for the entire year 2015). Moreover, the plant's margins were affected by the doubling of the Sicily-continent underground power line and the resulting substantial alignment of the Sicily zone price with the historically and tendentially lower price in the South.

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

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

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

Group net profit[12] was EUR 122 million (EUR 21 million in 2015). Note that the 2015 net profit was affected, with respect to the Group net profit (loss) at replacement cost, by non-recurring costs and losses on the value of the inventory of TotalErg as a result of the sharp declines in the prices of crude oil and petroleum products.

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

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

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

SIGNIFICANT EVENTS DURING THE YEAR

WIND POWER

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 capacity of 124 MW, along with six in Germany, with an installed capacity of 82 MW, for a total of 206 MW. The wind farms, which became operational between 2009 and 2014 in France and 2004 and 2014 in Germany, have an estimated average annual output of approximately 410 GWh.

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

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

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 approximately 47.5 MW and energy output estimated at approximately 150 GWh when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO_2 emissions.

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

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

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

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

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

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.

13 July 2016

Massimo Derchi, Chief Executive Officer of ERG Renew S.p.A. and Key Manager, resigned from all offices held, in order to pursue new professional opportunities outside the ERG Group.
The Board of Directors of ERG Renew S.p.A., which met on the same date, therefore appointed as Chief Executive Officer Mr. Luca Bettonte, former director of ERG Renew S.p.A. from 2008 and current Chief Executive Officer of ERG S.p.A., and to co-opt as a Director of ERG Renew S.p.A. Mr. Pietro Tittoni, Key Manager, who was designated as General Manager.

03 August 2016

ERG Wind France 1 S.a.s., a French subsidiary of ERG Renew S.p.A., executed a loan agreement in the form of non-recourse portfolio project finance for six wind farms situated in France, with a total installed capacity of 63.4 MW, owned by its subsidiaries. The farms, which started operations between 2005 and 2008, were acquired by ERG Renew on 27 July 2015 from Macquarie European Infrastructure Fund.
The loan, amounting to EUR 42 million with a duration of 9.5 years, was subscribed by UniCredit Bank AG as lender and Mandated Lead Arranger (MLA)..

09 November 2016

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

CORPORATE

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.

12 October 2016

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

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

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

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

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

26 October 2016

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

This was an important recognition of the actions and of the strategies contrasting climate change adopted by the company, as well as recognition of communication transparency. This result also confirms the continuous effort towards a sustainable development model that couples economic performance with the reduction of CO_2 emissions.

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

10 November 2016

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

29 November 2016

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

The motivations that enabled ERG to attain this prestigious award include, as stated, "the report on operations comprehensively illustrates the transformation from industrial operator in the energy sector to independent producer of electricity generated above all using renewable energy sources. Significant events that occurred during the year are clearly described, alongside a chapter dedicated to risks. There is a clear explanation of current Group structure. The

Sustainability Report provides an in-depth account not only of economic responsibility but also environmental and social responsibility, also calling attention to appropriate performance data and indicators, including those envisaged by GRI G4 guidelines."

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

12 December 2016

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

TOTALERG INVESTIGATION

With regard to the investigation on the alleged tax irregularities involving TotalErg (a joint venture 51%-owned by ERG and 49%-owned by Total, resulting from the merger of Total Italia and ERG Petroli on 1 October 2010), on 26 June 2015 ERG, in its capacity as the tax consolidating entity, and TotalErg, in its capacity as the consolidated entity (formerly ERG Petroli), were served with an assessment notice for IRES for tax year 2007. TotalErg was served an assessment notice for IRAP and VAT for the same year.

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

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

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

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

In consideration of the above, no liabilities were recognized.

REGULATORY FRAMEWORK: MAIN CHANGES

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

GENERAL

Paris Agreement on Climate Change

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

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

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

United Kingdom Referendum on membership in the European Union

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

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

European Commission Regulatory Calendar – Winter Package

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

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

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

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

Environment – Efficiency – Safety Matters

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

The main rules set out in the law include the reform of the ENEA (Entity for New Technology, Energy and the Environment), several amendments to the rules on using soil and rocks from digs, support for sustainable mobility and the revision of the incentive for the generation of electricity from biomass. The regulations on damage to and restoration of national priority sites have also been amended, providing the possibility to operators involved to propose a settlement. Lastly, the District Water Basin Authorities are established for each hydrographic district, which will replace the current Inter-regional, Regional and National Priority Water Basic Authorities.

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

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

"Annual Extensions Act" Law Decree

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

As regards the issues of interest, it is important to note the extension up to 31 December 2017 of the reduced taxation of fuels used in cogeneration plants such as the CCGT of Priolo was confirmed. Therefore, the rates identified by the Authority for Energy, reduced to 12%, shall continue to be applied. The entry into force of the reform of general system charges for non-domestic consumers was postponed to 1 January 2018, while the variable portions of general system charges will be applied to electricity withdrawn from public grids with the obligation to connect third parties starting on 1 January 2017.

WIND POWER

Italy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To at least partially remedy the delay of at least two months relating to this calculation method of the imbalance sign, gradually coming into line with the EU regulations on transparency, the Authority assigned TERNA to announce a preliminary estimate of the imbalance sign to be published no later than the day following the delivery date.

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

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

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

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

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

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

Building on the previous Ministerial Decree of 6 July 2012, the measure sets out the application of competitive mechanisms (auctions) for large plants fuelled by renewable sources, while smaller units must enrol in specific registers and direct access. The notices of the auctions shall be carried out at one time and were published at the end of August 2016. For the wind power sector, auction amounts of 800 MW are envisaged for new plants and 40 MW for renovations, while 60 MW is reserved for the registers.

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

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

The Ministerial Decree also governs maintenance works on operating plants.

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

France

To ensure achievement of the European target for renewables in 2020 and the domestic target in 2030 (40% of renewables in the energy mix, of which 20% from wind power), at the end of October 2016 the French Government published the Long-Term Energy Plan, which defines the new interim targets for installed power for 2016-2018 and 2019-2023. In addition to providing an indicative schedule of the auctions structured by technology, the document proposes the goal of raising onshore installed wind power capacity to 15 GW by 2018 (from around 10 GW at the end of 2015) and between 22 and 26 GW in 2023. On 13 December 2016 the decree governing the move from the FIT to the FIP was published, based on a remuneration supplementing system plus a premium, for wind farms that finalised the application to purchase electricity generation in 2016. The total value of the new premium is in line with the FIT pursuant to the Decree dated 17 June 2014. Wind farms that receive the incentive pursuant to the Decree dated 17 June 2014 will continue to receive a feed-in tariff (FIT) for 15 years, whose value is defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. Starting in 2017, France will introduce an auction-based incentive system, however, the implementing decree is still being examined by the European Commission. The impossibility of putting an end to the need for onshore development of wind power and that of preserving the functionality and security of military radar and installations (translating into a limit to where new wind farms can be located) has limited the growth of wind power, blocking development of 3.5 GW of projects, according to estimates by the industry.

Germany

The "Renewable Energy Sources Act" 2016 (EEG 2017), adopted on 8 July and approved on 20 December by the European Commission as compliant with EU rules on State aid, marks a move from the FIT/FIP incentive system to an auction scheme for all Electric Renewable Energy Plants > 750 KW, broken down by source, operating from 1 January 2017. The annual auction amounts for new onshore wind power capacity amount to 2.8 GW per year up to 2020 and 2.9 GW in the following years. The first auction will be held on 1 May 2017, at a starting price of 70 EUR/MWh. From 2018, multi-technological "pilot" auctions must be planned for wind and photovoltaic technologies. Offshore wind power was recognised a "flexible" cap, applied from 2021 to 2030, defined annually to ensure that the new target of 15 GW over the next 15 years is reached (from the 25 GW set out for the 2012 target). Consultation is currently under way on the introduction of temporary capacity caps for on-short wind plants in the areas that are the most affected by congestion on the electricity transmission grid. The draft survey of the most affected areas was published in October 2016, while the final measure should be approved by March 2017, with impacts even on the auctions planned for May 2017. New on-shore wind projects in the areas subject to congestion on the electricity transmission grid will be limited to 58% of average incremental capacity of the period 2013-15. These limits may be reassessed every two years starting on 1 January 2020. The caps are applied only at regional level and do not influence the general target of new capacity of 2.8 GW per year in 2017-19, and 2.9 GW in 2020. The upcoming federal elections, scheduled for next autumn, should not change the approach of the two main political groups in favour of renewable energy sources.

Poland

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

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

In particular:

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

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

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

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

United Kingdom

The procedure for the United Kingdom's exit from the European Union will probably be the priority of the May government, leaving the issue of incentives for on-shore wind power through contracts for differences (CfD) on the back burner. The current conservative government, though favourable to the climate policy as confirmed by its ratification of the Paris agreement, has been quite resistant to on-short wind power plants.

The government is reviewing the energy policy to close the gap between the installed power generation capacity and the peak demand in the next few years, caused by the plan to close coal and nuclear plants.

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

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

However, several grace periods are envisaged, which extend access to the afore-mentioned system for plants authorised and built by 31 March 2017 or afterwards, if the delays in construction are not attributable to the producer. The time extensions are granted to plants which have obtained the following by set dates: (i) planning consent, (ii) approved connection contracts (with connection date by 31/3/2017) and (iii) proof of land rights. The set dates are established as 18 June 2015 for Great Britain and 30 September 2015 (for plants not connected to clusters) or 30 October 2015 (for plants connected to clusters) for Northern Ireland.

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

Romania

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

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

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

THERMOELECTRIC POWER

Essential Units pursuant to Law Decree 91/2014

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

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

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

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

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

The AEEGSI then notified Resolution no. 761/2016/R/eel of 15 December 2016, which confirmed and quantified the advance relating to the year of operation 2016.

Both considerations were settled by TERNA by the deadline set (31/12/2016).

Essential Units pursuant to Resolution 111/2006

On 28 October 2016 Resolution 610/2016 was published, which includes a section of the CCGT plant in Priolo amounting to 120 MW on the list of essential units pursuant to Resolution 111/2006 for 2017 (based on a scheme that is substantially different from the scheme pursuant to Law Decree 91/2014 set out in the previous paragraph).

The company opted for the alternative scheme pursuant to Article 65-bis of Resolution 111/06 which entails the remuneration of the tertiary reserve increasing through an option contract, releasing the plant from the essentiality regime on the energy markets (day before market - MGP/intraday market - MI).

Internal user networks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes to electricity market settlement

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

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

HYDROELECTRIC POWER

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

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

IMPACTS ON THE GROUP

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

BUSINESS SEGMENTS

NON-PROGRAMMABLE SOURCES

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

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

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

	YEAR	
REFERENCE MARKET (1)	**2016**	**2015**
Italian Renewable Energy Sources Market (2) **(GWh)**		
Generation from renewable sources (3)	88,188	89,567
of which:		
Hydroelectric	*42,323*	*46,451*
Geothermal	*5,865*	*5,824*
Wind	*17,455*	*14,705*
Photovoltaic	*22,545*	*22,587*
Sale prices (EUR/MWh)		
Reference price of electricity - Italy (baseload) (4)	42.8	52.3
Feed-In Premium (former Green Certificates) - Italy	100.1	100.1
Electricity price - Central-South zone	41.6	50.9
Electricity price - South zone	40.4	49.4
Electricity price - Sicily	47.6	57.5
Electricity price - Sardinia	41.6	51.1
Average unit value of sale of ERG energy - in Italy (5)	139.0	147.8
Feed-In Tariff - Germany (6)	92.6	96.2
Feed-In Tariff - France (6)	88.7	90.4
Feed-In Tariff - Bulgaria (6)	84.0	80.3
Electricity price - Poland	33.4	37.1
Certificate of origin price - Poland	10.8	26.0
Electricity price - Romania (7)	27.3	29.7
Green Certificate price - Romania (8)	29.5	29.5

(1) Estimated output for December
(2) Source: TERNA S.p.A. monthly report on the electrical system. Estimated data, subject to correction
(3) Sources considered: hydroelectric, geothermal, wind power and photovoltaic
(4) Single National Price – Source: GME S.p.A.
(5) The average value in Italy does not consider the Feed-in Tariff of 123.8 EUR/MWh acknowledged to the Palazzo S. Gervasio plant
(6) The values of the Feed-in Tariff abroad refer to the prices obtained by ERG Renew plants
(7) The Electricity price Romania refers to the price fixed by the company via bilateral agreements
(8) Price referred to the unit value of the Green Certificate (the number of Green Certificates recognised and the timeline are discussed in the section describing the scenario in Romania)

Market scenario in Italy

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

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

Regulatory scenario

Italy

The incentive system in Italy prescribes, for on-shore wind farms in operation before the end of 2012[13], the continuation of the Green Certificates system until 2015 and the conversion from 2016, for the residual period of entitlement to incentives, to a feed-in premium calculated using a similar formula and paid on a quarterly basis no later than the last business day of the second quarter after that of accrual. In detail, the GSE established that the payment of the incentive which replaces the Green Certificates must take place for the first quarter of 2016 by 30 September 2016 while for the second quarter of 2016 by 31 December 2016. Collection of the incentive relating to the third quarter 2016 will take place by 31 March 2017 and relating to the fourth quarter of 2016 by 30 June 2017.

With regard to the value of the 2015 Green Certificates withdrawal price and the 2016 incentives, for the purpose of their definition, the Authority disclosed by means of resolution 29/2016/R/EFR dated 28 January 2016, the average annual value registered in 2015 for the electricity sale prices for inventive purposes, amounting to EUR 51.69/MWh. Therefore, the withdrawal price of the 2015 green certificates and 2016 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year[14], amounts to 100.08 EUR/MWh[15].

In accordance with the Ministerial Decree of 6 July 2012, wind farms with more than 5 MW capacity built from 2013 onwards (starting operations after April 2013) instead shall gain access to the incentives by participating in a Dutch auction[16]. As a result of the first auction, 442 MW was assigned for on-shore wind power (the total amount allocated for 2013 was 500 MW), whilst the second auction, completed on 10 June 2013, led to the assignment of the entire amount available for 2014, i.e. 399.9 MW versus a capacity demand of 1,086 MW[17]. With the third auction, relating to the amount for 2015, which was completed on 26 June 2014, the entire amount available for on-shore wind power, i.e. approximately 356 MW, was assigned once again (capacity demand greatly exceeded the available amount, at approximately 1,261 MW).

13 There is a transitory period until 30 April 2013, for plants already authorised no later than 11 July 2012.
14 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.
15 It is hereby noted that with regard to the Green Certificates for the first and second quarters of 2015, the price of 96.00 EUR/GC was used by way of an advance, subject to adjustment in relation to the calculation of the withdrawal price.
16 Starting price 127 EUR/MWh.
17 As a result of the decision by the Regional Administrative Court of Lombardy dated 14 February 2014, 66 MW was reinstated, after it had been excluded from the second auction (after the end of the period for submitting auction bids) because it belonged to the transitional period. Consequently, said capacity was subtracted from the 2015 amount.

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

As regards the new incentives for Renewable Energy Plants other than photovoltaic plants, please see the comments concerning the new Ministerial Decree of 23 June 2016[18] in the chapter "Reference Regulatory Framework": Main changes", in the paragraph "Italian Ministerial Decree 23 June 2016 – Incentives for Electric Renewable Energy Plants other than photovoltaic plants, 2016" included in the Report on Operations referred to.

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

Italian stability law no. 208/2015

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

More recently (June 2016), the Agency specified that in its opinion, the exemption should not be extended to the wind turbine support towers, as these are complex parts often equipped with vertical connection structures (stairways, lifts). However, all operators and their trade associations consider the exclusion of the wind turbine towers to be correct in form and substance, as it complies with the new criteria introduced by the 2016 Stability Law, and, thus, that the "functional" classification prevails over the specific production process of those components which, due to their specific technical-physical characteristics, are generally integrated plant parts, functional to the wind farm and certainly cannot be considered building parts.

Germany

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

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

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

- plants that entered into operation from 2017 onwards access FIP incentives through Dutch auctions pursuant to EEG 2017.

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

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

The tariff in force at 1 January 2017 for plants that fall under the transitional arrangement amounts to 83.8 EUR/MWh for the first 5 years of operation, and 46.6 EUR/MWh for the following 15 years, if the yield of the plant exceeds 80% of the yield of the benchmark plant (otherwise, the plant benefits from the maximum tariff for the entire 20 years of the incentive). Starting in March 2017, the tariff will be reduced based on a set schedule[19]: - from March 2017 to August 2017, a monthly reduction of 1.05% will be applied; from October 2017 to October 2018 the reduction comes to 0.4% on a quarterly basis; from October 2017 onwards, additional changes will be applied to the tariff based on whether 2,500 MW of installed wind power is exceeded.

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

France

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

The feed-in tariff (FIT) pursuant to Decree dated 17 June 2014 is disbursed for 15 years, and is defined based on

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

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

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

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

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

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

Bulgaria

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

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

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

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

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

Romania

Incentives for renewable energy in Romania are provided through Green Certificates for the first 15 years of operation. The obligation to place a certain yearly quantity of green energy on the grid (or to purchase an equal quantity of green certificates) is on the final consumption of electricity. For wind farms commissioned before 2014, 2 green certificates are provided for each MWh generated until 2017 and 1 green certificate from 2018 onwards, and the unit price of the green certificates ranges between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed to inflation on an annual basis. The green certificates have an annual validity and, on the basis of the legislation currently in force, they are recognised on the minimum value between the envisaged energy and that effectively generated. Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in March 2014[20] and approved by the European Commission – DG Competition in May 2015.

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

20 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 October 2014 Directorate-General for Competition of the European Commission approved the exemption for energy-intensive industries from the law-mandated obligation to purchase green certificates, and the related decree has been in force since January 2015. Further to the legislative amendments (negative for wind power), in particular relating to the lowering of the mandatory quotas, the GC market is in a situation of excess supply and consequently the price dropped to the floor (equal to around EUR 29.4/MWh) and the liquidity of the spot market reduced drastically. In that regard, a measure (known as an Emergency Ordinance) was issued, published on 18 November 2016 and subsequently amended. The measure, inter alia, defines a floor (of 29.4 EUR/MWh) and a cap (at 35 EUR/MWh) for the price of Green Certificates. The validity of GC issued from the month after the measure enters into force and of those banked has been extended to 31 March 2032 (previously, the GC were valid for one year).

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

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

Poland

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

A discount auction system was also introduced, with contingents on generation, for the awarding of feed-in premiums under the form of Contracts for Difference (CfD) for 15 years (value inflated on annual basis). This system is mandatory for plants that enter into operation from July 2016. The version of the law approved in June[21] 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.

21 Additional details are provided in the chapter "Regulatory Scenario".

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

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

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

United Kingdom

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

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

Highlights of performance items at replacement cost

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

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

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

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

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

(3) including cash and cash equivalents

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

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

	YEAR	
MARGINE OPERATIVO LORDO A VALORI CORRENTI	**2016**	**2015**
Italy	**235**	**213**
Estero	**72**	**41**
of which		
Germany	*18*	*12*
France	*32*	*13*
Bulgaria	*8*	*4*
Romania	*8*	*8*
Poland	*6*	*4*
Total	**308**	**254**

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

As regards the decrease in the sales price in 2016, for ERG Renew in Italy, the sales price of electricity amounted on average to 38.9 EUR/MWh, down by 18.5% with respect to the figure of 47.7 EUR/MWh recorded in 2015. This value corresponds to the sales price to Energy Management of the ERG group, which reflects the formation of the price on the spot market (IPEX). Overall, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and that of the incentives (former green certificates), was 139.0 EUR/MWh, down from the value of 147.8 EUR/MWh of 2015.
This decrease is linked to the sharp drop in sales prices of energy observed in the various geographic areas, while the value of the incentives (former green certificates), i.e. 100.1 EUR/MWh, is unchanged. In fact, starting from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of the prices of the energy for the previous year (see Tariff scenario section). Consequently, in contrast to what took place in the past, changes of the level of the energy prices are no longer partially offset (78%) in the prices of the incentive acknowledged in the year, but will have an impact on the value of the incentive for the subsequent year.

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

EBITDA at replacement cost for 2016 amounted in total to EUR 308 million, up with respect to the figures of the same period of last year (EUR 254 million), for the reasons indicated above.
The EBITDA margin amounted in total to 73%, standing at a high absolute value, though slightly decreasing on 2015 (74%). Specifically, in relation to continuing high profitability in Italy, the indicator decreased due to the increase in the percentage of generation abroad, characterised by sales prices and margins lower on average.

	YEAR	
INSTALLED POWER (MW)	**2016**	**2015**
Italy	**1,094**	**1,087**
of which		
Campania	*247*	*239*
Calabria	*120*	*120*
Puglia	*249*	*249*
Molise	*79*	*79*
Basilicata	*89*	*89*
Sicily	*198*	*198*
Sardinia	*111*	*111*
Other	*2*	*2*
Abroad	**626**	**420**
of which		
Germany	*168*	*86*
France	*252*	*128*
Poland	*82*	*82*
Bulgaria	*54*	*54*
Romania	*70*	*70*
Total installed power at period end (1)	**1,720**	**1,506**

(1) power of plants in operation at period end

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

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

In 2016, ERG Renew's electricity output amounted to 3,501 GWh, higher than in 2015 (2,614 GWh), with output in Italy increasing by around 16% (from 1,910 GWh to 2,220 GWh) and growth of 82% abroad (from 705 GWh to 1,281 GWh). The increase in output in Italy (+311 GWh) is tied to the better overall wind conditions compared to 2015, in particular in Campania, Puglia, Sicily and Sardinia.

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

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

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

	YEAR	
% LOAD FACTOR	**2016**	**2015**
Italy	**23%**	**20%**
of which		
Campania	*23%*	*20%*
Calabria	*24%*	*23%*
Puglia	*24%*	*22%*
Molise	*24%*	*22%*
Basilicata	*24%*	*21%*
Sicily	*20%*	*16%*
Sardinia	*24%*	*20%*
Abroad	**23%**	**26%**
of which		
Germany	*16%*	*21%*
France	*23%*	*24%*
Poland	*30%*	*37%*
Bulgaria	*31%*	*31%*
Romania	*29%*	*30%*
Load factor (1)	**23%**	**21%**

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

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

PROGRAMMABLE SOURCES

Reference market

	YEAR	
ITALIAN ELECTRICITY MARKET [1] (GWh)	**2016**	**2015**
Demand	310,251	316,897
Pumping consumption	2,424	1,909
Import/Export	37,026	46,378
Internal generation [2]	275,649	272,428
of which		
Thermoelectric	*187,461*	*182,861*
Hydroelectric	*42,323*	*46,451*
Other renewable energy sources	*45,865*	*43,116*
SALE PRICES (EUR/MWh)		
PUN [3]	42.8	52.3
Sicily zone price (baseload)	47.6	57.5
Centre North zone price (peak)	47.6	57.9

(1) source: TERNA S.p.A. monthly report on the electrical system. Estimated data, subject to correction
(2) output net of consumption for auxiliary services
(3) Single National Price. Source: GME S.p.A.

Market scenario in Italy

The demand for electricity of the Italian electric system in 2016 amounted to 310.3 TWh, in decline (-2.1%) compared with the values recorded in the same period of 2015. With regard to Sicily, region in which ERG is present with its CCGT plant, in 2016 a requirement of around 18.7 TWh was registered, down (-4.5%) with respect to the same period in 2015, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the request for electricity came to 43.6 TWh (-2.3%).
In the same period, net internal electricity generation amounted to 275.6 TWh, up by 1.2% compared with 2015, whilst the net balance of trading with foreign countries recorded net imports of 37.0 TWh (-20.2% compared with 2015). 68% of (net) domestic electricity generation was obtained from thermoelectric plants and the remaining 32% from renewable sources. Compared with the previous year, there was greater output from thermoelectric sources (+3%) and a drop in hydroelectric output (-9%), against greater output from other renewable sources (+6%), particularly due to greater wind power output (+19%) and the substantial stability of geothermal and photovoltaic output.

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

Evolution of the regulatory scenario:

Thermoelectric: the Mucchetti amendment

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

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

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

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

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

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

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

In the month of July, the balance of the 2015 reintegration was thus requested in accordance with Article 65.28 of the 111/06 resolution and in September the advance payment of the reintegration price of the year 2016 for the first quarter was requested, in accordance with Article 3.1, Letter aa.2) of Resolution no. 521/2014, as amended by Resolution no. 496/2015.

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

Hydroelectric: concession fees

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

Italian Stability Law no. 208/2015

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

Remarks on the period performance highlights

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

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

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

Summary of the period performance highlights

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

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

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

Thermoelectric power (1)

OPERATING RESULTS	YEAR	
(EUR million)	2016	2015
Revenues from ordinary operations	**479**	**592**
EBITDA at replacement cost (2)	**77**	**107**
Amortisation, depreciation and write-downs (2)	(30)	(30)
EBIT at replacement cost (2)	**47**	**78**
Capital expenditure on tangible and intangible fixed assets	10	9
EBITDA Margin %	**16%**	**18%**

(1) includes Energy Management contribution

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

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

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

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

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

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

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

Hydroelectric power

The contribution of ERG Hydro S.r.l. to the results of programmable sources is shown below, considering that in July 2016 ERG Power Generation S.p.A. became a market operator and user of dispatching of the company's main plants. The comparative figure for 2015 refers only to December (the month in which ERG purchased the hydroelectric complex in Terni)

OPERATING RESULTS

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

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

Of the revenues of 2016, amounting to EUR 122 million, sales of electricity amounted to EUR 62 million, revenues from feed-in premium (former green certificates) amounted to EUR 51 million, revenues from MSD were EUR 6 million (relating to generation in the 1st half of 2016, while the contribution of an additional EUR 5 million in the second half of the year is represented in the thermoelectric section, which includes the contribution from Group Energy Management) and other revenues were approximately EUR 3 million.

The costs, amounting in total to EUR 38 million, are essentially attributable to the concession fees, personnel costs, insurance payments and costs for services.

The EBITDA for 2016 was EUR 84 million.

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

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

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

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

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

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

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

CAPITAL EXPENDITURE

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

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

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

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

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

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

Non-programmable sources

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

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

Programmable sources

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

TOTALERG

ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A in ERG Petroli S.p.A. The Company is positioned as one of the foremost operators in the downstream market. As indicated in the Introduction, as from the Interim management report at 31 March 2015 the adjusted balances of the Group no longer include the contribution of the joint venture TotalErg since it is no longer considered to be a core activity in the new strategic and industrial set up of the Group. The investment will continue to be consolidated using the equity method. Given the importance of the investments and in continuity with the disclosure indicated in the previous financial reports, this section contains a summary of the economic and financial indicators and the operating performance for the period.

Highlights of TotalErg performance

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

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

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

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

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

TotalErg also operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the subsidiaries Restiani and Eridis, as well as on the Specialities market, via the marketing of Lubricants, Bitumen and LPG.

TotalErg also operates in the refining and logistics sector, by means of the Sarpom Refinery in Trecate, located in one of the areas featuring the greatest intensity of consumption, with a total annual balanced distillation capacity, as far as TotalErg's share is concerned, of 1.6 million tons (approximately 30 thousand barrels/day).

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

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

With regard to the marketing sector, the results were affected by a scenario that is distinguished by substantially stable demand with respect to 2015 but with lower market margins due to the competitive environment that is also characterised by a significant and progressive rise in commodity prices with respect to the minimum at the beginning of the year, which further compressed margins. These effects have only been partly mitigated by the cost containment and efficiency-boosting actions implemented by the company and by the process for the restructuring of the fuel network.

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

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

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

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

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

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

TotalErg capital expenditure

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

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

RISKS AND UNCERTAINTIES

Risk management is an integral and fundamental part of the strategies of any organisation: it is the process whereby businesses address risks linked to their own activity with the aim of obtaining lasting benefits over time and, thus guaranteeing the sustainability of their business. The basis of good risk management consists of identifying and dealing with risks so as to allow an understanding of the potential positive and negative aspects of all the factors that might affect the organisation.

The ERG Group has implemented an Integrated Risk Management model (IRM), which is an integral part of the Internal Control and Risk Management System, to proactively contribute to the protection of the ERG Group's assets and to the efficient and effective management of the Group in line with the corporate strategies defined by the Board of Directors.

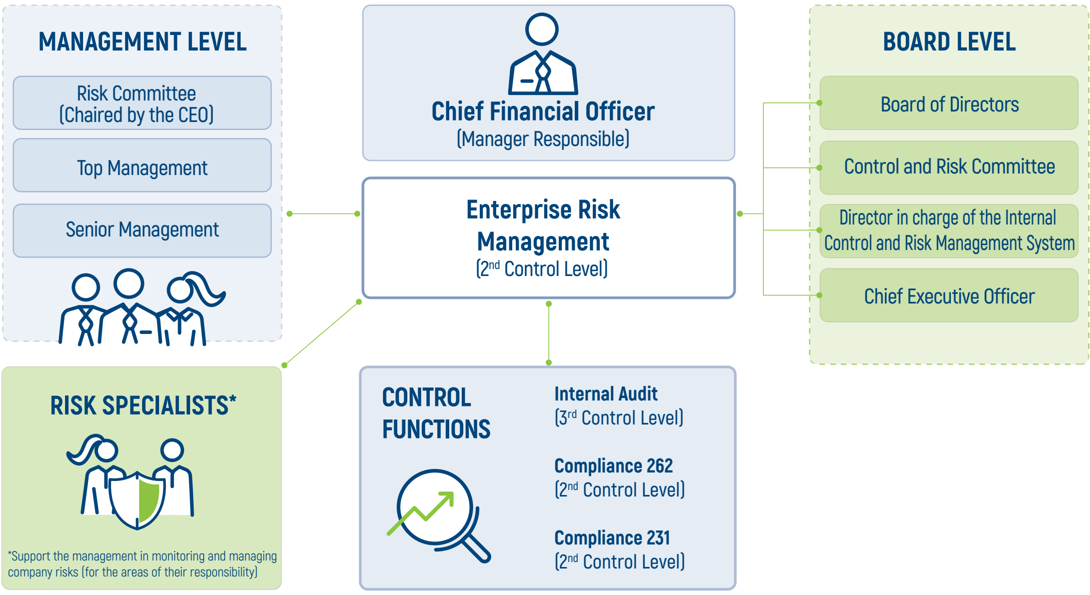
In this context, in 2016, as part of the more general "OneCompany" project for the reorganisation of the ERG Group, the Enterprise Risk Management Team was created (hereinafter, also: ERM Team) which is in the CFO's area in the organisation.

The objectives of the ERM Team include ensuring that risk assessment is carried out, monitoring the main risks of the Group and reporting to the top management, supporting the Group Management:

- in identifying, assessing and handling the main risks the Group is exposed to, both as part of normal company operations and in extraordinary projects/operations;
- in drawing up strategic plans, overseeing the analysis of the underlying risk profile.

To guarantee that these objectives are reached, the Integrated Risk Management model (IRM) requires the involvement of all Group structures, starting with the Line Management all the way to Board Level, passing through the second and third level control structures set up to guarantee and verify the effectiveness of the Risk Management System, as shown in this figure.

The new integrated risk management model



Within this scope, the IRM develops through:

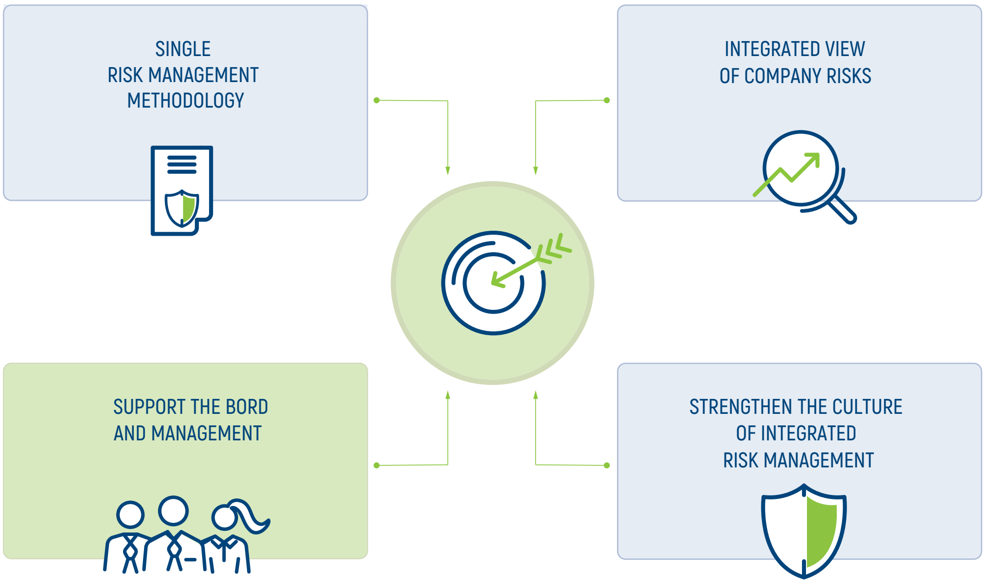
- The identification and assessment of the main risks tied to the Business Plan, as well as the definition of the respective management policies, including through market benchmarks to implement the best practices on the matter;
- The continuous verification of the operation and effectiveness of the risk management process.

The new IRM takes into account the characteristics of the Group and the businesses in which it operates. It is regularly updated to take account of developments in the environment the ERG Group operates in. It is also defined based on international best practices (ERM CO.S.O Framework) and is an integral part of the Internal Control and Risk Management System.

As a result of the implementation of the new IRM model, in 2016 the following objectives were achieved, as shown in the figure below:

- supporting the Board of Directors and the management in taking decisions that are consistent with the company's risk profile and the company objectives;
- providing an integrated, summary overview of company risks in all areas (Strategic, Financial, Operational and Compliance);
- strengthening the culture of Risk Management at all levels of the organisation;
- defining a single Risk Management methodology for the Group.

The new IRM Model and Achievements of 2016



Control the Typical RIsks of the new business model

The methodology used is characterised by regular assessments of the main risks to which the Group is exposed, both current and future. The purpose of the assessment is to determine which risks are the most significant, verify whether the management strategies and the measures put in place to mitigate them are adequate and, if necessary, identify action plans to strengthen the internal control and risk management system. The foundation of the Integrated Risk Management System is the creation of a culture of attention to risk at all levels of the organisation.

The "ERG Group Risk Management Policy" identifies the risks to which the Group's business is exposed, assigns the related responsibilities (to Risk Owners) and defines the rules for their proper management, as well as monitoring and reporting. This document is regularly revised to ensure its alignment with internal changes (e.g. changes in organisation or processes), and with the extremely dynamic external context. The latest version is dated October 2016.

With regard to the activities of the ERG Group, the main risks identified, monitored and managed are as follows:

- Risk of availability of Renewable sources (water and wind)
- Price Risk
- Default Risk in loan agreements
- Image and Reputation Risk
- Regulatory Risk
- Country Risk
- New Capital Expenditure Risk
- Business Interruption Risk
- Health, Safety and Environment (HSE) Risk

- Anti-Corruption Compliance Risk
- Human Capital Risk
- Liquidity Risk
- Credit Risk
- Interest Rate Risk
- Exchange Rate Risk
- Information & Communication Technology Risk
- Counterparty Risk

Risk of availability of Renewable sources (water and wind)

This risk identifies the possibility that the Group may incur economic damages deriving from fluctuations in the volumes of electricity generation, specifically regarding generation from renewable energy sources and the availability of the “natural resources” of wind and air.

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

- through the technological diversification of renewable energy plants (e.g. wind and hydro) and the geographic diversification of the generating plants, which reduces both the impact and likelihood of occurrence of the risk;
- the scheduling of shut-downs of renewable energy plants operating in the periods of low input from renewable energy sources, which reduces the impact of the risk;
- the use of more accurate meteorological forecasting tools (for water and wind) that further improve the volume risk management strategies.

Risk mitigation strategies are implemented in accordance with company policies.

Price Risk

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

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

- Fluctuation in electricity prices for all generation plants which sell electricity on the market.
- Fluctuation in the prices of gas, CO_2 and Energy Efficiency Certificates (TEE) attributable to the generation of the natural gas-fired electricity co-generation plant (CCGT) of ERG Power.

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

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

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

In terms of organisation, the governance model adopted by the Group requires the separation of control functions from those that manage risks in operations.
Management strategies for that risk are implemented in accordance with company policies.

Default Risk in loan agreements

This risk pertains to the possibility that upon the occurrence of certain events regulated by the loan agreements, counterparties to those contracts would be entitled to demand that ERG immediately repay the amounts loaned, consequently engendering a potential liquidity risk.
The ERG Group, to finance its own development initiatives, makes use of medium/long term debt, mainly through project financing operations or, alternatively, through corporate financing. In general, all loans are required to comply with financial covenants calculated based on the economic-financial data of the single legal entities or the consolidated Group.
The ERG Group implements a risk mitigation strategy which involves:

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

Risk management strategies are implemented in accordance with company policies.

Image and Reputation Risk

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

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

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

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

Regulatory Risk

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

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

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

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

Country Risk

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

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

ERG manages country risk through a strategy that involves:

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

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

Risk management strategies are implemented in accordance with company policies.

New Capital Expenditure Risk

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

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

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

- potential impacts;
- strategies/actions to contain/eliminate the risk;
- follow-up items to monitor the mitigation processes;
- ownership of the actions.

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

Risk management strategies are implemented in accordance with company policies.

Business Interruption Risk

This identifies the risk connected to the occurrence of natural, accidental or catastrophic events (i.e. earthquakes, floods, seaquakes, fires, etc.), in the course of the performance of business activities, with negative consequences for the Group in terms of revenues or of preservation of corporate assets, such as to place routine operations in severely critical conditions or to undermine the Group's stability and balance in a significant and durable manner.

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

In particular, the ERG Group mitigates these risks through:

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

The gradual adoption of advanced software and sensors to calculate the effective yields of the plants is also planned, to ensure an even more predictive approach as compared to the past, for scheduling and carrying out maintenance.

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

Moreover, at the hydroelectric complex in Terni specific monitoring is under way to verify the seismic safety of the dams, the production plants and the related infrastructures linked to the exceptional situation that has hit the Centre of Italy, affected by extreme earthquakes in the last few months. These activities are being carried out under the supervision of the Ministry of Infrastructure and Transport - Dam Directorate-General and coordinating with the Civil Defence. Currently, these controls have confirmed the seismic safety of all damns, infrastructures and production plants. To cover natural and catastrophic risks, to transfer its own industrial risks and third party risk and cover residual risks, the ERG Group uses the insurance market, thereby providing a high level of protection for its structures, even in the event of an interruption of activity. The contract terms and conditions of insurance policies are periodically reviewed.

Risk mitigation strategies are implemented in accordance with company policies.

Health, Safety and Environment (HSE) Risk

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

Health risks are those with potential impact and impairment of the biological equilibrium of personnel tasked with performing operations or work processes, as a result of emission into the environment of environmental risk factors, of a chemical, physical and biological nature. Safety risks are connected with the occurrence of accidents or injuries, or of damages or (more or less severe) physical disablements suffered by the persons assigned to the various work activities. Environmental risks are connected with the possibility that, due to the Group's business activities, an event may occur which triggers an alternation in the physical-chemical parameters of the water, air and soil environmental matrices, with negative impacts on the natural habitat and/or individuals' health, to the extent requiring the adoption of extraordinary emergency measures with negative consequences for the Company, in terms of the income statement, statement of financial position and/or reputation. The ERG Group, which is strongly committed to mitigating those risks, has adopted specific Health, Safety and Environment guidelines which, in line with best practices, require that all the Group's Companies: (i) comply with all current laws and regulations; (ii) pursue specific performance targets; (iii) continuously train personnel and (iv) certify specific integrated HSE managements systems.

Moreover, the ERG Group adopts safety standards and operating practices having high quality and reliability in order to assure regulatory compliance, continuous improvement of environmental performance and the effectiveness of the actions taken in terms of prevention and containment of potential environmental impacts. In particular, Companies that manage industrial assets, which by their nature are more exposed to the HSE risk, are all provided with an OHSAS 18001 and ISO 14001 certified Management system, and EMAS certification is obtained on all the main plants. The companies that do not manage industrial assets are provided with an OHSAS 18001 certified Management system. During 2016 the periodic audits were conducted by the certifying bodies, which issued and/or confirmed the certifications held by the Group companies. Moreover, the Group pursues the goal of zero injuries, through a structured oversight of health and safety issues and the development of numerous programmes for prevention and for spreading a "safety culture", targeted both to the internal personnel and to suppliers that operate at the plants. Care for people is also expressed through initiatives directed at personal development, performance assessment at all levels and sharing best practices. The adoption of the best available technologies, the application of ever more rigorous and stringent operating practices in terms of pollution prevention and reduction and the correct management of the waste produced enable the ERG Group efficiently to manage its industrial activities and the correlated health, safety and environmental issues. The ERG Group publishes an annual Sustainability Report which provides salient information and data regarding HSE and social issues connected with the Group's business.

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

Anti-Corruption Compliance Risk

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

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

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

- a system of rules of conduct adopted by the Group Companies is in place (Code of Ethics, 1, and Anti-Corruption Guidelines), based on their respective characteristics, which all employees must comply with in carrying out their work and which prohibit all types of corruption, whether active or passive, involving not only public officials but also private parties;
- specific training programs for employees have been defined and implemented to inform them, on one hand, of the anti-corruption regulatory framework (and the related penalty system) and, on the other hand, of the rules of conduct adopted by the Group (e.g. Code of Ethics, Anti-Corruption Guidelines).

Risk management strategies are implemented in accordance with company policies.

Human Capital Risk

This is defined as the risks regarding the management of Human Capital that have potential negative consequences on the achievement of the ERG Group's objectives. The following may be identified within this category:

- Human Capital Development Risk;
- Compensation and Retention Risk.

Human Capital Development Risk

This is defined as the risk that the human capital of the ERG Group, defined as the set of skills, knowledge, education, information and technical abilities that give rise to the human ability to create value for the company may be quantitatively or qualitatively inadequate with respect to the objectives of the Business Plan. As human capital is a key factor in its business model, the ERG Group monitors and manages that risk through a specific committee (the Human Capital Committee) and specific Organisational Units that guarantee that the Human Capital process is planned, promoted and constantly aligned with the business objectives. Development of ERG managerial culture is overseen through a structured process of assessing the gaps between the skills necessary to perform a specific duty and those actually possessed by the person carrying out that duty (Skill Gap Analysis), constantly monitoring the indicator (Human Capital Coverage – registered trademark) and implementing any measures for adjustment.

The Human Capital Committee also monitors the main programs and activities for human resources development and supports the Executive Deputy Chairman and the Chief Executive Officer in personnel management decisions and those regarding the remuneration system.

Compensation and Retention Risk

This is defined as the risk that the rewarding systems may be inconsistent with the market benchmarks and strategies, with a resulting economic impact for the Group caused by the loss of key professionals.

The Group mitigates that risk by developing remuneration strategies and policies based on weighing and matching

positions, aligned with market benchmarks, in order to ensure the optimum balancing of the (monetary and non-monetary) rewarding components and compliance with the retention objectives. The Group uses differentiated tools for retention based on the degree of strategic importance and seniority of its personnel. In that view, the fixed component of remuneration ensures retention through continuous benchmarking to the market, while the variable component guarantees the alignment of company objectives and the individual's interests.
The strategies for mitigating such risks are implemented in accordance with company policies.

Liquidity Risk

This is the risk deriving from the lack of financial resources to fulfil both short and medium/long-term commercial and financial commitments. This type of risk considers the possibility that the entity is unable to fulfil payment commitments because of difficulty in obtaining funds (funding liquidity risk), in liquidating assets on the market (asset liquidity risk), or because of inadequate management of the entity's own liquidity.
The consequence may consist of a deterioration of the entity's image with stakeholders, of the downgrading of the company's financial rating[22] and of consequent difficulties in accessing credit, of a negative impact on the profit or, as an extreme consequence, of an insolvency situation that jeopardises the entity's viability as a going concern.
ERG implements a risk mitigation strategy which involves the pursuit of a financial structure that is balanced in terms of duration and composition and the systematic generation of cash by its own business activities.
The financial planning process has the following objectives:

- enabling the Group to be solvent both under normal conditions of conducting business and under crisis conditions, optimising the related opportunity cost;
- ensuring an adequate level of liquidity for the ERG Group, optimising the cost of funding in relation to current and future market conditions;
- guaranteeing adequate distribution of credit lines, deposits of cash and cash equivalents and related financial assets among the main Italian and international banks;
- maintaining a balance in terms of duration and composition of debt.

Risk management strategies are implemented in accordance with company policies.

Credit Risk

This is the risk of unexpected change in the creditworthiness of a counterparty in relation to which there is an exposure significant enough to trigger potential negative consequences for the income statement and statement of financial position.
The ERG Group implements a credit risk mitigation strategy with the objective of optimising the risk profile in pursuing commercial and business targets, through:

- a structured process in which specific Organisational Units and the Credit Committee assess the creditworthiness

22 The ERG Group has never requested the assignment of a rating by international agencies, since so far it has not deemed it necessary to do so. However, the term "rating" is extended, in this case, to the judgement and assessment of the analysts (sell/hold/buy) and of credit institutions.

of each trade counterparty by assigning a specific credit ceiling to each of them which cannot be exceeded or carrying out sales against the presentation of suitable guarantees (e.g. letters of credit, bank guarantees);
- constant monitoring of total exposure level and the level of exposure for each individual counterparty and defining and implementing any corrective actions.

Risk management strategies are implemented in accordance with company policies.

Interest Rate Risk

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

The ERG Group implements an interest rate risk mitigation strategy which involves:

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

The following objectives are pursued:

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

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

Exchange Rate Risk

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

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

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

- pursuit of a balance between assets and liabilities in foreign currency, minimising net exposure and providing M/L term financing of capital expenditure in local currency, whose profitability and cash flows are mainly expressed in currencies other than the ERG Group's functional currency;

- definition of processes and responsibilities for regular monitoring the level of exposure of foreign operations outside the Eurozone;
- repatriation as soon as possible of the net cash flow generated by foreign operations, within the limits of liquidity needed to support their operation, in compliance with the Project Finance contractual restrictions and in line with the maturities of any hedging derivatives approved.

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

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

Information & Communication Technology Risk

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

- risk of uncontrolled access to networks, systems and data processing centre premises: this is identified as the risk that unauthorised persons may access systems, information or premises where computers are located and compromise their use, harming the integrity and security of systems and the information contained therein;
- risk of vulnerability of the IT systems: this is the possibility that the architecture/Framework of the ICT systems may be vulnerable to internal/external attacks or exposed to accidental events because of defects in their design, implementation, configuration and/or operating management, as well as due to the lack of awareness in the company population of the risks deriving from ICT attacks;
- risk of technological disaster: this is the possibility that the technological infrastructures serving corporate operations may be dramatically compromised by accidental events.

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

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

infrastructures, of network services and of applications for mitigating the vulnerability of the ICT systems, in line with reference best practices.

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

To mitigate potential business interruption risks on ICT processes deemed strategic, the Group has set up a Disaster Recovery system which ensures the continuity of service and data at an alternative data centre whose efficiency is subject to periodic audits.

Furthermore, considering the significance of the activities carried out daily on the electricity exchange, specific attention is focused on oversight of the market interface systems. These systems are subject to specific management and maintenance procedures to protect their stability.

Risk mitigation strategies are implemented in accordance with company policies.

Counterparty Risk

This risk is identified as the possibility that the Group may incur damages to its image or economic losses as a result of transactions with unsuitable or unreliable counterparties, characterised by a bad reputation or included on international black lists.

The ERG Group does not enter into relationships with counterparties that do not share the values of the Group, which are based on the highest ethical and moral standards. Furthermore:

- in financial transactions, ERG aims to minimise risk by exclusively interacting with counterparties that have high ratings and are recognised by the market, verifying that they are not included on any lists of parties banned by national and/or international control bodies, avoiding concentration and, on the contrary, implementing diversification strategies, as per the indications from the Risk Committee;
- in M&A operations, the Organisational Units in charge verify, also via specialised external parties, that the potential buyers, sellers or partners meet those requirements, that they are not included on national and/or international black lists, that they have no criminal convictions or administrative or civil orders that are incompatible with the nature and subject of the operation and that they are not insolvent or in default to an extent which could harm their reliability within the specific operation;
- in relation to supplies, a structured process has been defined involving: the qualification (economic-equity, technical and HSE) and selection of suppliers according to formally defined parameters and criteria; the use of financial tenders for the procurement of goods and/or services; the definition of a threshold of cumulative purchases for each single supplier and the development of specific internal contracts that include escape clauses.

Risk management strategies are implemented in accordance with company policies.

HEALTH, SAFETY AND ENVIRONMENT

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

The Group's organisational and corporate structure and the strategic choices, ever more focused on the renewable energies business supported, in 2016, the necessary revisions to the management of health, safety and environmental issues and, more in general, to the Group's Corporate Social Responsibility (CSR).

In line with the principles and guidelines set out in the Code of Ethics, the Group's activities were directed at achieving its business objectives while protecting the environment where the Group operates and safeguarding the internal and external stakeholders with whom it interacts.

The principles defined by the Group concerning health, safety and environmental were included in the new Group Sustainability Policy at the beginning of 2016. With respect to all stakeholders, the Policy expresses the values, commitments and objectives pertaining to sustainability that ERG intends to pursue. That Policy is applied together with the laws and regulations in force in all countries where ERG operates, with the principles of behaviour defined in the Code of Ethics, with the other policies and rules adopted by the Group.

Health and Safety

Throughout the Group, also in 2016, the single Organisational Units in charge of HSE issues guaranteed the management of legal obligations related to operations: updating the appointments and delegated powers pertaining to HSE, training at all levels of the organisation, specifically with regard to the updating of the training of the heads of emergency reaction teams, fire-fighting and first aid personnel.

In a framework of sensitivity and attention that goes beyond legal obligations, also declared in the Code of Ethics, the Group continued the activities relating to the management and maintenance of the certified systems of the Business Units and new, important steps were also taken towards excellence.

Environment

ERG Power's plants have pursued, also in 2016, the achievement of their targets for the improvement of environmental performance, by maintaining the "best available techniques" (BAT) in the industry, as prescribed by the Integrated Environmental Authorisations (EIA), granted in accordance with IPPC (Integrated Prevention Pollution and Control) EC Directive. In particular, note that since May 2014 all units have been fuelled solely with gaseous fuels in order to limit emissions of sulphur oxide and particulate.

As is known, ERG Power's plants, managed by ERG Power Generation, operate within a multi-company industrial site of Priolo Gargallo and supply utilities to other operator customers. Starting in 2014 and periodically in 2015 and 2016 opportunities for improvement in managing water resources have been analysed and assessed. This environmental aspect is certainly of interest to the local community. Therefore, measures regarding the possibility of recovering water resources at Unit SA9, which is dedicated to the production of demineralised water (demineralised water plant) have been notified to the competent authorities, in order for them to conduct the pertinent assessments.

Moreover, periodic and thorough tests were carried out in 2016 (in line with the previous years) in the presence of the supervisory Agencies, which resulted in confirmation of full compliance with best practices, in addition to the prescriptions of the IEA and the accuracy and reliability of the monitoring and control activities, in particular for atmospheric emissions and water discharges. Other objectives consolidated in 2016, for which more details are provided in the EMAS Environmental Declaration of ERG Power regard:

- an analysis of energy consumption to identify potential measures for improving energy efficiency;
- increased efficiency of maintenance activities.

Management and Certification Systems

After obtaining OHSAS 18001:2007 certification of their Health and Safety Management Systems in the workplace at the end of 2015, ERG S.p.A. and ERG Services continued in 2016 carrying out the activities to guarantee the operation of the systems. In November they passed their first supervisory audit by the certifying body.

ERG Power Generation S.p.A., as the operator of the ERG Power S.r.l. plants (company which, in turn, it owns), fulfils all of the obligations and prescriptions in pursuit of the policy and objectives set by the Management. ERG Power Generation S.p.A. has defined its Integrated Management System (IMS) as the aggregate of "organisational structure, procedures, processes and resources necessary to implement Quality, Environment and Safety Management".

The Integrated Management System has the following purposes:

- identify and describe in detail the production processes managed, illustrating the various processes, interfaces, their input and output and control elements;
- measure and keep processes under control, to achieve the planned results in compliance with the principles of effectiveness, efficiency and continuous improvement;
- manage the processes in accordance with the requirements of the ISO 9001, ISO 14001 and OHSAS 18001 standards.

Consistently with the Group's Policy, also in 2016 the certifications of the Integrated Management System of ERG Power Generation S.p.A. according to the international standards ISO 14001 Environment and OHSAS 18001 Health and Safety, as well as ISO 9001 were confirmed. During these certification processes, no significant findings arose, but only observations/recommendations to improve certain processes. Thus, the management of company processes pertaining to environment and health and safety in the workplace was deemed effective.

Another important objective achieved by ERG Power S.r.l. as the owner of the industrial assets in 2015, confirmed in 2016, was EMAS registration, obtained pursuant to Regulation EC 1221/2009. After obtaining a positive opinion from the National Ecolabel and Ecoaudit Committee, last year the update to the Environmental Declaration was published regarding the information for 2015 and validated by an accredited Certifying Body.
This registration will enable ERG Power S.r.l. to more effectively pursue improvement in its environmental performance, already monitored through the Environmental Management System certified as per the ISO 14001 standard following periodic, careful audits by an accredited Agency.

As regards ERG Hydro S.r.l., back in 2005 the hydroelectric complex in Terni obtained certification of its Environmental Management System in accordance with the ISO 14001 standard, while its first EMAS registration pursuant to Regulation EC 1221/2009 dates back to 2006. This commitment is an important result that required a change of culture of all workers and a significant effort in terms of both organisation and personal commitment. As a result of the issue of the first ERG Hydro Environmental Declaration in 2016, the complex in Terni presented to stakeholders the results achieved in managing the plants from both a technical-organisational point of view and in terms of environment and safety.
ERG Hydro's continuing voluntary participation in an EU system of eco-management is an additional confirmation of the importance of the issue of environmental sustainability for the Group, to increase the effectiveness of one of the objectives of corporate social responsibility (CSR): open dialogue with the public. ERG strongly believes that only by pursuing an active dialogue with stakeholders and applying a sustainable development model can it guarantee the continuity and quality of results, combining them with full respect of the environment and local communities.

ERG Hydro S.r.l. also pursues, with a full sense of responsibility, the objective of "zero accidents", in order to protect all workers, placing the focus on a crucial, priority value, respect for and the physical integrity of individuals. An important tool for implementing these principles in the Health and Safety Management System, which complies with the OHSAS 18001 international standard, which the complex in Terni adopted at the end of 2011.
During the two certification processes confirmed in 2016, no significant findings arose, but only observations to improve certain processes. Thus, the effectiveness of management of company processes pertaining to environment and safety in the workplace was confirmed.

ERG Renew implemented its Integrated Quality, Environment and Safety System (IMS) in line with that set out in the UNI EN ISO 9001:2008, UNI EN ISO 14001:2006 and BS OHSAS 18001:2011 standards. This IMS is extended to all subsidiary companies that generate electricity from wind sources in Italy and, as regards other countries, is limited to several companies in France and Germany.
In November and December 2016, the Certifying Body conducted the audit to renew the certification of ERG Renew's IMS on conclusion of the cycle of three year.

GOVERNANCE

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

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

Corporate Governance comprises the **statutory bodies, board committees and corporate governance documents** that regulate their operation[23].

The **Board of Directors**, appointed by the Shareholders' Meeting of 24 April 2015, is composed of 12 members – 7 of which are independent[24] (one appointed by minority shareholders) – in compliance with the criterion of gender balance.

The **Nominations and Remuneration Committee**, in line with the current Corporate Governance Code, is composed of three non-executive directors, a majority of which are independent[25]. It is in charge of making recommendations to the Board of Directors for the remuneration of Directors with delegated powers or tasked with particular duties and formulating opinions for the Board of Directors for the definition of remuneration policies and incentive plans for Key Management and Top Management of the Group.

ERG has adopted a **Policy for the remuneration** of members of the Board of Directors and of key managers in line with the current Corporate Governance Code, thus aiming to stimulate the utmost alignment of the beneficiaries' interests with the pursuit of the primary objective of sustainable creation of value for shareholders over the medium/long-term. The medium/long-term monetary incentive system (LTI) envisaged for the Chief Executive Officer, Key Managers and other Top Managers of the Group has a performance target linked to the performance of the ERG share over the three-year reference period (2015-2017) and the amount of dividends per share in paid in the same period (**Total Shareholders Return**) with a weight of 40%.

23 For detailed information in this regard, refer to the section "Report on Corporate Governance and Ownership" and the 2016 Sustainability Report available on the Company's website (www.erg.eu).

24 5 Independent Directors pursuant to the Italian Consolidated Finance Act and the Corporate Governance Code and 2 Independent Directors pursuant to the Italian Consolidated Finance Act. The latter were not considered independent also pursuant to the Corporate Governance Code exclusively due to the extensive terms of office. These assessments were confirmed by the Board of Directors at its meeting of 13 July 2016.

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

In line with the provisions of the current Corporate Governance Code, the **Control** and **Risk Committee** is composed of three non-executive directors, the majority of which are independent[26] and is tasked with supporting the assessments and decisions of the Board of Directors pertaining, inter alia, to the Internal Control and Risk Management System, as well as those pertaining to the approval of periodic financial reports.

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

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

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

- the **Investment Committee**, an internal committee composed of the Chief Executive Officer, the CFO and the Top Management, tasked with providing support in assessing investment proposals by the Business Units and expressing a technical and economic-financial opinion for the Strategic Committee on the investment proposal;
- the **Strategic Committee**, composed of the Executive Deputy Chairman - Chairman of the Committee – the Non-executive Deputy Chairman, the Chief Executive Officer and 2 Directors (including one non-executive and one independent) tasked with, inter alia, providing support to the Chief Executive Officer and the Board of Directors in defining the strategic guidelines for the business, the portfolio, strategic finance and decisions relating to long-term strategic plans and regarding capital expenditure and significant acquisitions.

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

HUMAN RESOURCES

The Group's objectives set significant challenges, in terms of consistency and impact, for managing people and processes. In this area, in 2016 ERG's commitment was strongly focused on ensuring a dynamic start to achieving the challenging business plan presented to the market on 16 December 2015, working tirelessly also on its model for developing human capital and organisational capital, which is structured in four areas of action:

- continuously refining the Group's organisational structure;
- increasing the value of human assets (PEOPLE);
- aligning and motivating managers (MBO); focusing on value creation over time and retention (LTI).

Organisation & Processes

During 2016, as a result of the drive provided by the challenging targets of the 2015-2018 Business Plan, it was necessary to change the current Group Organisational Model, Fast Steering, announced at the end of 2013 and fully implemented in 2014. If, on one hand, in the last three years, the flexibility and scalability of the model made it possible to extremely quickly, efficiently and effectively support the implementation of a total business turnaround, which entailed the acquisition and sale of important industrial operations and their related assets and employees, on the other, the focus and organisational separation by generation technology began to appear anti-ethical, inefficient and ineffective in relation to the outlook and potential of the new business structure.

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

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

The new organisational structure, featuring a strong focus on process logic and the intention to "mould" the entire organisation towards a single, common vision, motivating the choice of the name "One Company", features the definition of two macro-roles:

- ERG S.p.A. – corporate – which guarantees strategic guidance, is directly responsible for business development processes and ensures the management of all the business support processes. The company is organised into 5 areas:

- Business Development, with the mission of ensuring business development in various geographical, technological and market areas;
- Administration, Finance, Planning and Control, Risk Management, M&A, IR and Purchasing;
- Human Capital, ICT and General Services;
- Institutional Relations and Communication;
- Legal and Corporate Affairs.

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

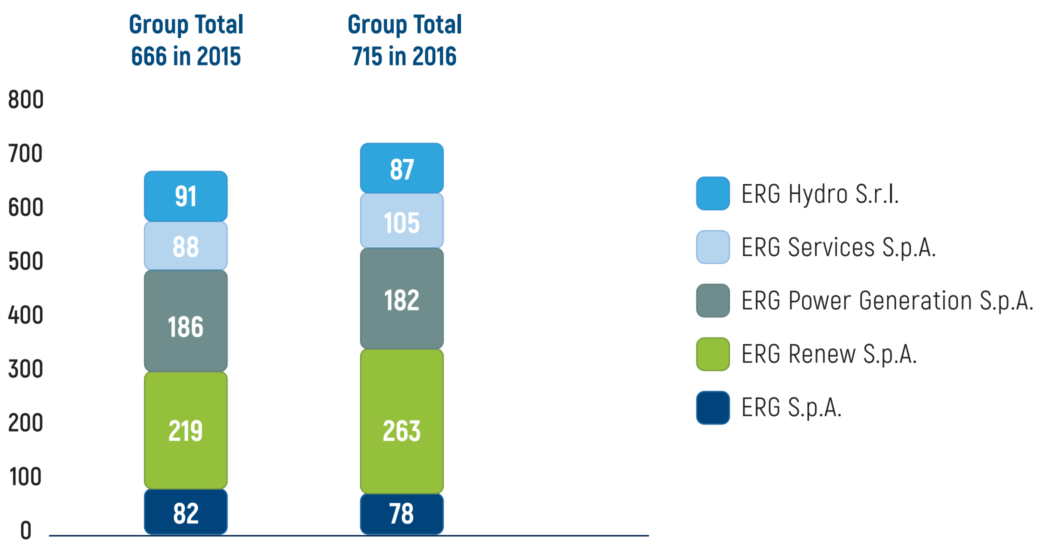
Implementation of the new Group company organisational model was partly begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A. It was planned to take full effect on 1 January 2017, specifically through:

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

In this framework of change, the Group launched a change management program, with the goal of ensuring quick realignment of operating processes and clear definition of the place in the organisation of all processes and resources involved, thus facilitating the achievement of the objectives of operating effectiveness and efficiency defined in the reorganisation plan. In terms of the Group workforce, at 31 December 2016 ERG had 715 employees (+49 compared to 31 December 2015), broken down as follows:

• ERG S.p.A. recorded an additional slight decrease in workforce compared to 2015, amounting to a total of 78 persons compared to 82 at the end of the previous year, following the complete implementation of the streamlining actions connected with the Group's new organisational model;
• ERG Renew S.p.A. and its subsidiaries (with a total number of 219 persons as at 31 December 2015) recorded an increase in workforce, reaching 263 employees as a result of 48 entries and 4 exits;
• ERG Power Generation S.p.A. recorded a workforce of 182, down slightly compared to 2015 as a result of 9 entries and 13 exits;

- ERG Services S.p.A. ended 2016 with 105 persons, compared to 88 employees at 31 December 2015, as a result of 19 entries and 2 exits;
- ERG Hydro S.r.l., a new Group company which was consolidated following the acquisition of the hydroelectric business of the Terni complex by E.ON on 1 December 2015, closed 2016 with a workforce of 87 resources, recording 7 exits and 3 entries during the year.



In addition to physiological but limited turnover in the various Group companies, the changes in workforce were mainly generated by:

- the acquisition of 2 companies in France and Germany in February, which resulted in the entry of 26 persons;
- new hiring to cover new positions generated by the pursuit of the insourcing plan at ERG Renew Operations & Maintenance;
- the gradual roll-out of processes of re-skilling and professional reassignment for several resources who were less exposed to change management or job rotation plans in the previous years, at the time of changes in the scope of business at Group level;
- other cases of transfers between Group companies, for a total of 13 persons, as part of the internal simplification and reorganisation process, as well as for professional development and optimisation of the workforce.

The average age of the Group's employees is around 44, up slightly compared to the 2015 figure, and approximately 91% of all employees holding either a secondary school diploma or university degree, in line with the figure at the end of the previous year.

At the end of 2016, in line with 2015, it was confirmed that the Group workforce was characterised by 3 main phenomena:

- concentration in ERG S.p.A. and ERG Services of the set of people with the greatest seniority in the Group, with an extremely homogeneous average age and education level;

- concentration in the Renewables BU (ERG Renew and subsidiaries) of the group of people with the lowest average age and growing presence at international level;
- the substantial redefinition of the Power BU (ERG Power Generation and subsidiaries) with a mostly new workforce featuring an education level and a seniority level in line with that of the most senior company employees.

Human Resources Development

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

For this reason, also during 2016 the Human Capital Committee held regular meetings to carry out its fundamental role in defining and monitoring the main programs and activities for human resources development, supporting the Executive Deputy Chairman and the Chief Executive Officer in major personnel management decisions.

The Committee confirmed its guidance and control role, both with regard to the evolution of the Group's Organisational Model and the sharing of new organisational changes, and as regards disseminating managerial culture and implementing strategies and instruments for their achievement. In particular, in the area of organisation, in 2016 the Human Capital Committee was extensively involved in the project that resulted in the definition of the new One Company model.

Moreover, in line with its mission, in 2016 the Committee also gave a fundamental impulse for the development of the following processes:

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

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

In this context, the Group has now brought fully on stream its integrated use with other human capital processes of the skills management model developed in 2015. An extremely innovative tool, strictly based on the need to oversee specific skills to cover single organisational roles, and capable of "measuring" the value of the wealth of skills in the Group using a centralised process that is transversal to all Group Organisational Units.

The methodology developed in 2015 has been additionally fine-tuned, acting on tools that have been introduced in the Group in recent years (the Organisational Manual, the new Group organisational model, a centralised skills catalogue) which are the foundation of the tool, as well as on specific aspects of the tool (skills catalogue, profiling method, etc.).

As a result, it was possible to calculate the Human Capital Coverage (HCC) ratio also for 2016. That ratio has thus become the frequent subject of measurements and optimisation actions, capable of expressing the effective level of coverage in relation to the desired level, in relation to the profile of skills needed to effectively carry out a specific organisational role or a certain group of organisational roles.

Measuring the HCC ratio, along with analysing business and organisational evolutions further boosts the processes of managing and developing human capital, providing more consistent guidance of job rotation and career planning processes and talent development processes and the related investments in training in relation to actual needs.

HCC Human Capital Coverage Human Capital Coverage is a registered trademark of ERG to measure Human Capital in the company, which won the AIDP Award 2016 for innovation in HR, an important recognition.

Also in 2016, the investment in training activities was kept at high levels (approximately 3973 days involving approximately 673 participants), but above all it was distinguished by its quality and focus. Today, the system comprises three areas (Managerial, Institutional and technical/specialist) and it covers all the needs of the company's personnel with an end-to-end approach (from newly hired personnel to executives). ERG is actually creating its own "corporate university", with a training platform integrated into the human capital management processes and strictly aligned with the needs dictated by the evolution of the business.

Aligning and motivating managers

The ability to align the company's management on clear, integrated objectives is a primary need of modern organisations.

In this area, the implementation of short-term and long-term incentive systems that are assigned based on targets that can be achieved by the owners continued in 2016. The **short-term** incentive is targeted to the set of Directors, Senior Managers, Managers and a selected number of Professionals. The system is based on a Management By Objectives approach (MBO), in which the selected balance between Group objectives (30%) and individual objectives (70%) matches leading companies' best practices for managerial incentives and it was designed to provide further support to the development of leadership and individual initiative. The **long-term** incentive system (LT-I) is, on the contrary, targeted to the Group Directors - Top Management. The system has been developed in accordance with market best practices and aims to stimulate the utmost alignment, in terms of objectives, of the beneficiaries' interests with the pursuit of the primary objective of sustainable creation of value for shareholders over the medium/long-term. The performance ratios that are currently applied to each beneficiary of the plan are Economic Value Added of the ERG Group and the Total Shareholder Return.

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

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

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

CULTURAL AND SOCIAL ACTIVITIES

In 2016 ERG renewed its efforts in the cultural and social arenas, operating in three main areas: "environment, health and social development" – "culture and knowledge" – "youth and sport". The initiatives mainly regarded the following:

- new entrepreneurial ideas, specifically those aimed at developing new technologies in the field of Energy;
- environmental education for new generations, on issues of climate change and the use of renewable sources;
- promoting significant cultural activities in the local areas where ERG operates;
- supporting events for young people to promote the values of sport.

Environment, Health and Social Development

In October, the first **ERG Re-Generation Challenge** began. This is a **business plan competition** designed to offer students, start-ups and companies the possibility to develop business initiatives in the area of Terni. The project, which is part of the "Terni Urban Re-Generation" initiative, promoted by the Municipality of Terni for the redevelopment of the urban areas, is organised in three stages: selection of projects, training and awards. The selection stage is carried out by a team of experts that travel in their "Barcamper" mobile office to the towns where the initiative is being held: Terni, Perugia, Macerata, Viterbo and Rieti. During the initial stage, 40 start ups are selected to participate in two days of training. Following this, 20 initiatives are identified to admit to a one-week workshop. Lastly, the three best ideas are awarded an amount of money to use to develop their projects.

In 2016 ERG participated in **XEI Labs**, an initiative promoted by SAFM (Scuola di Alta Formazione al Management di Torino), in partnership with CDI (Collège des Ingénieurs) **to favour matching technological start ups that are already structured and mature with large industrial groups** (ERG, Atlantia, CLN and FCA). The original formula of Open Innovation was able to involve start ups from 10 European countries and Israel that meet the innovation needs expressed by industrial operators.

From March to May, the third annual **environmental education project "Vai col vento!" ("Go with the Wind")**, promoted by ERG and dedicated to eight grade students in the municipalities where the Group's wind farms are located, was held. The project, which has been sponsored by the Ministry of the Environment since its inception, as well as by the Carabinieri since 2016, involved around 1,500 students residing in Sicily, Calabria, Basilicata, Campania, Molise, Puglia and Sardinia. The initiative involved classroom lessons focused on the sources of renewable energy, wind energy in particular, on environmental issues, on climate change and energy efficiency. The didactic portion was supplemented by guided tours of the wind farms, in which ERG technicians illustrated the various stages of construction, management and operation of a wind farm up to the generation of electricity.

Since 2010, ERG has created the "**School Project**", carrying out activities within schools of all levels in the Siracusa province. Specifically, in 2016, ERG supported the Legality Project of the Provincial Department of the Siracusa Carabinieri through the competition entitled "Un casco vale una vita" ("A helmet is worth a life") for eighth grade students. ERG also supported "Icaro 2016", a road education project organised by the Provincial Department of the Siracusa Traffic Police, which involved around 2,000 high school students.

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

ERG supported the "**Umbria Jazz Assist**" even, organised by "Fondazione Umbria Jazz" in partnership with the Umbria Region, with two concerts held in September and October. All proceeds of the concerts were donated **to the people affected by the earthquake** in Umbria, Marche and Lazio. ERG also contributed to the **Italian Red Cross of Terni** project to expand the fleet of vehicles to enhance the assistance services for the around 200 displaced people in the areas of Preci, Norcia and Visso, who are currently being hosted at medical facilities and hotels in Terni.
ERG supports the **Istituto G. Gaslini of Genoa**, a centre of international excellence in treating childhood diseases, and the **Fondazione Mus-E ONLUS**, a non-profit that promotes projects specifically targeted to elementary schools in areas with significant social decay, involving the children in shared experience of creating art to integrate them into primary school.

Culture and Knowledge

For ERG, dissemination of the culture of sustainability is an important issue: for this reason ERG supports the "**CSR IS Salon of Sustainability and Social Innovation**", whose keyword for the 2016 event was "**Change, cohesion and competitiveness**". ERG illustrated its own experiences in the Genoa event of the initiative and participated in the national event concluding the Salon at Bocconi University in Milan. This was a significant initiative not only to promote best practices in Corporate Social Responsibility, but also to "network" several of the key players in CSR: companies and non-profit organisations, students, teachers and experts.
In 2016 the partnership with **Explora and the Museo dei Bambini** (Children's Museum) in Rome, with the exhibit "Che forza il Vento!" (The Power of Wind), dedicated to wind energy, with the goal of engaging children in discovering one of the most important and developed renewable energy sources in Italy, helping them understand the energy of the wind, through play.

Also in 2016, ERG renewed its commitment to **Fondazione INDA Onlus**, a non-profit foundation that since 1914 has organised classical shows at the Greek Theatre in Siracusa, by supporting the theatrical productions and other activities promoting classical culture during the cycle of shows at the Greek Theatre.

ERG supported the third annual "**Festival della Comunicazione**" (Communications Festival), held in Camogli in September, and the **Festival della Scienza** (Festival of Science), which was held in Genoa from 27 October to 6 November, as well as "**Umbria Jazz**."

The ERG Group is also a member of **CIVITA, an association actively involved in promoting and management of Italy's cultural heritage** and in safeguarding, enhancing and providing access to artistic and cultural assets also through exhibitions, cinema and European projects and the **Magna Charta Foundation** that is dedicated to scientific research, cultural reflection and to devising proposed reforms on major political issues.

Young people and sport

In 2016 the ERG Group was once again a sponsor of the 32nd **Torneo Ravano** (Ravano Tournament) – 23rd Coppa Mantovani (Mantovani Cup), **the largest school tournament in Europe**. The tournament, which is held at the Genoa Trade Show, includes football, rugby, volleyball and basketball matches and games, with the new addition of team cycling.
This year's record event involved over 5,000 children who played and, above all, had fun over 10 days of sports.

In 2016 the "**Trofeo Archimede ed Elettra**" (Archimedes and Electra Trophy), considered **a classic sports event at school in the Siracusa Province** reached its 25th year. The event was held at the ERG "Riccardo Garrone" Sports Centre in Siracusa and involved 800 students of the schools in Siracusa and its province.

Since 2016 ERG has been a partner of NPC Rieti Pallacanestro (Basketball) in supporting the "**NPC Cares**" project, an initiative launched by the sports club of Rieti that **aims for psycho-physical development of young people** through sports and learning from successful champions.

ERG was a Gold Sponsor of the 17th annual **Stelle nello Sport** (Sports Stars), a project **that promotes the values of sports** to an increasing bracket of the population in Liguria, with specific focus on young people and schools, and an emphasis on disciplines that get less media coverage, on support to paralympic sports and fundraising for the Associazione Gigi Ghirotti of Genoa and the Fondazione Areo Onlus.

ERG is a sponsor of the "**AON Open Challenger - Giorgio Messina Memorial**" held in Genoa in September. This tournament, now in its 14th year, is the number two tennis event in Italy following the Italian Open at Foro Italico.

In addition to the events mentioned above, ERG supported and sponsored other cultural and social activities illustrated in the 2016 Sustainability Report available on the website www.erg.eu.

Edoardo Garrone Foundation

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

Headed up to January 2013 by Riccardo Garrone, who had a strong vocation to the Foundation and developed it in line with the historical and social framework it operated in, the Foundation, now chaired by his son Alessandro, confirms and renews its mission through internally designed initiatives, characterised by uniqueness and the ability to provide elements of innovation and progress, especially to the benefit of the young generations. Training and promotion of cultural resources and assets in the local areas are the focus of the commitment that enables the Foundation to realise the following projects in 2016: **ReStartAlp, a campus for new businesses in the mountains of Italy**, dedicated to 15 young people under 35 with business and start up ideas, involved in the economic and social development of the Italian Alps; **AppenninoLAB**, a training and orientation experience in the Appenines, dedicated to adult students from senior secondary schools in Liguria and Piedmont and the **Master in Management of Museum Assets** which offered the opportunity, to one of the groups selected to be awarded the test management of the Villa Croce Museum of Contemporary Art in Genoa and **Genova Scoprendo**, dedicated to the middle schools in the province of Genoa, with the goal of engaging young students, through the issues of sustainable development and active, responsible citizenship, in designing sustainable growth solutions for their towns.

TREASURY SHARES

At 31 December 2016 ERG S.p.A. held 1,503,200 treasury shares, amounting to 1% of share capital. In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.

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

BRANCH OFFICES

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

RELATED PARTIES

For information on transactions with related parties, including transactions with unconsolidated investee companies, see [Note 40] of the consolidated financial statements.

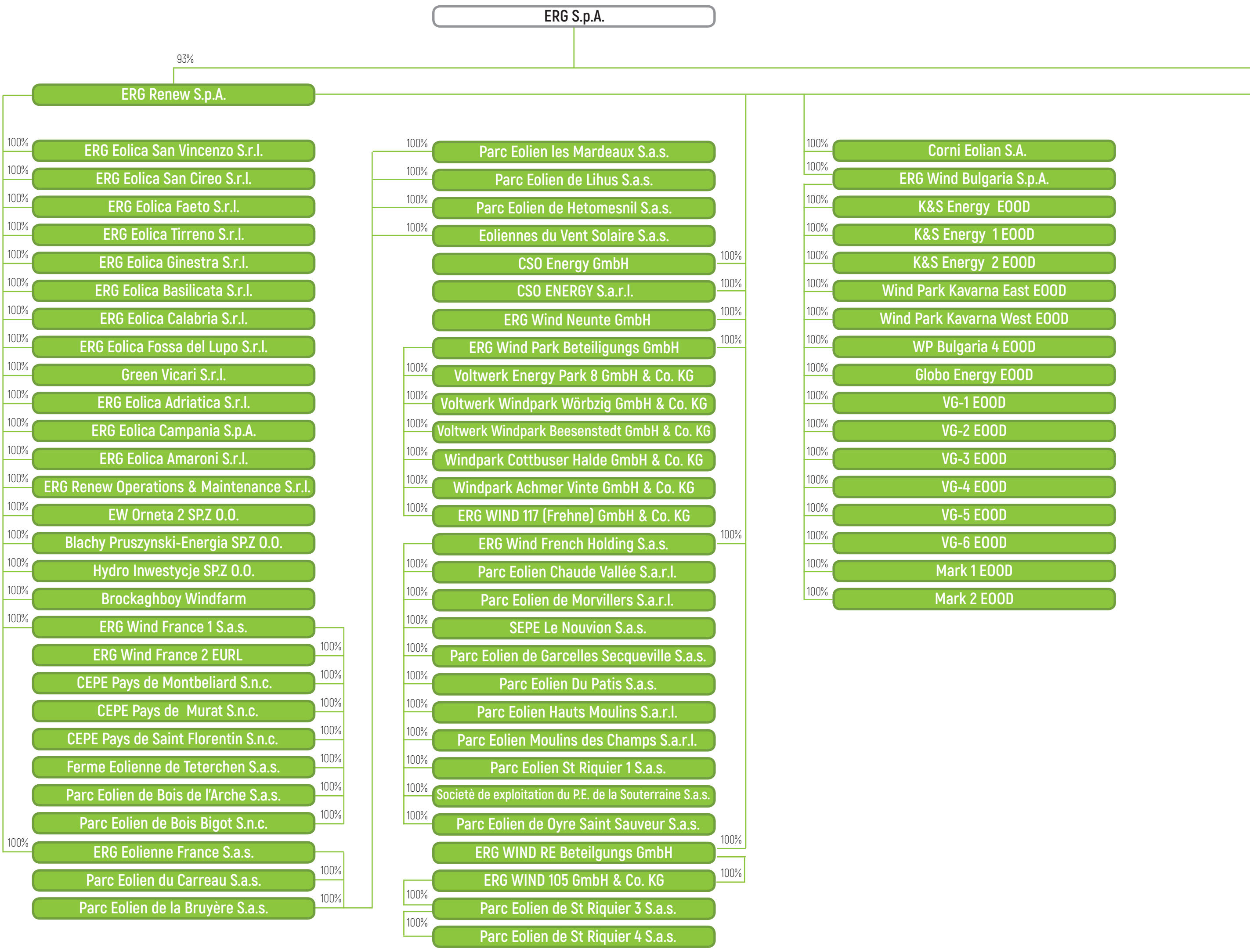
FINANCIAL STATEMENTS

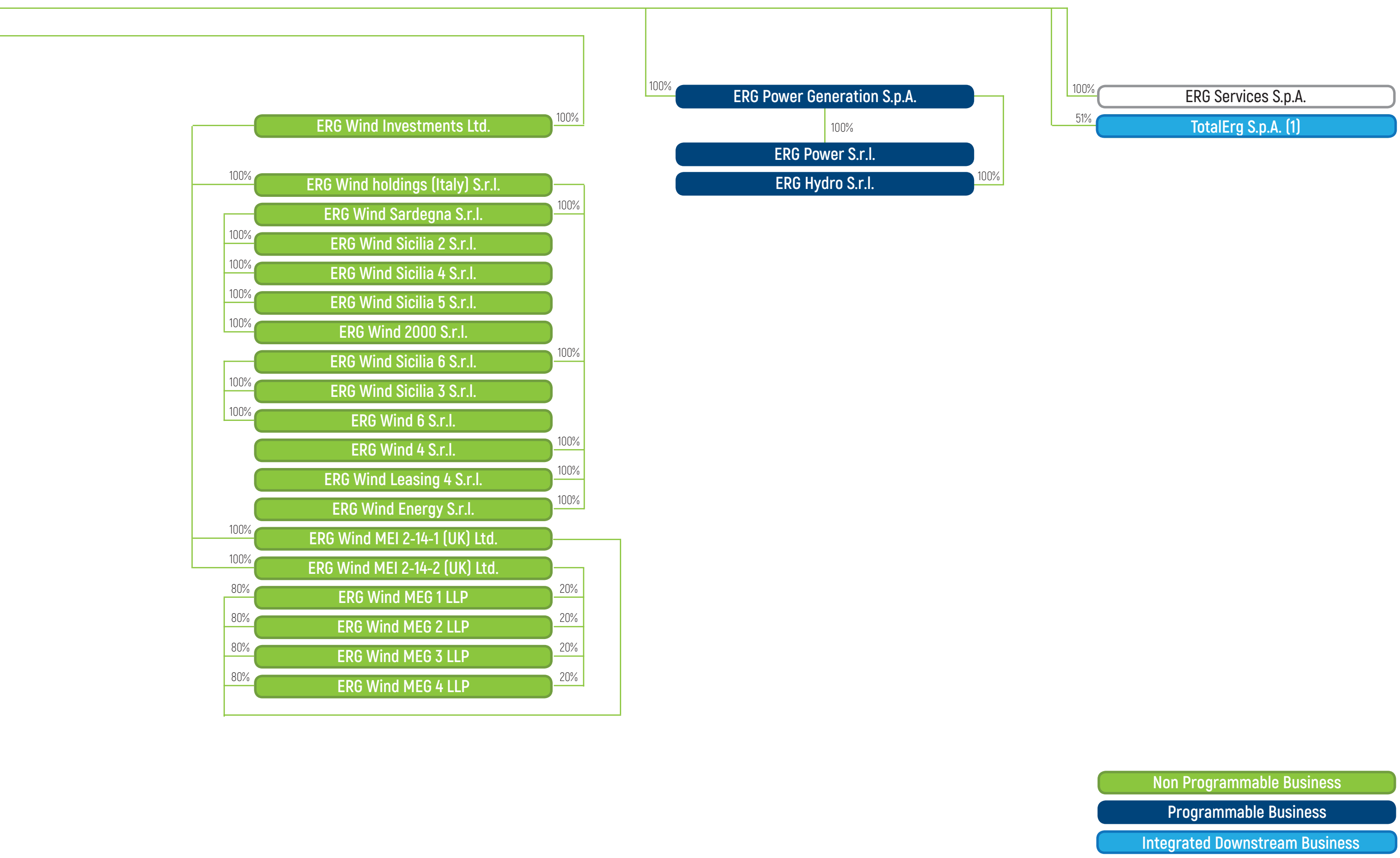
SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

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

Compared with 31 December 2015, the following is noted:

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





(1) Company measured under the equity method of accounting

FINANCIAL STATEMENTS

Income Statement

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

Please see the section "Alternative performance indicators" for the analysis of the results net of these items which more fully represent the operating performance of the group. Comparison with the 2015 figures is affected by the change in scope, as better commented in the introduction of this Report.

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

Revenues from ordinary operations

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

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

Other revenues and income

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

Costs for purchases and changes in inventory

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

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

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

Costs for services and other operating costs

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

The other operating costs mainly relate to rent, provisions for risks and charges and to taxes other than income taxes. The increase in this item mainly refers to the previously discussed change in the scope of consolidation.

Amortisation, depreciation and write-downs

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

Net financial income (expenses)

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

Net of the non-recurring expenses above, net financial expenses at replacement cost for 2016 total EUR 76 million

compared to EUR 63 million in 2015 (included in the same portion of the LukErg Renew joint venture).
Specifically, the item includes net short-term financial income of approximately EUR 1 million (EUR 9 million in 2015) deriving mainly from lesser cash management, and medium/long-term financial expenses of approximately EUR 75 million (EUR 64 million in 2015), resulting from the higher financial indebtedness of the period and the change in the scope of consolidation, described in the above paragraphs; the medium and long term amounts also reflect the effects of the derivatives hedging against the risk of interest rate fluctuation.

Net income (loss) from equity investments

In 2016, the item reflects the results of the TotalErg S.p.A. joint venture (EUR +26 million, compared to EUR -11 million in 2015), the income deriving from the sale of the equity investment in ERG Eolica Lucana (EUR +1 million), while the comparative figure of 2015 includes, in addition to the results of TotalErg S.p.A. (EUR 11 million), also the results of LUKERG Renew GmbH (EUR -3.5 million) measured with the equity method.
At replacement cost, not including the changes in the value of the inventory and non-recurring items, the income of TotalErg in 2016 increased compared to the same period of last year (EUR +14 million compared to EUR +12 million in 2015).
In 2016, the item includes income of EUR 11 million deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A. Conversely, in 2015 the item reflected expenses of EUR 38 million linked to the fair value measurement of the liability pertaining to the same option.

Income taxes

Income taxes in 2016 were EUR 29 million (EUR 13 million in 2015).
The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 19% (35% in 2015).
The tax rate at replacement cost, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 22% in 2016 (23% in 2015).
The decrease in the tax rate is mainly linked to the positive impact of the ACE (Aiuto Crescita Economica - Economic Growth Assistance) of EUR 20 million, up compared to EUR 11 million in 2015, both due to the adjustment of the tax rate applied (4.75% in 2016 compared to 4.5% in 2015) and as a result of the positive effect of the share capital increase of ERG Power Generation S.p.A. (EUR 700 million in the third quarter 2016) following significant capital expenditure.

Statement of Financial Position

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

At 31 December 2016 net invested capital amounted to EUR 3,286 million, up with respect to 31 December 2015. Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 47% (46% at 31 December 2015).

Fixed assets

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

Net working capital

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

Other assets

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

Other liabilities

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

Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS

(EUR million)	31/12/2016	31/12/2015
Medium/long-term financial indebtedness	1,934.1	1,987.8
Short-term financial indebtedness (cash and cash equivalents)	(376.9)	(540.0)
Total	**1,557.2**	**1,447.9**

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

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

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

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

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

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

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

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

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

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

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

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

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

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

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

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

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

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

(1) the item does not include inventory gains (losses) and current income tax for the period.
(2) the change in the scope of consolidation in 2016 refers principally to the line-by-line consolidation of the companies acquired from Impax Asset Management
(3) the other changes in shareholders' equity mainly refer to the changes in the cash flow hedge reserve linked to the financial derivatives.

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

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

ALTERNATIVE PERFORMANCE INDICATORS

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

Non-recurring items include significant but unusual earnings.

Inventory gains (losses)[27] are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

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

At the end of 2015, the winding up of the LUKERG Renew GmbH joint venture (50%) was finalised, with the acquisition by ERG Renew S.p.A. of the wind farms in Bulgaria and the Gebeleisis farm in Romania, whose economic contribution is therefore consolidated line-by-line as from 1 January 2016.
In consideration of the commented change in scope and for the purpose of facilitating the understanding of the performance in the periods compared, steps were taken to indicate the adjusted values for 2015 in the compared balances which included ERG's portion of the economic results at replacement cost of the LUKERG Renew GmbH joint venture (50%).

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

Reconciliation with operating results at replacement cost

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

	YEAR	
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	**2016**	**2015**
Amortisation and depreciation at replacement cost	**(253.7)**	**(163.0)**
LUKERG Renew 50% contribution at replacement cost	–	*(7.8)*
Amortisation and depreciation at adjusted replacement cost	**(253.7)**	**(170.9)**

	YEAR	
EBIT	**2016**	**2015**
EBIT at replacement cost	**201.7**	**175.1**
LUKERG Renew 50% contribution at replacement cost	–	*4.1*
EBIT at adjusted replacement cost	**201.7**	**179.1**

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

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

Notes:

(1) Ancillary charges for the prepayment of loans for wind farms in Romania and Germany

(2) Recognition of financial income deriving from the fair value measurement of the liability relating to an option to sell the minorities of ERG Renew S.p.A.

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

The table below sets out the restatement of the Income Statement at replacement cost.

(EUR million)	Reported	Non-recurring items	At adjusted replacement cost
Revenues from ordinary operations	1,025.5	–	1,025.5
Other revenues and income	16.3	–	16.3
Total revenues	**1,041.8**	**–**	**1,041.8**
Costs for purchases	(332.1)	–	(332.1)
Changes in inventories	1.9	–	1.9
Costs for services and other operating costs	(196.0)	0.9	(195.1)
Personnel costs	(62.3)	1.2	(61.1)
EBITDA	**453.3**	**2.1**	**455.4**
Amortisation, depreciation and write-downs of fixed assets	(253.7)	–	(253.7)
EBIT	**199.6**	**2.1**	**201.7**
Net financial income (expenses)	(83.9)	7.7	(76.2)
Net income (loss) from equity investments	37.7	(22.7)	15.1
Profit (loss) before taxes	**153.5**	**(12.9)**	**140.7**
Income taxes	(28.7)	(1.8)	(30.4)
Profit (loss) before minority interests	**124.9**	**(14.7)**	**110.2**
Minority interests	(2.4)	(0.5)	(2.9)
Group share of net profit	**122.5**	**(15.1)**	**107.3**

ERG S.P.A. FINANCIAL STATEMENTS

The separate financial statements of ERG S.p.A. at 31 December 2016 have been drawn up on the basis of the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS – and International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

INCOME STATEMENT

RECLASSIFIED INCOME STATEMENT (EUR million)	YEAR 2016	2015
Revenues from ordinary operations	16.6	58.3
Other revenues and income	5.4	11.0
TOTAL REVENUES	**22.0**	**69.3**
Costs for purchases and changes in inventories	(0.1)	(48.9)
Costs for services and other operating costs	(36.4)	(55.8)
EBITDA	**(14.5)**	**(35.4)**
Amortisation, depreciation and write-downs of fixed assets	(0.2)	(0.3)
Net financial income (expenses)	(1.7)	24.7
Net income (loss) from equity investments	27.4	8.6
Profit (loss) before taxes	**10.9**	**(2.3)**
Income taxes	0.5	4.3
Profit for the period	**11.5**	**2.0**

Revenues from ordinary operations

Revenue totalled EUR 17 million in 2016, compared with EUR 58 million in 2015. Note that revenues in 2015 reflected the sale to ERG Renew S.p.A. of the energy purchased from the operating companies controlled by this company, which concluded in the first half of 2015.

Other revenues and income

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

Costs for purchases and changes in inventories

Costs for purchases essentially refer to costs for consumables due to Group companies. Note that costs in 2015 reflected the purchases of energy to be sold to ERG Renew S.p.A., which concluded in the first half of 2015.

Costs for services and other operating costs

Costs for services and other operating costs mainly include personnel expenses and service costs due to Group companies.

The decrease on the previous year is mainly linked to the impact of costs linked to extraordinary operations in 2015.

Amortisation, depreciation and write-downs

The value is substantially in line with 2015 and mainly refers to depreciation of land and amortisation of software.

Net financial income (expenses)

This item mainly includes net intercompany income (EUR +19 million), interest income on liquidity management (EUR +2 million) and charges on bank loans (EUR -7 million) as a result of the loan contracted for the acquisition of Hydro Terni S.r.l. and the loans concluded to refinance the short-term portion of the corporate acquisition loan concluded for the acquisition of ERG Hydro S.r.l. and the project loan for the wind farm at Corni (Romania).

The decrease compared to 2015 is mainly linked to the effects of interest rate hedging derivatives for approximately EUR 2.3 million, the financial expenses deriving from the measurement at amortised cost of mortgages in an amount of EUR 3.1 million, and the decrease in bank interest income resulting from the decrease in cash and cash equivalents following the distribution of dividends and capital expenditure for the period.

In 2016, this item includes expenses of EUR 11 million relating to the cancellation of the value of the option to sell the minorities of ERG Renew S.p.A. in consideration of the operation finalised with UniCredit in 2016. Said option was recorded in the 2015 financial statements with a positive impact on the same item of the income statement.

Net income (loss) from equity investments

In 2016 this item includes dividends distributed by ERG Power Generation (EUR +21 million) and by ERG Renew S.p.A. (EUR +6 million), dividends distributed by other companies not consolidated on a line-by-line basis (EUR +0.3 million) and allocations for provisions for risks on equity (EUR -0.2 million on ERG Petroleos).

Note that in 2015 the item mainly included dividends distributed by ERG Power Generation (EUR +12 million), the write-down of the equity investment in I-Faber (EUR -2 million) sold in 2016, the allocation of provisions for risks on equity (EUR -1 million on ERG Petroleos) and the negative adjustment for the sale of the equity investment ERG Oil Sicilia (EUR -0.5 million).

Income taxes

In 2016, income taxes were positive by EUR 0.5 million (positive by EUR 4.3 million in 2015).

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (EUR million)	31/12/2016	31/12/2015
Fixed assets	2,043.4	2,001.8
Net working capital	(38.8)	(42.8)
Employees' severance indemnities	(0.6)	(0.1)
Other assets		84.1
Other liabilities		(157.5)
Net invested capital	**1,934.5**	**1,885.5**
Shareholders' equity		
Net financial indebtedness		136.8
Shareholders' equity and financial debt	**1,934.5**	**1,885.5**

At 31 December 2016 net invested capital amounted to approximately EUR 1,934 million, an increase of approximately EUR 49 million compared with 2015.

Fixed assets

Fixed assets consist mainly of financial fixed assets. The increase is linked to the increase in the equity investment in ERG Renew following the agreement with UniCredit which involved the exchange of all the shares held by UniCredit in ERG Renew with ERG ordinary treasury shares.

Net working capital

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

Other assets

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

Other liabilities

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

Net financial indebtedness (cash and cash equivalents)

SUMMARY OF NET INDEBTEDNESS (CASH AND CASH EQUIVALENTS) (EUR million)	31/12/2016	31/12/2015
Medium/long-term financial indebtedness	674.3	695.0
Short-term financial indebtedness (cash and cash equivalents)	(431.9)	(558.2)
Total	**242.4**	**136.8**

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS (EUR million)	31/12/2016	31/12/2015
Medium/long-term bank borrowings	668.4	695.0
Current portion of mortgages and loans	5.9	–
Total	**674.3**	**695.0**

The amount of bank borrowings is substantially in line with 2015.

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

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS) (EUR million)	31/12/2016	31/12/2015
Short-term bank borrowings	2.3	110.0
Other short-term financial debts	–	–
Financial payables due to subsidiary companies	59.4	0.9
Short-term financial liabilities	**61.6**	**111.0**
Cash and cash equivalents		(616.6)
Securities and other financial receivables		(3.4)
Financial receivables due from subsidiary companies	(165.0)	(49.2)
Short-term financial assets	**(493.5)**	**(669.1)**
TOTAL	**(431.9)**	**(558.2)**

Short-term financial payables and receivables vis-à-vis subsidiaries mainly comprise the balances on the centralised treasury accounts operated with other Group companies as part of centralised management of the Group's finance function. The balance as at 31 December 2016 was particularly impacted by the decrease in cash and cash equivalents due to the payment of dividends for EUR 142 million and the loan to ERG Renew to purchase assets from Impax Management Group.

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

(EUR million)	31/12/2016	31/12/2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	11.5	2.0
Amortisation and depreciation	0.2	0.3
Change in working capital and other assets and liabilities	(7.9)	4.1
Other	0.5	2.2
Total	**4.2**	**8.7**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net capital expenditure on tangible and intangible fixed assets	(0.0)	0.1
Net capital expenditure on financial fixed assets		(266.6)
Disbursement of loan for acquisition of ERG Hydro	–	(697.6)
Total	**(41.8)**	**(964.1)**
CASH FLOW FROM SHAREHOLDERS' EQUITY		
Distributed dividends	(142.8)	(71.4)
Sale of treasury shares	77.0	–
Other changes in equity	(2.2)	(0.1)
Total	**(68.1)**	**(71.5)**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**(105.6)**	**(1,026.9)**
CHANGE IN THE BUSINESS SCOPE	**–**	**549.5**
INITIAL NET FINANCIAL INDEBTEDNESS	**136.8**	**(340.6)**
CHANGE IN THE PERIOD	***105.6***	***477.4***
FINAL NET FINANCIAL INDEBTEDNESS	**242.4**	**136.8**

NOTES ON THE RESULTS OF THE MAIN NON-CONSOLIDATED SUBSIDIARIES[28], ASSOCIATED COMPANIES AND JOINT VENTURES

ISAB Energy Solare S.r.l.

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

At the end of the year, at 31 December 2016, the company had a slight loss.

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

ERG Wind Investments Ltd.

In relation to the obligations per Article 2.6.2, Paragraph 8, of the Regulations of the Markets organised and managed by Borsa Italiana S.p.A. and taking into account the provisions of Article 36 of the Market Regulations adopted by Consob with its Resolution No. 16191 of 29 October 2007 as amended, it is hereby certified that: (i) ERG S.p.A. acquired from ERG Wind Investments Ltd.[29] - the articles of association, the composition and powers of the related corporate bodies; (ii) ERG Wind Investments Ltd. provides the Group's auditors with the information necessary to audit the annual and infra-annual accounting statements and reports of ERG S.p.A. and has a suitable administrative-accounting system, capable of regularly delivering to the Group's Head Office and auditors the economic and financial data required for the preparation of the consolidated financial statements. The accounting situation of ERG Wind Investments Ltd, prepared for the purposes of the preparation of the consolidated financial statements at 31 December 2016, is provided below.

RECLASSIFIED INCOME STATEMENT (EUR million)	2016	2015
Revenues from ordinary operations	–	–
Other revenues and income	–	0.2
Total revenues	**–**	**–**
Costs for purchases	–	–
Changes in inventories	–	–
Costs for services and other operating costs	(0.8)	(0.7)
Personnel costs	–	–
EBITDA	**(0.8)**	**(0.6)**
Amortisation, depreciation and write-downs of fixed assets	(0.0)	(0.0)
EBIT	**(0.8)**	**(0.6)**
Net financial income (expenses)	(27.5)	(31.3)
Net income (loss) from equity investments	53.9	43.2
Income (loss) from ordinary operations	**25.7**	**11.3**
Net non-recurring income (expenses)	–	–
Profit (loss) before taxes	**25.7**	**11.3**
Income taxes	11.2	9.2
Net profit	**36.9**	**20.5**

28 for additional details on the TotalErg joint venture, please refer to the specifically dedicated chapters.
29 An indirectly controlled foreign company not belonging to the European Union, which has significant relevance according to the provisions of Title VI, Paragraph II of the Issuers' Regulations.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION
(EUR million)

	31/12/2016	31/12/2015
Intangible fixed assets	(0)	–
Tangible fixed assets	–	–
Equity investments and other financial fixed assets	1,141	1,141
Fixed assets	**1,141**	**1,141**
Inventories	–	–
Trade receivables	–	–
Trade payables	(0)	(1)
Excise duties payable to tax authorities	–	–
Net working capital	**(0)**	**(1)**
Employees' severance indemnities	–	–
Other assets	53	61
Other liabilities	(35)	(37)
Net invested capital	**1,158**	**1,164**
Group Shareholders' equity	147	103
Minority interests	–	–
Medium/long-term financial indebtedness	636	688
Net short-term financial indebtedness	375	373
Shareholders' equity and financial debt	**1,158**	**1,164**

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

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

- the definition of business strategies and of the corporate governance systems and shareholding composition;
- the determination of shared general policies with respect to human resources, accounting, budgeting, taxes, information & communication technology, procurement, finance, capital expenditure, risk management, communication, institutional relations and corporate social responsibility.

Taking into account the new corporate organisational model adopted by the Group up to 31 December January 2016 and in particular the role of ERG Services S.p.A. within the aforesaid reorganisation, the directly and indirectly controlled Italian subsidiaries with respect to which in 2016 the management and coordination activity within the scope outlined above was carried out in accordance with Article 2497 et seq. of the Italian Civil Code were:

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

- ERG Eolica Adriatica S.r.l.
- ERG Eolica Amaroni S.r.l.
- ERG Eolica Basilicata S.r.l.
- ERG Eolica Calabria S.r.l.
- ERG Eolica Campania S.p.A.
- ERG Eolica Faeto S.r.l.
- ERG Eolica Fossa del Lupo S.r.l.
- ERG Eolica Ginestra S.r.l.

- ERG Eolica Lucana S.r.l. (equity investment sold on 5 August 2016)
- ERG Eolica San Cireo S.r.l.
- ERG Eolica San Vincenzo S.r.l.
- ERG Eolica Tirreno S.r.l.
- ERG Renew Operations & Maintenance S.r.l.
- Green Vicari S.r.l.
- Eolico Troina S.r.l. in liquidazione
- ISAB Energy Solare S.r.l.
- ERG Wind Holdings (Italy) S.r.l.
- ERG Wind Sardegna S.r.l.
- ERG Wind Sicilia 2 S.r.l.
- ERG Wind Sicilia 3 S.r.l.
- ERG Wind Sicilia 4 S.r.l.
- ERG Wind Sicilia 5 S.r.l.
- ERG Wind Sicilia 6 S.r.l.
- ERG Wind 2000 S.r.l.
- ERG Wind 4 S.r.l.
- ERG Wind 6 S.r.l.
- ERG Wind Leasing 4 S.r.l.
- ERG Wind Energy S.r.l.
- ERG Wind Bulgaria S.p.A.

as well as

- ERG Power Generation S.p.A.
- ERG Services S.p.A.
- ERG Power S.r.l.
- ERG Hydro S.r.l.

Although ERG S.p.A. has a significant equity investment and a role as majority shareholder in TotalErg S.p.A., it does not carry out any management and coordination activities with respect to this company, also by effect of the provisions contained in the shareholder agreement entered into with the other shareholder.

In 2016, ERG S.p.A. continued managing the various directly and indirectly owned interests, also via service contracts for staff activities, for a total consideration of EUR 14.2 million.

ERG S.p.A. also manages, as consolidator, the Group's VAT and domestic tax consolidation with the Group's main subsidiaries. In this regard, starting from the three-year period 2016-2018, ERG Power S.r.l. was included in the "tax consolidation regime" of ERG S.p.A., while up to 2015 it was part of the "tax consolidation regime" of the parent company San Quirico.

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

Privacy

Again in 2016 the ERG Group invested suitable resources and skills in Compliance as regards Privacy. The structure of internal regulations was systematically updated as well as the system of appointments and delegated powers, aligning them with the changes in external regulations and internal organisational rules, to guarantee compliance with the provisions of the Privacy Code (Italian Legislative Decree 196/2003) and the Measures issued by the Personal Data Protection Authority.

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

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

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

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

The wind farms, with an installed capacity of 48.4 MW have an expected average output of approximately 84 GWh, equal to approximately 66,000 t of CO_2 emissions avoided. They came on stream in 2007 and have an average incentive expiry date of 2027.

The price paid in terms of equity value amounts to EUR 14.4 million, equal to an enterprise value of approximately EUR 40 million, with average annual EBITDA forecast at around EUR 5 million.

The closing is expected in the second quarter of 2017, once the authorisation is obtained from the antitrust authority in Germany.

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

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

BUSINESS OUTLOOK

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

Non-programmable sources

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

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

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

Programmable sources

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

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

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

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

ERG's cash generation will reduce indebtedness by approximately EUR 100 million to approximately EUR 1,450 million (EUR 1,557 million in 2016) against new planned capital expenditure of approximately EUR 140 million, the ordinary distribution of dividends of EUR 0.5 per share and the payment of financial expenses.

RISKS AND UNCERTAINTIES FACING THE BUSINESS OUTLOOK

With reference to the estimates and forecasts contained herein, it should be pointed out that actual results may differ even significantly from those announced in relation to a multiplicity of factors, such as: future price trends, the operating performances of plants, the 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, 9 March 2017

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

Report
on corporate governance
and ownership

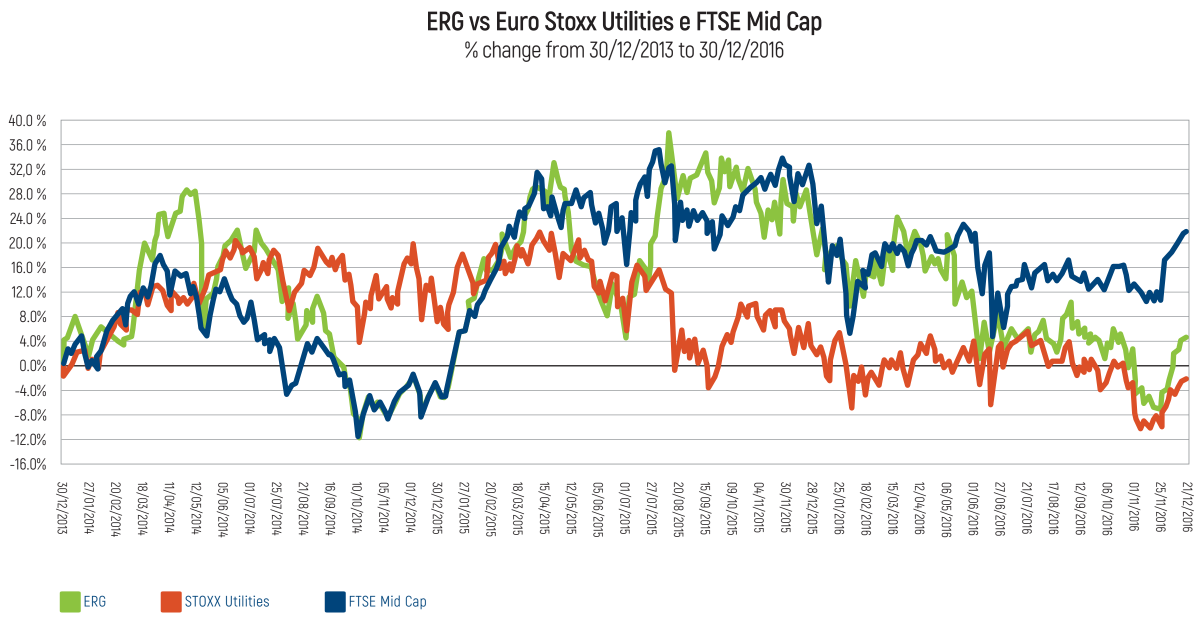
1. EXECUTIVE SUMMARY

1.1. ERG GROUP - MAIN HIGHLIGHTS

Figures in EUR millions	2014	2015	2016	% Change 2015-2016; 3 years for TSR
Revenues from ordinary operations [1]	1,021	944	1,025	8.6%
EBITDA	343	350	455	30.1%
EBIT	175	179	202	12.7%
Net financial indebtedness	330	1,448	1,557	7.5%
ROI	8.5%	5.7%	6.1%	0.4%
ROE	10.2%	10.7%	11.7%	1.0%
Capitalisation as at 31/12	1,391	1,874	1,535	-18.1%
Employees	604	666	715	8.3%
Sector		Utility		
Shareholders' Equity	1,719	1,676	1,729	
EBIT	175	179	202	

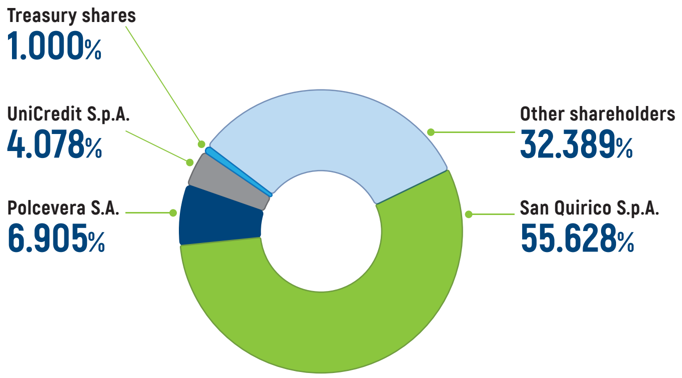
(1) at adjusted replacement cost

SHARE PERFORMANCE, 2014-2016



1.2. SHAREHOLDING STRUCTURE

OWNERSHIP STRUCTURE



OTHER CHARACTERISTICS OF THE SHAREHOLDING STRUCTURE

	Yes/No	% of share capital
Shareholders' agreement in force	Yes	0.4%
Majority vote	No	–
Shareholding by senior management	Yes	0.05%
Participation threshold for the presentation of lists	Yes	1%

1.3. CORPORATE BODIES AND BOARD COMMITTEES

SHAREHOLDERS' MEETING

Approves the financial statements, appoints the Board of Directors, the Board of Statutory Auditors and the Independent Auditors, and resolves on changes to the Articles of Association and on extraordinary transactions such as mergers, demergers and capital increases.

BOARD OF DIRECTORS

Approves the periodic financial reports, defines the strategic guidelines, the fundamental aspects of the organisational structure and the corporate governance system, resolves on significant transactions, and assesses the company's performance.

Composed of 12 members, 7 of which are independent*. Held 8 meetings in 2016, with an average duration of around 2 hours and 30 minutes.

8 Meetings | 2 h 30' Duration

BOARD OF STATUTORY AUDITORS

Oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, and the adequacy of the ICRM System**, and ensures the independence of the Independent Auditors.

Comprised of a Chairman, 2 Standing Auditors and 3 Alternate Auditors. 8 meetings were held in 2016 with an average duration of around 2 hours and 30 minutes.

8 Meetings | 2 h 30' Duration

CONTROL AND RISK COMMITTEE

Assists the Board of Directors in decisions relating to the approval of periodic financial reports pertaining to Group Governance, the ICRM System**, obligations pursuant to Legislative Decree 231/01 and the Finance Division***.

Comprised of one Chairman and 2 members chosen from among the Independent Directors. Thirteen meetings were held in 2016, with an average duration of around 2 hours.

13 Meetings | 2 h 00' Duration

NOMINATIONS AND REMUNERATION COMMITTEE

Makes recommendations regarding the remuneration of Directors with powers or specific duties, and the definition of remuneration policies and incentive plans for Group management***.

Comprised of one Chairman and 2 members chosen from among the Independent Directors. Six meetings were held in 2016, with an average duration of around 40 minutes.

6 Meetings | 0 h 40' Duration

STRATEGIC COMMITTEE

Assists the Chief Executive Officer and the Board of Directors in defining strategic business, portfolio and finance guidelines, and in decisions relating to long-term strategic plans, the Group's investment budgets and significant investments.

Comprised of one Chairman and 4 members. Seven meetings were held in 2016 with an average duration of around 3 hours.

7 Meetings | 3 h 00' Duration

* 5 indipendenti da T.U.F. e Codice di Autodisciplina e 2 indipendenti solo da T.U.F.
** Sistema di Controllo Interno e Gestione dei Rischi.
*** È competente a formulare pareri ai fini della procedura per le operazioni con parti correlate.

1.4. INTERNAL COMMITTEES

LEADERS MEETING

Shares the activities and performances of the various BUs, ensures a common vision and teamworking, enhances the Group's human and relational assets and promotes managerial culture and values, provides opportunities to compare with best practices outside the Group through testimonies and benchmarking.

HUMAN CAPITAL COMMITTEE

Defines and monitors the main human capital development programmes and activities, provides support in decisions relating to staff development and variable remuneration and medium/long-term incentive systems.

BUSINESS REVIEW COMMITTEE

Monitors the operating performance of the reference Business Unit with the Managing Director, identifies opportunities to create value in the business "as is", and preliminarily assesses potential investment/disinvestment opportunities.

SUSTAINABILITY COMMITTEE

Defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility; approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR; approves the time-frames and communication methods of the Sustainability Report and CSR initiatives.

RISK COMMITTEE

Supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks, provides the information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

INVESTMENT COMMITTEE

Provides support in assessing investment proposals by the BU, and expresses a technical, economic and financial opinion at various stages in the investment approval process.

1.5. COMPOSITION OF THE BOARD OF DIRECTORS

STRUCTURE OF THE BOARD OF DIRECTORS:

Director	Office	Role	M/m*	CRC**	NRC**
Edoardo Garrone	Chairman	Executive	M		
Alessandro Garrone	Deputy Chairman	Executive	M		
Giovanni Mondini	Deputy Chairman	Non-Executive	M		
Luca Bettonte	Chief Executive Officer	Executive	M		
Massimo Belcredi	*Lead Independent Director****	Independent (as per T.U.F.)	M	C	
Mara Anna Rita Caverni	Director	Independent (as per Corp. Gov. Code)	M	x	x
Alessandro Chieffi	Director	Independent (as per Corp. Gov. Code)	m		
Barbara Cominelli	Director	Independent (as per Corp. Gov. Code)	M	x	
Marco Costaguta	Director	Non-Executive	M		
Luigi Ferraris	Director	Independent (as per Corp. Gov. Code)	M		
Paolo Francesco Lanzoni	Director	Independent (as per TUF)	M		C
Silvia Merlo	Director	Independent (as per Corp. Gov. Code)	M		x

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

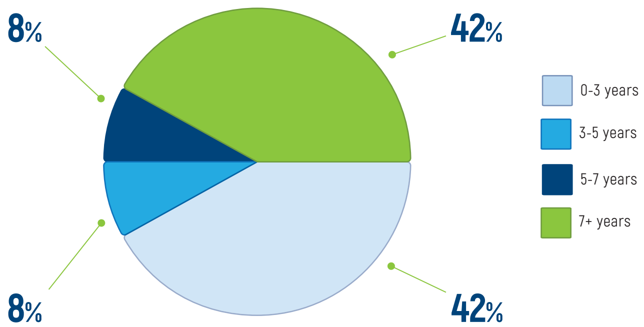
** CRC: Control and Risk Committee; NRC: Nominations and Remuneration Committee - they provide to the Board of Directors and to the relevant bodies the opinions provided for by the Procedure for Transactions with Related Parties.

*** Even if they do not satisfy the conditions laid down in the Corporate Governance Code

C: Chairman of the relevant Committee

x: Member of the relevant Committee

LENGTH OF SERVICE OF MEMBERS OF THE BOARD OF DIRECTORS (% OF TOTAL DIRECTORS)



CHANGES COMPARED TO THE PREVIOUS MANDATE

	Previous mandate (2012-2014)	**Current mandate** (2015-2017)	**Mid Cap*** (last year available)
Number of Directors	12	12	10.7
Directors elected by minority	0	1	1.6
% of the less represented gender in the Board of Directors	8%	25%	27.6%**
% Independent Directors as per T.U.F.	42%	58%	–
% Independent Directors as per Corporate Governance Code	42%	42%	44.9%
Average age of Directors	61	53	58.7
Status of Chairman	Executive	Executive	
Existence of Lead Independent Director	No	Yes	45.8%***

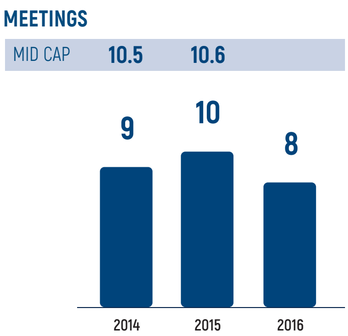
* Source: Assonime - *La Corporate Governance in Italia: autodisciplina, remunerazioni e comply-or-explain* [Corporate governance in Italy: self-regulation, remuneration and comply-or-explain] (2016).

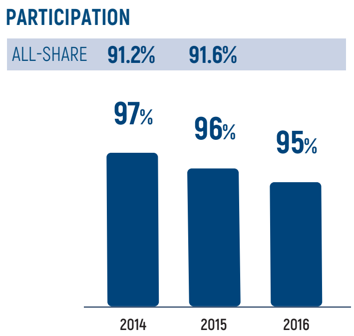
** Source: CONSOB - 2015 Report on corporate governance of Italian listed companies. Data related to companies listed on the Screen-based stock exchange (MTA) organised and managed by Borsa Italiana S.p.A.

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

1.6. OPERATION OF THE BOARD OF DIRECTORS

NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND PARTICIPATION RATE





DIRECTOR OR AUDITOR OFFICES HELD BY DIRECTORS IN OTHER COMPANIES

	Other Companies of the Group	Other listed companies				Other unlisted companies of significant size or financial, banking or insurance companies	
		Executive Director	Non-Executive Director	Independent Director	Auditor	Director or Member of the Management Board	Auditor or Member of the Supervisory Board
Edoardo Garrone	–	–	1	–	–	–	1
Alessandro Garrone	–	–	1	–	–	1	–
Giovanni Mondini	–	–	–	–	–	1	–
Massimo Belcredi	–	–	–	1	–	–	–
Mara Anna Rita Caverni	–	–	–	2	–	–	–
Alessandro Chieffi	–	–	–	–	–	2	–
Marco Costaguta	–	–	1	–	–	4	–
Luigi Ferraris	–	–	1	–	–	–	–
Paolo Francesco Lanzoni	–	–	–	–	–	1	–
Silvia Merlo	–	–	–	2	–	1	–

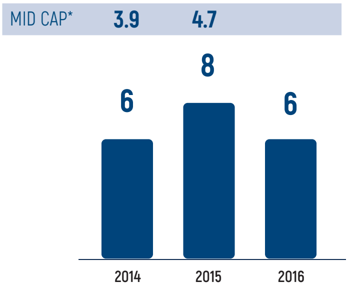
BOARD EVALUATION PROCESS

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

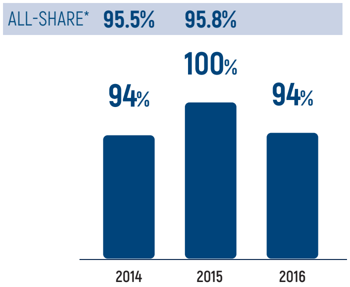
1.7. REMUNERATION

NUMBER OF NOMINATIONS AND REMUNERATION COMMITTEE MEETINGS AND PARTICIPATION RATE

MEETINGS



PARTICIPATION



*Data relating to Remuneration Committee

REMUNERATION POLICY

SHORT-TERM INCENTIVE PLANS (MBO)

	No	Yes
Existence of short-term incentive plan		x
Existence of a bonus cap		x

LONG-TERM INCENTIVE PLANS (LTIP)

	No	Yes
Existence of long-term incentive plans		x
Existence of a bonus cap		x

LTI VEHICLES	No	Yes
Cash		x
Financial instruments	x	

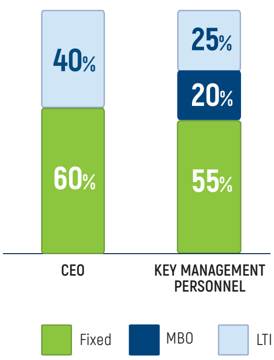
SHORT-TERM INCENTIVE PLANS (MBO)

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

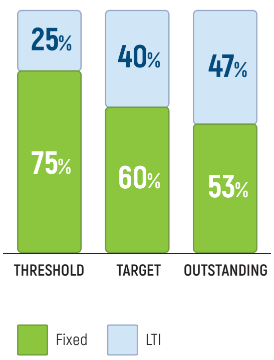
LTI parameters per CEO	Weight
Δ EVA	60%
TSR	40%

* IAS pre-tax profit at replacement cost net of income (loss) deriving from the equity investment in TotalErg S.p.A.

THEORETICAL PAY MIX FOR CEO AND KEY MANAGEMENT PERSONNEL

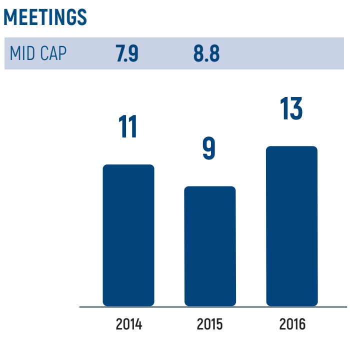


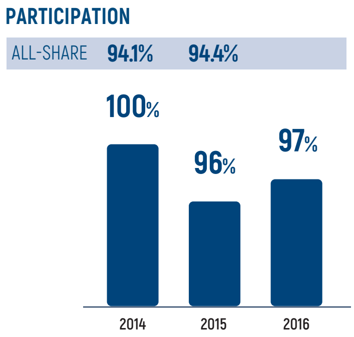
REMUNERATION FOR CEO DEPENDING ON ACHIEVEMENT OF TARGETS



1.8. CONTROL AND RISK SYSTEM

NUMBER OF CONTROL AND RISK COMMITTEE MEETINGS AND PARTICIPATION RATE

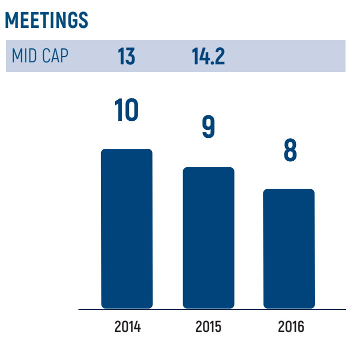


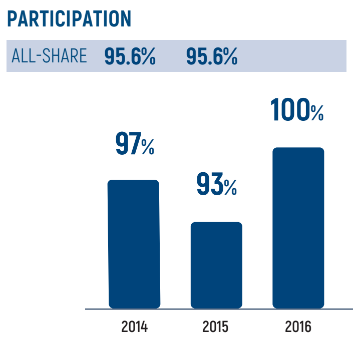


COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Auditors	Office	Independent	Other offices in unlisted companies of significant size or financial, banking or insurance companies
Elena Spagnol	Standing	X	-
Lelio Fornabaio	Standing	X	4
Stefano Remondini	Standing	X	-
Vincenzo Campo Antico	Alternate	X	
Luisella Bergero	Alternate	X	
Paolo Prandi	Alternate	X	

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





MAIN ELEMENTS OF THE CONTROL AND RISK SYSTEM

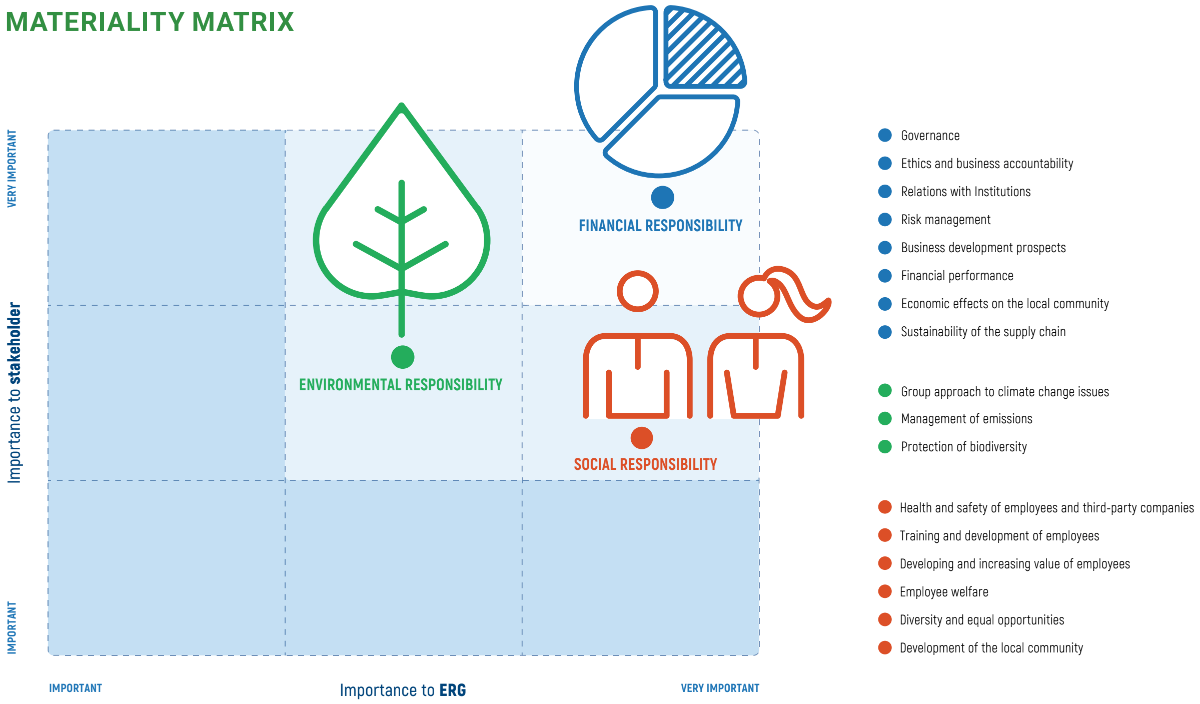
	Yes/No
Presence of the Risk Management function	Yes
Chief Risk Officer	No
Enterprise Risk Management plan in place	Yes
If yes, has this plan been discussed with the Committee?	Yes

MAIN RISKS

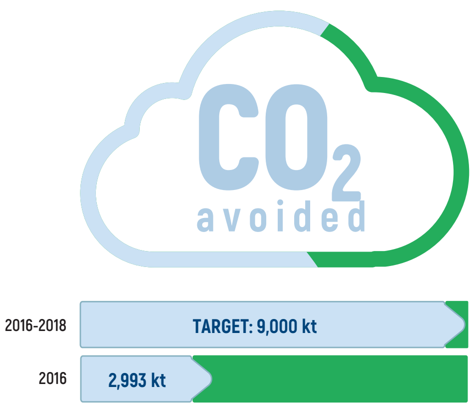
RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
1 - Natural variability of renewable contributions	Production volumes can vary as a result of the natural variability of renewable production sources (wind and water), which may adversely affect the production of renewable plants	• Technological and geographical diversification of renewable plants; • Scheduling of stoppages at renewable plants in periods in which renewable source production is low; • Use of as accurate as possible forecasting systems to define the production plan and short-term operating activities.
2 - Price Risk	Risk linked to the volatility of prices in the commodities market (in particular EE/Gas), which can significantly affect Group results	• Definition and monitoring of caps; • Use of financial instruments to hedge price risk only if there is an underlying asset; • Contractualisation, where possible, of indexed sales formulae that may allow the risk to be transferred to the customer.
3 - Changes in legislation - regulatory	Possible legislative and regulatory changes in the countries in which the Group operates that may negatively impact the achievement of business targets	• Legislative and regulatory monitoring through institutional relations, related channels, comparison with operators in the sector, and the specialised press. • Active participation in consultations to protect Group interests; • Sensitivity Analysis to assess the effect of the main regulatory changes on Group results.
4 - Breach of corporate financing covenants	Risk linked to the possibility of not complying with covenant constraints provided for under corporate financing agreements	• Careful evaluation of each new investment initiative and verification of its sustainability, including in relation to the impacts on the covenant; • Monitoring of final and expected results and of the main financial risks that may directly or indirectly affect the covenant.
5 - Failure to protect reputational capital	Internal/external events that may have a negative impact on ERG Group's reputation (including: financial performance, ethics and integrity, social responsibility, HSE Policies, ICT security, crisis management, etc.)	• Specific information and communication activities aimed at maintaining the Group's strong reputation among stakeholders, including, inter alia, a structured Corporate Social Responsibility process with specific social responsibility initiatives and the dissemination of the Sustainability Report. • Active relations with all major stakeholders and the media, and monitoring of stakeholders' perceptions; • Structured Reputational Crisis Management process that enables crisis effects to be promptly managed and contained in order to safeguard the reputation of the ERG Group.
6 - Industrial Risks and HSE	Risks related to malfunctioning systems potentially resulting in critical issues during production processes and/or having a negative impact in terms of HSE	• Implementation of a Business Continuity Management process that ensures the proper maintenance of production assets, through specific risk assessment activities and business impact analyses; • Adoption of certified (ISO 14001 and OHSAS 18001) Management Systems and regular training for all staff working within the facilities; • Specific levels of coverage for business interruption, property damage and any accidents involving staff.

1.9. SUSTAINABILITY

MATERIALITY MATRIX



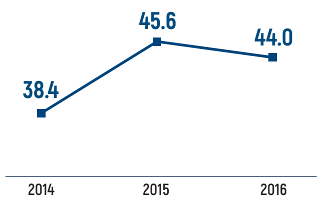
CO_2 AVOIDED: 2016-2018



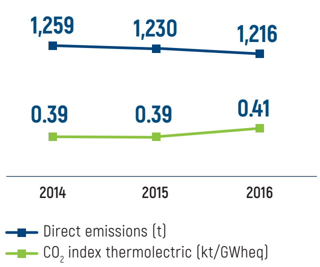
To calculate CO_2 avoided, we have used the g CO_2/kWh conversion factor published by Terna in its annual report and referred to the electrical output of each country.

SUSTAINABILITY INDICATORS

AVERAGE TRAINING PER EMPLOYEE (HOURS/YEAR)



CO_2 EMISSIONS



2. HISTORY OF THE GOVERNANCE STRUCTURE

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

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

This corporate policy was implemented through:

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

Its presence on the stock market has clearly accentuated the company’s propensity to base its conduct on the criteria of transparency and correctness. It has also accelerated the process of adapting both internal regulations and organisation to meet these criteria.
This corporate policy was therefore put into effect by means of:

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

- adherence to the Italian Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. ("Corporate Governance Code")[1] since its first edition in 1999;
- the adoption of a Code of Conduct for the Directors of companies of the ERG Group ("Group"), updated on 14 May 2014;
- the appointment of independent directors and non-executive directors to the Board;
- the adoption of a Remuneration Policy for members of the Board of Directors and key management personnel as prescribed by the Corporate Governance Code - updated on 22 March 2016 - to align the interests of management with those of shareholders and strengthen the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- the definition of Guidelines for the identification and execution of significant transactions - most recently approved by the Board of Directors on 10 March 2016 - and of other governance documents designed to ensure transparent and timely management of the Group's relationship with the market;
- the adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information, most recently approved by the Board of Directors on 13 July 2016;
- the definition of Guidelines for the Internal Control and Risk Management System, updated on 13 July 2016;
- the adoption of an integrated risk management model, with the objective of identifying, as exhaustively as possible, the risks inherent in the Group's full range of business activities;
- the adoption of a specific Procedure to ensure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG directly or through its subsidiaries, most recently approved by the Board of Directors on 13 July 2016;
- the definition of a Code of Conduct for Internal Dealing - updated on 1 January 2017 - aimed at regulating disclosure obligations in respect of the market, the Company and CONSOB with reference to transactions involving ERG shares/debt instruments issued by ERG or derivatives or other related financial instruments carried out, directly or indirectly, by members of the administrative and control bodies of ERG and of significant subsidiaries, by members of top management of the Group and by persons closely connected with them;
- the adoption of Anti-Corruption Guidelines and Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws by the companies within the Group.

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

3. INFORMATION ABOUT THE OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2016 PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED FINANCE LAW OR T.U.F.)

Share capital structure at 31/12/2016

	Number of shares	Amount of subscribed and paid-up share capital	% with respect to share capital	Listed (market) / not listed	Rights and obligations
Ordinary shares	150,320,000	EUR 15,032,000.00	100	MTA/FTSE Index Italy Mid Cap	–
Shares with limited voting rights	–	–	–	–	–
Shares without voting rights	–	–	–	–	–

Significant equity investments at 31/12/2016

Declarant	Direct shareholder	% ordinary share capital	% voting share capital
San Quirico S.p.A.	San Quirico S.p.A.	55.628	55.628
San Quirico S.p.A.	Polcevera S.A.	6.905	6.905
UniCredit S.p.A.	UniCredit S.p.A.	4.001	4.001
	Finecobank Banca Fineco S.p.A.	0.045	0.045
	UniCredit Bank AG	0.032	0.032

Other disclosures at 31/12/2016

	Yes	No	No notable disclosures in this regard
Restrictions on the transfer of securities		X	
Restrictions on the right to vote		X	
Shareholders' agreements	X		
Covenants pursuant to article 123-bis paragraph 1 subsection i) of the T.U.F.[1]	X		

[1] the information in question is contained in the Remuneration Report published pursuant to Article 123-ter of the T.U.F.

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- with regard to the provisions of Article 123-bis, paragraph 1, subsection h) of the T.U.F., it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which, at least in one case, could involve the reimbursement of the loan in question if there is a change in control

at ERG S.p.A. and in particular: (i) the pool loan granted by Banca IMI, as an agent bank in a pool of seven banks, on 30 November 2015, with an amount outstanding, at 31 December 2016, of EUR 350 million and final payment due in August 2020; (ii) bilateral financing granted by UBI on 26 February 2016, with an amount outstanding, at 31 December 2016, of EUR 100 million and final payment due in February 2021; (iii) bilateral financing granted by Mediobanca on 11 March 2016, with an amount outstanding, at 31 December 2016, of EUR 150 million and final payment due in March 2021; (iv) bilateral financing granted by UniCredit on 21 April 2016, with an amount outstanding, at 31 December 2016, of EUR 75 million and final payment due in April 2021. It should also be noted that there are in existence partnership agreements with third parties relating to certain investee companies, which allow for the possibility, but not the obligation, as is frequently the case in such agreements, whereby third parties that are shareholders of the above-mentioned investee companies, can acquire, usually at market conditions, the shares or stakes of the shareholder belonging to the Group if there is a change in control at ERG. In this regard, particular mention should be made of the case of TotalErg S.p.A.'s shareholders' agreements, under which the other shareholder, in the event of the circumstances described in the agreements and according to the procedures set out therein, has the possibility of purchasing an equity investment, owned by the ERG Group, representing 2% of TotalErg S.p.A., if there is a change in control at ERG;

- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Association, please refer to the relevant sections of this report (hereinafter also the "Report");
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Shareholders' Meeting held on 3 May 2016 authorised the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months from the date of the related resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) shares of ERG ordinary shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction;
- on 12 October 2016, as part of the transaction to exchange all of the shares already held by UniCredit S.p.A. in ERG Renew S.p.A., equal to 7,692,308 shares and corresponding to 7.14% of its share capital (see press releases of 19 December 2013 and 16 January 2014), to 6,012,800 ordinary shares in ERG, corresponding to 4.00% of the total shares making up its share capital, UniCredit S.p.A. assumed a 180-day lock-up commitment with ERG, whereby UniCredit may not sell the ERG shares acquired by effect of the exchange.

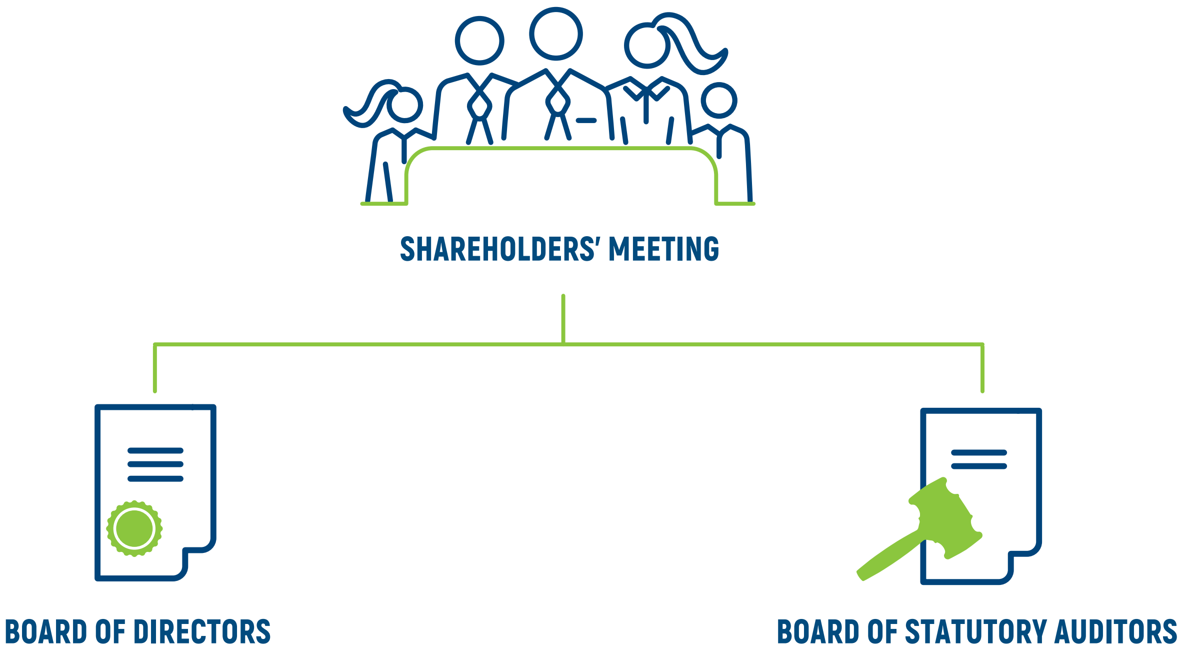
4. CORPORATE GOVERNANCE

ERG's corporate governance complies with the requirements of the Italian Civil Code and of other specific laws and regulations relating to companies, particularly those contained in the T.U.F., and complies overall with the Italian Corporate Governance Code, and the various revisions that have been made to it over time[2]. The edition of the Corporate Governance Code to which the Company adheres is available to the public on the Borsa Italiana S.p.A website. (www.borsaitaliana.it).

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

2 Please refer to the information provided in Note 1.

5. STATUTORY BODIES



Board of Directors

Edoardo Garrone
Executive Chairman

Alessandro Garrone
Executive Deputy Chairman

Giovanni Mondini
Deputy Chairman

Luca Bettonte
Chief Executive Officer

Massimo Belcredi
Independent Director
Lead Independent Director

Mara Anna Rita Caverni
Independent Director

Alessandro Chieffi
Independent Director

Barbara Cominelli
Independent Director

Marco Costaguta
Director

Luigi Ferraris
Independent Director

Paolo Francesco Lanzoni
Independent Director

Silvia Merlo
Independent Director

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 24 April 2015[3]; consequently, the appointment to the Board of Directors shall expire as at the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2017.

For the appointment of the Board of Directors, two lists of candidates have been presented, one by the shareholder San Quirico S.p.A. and the other by some institutional investors as follows[4]:

San Quirico S.p.A. list

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

Institutional investors list

1. Alessandro Chieffi**

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

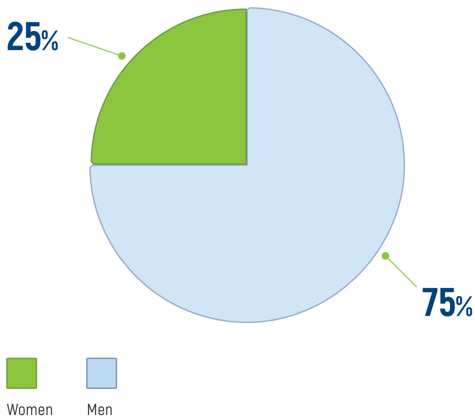
4 For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 24 April 2015, available on the Company's website (www.erg.eu) in the section "*Corporate Governance/Shareholders'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

* Candidate indicated in the list as fulfilling independence requirements in accordance with the Consolidated Finance Law (T.U.F.).

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

Pursuant to the Articles of Association, the Company is managed by a Board of Directors which, in compliance with the gender balance criterion prescribed by current law and regulatory provisions, consists of no fewer than 5 and no more than 15 members. Directors are appointed on the basis of lists presented by shareholders – in which the candidates shall be listed with a progressive number – which, accompanied by information on the personal and professional characteristics of the candidates and a declaration of whether they meet the independence requirements prescribed by the T.U.F., must be filed, in compliance with Article 147-ter, paragraph 1-bis of the T.U.F., at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to said Meeting. The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 1%) established in accordance with Article 144-quater of the Regulations implementing the Consolidated Finance Law, adopted by CONSOB with resolution No. 11971 of 14 May 1999 ("Issuers' Regulations")[5]. This share capital percentage is the same for the presentation of lists for the appointment of the Board of Directors in office[6]. Each shareholder may present or contribute to presenting only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum number of directors set out in the first paragraph of Article 15 of the Articles of Association and, with the exception of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.In accordance with Article 147-ter, paragraph 1-ter of the Consolidated Finance Law, for the first mandate in compliance with Law no. 120 of 27 July 2011, the least represented gender must receive a share equal to at least one fifth of the Directors elected.

BOARD OF DIRECTORS COMPOSITION BY GENDER



The lists indicate which Directors fulfil the independence requirements set by Article 147-ter, paragraph 4 of the Consolidated Finance Law. At least one candidate for each list, or two candidates if the Board of Directors has more than seven members, must fulfil the aforesaid independence requirements. All candidates must fulfil the integrity requirements set out by current regulations for members of the Supervisory Bodies, as well as adequate professionalism requirements for the office to be held. Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his/her own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director. For the purposes of the allotment of the Directors to be elected, no consideration is given to the lists that did not obtain votes representing a percentage of the share capital equal to at least half of the percentage required for the presentation of the lists.

5 In accordance with CONSOB Resolution No. 19856 of 25 January 2017.
6 In accordance with CONSOB Resolution No. 19109 of 28 January 2015.

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

The election of the Directors takes place as follows:

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

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list[7].

The Directors in office at the date of approval of the Report are[8]:

Edoardo Garrone	*Chairman*
Alessandro Garrone[9]	*Deputy Chairman*
Giovanni Mondini	*Deputy Chairman*
Luca Bettonte	*Chief Executive Officer*
Massimo Belcredi	*Director*
Mara Anna Rita Caverni	*Director*
Alessandro Chieffi	*Director*
Barbara Cominelli	*Director*
Marco Costaguta	*Director*
Luigi Ferraris	*Director*
Paolo Francesco Lanzoni	*Director*
Silvia Merlo	*Director*

7 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section *"Corporate Governance / Governance Documents"*.
8 For the personal and professional qualifications of current members of the Board of Directors, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section *"Corporate Governance / Board of Directors"*.
9 Covers the role of Director in charge of the Internal Control and Risk Management System.

Executive Directors

Edoardo Garrone

Alessandro Garrone

Luca Bettonte

Non-executive directors[10]

Giovanni Mondini

Marco Costaguta

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

Massimo Belcredi

Paolo Francesco Lanzoni

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

Mara Anna Rita Caverni

Alessandro Chieffi

Barbara Cominelli

Luigi Ferraris

Silvia Merlo

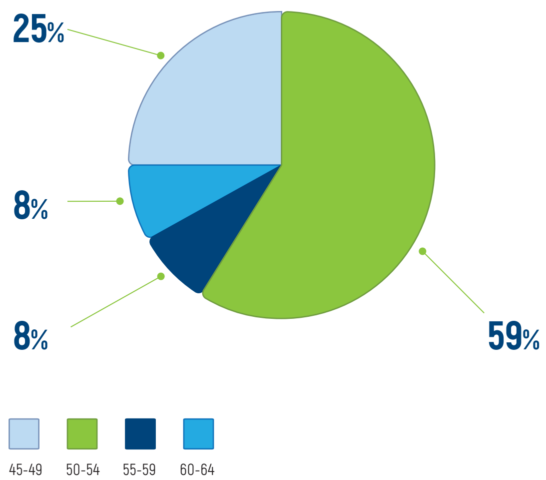
Lead independent director[11]

Massimo Belcredi

Secretary

Giovanni Marco Scollo

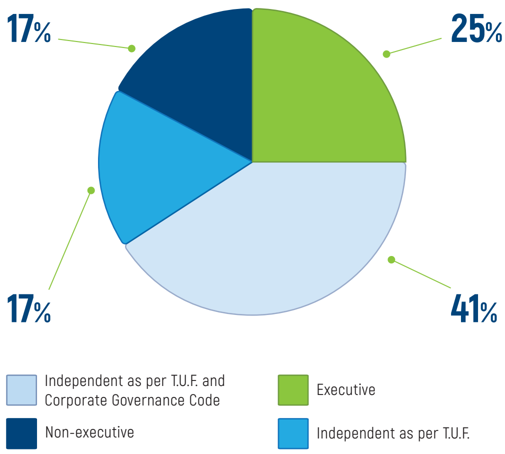
BOARD OF DIRECTORS
COMPOSITION BY AGE



10 In view of the criterion 2.C.1 of the Corporate Governance Code.
11 In the meeting of 12 May 2016, the Board of Directors, in view of the non-occurrence of the conditions set forth in the Corporate Governance Code for the appointment of a lead independent director, and in order to ensure continuity with respect to the skills and experience gained, and for the benefit and support of new independent directors, in consideration of the assessments of independence made by the Board of Directors itself in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the Director Massimo Belcredi, has appointed the latter as lead independent director.

At the first meeting after the appointment, on 24 April 2015, the Board of Directors confirmed the independence of Directors Massimo Belcredi and Paolo Francesco Lanzoni with reference to Art. 148, third paragraph, of the Consolidated Law Finance Law (T.U.F.)[12] and the independence of Directors Mara Anna Rita Caverni, Alessandro Chieffi, Barbara Cominelli, Luigi Ferraris and Silvia Merlo both with reference to Art. 148, third paragraph, of the Consolidated Finance Law, and with reference to the information contained in the current Corporate Governance Code. In the meeting held on 13 July 2016, the Board of Directors confirmed the assessments made on 24 April 2015.

BOARD OF DIRECTORS COMPOSITION BY STATUS



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

On 5 October 2016, the independent Directors held their own meeting without the other Directors present, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size as at 31 December 2016[13]:

Edoardo Garrone	*Chairman of the Supervisory Board of San Quirico S.p.A.* *Board Member of Il Sole 24 Ore S.p.A.*
Alessandro Garrone	*Director of Banca Passadore e C. S.p.A.* *Board Member of Gruppo MutuiOnline S.p.A.*
Giovanni Mondini	*Chairman of the Management Board of San Quirico S.p.A.*
Massimo Belcredi	*Director of Gruppo Editoriale l'Espresso S.p.A.*

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

13 Other than offices held in Group companies.

Mara Anna Rita Caverni	*Chairman of the Board of Directors of SNAI S.p.A.* *Board Member of Cerved Information Solutions S.p.A.*
Alessandro Chieffi	*Board Member of Intermonte SIM S.p.A.* *Board Member of Adriano Lease Sec. S.r.l.*
Marco Costaguta	*Management Director of San Quirico S.p.A.* *Board Member of OTB S.p.A.* *Board Member of Goglio S.p.A.* *Board Member of Rimorchiatori Riuniti S.p.A.* *Board Member of Innova Italy 1 S.p.A.*
Luigi Ferraris	*Board Member of Anima Holding S.p.A.*
Paolo Francesco Lanzoni	*Board Member of Castello S.G.R. S.p.A.*
Silvia Merlo	*Board Member of Gruppo Editoriale l'Espresso S.p.A.* *Chief Executive Officer of Merlo S.p.A.* *Board Member of Leonardo S.p.A.*

Other attendees of Board of Directors meetings

Meetings of the Board of Directors also include representatives from Group management to provide certain specific and timely insights on topics discussed on an as needed basis. In financial year 2016, managers took part **in every meeting of the Board of Directors**, in several cases in support of the discussion of topics on the agenda.

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

On 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors approved its Policy for the remuneration of members of the Board of Directors and of Key management personnel, taking into account in particular:

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

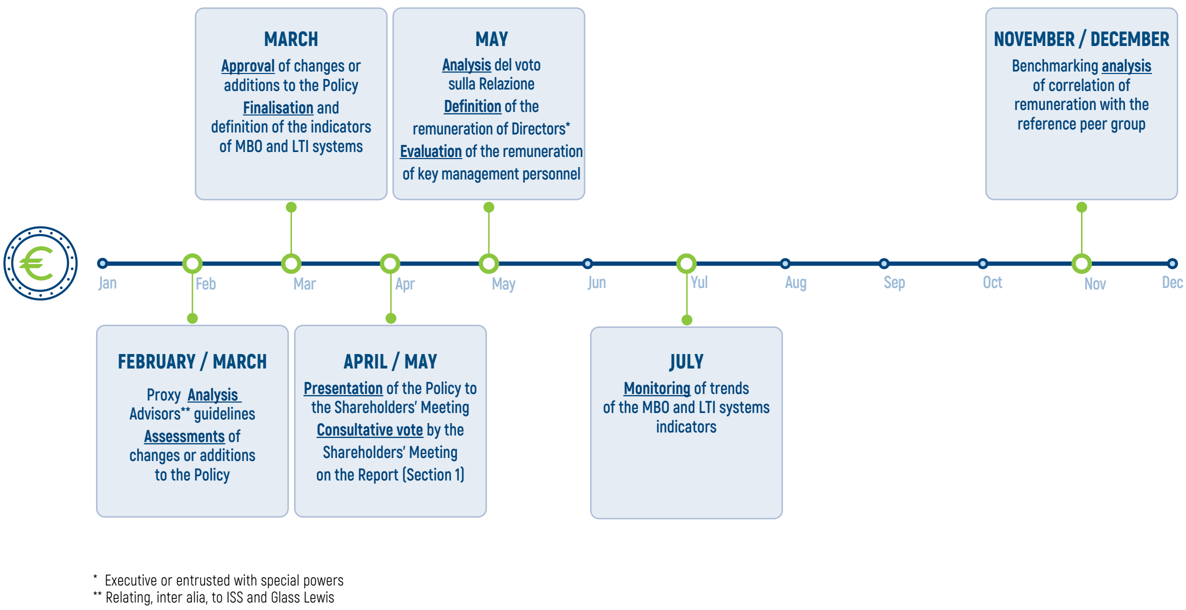
Revisions to the Remuneration Policy, proposed by the Nominations and Remuneration Committee, were made by the Board of Directors as follows:

- on 18 December 2012, to incorporate the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long-Term Incentive System ("LTI System");

- on 11 March 2015, effective as from 2015[14], to incorporate the adhesion of the Company to the current Corporate Governance Code and the general principles of the 2015-2017 LTI system in anticipation of the renewal of the Board of Directors by the Shareholders' Meeting on 24 April 2015[15];
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan.

During 2016, the members of the Nominations and Remuneration Committee submitted to the Board of Directors proposals on the remuneration of Directors (appointed by the Shareholders' Meeting of 24 April 2015) who are executive or vested with particular roles or called to be part of the Strategic Committee[16], based on the provisions of the current Remuneration Policy[17].

WORKS CALENDAR, NOMINATIONS AND REMUNERATION



14 Since the 2015-2017 LTI system is connected to ERG's share performance, it was submitted for approval to the Shareholders' Meeting held on 24 April 2015, who voted in favour of it.
15 The Shareholders' Meeting held on 3 May 2016 voted in favour of the first section of the Remuneration Report prepared in accordance with Article 123-ter of the Consolidated Finance Law.
16 Although not Group employees and with no seat on the Board of Directors.
17 For detailed information on this matter, please refer to the Remuneration Report referred to in Article 123-ter of the Consolidated Law on Finance, to be presented to the Shareholders' Meeting convened in April 2017, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

Powers

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

- to **Chairman Edoardo Garrone**
  - the authority to manage, with responsibility for supervision, direction and control, the processes of institutional and external relations, corporate social responsibility and corporate affairs, giving him all the necessary powers for the exercise of the powers granted; on 12 May 2016 the Chairman returned to the Board of Directors some of the powers granted relating to the management, through the tasks of supervision and control, of the processes of institutional and external relations and corporate social responsibility[18], whilst retaining the authority to manage, through the tasks of supervision, direction and control, corporate affairs activities, taking into account his role as Chairman of the Board of Directors and that stated in this regard in the Corporate Governance Code[19];

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

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

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

- to **CEO Luca Bettonte** (Chief Executive Officer of the Company)[20]
  - the necessary powers to perform all activities pertaining to corporate activity, except for those reserved to the Board of Directors (by law or by the Articles of Association) or delegated to other Board Members;
  - the powers and responsibilities for the protection of health, and maintenance of safety in the workplace and the environment;
  - the authority to protect persons and other subjects with regard to the processing of personal data.

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

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

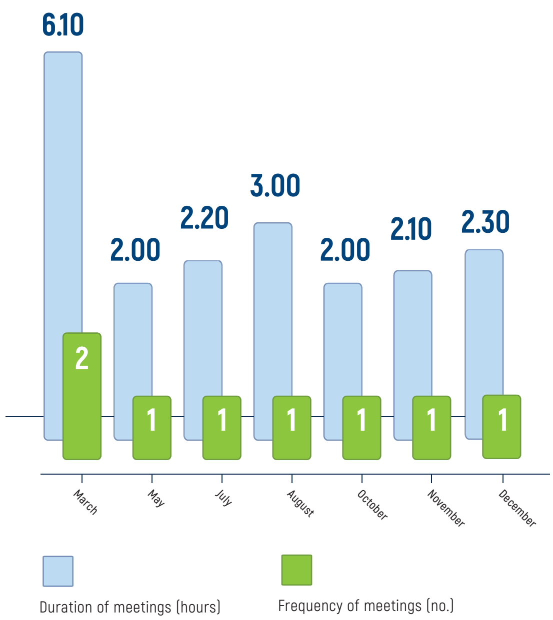
The delegated bodies report to the Board of Directors, on a quarterly basis, on the activities carried out within the scope of the powers vested in them.

Frequency of Board meetings

As prescribed by the Articles of Association, the Board of Directors meets at least once a quarter to inform the Board of Statutory Auditors on the Group's activities and on the most important business, financial and capital transactions undertaken by the Company or its subsidiaries, and particularly those where there may be a potential conflict of interests.

During the 2016 financial year, the Board of Directors held **8 meetings**, while for the year 2017 there are expected to be no fewer than **8** meetings.

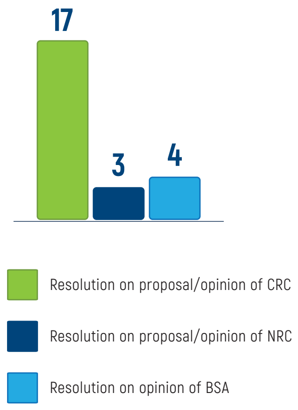
BOARD OF DIRECTORS FREQUENCY



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

In the 2016 meetings, the Board of Directors passed **48 resolutions** pertaining to as many issues (**24** of which were adopted on the basis of a proposal or of an opinion provided by the Board Committees) and for **40** of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions), said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items on the agenda.

BOARD OF DIRECTORS RESOLUTIONS PASSED



During board meetings, where appropriate, specific and timely insights were provided by representatives of Group management invited by the Board of Directors to participate.

It is also noted that, of the **8 resolutions** in relation to which Board members and Auditors had not been sent the relevant documentation in advance, **2 resolutions** concerned the immediate approval of the minutes at the end of the relevant meeting (to which said minutes referred).

The average duration of the meetings held by the Board of Directors was **around 2 hours and 30 minutes**.

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

Activities pursued

Directors made a significant contribution to the work of the Board of Directors and Committees in 2016, in terms of meeting attendance and effective participation in proceedings.

In the course of 2016, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1 of the Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.

With regard in particular to subsection g) of this criterion, the Board of Directors, at its meeting of 23 February 2017, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees during 2016, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its Committees. This document was prepared using the assessment criteria already used last year and the results of a self-assessment questionnaire prepared by Corporate Affairs at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors.

The Board of Directors, with respect to the provisions of application criterion 1.C.3. of the Corporate Governance Code, acknowledged that in light of the findings outlined in the document prepared by the Nominations and Remuneration

Committee and taking into account the number of directorships and auditorships held by the individual Directors in other listed companies and in financial, banking, or insurance companies or companies of significant size, it does not appear to be necessary to establish a maximum number of directorships and auditorships.

Lastly, with respect to the recommendations of application criterion 5.C.2 of the Corporate Governance Code, the Board of Directors acknowledged, during the meeting held on 10 March 2015, that at present the adoption of a plan for the succession of executive directors was not considered necessary. The Chairman of the Board of Directors ensured that during the meetings of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of Group management provided all directors with the necessary information to provide adequate knowledge of the industry in which the Group operates, of corporate performance and its trends and of the reference regulatory framework. In all Board meetings held during 2016, the Chief Executive Officer provided a report to the Board of Directors with regard to the exercise of the mandate and the performance of the Company and the Group.

Following the appointment of the new Board of Statutory Auditors, which took place on 3 May 2016, induction sessions for the statutory auditors were held by representatives of Group management, with reference to their respective areas of competence.

During the year, the Chairman also mentioned specific initiatives and events organised by primary stakeholders (to provide, among other things, an adequate knowledge of the principles of proper risk management) which some Directors and Auditors subsequently attended.

Board of Statutory Auditors

Elena Spagnol
Chairman

Lelio Fornabaio
Statutory Auditor

Stefano Remondini
Statutory Auditor

The current Board of Statutory Auditors, comprising 3 standing auditors and 3 alternate auditors, was appointed by the Shareholders' Meeting of 3 May 2016; consequently, the appointment to the Board of Statutory Auditors shall expire as at the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2018. For the appointment of the Board of Statutory Auditors, two lists of candidates were presented, one by the shareholder San Quirico S.p.A and the other by some institutional investors, as follows[21]:

San Quirico S.p.A. list

1. Lelio Fornabaio
2. Stefano Remondini
3. Elisabetta Barisone
4. Vincenzo Campo Antico
5. Mario Lamprati
6. Luisella Bergero

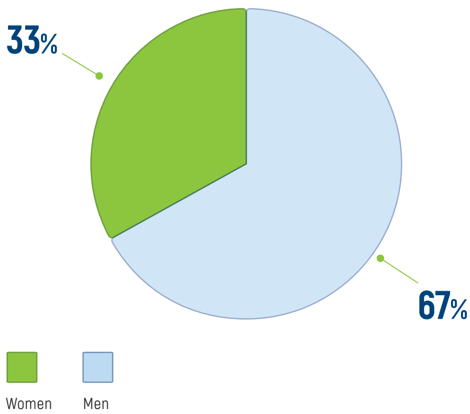
Institutional investors list

1. Elena Spagnol
2. Paolo Prandi

In accordance with the Articles of Association, the Board of Statutory Auditors consists of three standing auditors and three alternate auditors in compliance with the gender balance criterion prescribed by current laws and regulations.

The Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which, in compliance with Article 147-ter, paragraph 1-bis, of the T.U.F. (Consolidated Finance Law) (referenced by the Article 148, paragraph 2 of the T.U.F.), must be filed at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

BOARD OF STATUTORY AUDITORS COMPOSITION BY GENDER



21 For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 3 May 2016, available on the Company's website (www.erg.eu) in the section *"Corporate Governance/ Shareholders' Meeting 2016"*.

Each list consists of two sections: one for candidates to the office of standing auditor and the other for candidates to the office of alternate auditor. Each list must contain a number of candidates, listed with a progressive number, not exceeding the maximum number of auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations. Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 1%[22]. The same percentage ownership is required for the submission of lists for the appointment of Statutory Auditors in office[23].

No shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.

The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Association.

Candidates cannot be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, section 3 of the Consolidated Finance Law or if they already serve as Standing Auditor in five listed companies[24].

If, at the expiration of the term for the presentation of the lists as indicated above, only one list was filed, or only lists presented by mutually connected shareholders, according to the definition set out in the applicable regulations, were filed, then lists may be presented – in accordance with Article 144-sexies, paragraph 5 of the Issuers' Regulations – until the third day after that date. In this case, the thresholds required for presentation of the lists are halved.

Any list presented without compliance with the required prescriptions[25] shall be considered not to have been presented.

If no list is presented in spite of the completion of the aforesaid procedure, a majority vote shall be taken in order to ensure that the composition of the Board of Statutory Auditors complies with current laws and regulations and with the Articles of Association. The Shareholders' Meeting appoints the Chairman. If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation, the candidates of the single list voted. The first person on the list is elected Chairman. In the event that multiple lists are presented, the following are elected: from the list that received the highest number of votes, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among those presented and voted by minority shareholders who are not connected – even indirectly – with the shareholders who presented or voted the list that received the highest

22 In accordance with CONSOB Resolution No. 19856 of 25 January 2017.
23 In accordance with CONSOB Resolution No. 19499 of 28 January 2016.
24 It is noted in this regard that the disclosure obligations as per Article 144-quaterdecies of the Issuers' Regulations do not apply to those who serve as members of the control body of a single issuer.
25 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section *"Corporate Governance / Governance Documents"*.

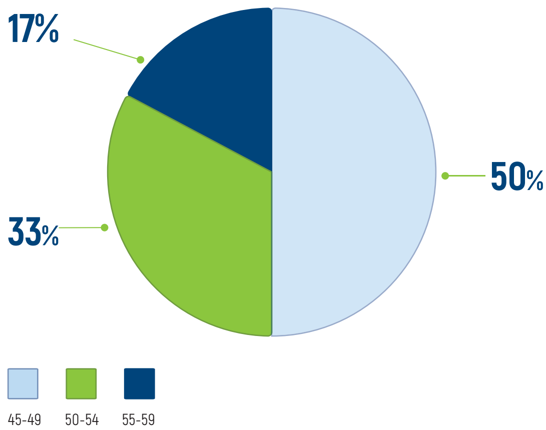
number of votes, according to current regulations and subject to the provisions of paragraph 13-bis of the Articles of Association pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list is appointed Chairman.

If the lists receive an equal number of votes, the candidate of the list that was presented by the shareholders owning the largest share or, subordinately, by the higher number of shareholders is elected.

The Statutory Auditors in office at the date of approval of the Report are the following[26]:

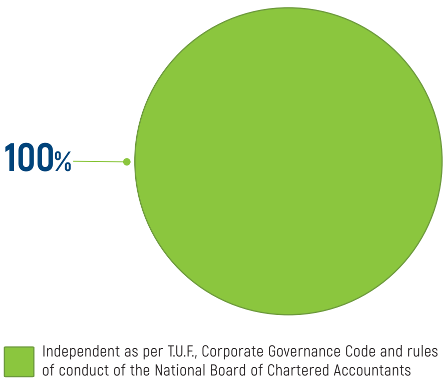
- Elena Spagnol	- Chairman
- Lelio Fornabaio	- Standing Auditor
- Stefano Remondini	- Standing Auditor
- Vincenzo Campo Antico	- Alternate Auditor
- Luisella Bergero	- Alternate Auditor
- Paolo Prandi	- Alternate Auditor

BOARD OF STATUTORY AUDITORS COMPOSITION BY AGE



The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for Directors.

BOARD OF STATUTORY AUDITORS COMPOSITION BY STATUS



The Board of Directors, in light of the information provided in this regard by the members of the Board of Statutory Auditors and of the statements by the Chairman of the Board of Statutory Auditors, during its meeting of 12 May 2016, positively assessed the independence of the members of the Board of Statutory Auditors, both with reference to the provisions of Art. 148, paragraph three, of the Consolidated Finance Law and with reference to the rules of conduct of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants and with the Corporate Governance Code for listed companies promulgated by Borsa Italiana S.p.A.

26 For the personal and professional qualifications of auditor in office, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section "*Corporate Governance / Board of Statutory Auditors*". Until 3 May 2016, the Board of Statutory Auditors was composed by Mario Pacciani (Chairman), Elisabetta Barisone and Lelio Fornabaio (Standing Auditors), Luisella Bergero, Vincenzo Campo Antico and Mario Lamprati (Alternate Auditors).

The Board of Statutory Auditors supervised the independence of the independent auditor verifying both compliance with the regulatory provisions on the matter, and the nature and extent of services, other than auditing, performed for the Company and for its subsidiaries by the independent auditor and by entities belonging to its network.

The Board of Statutory Auditors also supervised the process of financial disclosure, the effectiveness of the internal control, internal audit and risk management systems and the legal auditing of annual accounts and of consolidated accounts.

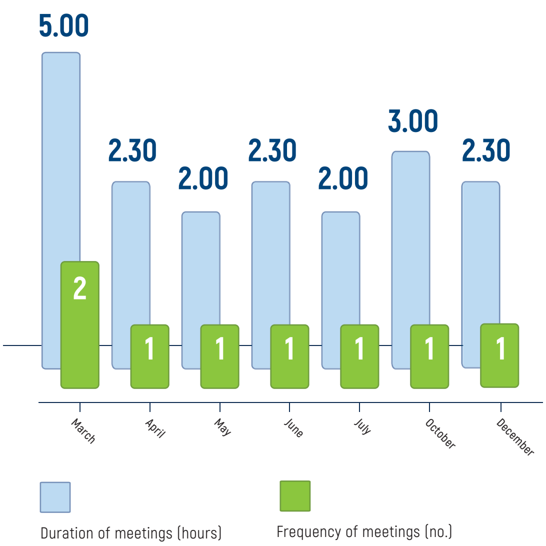
The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit Division, coordinating with the Control and Risk Committee.

During the 2016 financial year the Board of Statutory Auditors held **8** meetings, while for the year 2017 there are expected to be no fewer than **9** meetings.

The average duration of the meetings held by the Board of Statutory Auditors was around **2 hours and 30 minutes**.

As at the date of approval of this document, the Board of Statutory Auditors had met **2 times**.

BOARD OF STATUTORY AUDITORS FREQUENCY



Other appointments as director or statutory auditor held by the Statutory Auditors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size as at 31 December 2016[27]:

Lelio Fornabaio	*Standing Auditor of Astaldi S.p.A.* *Standing Auditor of Atlantia S.p.A.* *Standing Auditor of Italferr S.p.A.* *Standing Auditor of Autostrade Tech S.p.A.*

27 Other than offices held in Group companies.

Shareholders' Meetings

Article 10 of the Articles of Association states that, in compliance with laws and regulations, the holders of voting rights who exhibit a suitable certification issued in accordance with current regulations by the broker and notified to the Company according to the procedures and within the term set by current laws and regulations, are entitled to attend Shareholders' Meetings. Holders of voting rights may be represented by proxy in the Shareholders' Meeting, within the limits and according to the procedures prescribed by current laws and regulations. The proxy may be notified via certified electronic mail in accordance with the procedures indicated in the convening notice or using the different instrument which may be indicated in the notice.

Article 11 of the Articles of Association states that the Shareholders' Meeting must be convened by the governing body at least once a year, no later than one hundred and twenty days from the closing date of the financial year or, if the Company must prepare consolidated financial statements and if required by specific provisions related to the organisation or the purpose of the Company, no later than one hundred and eighty days.

Article 12 of the Articles of Association states that the Shareholders' Meeting is convened by means of notice to be prepared and published within the terms and according to the procedures prescribed by current laws and provisions.

Article 13 of the Articles of Association states that the provisions of law shall apply for the quorum of both Ordinary and Extraordinary Shareholders' Meetings and for the validity of their resolutions.

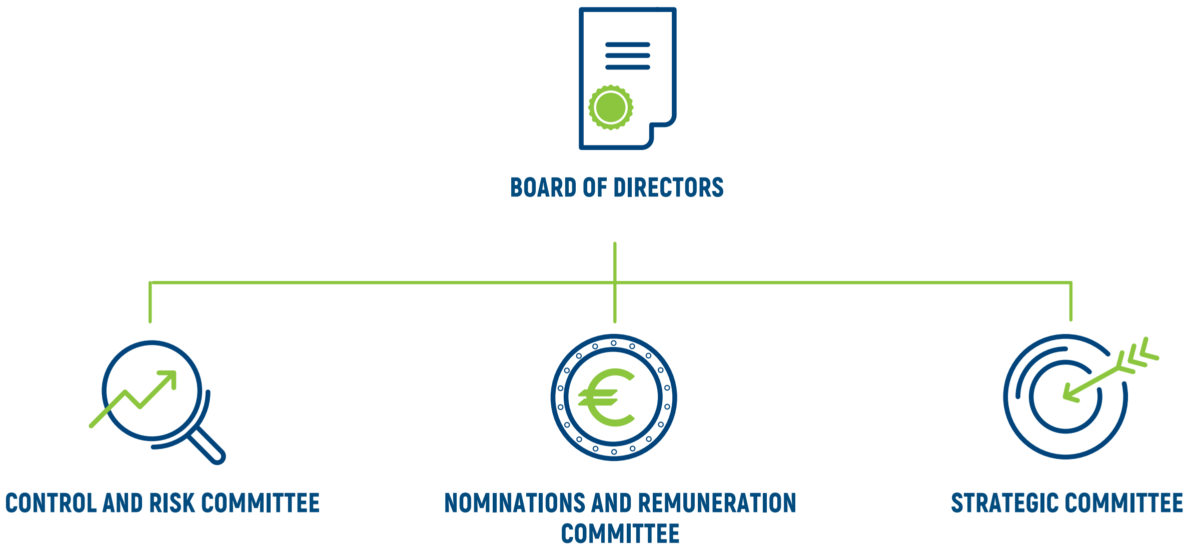
Meeting regulations

At the Ordinary Shareholders' Meeting, shareholders approved Regulations governing the proceedings of Ordinary and Extraordinary Shareholders' Meetings.

Article 14 of the Articles of Association expressly gives the Ordinary Shareholders' Meeting the possibility of adopting meeting Regulations.

5.1. BOARD COMMITTEES

The Board of Directors has set up the **Control and Risk Committee**, the **Nominations and Remuneration Committee** and the **Strategic Committee** to advise it and issue recommendations.



Control and Risk Committee


Massimo Belcredi
Chairman


Mara Anna Rita Caverni
Member


Barbara Cominelli
Member

Members:

Massimo Belcredi – *Chairman*

Mara Anna Rita Caverni

Barbara Cominelli

Giovanni Marco Scollo – *Secretary*

The current Control and Risk Committee is comprised of, in accordance with the provisions of the Corporate Governance Code, three non-executive mostly independent Directors, appointed by the Board of Directors in the meeting of 24 April 2015.

With reference to the provisions of Principle 7.P.4 of the Corporate Governance Code[28], it is noted that prior to the first meeting of the Committee held on 6 May 2015, the two independent members, considering the significant change occurred in the composition of the Committee, in order to ensure continuity with respect to the skills and experience acquired through their tenure[29], as well as for their benefit and support as new members of said Committee, taking into account the assessments of independence made by the Board of Directors in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the non-executive member of the Committee and in view the fact that the Chairman of the Committee during the vote does not enjoy special privileges over other members – with the abstention of the non-executive member – unanimously resolved to confirm the latter in the position of Chairman of the Control and Risk Committee. At the meeting on 6 May 2015, and subsequently at the meeting on 16 June 2016, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

28 *The control and risk committee comprises three independent directors. Alternatively, the committee may be comprised of non-executive mostly independent directors; in this case, the chairman of the committee is chosen from the independent directors.*

29 It should be noted that the non-executive member of the Committee - qualified on 24 April 2015 by the Board of Directors as an independent director within the meaning of the Consolidated Law on Finance but not in accordance with the Corporate Governance Code only due to the long tenure - has been Chairman the Control Committee and Risk since November 2005.

The members of the Committee have adequate accounting, financial and risk management expertise[30].
Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairman of the Board of Directors, the Executive Deputy Chairman, the Director in charge of the Internal control and risk management system, and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Chief Audit Officer, the Manager responsible for preparing the company's financial reports, the Head of Group Administration, the Head of Group Risk Management & Corporate Finance and the Head of Corporate Affairs.
Employees of Group companies, representatives of the independent auditor and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Head of Internal Audit is invited to attend the meetings in order to report to the Committee, at least once a quarter, on the activity carried out from time to time.
The Manager responsible for preparing the Company's financial reports is invited to attend the meetings in order to inform the Committee, at least quarterly (where interim management statements are published), about the accounting standards applied in the preparation of periodic financial statements and, at least semi-annually, about the activity carried out from time to time in accordance with Article 154- bis of the Consolidated Finance Law.
The Head of Group Administration is invited to attend meetings in order to report to the Committee, semi-annually, on the activity carried out from time to time with reference to Compliance with Law 262/05.

The Head of Group Risk Management & Corporate Finance is invited to attend the meetings in order to report to the Committee, at least quarterly, on the activity carried out from time to time with reference to Risk Management.
The Head of Corporate Affairs is invited to attend the meetings in order to report to the Committee, at least semi-annually, on the activity carried out from time to time with reference to Compliance with Legislative Decree 231/01.
The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.
Committee members are provided, with reasonable advance notice with respect to the meeting date (at least 48 hours before the meeting, subject to certain exceptions), with the documentation and information required to enable them to express an informed opinion on the matters under consideration. During meetings, where appropriate, specific and timely insights are also obtained from representatives of Group management, invited to participate for that purpose.
The Committee organises its work in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.
In particular, resolutions are taken without other parties being present.

30 These characteristics were assessed by the Board of Directors during the meeting of 12 May 2016.

Tasks

The Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. Since the date of adherence by the Company to the current Corporate Governance Code[31], the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In general, it supports, through adequate investigations, the assessments and decisions of the Board of Directors pertaining to the Internal Control and Risk Management System (also, "ICRM System"), as well as those pertaining to the approval of periodic financial reports.

In particular:

- it assists the Board of Directors in the following tasks prescribed by the Corporate Governance Code: definition of the guidelines of the ICRM System; periodic verification of the adequacy of the actual operation and efficiency of the ICRM System; verification that the main corporate risks are correctly identified, adequately measured, managed and monitored;
- it expresses opinions on specific aspects pertaining to the identification of the main corporate risks as well as to the design, implementation and management of the ICRM System;
- it supports, with adequate investigations, the evaluations and decisions of the Board of Directors relating to the management of risks arising out of prejudicial acts of which the Board of Directors is aware;
- it expresses its own opinion on the appointment and termination of the Head of Internal Audit and on the proposal for his remuneration formulated by the Director in charge of the Internal Control and Risk Management System;
- it monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- it assesses the annual work plan and the related budget prepared by the Head of Internal Audit and his/her periodic audit reports, requesting, where applicable, audits on specific operating areas;
- It examines the results of the activities of the Manager responsible for preparing the company's financial reports;
- it assesses, together with the Manager responsible for preparing the company's financial reports, and having consulted the independent auditors and the Board of Statutory Auditors, the correct use of the accounting standards and their consistency for the purposes of drawing up the consolidated financial statements, the draft financial statements and the condensed interim financial statements.
- it maintains appropriate relations with the independent auditor, the Board of Statutory Auditors, the Director in Charge of the Internal Control and Risk Management System, the Head of Internal Audit, and other departments from within the Group's organisational structure that communicate with these parties, in such a way as to encourage them to carry out their respective activities in common areas of intervention in an effective and coordinated manner;

31 Since 15 December 2015.

- it informs the Board of Directors, at least once every six months, upon approval of the annual and half-year financial reports, about the work carried out and the adequacy of the ICRM System;
- it reviews the annual work plan prepared by the Supervisory Committee, established pursuant to the provisions of Legislative Decree 231/01, and the semi-annual reports;
- it regularly assesses the adequacy of the company procedure to regulate, in operational terms, the external communication of documents and information pertaining to the Company and the Group, with particular reference to "price sensitive" information;
- it provides the Board of Directors, the Chairman, the Executive Deputy Chairman and the Chief Executive Officer with all other advice and proposals, which the Committee deems necessary or appropriate for them to better carry out their respective duties in the areas of control, risk management and corporate disclosure;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, where applicable being specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Nominations and Remuneration Committee[32]. If a member of the Committee is the counterparty of the transaction to be evaluated or a related party thereof, the other members of the Committee shall call to participate in the meeting another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors;
- it carries out any other duties assigned by the Board of Directors.

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".
In the performance of its duties, the Committee was able to access the information and made use of the company functions necessary to carry out its tasks.

In 2016, the Committee held **13 meetings** – all duly recorded in minutes – during which, in addition to approving its calendar and organise its work (appointing, inter alia, the new Secretary of the Committee), it addressed issues relating to the following macro-issues:
- Group Governance;
- Internal Control and Risk Management System;
- Obligations as per Legislative Decree 231/01;
- Group administrative and accounting processes.

32 For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager of the Company or otherwise to one of the persons who holds the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions is the Nominations and Remuneration Committee, specifically comprised, where applicable, of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, provided that the aforementioned transactions pursuant to Article 3.2, subsection c) of said Procedure are not excluded from the sphere of application of the same procedure.

The most significant issues covered by the Committee are as follows:

With regard to Group Governance

Guidelines, procedures and standards

- it examined and shared the updates to its own operational guidelines and to the guidelines of the Internal Control and Risk Management System, aimed at implementing the recommendations of the new edition of the Corporate Governance Code and the changes resulting from the reorganisation of ERG Group's risk management, compliance and internal control processes;
- it issued a favourable opinion on the proposal to update the guidelines on identifying and carrying out significant transactions and the Procedure for Transactions with Related Parties as a result of corporate and organisational changes that have affected the ERG Group;
- it issued a favourable opinion on the proposal to update the Procedure for handling and processing privileged information and for the public dissemination of statements and information as well as the Code of Conduct for Internal Dealing following specific in-depth reviews of the new legislation on market abuse.

Specific analysis carried out

- it examined the checks made on the thresholds set forth in the Procedure for Transaction with Related Parties, and acknowledged that they were adequate;
- it examined and shared the method used to prepare the Remuneration Report for financial year 2015;
- it examined the main features of the new legislation on market abuse, the subsequent implications for the ERG Group – including those of an operational nature – and the technical and legal issues still to be tackled in this regard;
- it verified the scope of Articles 2497 et seq. of the Italian Civil Code relating to i) relations between ERG S.p.A. and its parent San Quirico S.p.A.; ii) the scope of ERG S.p.A.'s management and coordination activities; iii) the list of companies with which these activities are carried out.

With regard to the Internal Control and Risk Management System

Dealings with the Director in charge of the Internal Control and Risk Management System

- it monitored – receiving regular updates as to the progress of the work – and shared the project to reorganise ERG Group's risk management, compliance and internal control processes, aimed at implementing an integrated risk management model based on the international ERM standard;
- it received, following the resignation of the Chief Audit, Risk & Compliance Officer, an update on the activities carried out to identify the candidate for the position of Head of Internal Audit, subsequently issuing a favourable opinion on the proposed new Head of Internal Audit;

- it issued a favourable opinion on the proposal to determine the remuneration of the resigning Chief Audit, Risk & Compliance Officer, with reference to his/her variable remuneration relating to 2015;
- it issued a favourable opinion on the proposal to determine the 2016 fixed and variable remuneration for the new Head of Internal Audit.

Dealings with Internal Audit

- it examined and shared the Risk Report on the activities carried out in 2015;
- it examined the reports on the activities carried out in 2015 by Internal Audit, Risk & Compliance (pursuant to Legislative Decree 231/01 and Law 262/05);
- it examined the update on the activities of Internal Audit, Risk & Compliance (Legislative Decree 231/01 and Law 262/05) relating to the first quarter, presented by the Chief Audit, Risk & Compliance Officer, as well as the subsequent quarterly reports submitted by the new Head of Internal Audit;
- it issued a favourable opinion on the proposal to update Internal Audit's 2016 activity plan and on its budget, as presented by the new Head of Internal Audit;
- it examined and issued a favourable opinion on Internal Audit's 2017 activity plan and budget.

Dealings with Group Risk Management & Corporate Finance

- it examined the update to ERG Group's Risk Management policy.

Specific analysis carried out

- it requested specific additional information on certain issues dealt with from time to time, and received timely responses in this regard.

Obligations in connection with Italian Legislative Decree 231/01

Dealings with the Supervisory Committee

- it examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee, noting the results;
- it acknowledged the update to the 2016 activity plan for ERG S.p.A.'s Supervisory Committee – included in its scope following the reorganisation of ERG Group's risk management, compliance and internal control processes – and examined the Supervisory Committee's 2017 activity plan and budget;
- it acknowledged the new (risk based) verification/testing methodology to cover processes susceptible to high and medium risk of commission of offences pursuant to Legislative Decree 231/01.

Dealings with the 231 Compliance department

- it examined the report on Compliance activities pursuant to Legislative Decree 231/01 drawn up in the first half of 2016;
- it acknowledged the 231 Compliance department's activity plan for 2017, aimed at identifying the actions to be carried out for the purposes of compliance with Legislative Decree 231/01 and in order to prevent corruption and bribery within ERG Group companies that operate abroad.

Guidelines, procedures and standards

- it examined and shared the proposal to update the Organisation and Management Model pursuant to Legislative Decree 231/01.

With regard to the Group's administrative and accounting processes

Dealings with the Manager responsible for preparing the company's financial reports

- it examined the impairment test procedure for the Financial Statements as at 31 December 2015, and the most relevant general issues resulting from its application;
- together with the Manager responsible for preparing the company's financial reports, and having consulted the Independent Auditors Deloitte & Touche S.p.A. and the Board of Statutory Auditors, it assessed the correct use of the accounting standards and their adequacy for the purpose of drawing up compulsory periodic financial reports.

Dealings with the 262 Compliance department

- it examined the Risk Assessment for 2016 and the half-yearly update on testing activities pursuant to Law 262/05, noting the results.

Specific analysis carried out

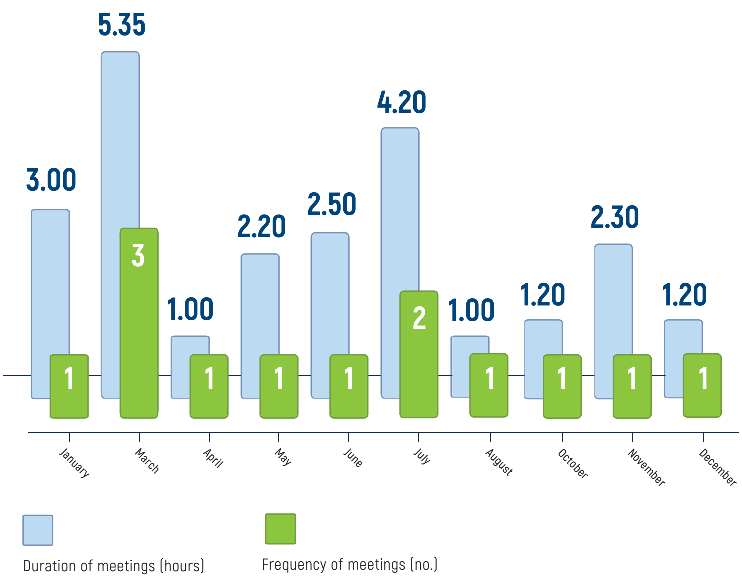
- it examined the main aspects relating to the domestic tax consolidation of ERG S.p.A. and indirect subsidiary ERG Wind Investments Ltd.;
- it received an update on the tax consolidation existing between ERG Power S.r.l. and San Quirico S.p.A. (expired on 31 December 2015) and the underlying relationship between the latter company and ERG S.p.A.;
- it examined the methods for renewing the Group VAT liquidation procedure for the 2016 tax year;
- it acknowledged the main new features of the intra-group service agreements for 2016;
- it acknowledged and shared, together with the Board of Statutory Auditors and the independent auditors Deloitte & Touche S.p.A., the main changes in the field of external auditing.

The Committee deemed it possible to confirm, in light of the activities carried out in 2016, its positive assessment with regard to the adequacy of the Internal Control and Risk Management System.

The average duration of the meetings held by the Committee was around 2 hours.

As at the date of approval of this document, the Control and Risk Committee had met **3 times**.

CONTROL AND RISK COMMITTEE – FREQUENCY



Nominations and Remuneration Committee

Paolo Francesco Lanzoni
Chairman

Mara Anna Rita Caverni
Member

Silvia Merlo
Member

Members:

Paolo Francesco Lanzoni – *Chairman*

Mara Anna Rita Caverni

Silvia Merlo

Giovanni Marco Scollo – *Secretary*

In accordance with the provisions of the Corporate Governance Code, the current Nominations and Remuneration Committee is comprised of three non-executive mostly independent directors, appointed by the Board of Directors during the meeting of 24 April 2015.

With reference to the provisions of Principle 6.P.3 of the Corporate Governance Code[33], it should be noted in the first meeting of the Committee, held on 6 May 2015, the two independent members, given the considerable change occurred in the composition of the Committee, in order to ensure continuity with respect to the skills and experience accrued[34], as well as for the benefit of new members of the Committee, taking into account the assessments of independence made by the Board of Directors in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the non-executive member of the Committee and in view the fact that the Chairman of the Committee during the vote does not enjoy special privileges over other members – with the abstention of the non-executive member – unanimously resolved to confirm the latter in the position of Chairman of the Nominations and Remuneration Committee.

33 *"The board of directors shall establish from among its members a remuneration committee composed of independent directors. Alternatively, the committee may be comprised of non-executive mostly independent directors; in this case, the chairman of the committee is chosen from the independent directors."*

34 It should be noted in this regard that the non-executive member of the Committee - qualified on 24 April 2015 by the Board of Directors as an independent director pursuant to the Consolidated Law on Finance (T.U.F.) but not in accordance with the Corporate Governance Code only due to the long tenure - has been Chairman of the Nominations and Remuneration Committee since May 2009.

During its meeting on 6 May 2015, and subsequently in the meeting of 13 July 2016, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

The members of the Committee have adequate financial and remuneration policy expertise[35].

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended, upon invitation, by the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations.

Employees of Group Companies, representatives of the Independent Auditor and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items, may be invited to attend Committee meetings.

The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.

Committee members are provided, in advance of the meeting date (at least 48 hours before the meeting, subject to certain exceptions), with the documentation and information necessary to express an informed opinion on the matters under its consideration. During meetings, where appropriate, specific and timely insights are also obtained from representatives of Group management, invited to participate for that purpose.

Tasks

The Nominations and Remuneration Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code for the Remuneration Committee[36].

Since the date of adherence by the Company to the current Corporate Governance Code[37], the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In particular:

- it makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions on the Board of Directors and, upon indication by the Chief Executive Officer, regarding the determination of criteria for the remuneration of the Company's top management and for the definition of incentive plans for the Group management;

35 These characteristics were assessed by the Board of Directors at the meeting of 24 April 2015.

36 In compliance with the conditions outlined for both Committees in the Corporate Governance Code, without prejudice to what is stated in relation to Principle 6.P.3 of the Corporate Governance Code.

37 Since 15 December 2015.

- it periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Key management;
- it proposes to the Board of Directors the candidates for the office of Director in the case provided by Article 2386, first paragraph, of the Italian Civil Code, if it is necessary to replace an Independent Director;
- it assesses, at the specific request of the shareholders who intend to present lists, the independence of candidates for the office of Director to be submitted to the Shareholders' Meeting;
- it provides the Board of Directors, on an annual basis, with an evaluation of the size, composition and operation of the Board itself, and it may express recommendations on the professional profiles that should be included in the Board;
- it expresses recommendations regarding the maximum number of directorships or auditorships in other companies listed on regulated markets in Italy and abroad, in financial, banking, or insurance companies or companies of significant size that can be considered to be compatible with an effective performance of the duties of a directorship in the Company;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, being, where applicable, specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, (i) on the Company's interest in carrying out transactions involving the assignment or the increase in remuneration and benefits, in any form, to a member of an administrative or control body of the Company or to a Key Manager thereof or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, and (ii) on the advantageousness and substantial correctness of the relative conditions, and shall comprise members of the Nominations and Remuneration Committee, provided that the said transactions pursuant to Article 3.2 (c), of said Procedure, are not excluded from the scope of the procedure itself[38]. If a member of the Committee is the counterparty of the transaction to be evaluated or a related party thereto, the other members of the Committee shall call to participate in the committee another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors.

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".
Whenever the Committee discusses recommendations for the remuneration of the Chairman, the Executive Deputy Chairman and the Chief Executive Officer, such individuals must leave the meeting.

38 If the conditions per Article 3.2 (c) of the Procedure for Transactions with Related Parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in defining the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted for the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy – subject to the disclosure obligations per Article 154-ter of the Consolidated Law on Finance, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties.

In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.

In 2016, the Committee held **six meetings** – duly recorded in minutes – during which, in particular, it:

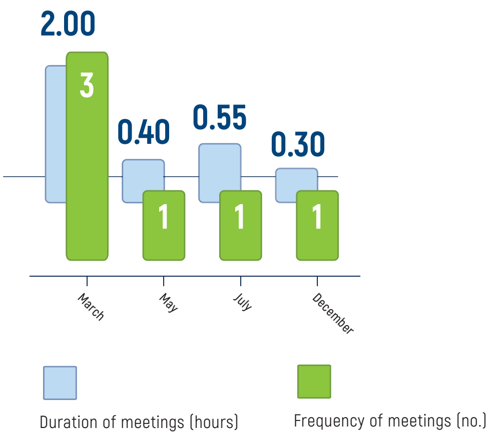
- examined and shared the updates to its own operational guidelines aimed at implementing the recommendations of the new edition of the Corporate Governance Code;
- formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors;
- issued opinions on assessing and determining the remuneration of certain managers with strategic responsibilities[39] and the Chairman of a company belonging to the ERG Group, a related party of ERG S.p.A.;
- made decisions, with reference to the MBO system, regarding (i) the definition of the corporate objective (reference target value) for financial year 2016, (ii) the profit achieved in 2015 with respect to the business objective assigned (reference target value);
- analysed the trends of the 2015-2017 LTI System indicators;
- prepared a support document for the assessment of the Board of Directors in relation to the size, composition and operation of the Board and its Committees during financial year 2016 using the valuation criteria used in the previous year and the findings of a self-assessment questionnaire sent to the members of the Board of Directors and the Board of Statutory Auditors;
- actively participated in the process of updating the Company's Remuneration Policy in order to (i) implement the resolution of the Board of Directors of 15 December 2015 by which the conditions required to implement the 2015-2017 LTI System were defined, and (ii) provide a clearer disclosure of the procedures and persons involved in the process of determining the compensation and remuneration of Directors of ERG S.p.A. and of key management personnel;
- analysed the consultative vote of the shareholders on the first section of the Company's Remuneration Report, concerning financial year 2016;
- assessed the adequacy, overall consistency and practical application of the Company's Remuneration Policy, using the information provided by the Chief Executive Officer and the Executive Deputy Chairman;
- proceeded to appoint the new Secretary of the Committee;
- approved its calendar and organised its work for 2017;
- examined the results of the benchmarking exercise carried out in order to improve the Remuneration Report and shared the relevant proposals.

39 The remuneration of the Chief Audit Officer is determined by the Management Board at the proposal of the Manager responsible for the Internal Control and Risk Management System, with the favourable opinion of the Control and Risks Committee following consultation with the Board of Statutory Auditors.

The average duration of the meetings held by the Committee was **around 40 minutes**.

As at the date of approval of this document, the Nominations and Remuneration Committee had met **3 times**.

NOMINATIONS AND REMUNERATION COMMITTEE FREQUENCY



Strategic Committee

Alessandro Garrone
Chairman

Giovanni Mondini
Member

Luca Bettonte
Member

Marco Costaguta
Member

Luigi Ferraris
Member

Members:

Alessandro Garrone – *Chairman*

Giovanni Mondini

Luca Bettonte

Marco Costaguta

Luigi Ferraris

Paolo Luigi Merli – *Secretary*

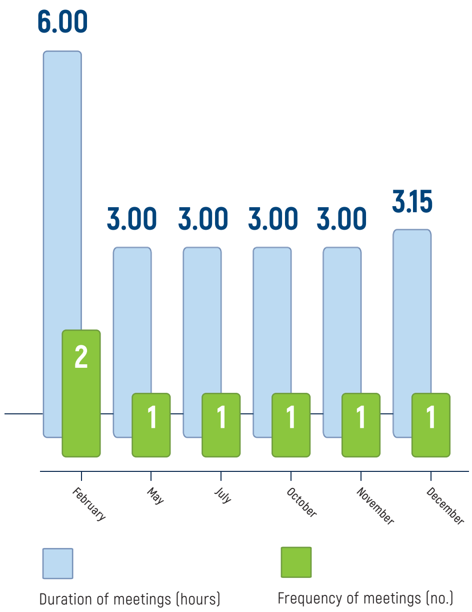
The Committee advises and issues recommendations to the Chief Executive Officer and to the Board of Directors of ERG and to the Boards of Directors of the Group's operating companies.

In accordance with the strategies and policies approved by the Board of Directors, the Committee's activities include the definition of strategic business and portfolio guidelines, guidelines and policies on strategic finance and for individual extraordinary financial transactions, and the monitoring of the progress of their implementation over time.

The Committee also examines the long-term strategic plans and capital expenditures budgets of the Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the Group level.

In 2016, the Committee held 7 *meetings*.

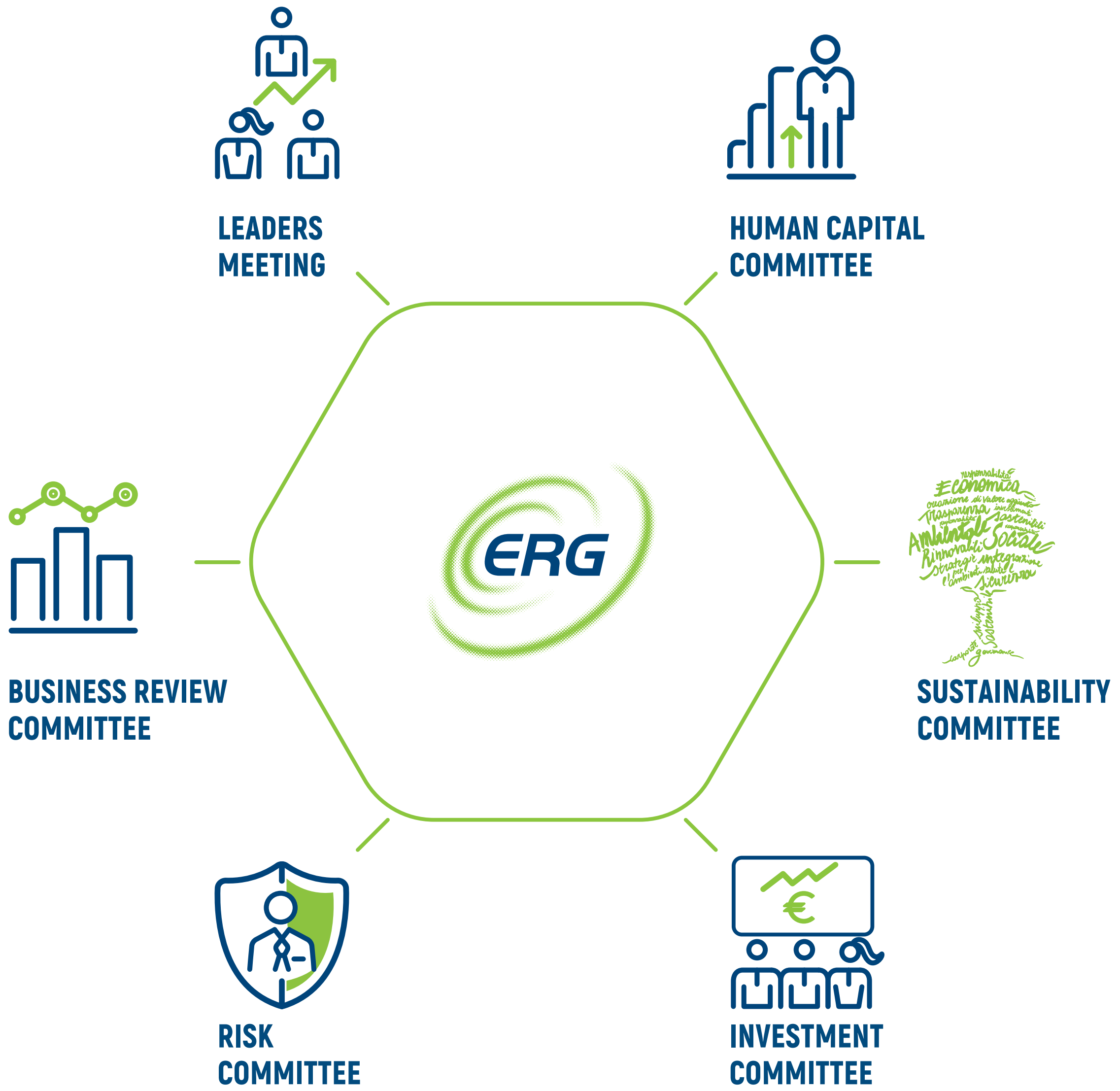
STRATEGIC COMMITTEE – FREQUENCY



The average duration of the meetings held by the Committee was **around 3 hours**.

As at the date of approval of this document, the Strategic Committee had met **2 times**.

5.2. INTERNAL COMMITTEES



In 2016, the structure and composition of the Internal Committees (non-board committees, composed of Group managers) remained substantially unchanged compared with the previous year, and were aligned with the working model of the Group's organisational structure.

Leaders Meeting

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- shares the activities, characteristics and performances of the Group's businesses;
- ensures a common vision and teamworking;
- enhances the Group's human and relational assets and promotes managerial culture and values;
- provides opportunities to compare with best practices outside the Group through testimonies and benchmarking.

Human Capital Committee

Committee tasked with advising and consulting with respect to the Executive Deputy Chairman and the Chief Executive Officer. In particular it:

- defines and monitors the main human capital development programmes and activities;
- provides support to the Executive Deputy Chairman and the Chief Executive Officer in decisions relating to staff development and variable remuneration and medium/long term incentive systems, and proposals to be submitted to the Nominations and Remuneration Committee.

Sustainability Committee

Committee tasked with advising and consulting with respect to the Chairman of the Board of Directors. In particular it:

- defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility;
- approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR;
- approves the time-frames and communication methods of the Sustainability Report and CSR initiatives.

Investment Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- provides support to the Chief Executive Officer in assessing investment proposals;
- expresses a technical, economic and financial opinion for the Strategic Committee at various stages in the investment approval process.

Risk Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

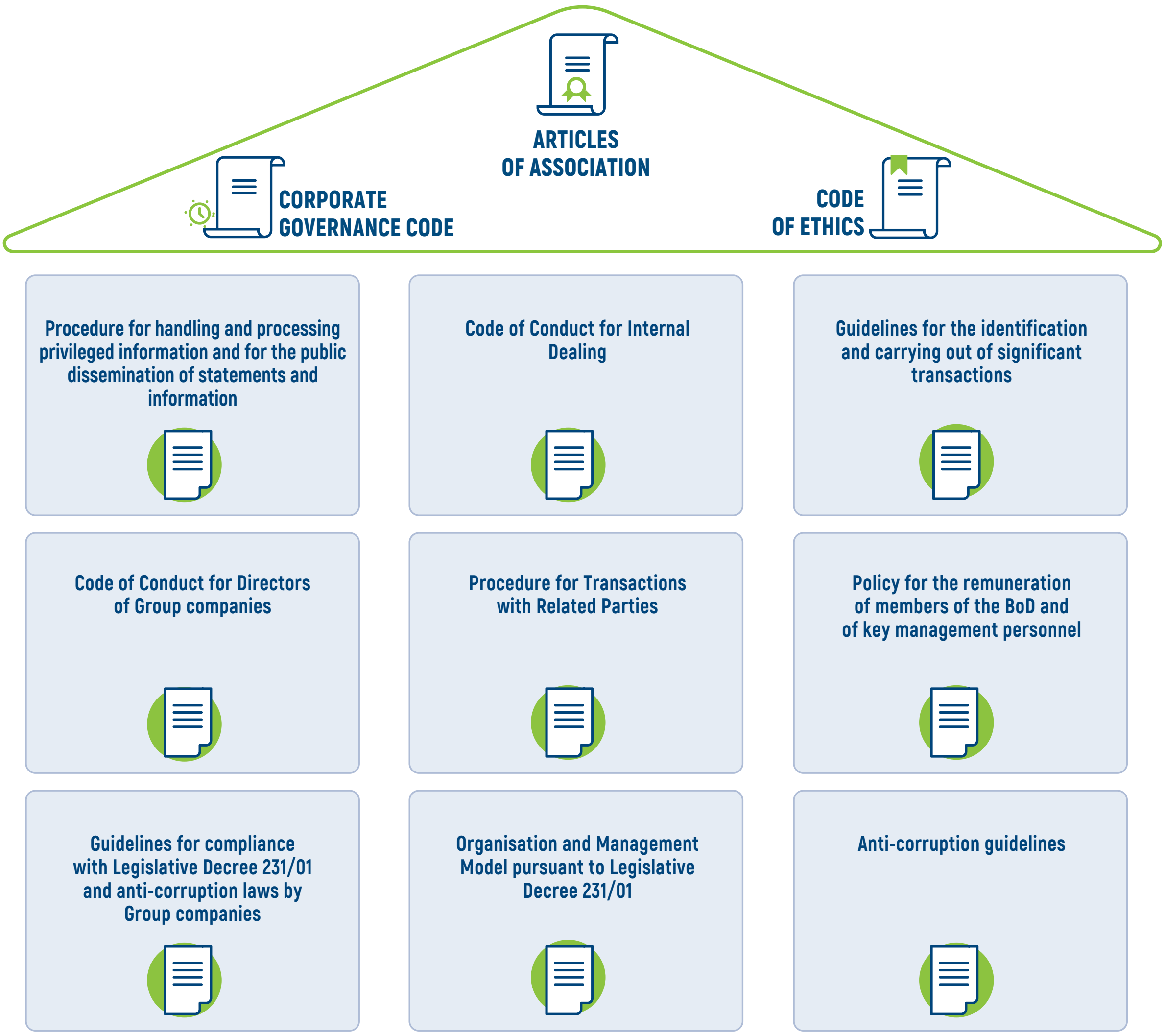
- supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks;
- provides the Chief Executive Officer with information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

Business Review Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- monitors the operating performance of the reference Business Unit;
- identifies opportunities to create value in the business “as is”;
- preliminarily assesses potential investment/disinvestment opportunities.

5.3. CORPORATE GOVERNANCE DOCUMENTS



Articles of Association

The Articles of Association, as illustrated in detail in the Report, contain the main rules governing the operation of ERG's corporate bodies and has been recently amended to comply with the changes in laws and regulations on the matter of gender balance in the composition of the administrative and control bodies.

Code of Ethics

The Code of Ethics is an instrument for raising the awareness of all employees and associates and all other stakeholders so that, when carrying out their activities, they adopt correct and accountable conduct in line with the ethical and social values to which ERG aspires. The Code of Ethics is therefore an essential part of the Organisation and Management Model pursuant to Legislative Decree 231/01.

The Code of Ethics was revised in 2014 to take into account regulatory changes (introduction of the offences of bribery among private parties) and to improve the representation and communication of the ethical principles promoted by the Group. The latest revision to the Code of Ethics was approved by ERG's Board of Directors on 14 May 2014.

The Code of Ethics is adopted by all companies in the Group, both Italian and foreign, and it is available in English, French and German.

The Code of Ethics is communicated to associates of the Group not only through its publication on the Group's website, but also through reference in the contractual clauses.

Group employees are provided with both classroom training and an e-learning course, use of which is tracked in the system.

Corporate Governance Code

The Company has adhered to the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the new edition of the Corporate Governance Code published in July 2015.

Procedure for handling and processing privileged information and for the public dissemination of statements and information

The Board of Directors, based on a recommendation made by the Control and Risk Committee, has adopted a procedure for handling and processing privileged information and for the dissemination of statements and information to the public. The aim is to ensure that all statements and information intended for the market, for CONSOB and for Borsa Italiana S.p.A. are the outcome of a process that guarantees both timeliness and accuracy.

The procedure, most recently approved by the Board of Directors on 13 July 2016, defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the

Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to “price sensitive” events, vis-à-vis the market and the organisations tasked with its supervision.

Code of Conduct for Internal Dealing

The Board of Directors has adopted a Code of Conduct – most recently approved by the Board of Directors on 13 July 2016 – in order to give transparency to financial transactions carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group, have significant decision-making powers or considerable knowledge of corporate strategies which would help them in making investment decisions regarding the financial instruments issued by the Company.

The list of recipients of this Code is published on the Company’s website.

Guidelines for the identification and execution of significant transactions

The Board of Directors has defined the guidelines for the identification and execution of significant transactions, the examination and approval of which – as recommended by the Corporate Governance Code – remain the exclusive responsibility of the Board of Directors.

The guidelines – most recently approved by the Board of Directors on 10 March 2016 – set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions).

The document also indicates the standards of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries in respect of which ERG performs management and coordination activities in accordance with Article 2497 et seq. of the Italian Civil Code which must be previously examined and approved by the Board of Directors.

Code of Conduct for Directors of Group companies

The Board of Directors has adopted a Code of Conduct – most recently approved by the Board of Directors on 14 May 2014 – for Directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in compliance with Corporate Governance principles.

Procedure for Transactions with Related Parties

The Board of Directors, with its resolution of 11 November 2010, following favourable opinion from the Control and Risk Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution – effective from 1 January 2011 – aimed at ensuring the transparency and substantial and procedural correctness of the transactions with related parties carried out by ERG directly or through its subsidiaries.

The Procedure was most recently approved by the Board of Directors on 13 July 2016 in order to take account of organisational changes.

Policy for the remuneration of members of the Board of Directors and of key management personnel

With its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors adopted a Remuneration Policy for the members of the Board of Directors and for key management personnel, in line with the provisions of the Corporate Governance Code. At the proposal of the Nominations and Remuneration Committee, this policy has been revised as follows:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 LTI System;
- on 11 March 2015, to take into account, with effect from 2015, the Company's adherence to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System[40].
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan.

Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within ERG Group companies

Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within the companies of the Group are aimed at giving Group companies (Italian and foreign) methodological guidance in relation to the adoption of the Code of Ethics and procedures for managing Compliance with the provisions outlined by Legislative Decree 231/01, as well as establishing principles and rules to be followed to ensure compliance with the anti-corruption laws in force in the various countries where the Group operates, without constituting management and coordination activities and without prejudice to the responsibilities of individual legal entities in choosing whether or not to adopt a model pursuant to Legislative Decree 231/01 (or '231 Model') drawn up on the basis of its own Risk Assessment.

The Guidelines were adopted with the aim of serving as a valid instrument to protect the Company and all those working internally or externally for the Group. The Guidelines approved by ERG's Board of Directors on 12 November 2013 set out the general principles and rules with reference to:

- the adoption of the Group's Code of Ethics by all direct and indirect Italian and foreign subsidiaries;
- the management of the subsidiaries' criminal liability, in order to provide a framework of rules, obligations and prohibitions pertaining to:
  - "231 compliance", for Italian companies (without prejudice to the responsibility of individual legal entities in choosing whether or not to adopt a 231 Model prepared according to their own specific Company);
  - "compliance with the applicable national and international anti-corruption regulations", for all companies (including those not under Italian law) in order to prevent violation and ensure they are fully respected.

40 For any additional information in this matter, please refer to the Remuneration Report pursuant to Article 123-ter of the Consolidated Law on Finance, to be presented to the Shareholders' Meeting convened in May 2017, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

Organisation and Management Model pursuant to Legislative Decree 231/01 and Supervisory Board

The purpose of the 231 Model is to ensure conditions of correctness and transparency in the performance of company activities. It is therefore intended to serve as a valid instrument aimed at preventing the risk of committing the offences sanctioned by Legislative Decree 231/01.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisational, management and control model pursuant to Legislative Decree 231/01 and appointed the Supervisory Committee.

Since initial approval, the 231 Model has been revised and improved to reflect regulatory and legislative changes, as well as organisational changes that have taken place within the Group.

The 231 Model was designed according to Confindustria Guidelines as well as Position Papers issued by the AODV (Italian association of supervisory bodies). In accordance with laws and regulations, the 231 Model includes a disciplinary system aimed at sanctioning any violations of the Model or the Code of Ethics, and the failure to comply with company safeguard procedures.

The version of the 231 Model currently in force was approved by the Board of Directors on 22 March 2016. An extract of the document is published in the "Corporate Governance" section of the website www.erg.eu.

The 231 Model was developed taking into consideration the main positions expressed by law with respect to the following characteristics:

- **effectiveness**: the adequacy of the set of controls established to prevent the committing of offences;
- **specificity**: the Model takes into account the characteristics and size of the Company and the type of activities carried out, as well as the history of the Company;
- **being up to date**: namely, the ability to reduce the risks of offences in reference to the structural and business characteristics of the company, in cooperation with the Supervisory Committee which keeps it up to date and current over time.

The structure of the 231 Model adopted by ERG includes the following significant components:

- **Code of Ethics**, which expresses the reference principles which must guide the activity of all those who contribute, with their work, to the performance of corporate activities;
- **general part**, which defines the overall structure of the Model, in relation to the provisions of Legislative Decree 231/01 and to the specific decisions made by the Company in its preparation referring to the disciplinary system, to be enforced in the event of violation of the prescribed rules and procedures;
- **specific part**, which defines the rules to be followed in the performance of sensitive activities.

Together with the adoption of the 231 Model, the decision to comply with Legislative Decree 231/01 led to the appointment of the Supervisory Committee, tasked with overseeing the observance of the Code of Ethics and assuring the adequacy and effective implementation of the Model, as well as assessing the need for subsequent updates.

The Committee, appointed by the Board of Directors on 24 April 2015 and subsequently integrated on 12 May 2016, is comprised of:

- an external member, identified as a Statutory Auditor of the Company, acting as Chairman (L. Fornabaio);
- two internal members, identified as the Head of Corporate Affairs (Giovanni Marco Scollo) and the Chief Audit Officer (Gabriello Maggini).

The members of the Supervisory Committee shall remain in office for a period preferably no longer than three years and may be reappointed. In the case of expiry of the Board of Directors which appointed them, they will remain in office until the appointment of new members, or the confirmation of the previous members by the new Board of Directors.
The Supervisory Committee carries out its work within the Parent Company ERG, whereas the Subsidiaries, having their own Model, have appointed their own Supervisory Committee.
The synergies between the Code of Ethics and the 231 Model are evidenced by the assignment of the ERG Supervisory Committee as Guarantor of the Code of Ethics. Similarly, each subsidiary has assigned the task of Guarantor of the Code of Ethics to its own Supervisory Committee.

The Supervisory Committees of ERG and of its subsidiaries shall rely, in the preparation of proposals for the updating of the 231 Model, on ERG's "231 Compliance" function, which also handles the activities of technical secretariat of the corporate boards and committees; verification of the adequacy of the 231 Model and compliance with the controls contained therein, as well as with the Code of Ethics, are instead entrusted to the Internal Audit function of ERG.
To increase the effectiveness of the governance and internal control of the Company, information flows are provided to the Supervisory Committee. The primary function of the information flows is to enable the Supervisory Committee to continuously oversee the functionality of the 231 Model and to identify possible steps to amend the Internal Control and Risk Management System. To this end, the Supervisory Committee has adopted a special procedure that identifies the relevant information flows, the timing for transmission, and the individuals responsible. In order to manage communications to the Supervisory Committee, a dedicated e-mail address has been created. With reference to the provisions of the Commentary to Article 7 of the Corporate Governance Code[41], it is specified that the information flows to the Supervisory Committee are made through specific channels and guarantee the anonymity of the informant.

The Supervisory Committee prepares an annual supervisory activity plan which is presented to the Board of Directors of ERG, and reports regularly to the Control and Risk Committee on the implementation of the Code of Ethics and the 231 Model.

41 *"The Committee believes that, at least in the issuer companies belonging to the FTSE-MIB index, an adequate internal control and risk management system must be equipped with an internal system by which employees can report any irregularity or violation of the applicable regulations and internal procedures (so-called whistleblowing systems), in line with national and international best practices, and that guarantee a specific and dedicated information channel as well as the anonymity of the informant."*

The Supervisory Committee provides training by means of:

- classroom training to all employees (including managers and executives) on issues pertaining to Legislative Decree 231/01, the 231 Model 231 adopted by the Company, the Supervisory Committee and the activities it performs, the information flows to the Supervisory Committee;
- an e-learning course dedicated to the Code of Ethics, expected to be attended by employees and newly hired personnel;
- an e-learning course dedicated to issues relating to Legislative Decree 231/01, intended for newly hired personnel.

In addition, information on specific issues relating to the legislation referred to in Legislative Decree 231/01 is regularly provided to the members of the Board of Directors of ERG and its subsidiaries.

Anti-Corruption Guidelines

ERG carries out its activities in accordance with the highest national and international standards of good Corporate Governance. In this context, the Group is firmly committed to respecting and applying the principles of integrity, impartiality and transparency.

These principles increase in importance when addressing corruption, a global phenomenon that irreparably destroys the integrity of both public and private enterprises.

In order to further stress that it conducts all aspects of its activity in strict compliance with applicable domestic and international laws and regulations, with respect, inter alia, to anti-corruption, and to further demonstrate its adoption of the values described above, ERG has decided to adopt, in addition to the Code of Ethics, the Anti-Corruption Guidelines. The aim is to provide to all personnel and, in particular, to those working abroad for or on behalf of Group companies, the principles and rules to follow to ensure compliance with local Anti-Corruption Laws.

The Anti-Corruption Guidelines in force were approved by ERG's Board of Directors on 12 November 2013, translated into English and adopted by all foreign Companies of the Group, together with the Code of Ethics.

6. MANAGEMENT AND COORDINATION

ERG is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

This circumstance is periodically evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee. ERG in turn performs management and coordination in respect of direct or indirect subsidiaries.

The scope of the companies concerned and the content of any activity carried out on each of them are periodically reviewed by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee.

In particular, the Board of Directors, during the meeting held on 14 July 2015, acknowledged that ERG carries out management and coordination activities in respect of direct and indirect subsidiaries – respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the Group – including the definition of business strategies, the corporate governance system and the corporate structures, as well as the determination of shared general policies pertaining to human resources, accounting, financial statements, taxation, information & communication technology, procurement, finance, investments, risk management, communication, institutional relations and corporate social responsibility.

7. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The "Guidelines for the Internal Control System and Risk Management System", adopted on 11 March 2014 by the Board of Directors of ERG, were subsequently updated in order to take into account organisational changes and changes resulting from the Company's adherence with the Corporate Governance Code. The version currently in force was approved on 13 July 2016 and takes into account, inter alia, the reorganisation of the Internal Control and Risk Management System which provided for the establishment of a Risk Management function at Group level.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP: GENERAL GUIDELINES

The Internal Control and Risk Management System of the ERG Group (hereinafter also "ICRM System") is the combination of measures, organisational structures, regulations and rules whose purpose is, by means of an appropriate process of identification, measurement, management and monitoring of the main risks, and the creation of adequate information flows to ensure the proper flow of information, to allow the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors.
It complies with the principles contained in the current edition of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. (hereinafter the "Corporate Governance Code") and, more generally, current national and international level best practices.

It is defined on the basis of leading national and international practices, and in particular "CoSO Internal Control - Integrated Framework 2013" which identifies a direct relationship between company targets (efficiency and effectiveness of operations, reporting and compliance), the components of the ICRM System and the organisational structure adopted by the Group.

This System, which is an integral part of the company's business, involves, and therefore applies to, to the entire organisational structure of the ERG Group: from the Board of Directors of ERG and its subsidiaries, to Group Management and the company staff.

The ICRM System Guidelines, approved by the Board of Directors of ERG, lay down the general principles by which the Group's main risks are managed, in line with the strategic objectives identified, and the coordination arrangements between the parties involved in order to maximise the effectiveness and efficiency of the ICRM System.

Below is a summary of those involved in the ICRM System and their respective responsibilities.

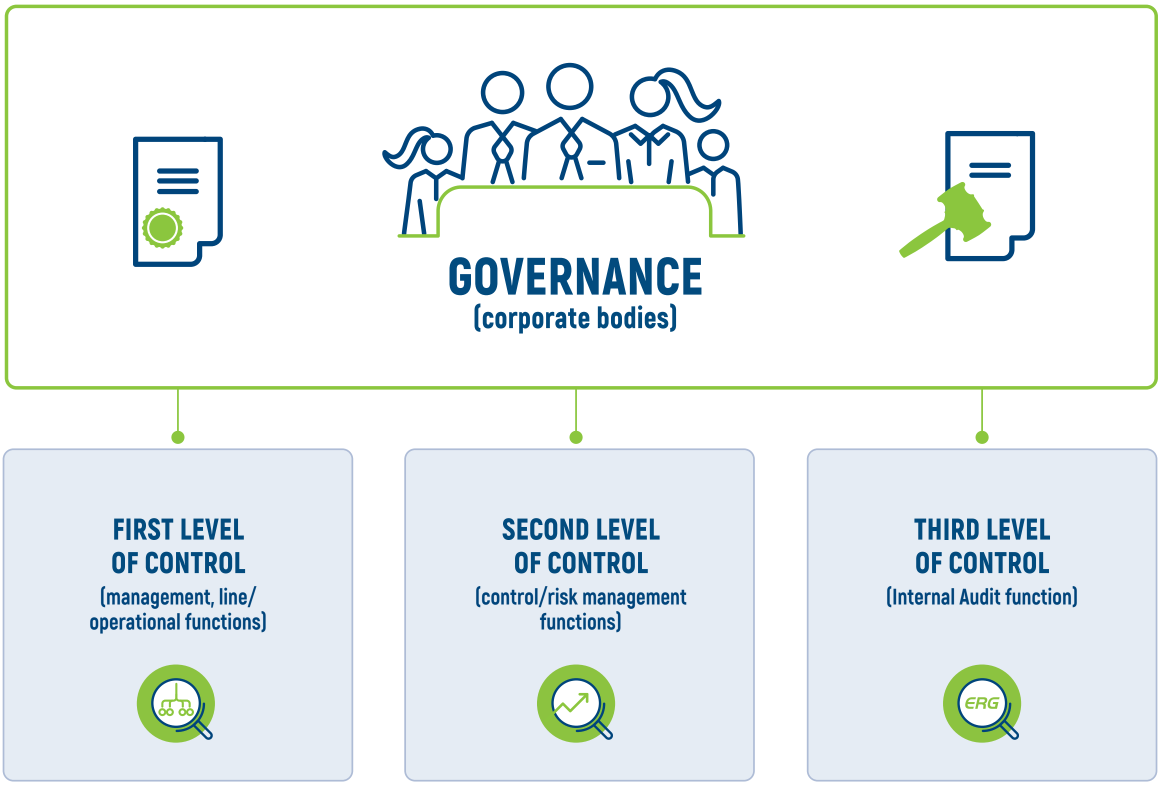
- **Board of Directors**: guides and assesses the adequacy of the ICRM System;
- **Chairman of the Board**: supervises, directs and controls corporate affairs activities;
- **Executive Deputy Chairman**: supervises, in particular, the Group's strategic decisions and the definition of the organisational macro-structure;
- **Chief Executive Officer**: has the powers necessary to carry out all actions pertaining to corporate activities and is responsible for identifying the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries and, after consulting the Executive Director in charge of the Internal Control and Risk Management System, submitting them periodically to the review of the Board of Directors;
- **Executive Director in charge of the Internal Control and Risk Management System**: is delegated by the Board of Directors to oversee – through supervision, guidance and control – internal audit, risk management and compliance activities and processes, and ensures that the functionality and overall adequacy of the ICRM System is maintained;
- **Control and Risk Committee**: advises and makes proposals to the Board of Directors, with the aim of supporting it, through appropriate proceedings, in evaluations and decisions relating to the ICRM System, as well as in relation to the approval of periodic financial reports;
- **Board of Statutory Auditors**: oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, the adequacy of the organisational structure (for aspects under its cognisance) of the ICRM System, as well as that of the administrative and accounting system and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations;
- **Supervisory Body** pursuant to Legislative Decree 231/01: supervises the observance of the Code of Ethics and verifies the effectiveness and the adequacy of the Organisation and Management Model pursuant to Legislative Decree 231/01;
- **Internal Audit**: responsible for third level control activities and has a significant position in the ICRM System being entrusted with the task of providing an independent assurance on the ICRM System with the aim of improving the efficiency and effectiveness of the organisation. Internal Audit is tasked with verifying that the ICRM System is functional and adequate in relation to the size and operation of the ERG Group, verifying, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. It also verifies whether the risks are managed in accordance with the decisions of the Board of Directors, with external rules and with rules within the Group.

The following relevant parties also play a role: (i) Group Management, which bears prime responsibility for internal control and risk management activities (first control level); (ii) second level control functions with specific control tasks and responsibilities over different areas/types of risk. These functions are autonomous and distinct from operational ones; they are involved in defining risk governance policies and the risk management process: (i) the Manager responsible for preparing the company's financial reports, (ii) the Group Risk Management & Corporate

Finance function, (iii) the Compliance functions, assigned to oversee compliance issues, with particular reference to legal risk and non-compliance, including the risk of committing criminal offences to the detriment or in the interest of the ERG Group, committees, composed of corporate management, acting in an advisory capacity and making proposals regarding specific risk issues.

In line with regulations and reference best practices, the ICRM System is structured over the following levels:

INTERNAL CONTROL SYSTEM



- **First level**: entrusted to individual operating lines, it encompasses the checks carried out by those involved in certain activities and those with supervisory responsibilities; also makes it possible to ensure operational activities are carried out correctly;
- **Second level**: entrusted to structures other than line, it is involved with defining risk measurement methods, identifying, assessing and checking them (Risk Management); it also makes it possible to verify compliance with regulatory obligations (Compliance);
- **Third level**: entrusted to Internal Audit, it serves to assess the functionality of the overall internal control and risk management system and to detect irregularities and violations of procedures and rules.

7.1 STRUCTURE AND OPERATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The Group is aware that an effective Internal Control and Risk Management System allows the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors, by promoting well-informed decisions and contributing to wealth preservation, the efficiency and effectiveness of processes, the reliability of financial reporting, and compliance with standards, the Articles of Association and internal procedures.

To promote and maintain an adequate ICRM System, the ERG Group uses organisational, informational and regulatory instruments, which allow the identification, measurement, management and monitoring of the main risks.

This system is integrated in the organisational, administrative and accounting structure and, more generally, in the corporate governance structure. It is based on the recommendations of the Corporate Governance Code, which the Group has adopted, taking as references national and international models and best practices, aimed at consolidating overall effectiveness and efficiency.

The System of Rules and Procedures

The definition of the Internal Control and Risk Management System structure and its governing rules takes place through the definition of appropriate internal business standards (Policies, Guidelines, Procedures and Operating Notes) which regulate the processes and activities carried out by ERG and its subsidiaries.

The beneficiaries of each standard are defined below:

- Policies: these are intended for all stakeholders and, based on the values expressed in the Code of Ethics, define the fundamental management principles involved in the performance of corporate activities;
- Guidelines: these are intended mainly for those who must set up operations and manage them, and define the principles for the execution of such activities;
- Procedures: these are intended for the parties involved in the operating processes regulated by them;
- Operating Notes: these are intended for the parties who, at operational level, carry out the activity or stages of activity regulated by the document.

Moreover, a specific procedure was formalised in the Group with the goal of defining a method for the uniform, integrated, effective and efficient management of the corporate rules and for regulating the activities performed by the involved parties, in terms of:

- responsibilities of the parties involved in the process;
- (electronic and hardcopy) communication flows among the various parties involved in the process;
- control activities connected with the operations reported in the process.

The System for Assigning Powers

A correct and effective Corporate Governance system requires a formal assignment of powers consistent with the company's own organisational system.

A correct assignment of powers entails assessing whether the validity requirements exist, determining its limits and identifying matters that can be delegated.

The system adopted in the Group provides for:

- the assignment of powers by the Board of Directors to the Group's various Companies, through Board resolutions, to the Chief Executive Officers for the ordinary management of the Companies;
- the assignment, normally to first-level executives reporting to Chief Executive Officers, of powers of signature, representation and external negotiation;
- the assignment of special powers for the performance of specific, well-defined actions, upon completion of which the validity of the power is voided;
- the assignment to the heads of organisational positions of internal powers related to actions that have no external enforceability.

The system of delegated powers and mandates in place within the Group is structured so as to achieve consistency between the organisational structures, pursuant to the powers granted, and the company's regulatory system (Policies, Guidelines, Procedures, Operating Notes and Job Descriptions), in compliance with the Segregation of Duties ("SoD").

8. INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT A CONSOLIDATED LEVEL

The ways in which the ERG Group has defined its Internal Control and Risk Management System in relation to the process of financial disclosure (henceforth referred to as "the System") at the consolidated level are illustrated below. The purpose of the System is to significantly mitigate risks in terms of the trustworthiness, reliability, accuracy and timeliness of financial disclosures.

In particular, the Board of Directors of ERG, in the meeting of 11 March 2014, appointed Paolo Luigi Merli, Chief Financial Officer, as Manager responsible for preparing the Company's financial reports, thereby attributing to him the responsibilities of:

- preparing adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of the procedures;
- issuing to the market the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

The Manager responsible for preparing the Company's financial reports shall rely on the support of the 262 Compliance Business Unit in verifying the operation of the administrative and accounting procedures by testing the controls.
This organisational structure ensures complete segregation between the activities of preparing the administrative and accounting procedures and the activities of verifying their adequacy and effective application.

In such a context, all personnel of the Group are obliged to cooperate, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting records, but also those in other functions that, directly or indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, and normal operations.

The activity of Compliance pursuant to Law 262/05 has been submitted to the Control and Risk Committee and applies to the companies of the Group, from a logical point of view, in terms of methodology and as regards the principles of control and accuracy of the process.

Role, Appointment and Requirements of the Manager responsible for preparing the Company's financial reports

Role of the Manager responsible for preparing the Company's financial reports

As already pointed out previously, the main responsibility of the Manager responsible for preparing the financial reports of ERG is to implement the administrative and accounting procedures by which periodic corporate financial reporting should be produced, to monitor their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable.

The figure of Manager responsible for preparing the Company's financial reports fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.

Appointment of the Manager responsible for preparing the Company's financial reports

The Board of Directors, with the mandatory opinion of the Board of Statutory Auditors, shall appoint the Manager responsible for preparing the Company's financial reports, setting his/her compensation and assigning him/her adequate powers and means. The Manager will be someone who has at least three years of experience in positions of adequate responsibility in the administrative, financial or accounting area of public and private companies or entities, or someone who has adequate knowledge and experience in legal, economic, administrative, accounting or financial matters.

Elements of the System

Methodological approach

The Group has adopted a working methodology that envisages the following logical steps:

a. identification and evaluation of the risks applicable to financial reporting;
b. identification of controls for risks identified both at Company/Group level (entity level) and at process level;
c. evaluation of controls and management of the monitoring process both in terms of design, and in terms of operation and effectiveness, with the aim of reducing risks to a level considered to be "acceptable" (information flows, gap management, plan for remedial action, reporting system, etc.).

The activity is performed by the 262 Compliance Business Unit and is periodically shared with the Manager responsible for preparing the company's accounting and financial reports.

Risk identification and assessment

Risk Assessment is conducted annually with the aim of identifying, on the basis of a quantitative analysis and following evaluations and parameters of a qualitative nature:

1. the companies within the Group consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice

at the international level and recognised within Italy as a reference model by the Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);

3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The Risk Assessment process carried out at the level of Consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other qualitative. As regards the purely quantitative part of the analysis, the following elements are determined:

- large portion (coverage of the consolidated financial statements): this dimension is used to measure the extent of the area within which controls are to be analysed and evaluated, defined on the basis of the weight the dimensions bring to bear on the main items in the financial statements;
- significant accounts: this refers to the quantitative size that items in the financial statements must have in order to be considered significant after the application of a materiality threshold;
- significant process: by means of account-process matching, processes are identified for which controls should be assessed, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the activity.

Following the quantitative analysis described above, the Risk Assessment process then requires an analysis to be performed based on qualitative elements, with a dual purpose:

- To integrate the exclusively quantitative part of the analysis, so as to include or exclude accounts processes from the activity's scope on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- To define the "level of depth" to which the analysed accounts processes must be taken into consideration within the scope of the activity and at what level the related controls must be mapped, documented and monitored.

The final result of the Risk Assessment process consists of a document that is circulated to the various functions involved, validated by the Manager Responsible and presented to the Control and Risk Committee.

Identification of controls

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified.

In particular, the mapping of accounts processes and related controls constitutes a tool through which:
- significant processes and their main associated risks are represented as defined within the scope of the Risk Assessment, as are the controls that are envisaged for the management of such risks;
- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying financial statements assertion;
- the operation and representation of a control is shared with its owners, as are the risks and control activities;
- monitoring activities, required to support the representations that must be made by the Manager Responsible, are carried out.

The identification of risks and the associated controls is carried out both with regard to controls relating to financial statement assertions and to other control objectives within the scope of financial disclosure, including:
- the observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;
- activities of fraud prevention that have an impact on financial disclosure;
- the security of company information systems and the protection of personal data.

The mapping generated from time to time for a specific process is also used as the basis for periodic testing activities whose goal is to evaluate and monitor both the design and the effectiveness of controls in place.

Assessment of controls and monitoring processes

In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the relevant processes and effective execution of the mapped controls.

The objective of such monitoring is to evaluate the operating effectiveness of the controls – in other words the effective functioning during the period of the controls mapped for the purpose of analysis.

To this end, an annual monitoring (and refining and optimising, where necessary) activity plan is drawn up. The plan is formalised in a document that is presented to the Control and Risk Committee and in which strategies and timing are defined for carrying out monitoring tests.

As part of the activities carried out, the mapping of processes, risks and controls is regularly updated in accordance with Law No. 262/05.

Periodic reports are produced on the results of the activities, providing support on the basis of which the Manager responsible for preparing the company's financial reports releases legal declarations, and the Control and Risk Committee, as regards the most important deadlines for half-yearly and annual financial reporting, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.

9. THE INDEPENDENT AUDITORS

Auditing is carried out in accordance with the law by a company enrolled in the Register of Statutory Auditors maintained by the Italian Ministry of Economy and Finance.

Deloitte & Touche S.p.A. was appointed as independent auditor for the years 2009-2017 by the Shareholders' Meeting held on 23 April 2009.

During the course of the financial year, the Independent Auditors have the duty to verify:

- that the company accounts are property maintained and all operations are properly accounted for in the accounting records;
- that the Separate Financial Statements and the Consolidated Financial Statements match the results of the accounting records and of the inspections carried out and comply with the rules that govern them.

Deloitte & Touche S.p.A. is also tasked with performing a limited audit of the half-year condensed consolidated financial statements.

While carrying out its activities, the Independent Auditors have access to all documentary and electronic information and data, as well as the archives and the assets of the Company and of the Companies of the Group.

10. INVESTOR RELATIONS

The Company manages relations with its shareholders, institutional investors and the market through the Investor Relations function, which operates within the Division run by the Chief Financial Officer.

As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the most detailed information possible on its activities and strategies, including by regularly renewing and updating its website. The person in charge of managing investor relations is Emanuela Delucchi.

11. COMMITMENTS

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- to model its business on total compliance with the Group's ethical principles, which are based on a combination of values including personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2003, the most recent update of which was approved by the Board of Directors on 14 May 2014, to reflect not only the organisational and corporate changes that have taken place in the Group, but also the regulatory changes that have taken place and the changes to reference best practices;
- to ensure, by focusing on constantly developing the Corporate Governance principles, that such principles are observed by the organisation in order to ensure that it operates with transparency and efficiency over time.

The main documents concerning Corporate Governance, to which reference is made in the Report, are available in the Governance section of our website www.erg.eu.

TABLE 1: Structure of the Board of Directors and Committees

Board of Directors							
Office	**Members**	**Year of birth**	**In office since**	**In office until**	**List (M/m)***	**Executive**	**Non executive**
Chairman	Edoardo Garrone	1961	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Deputy Chairman	Alessandro Garrone	1963	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Deputy Chairman	Giovanni Mondini	1966	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Chief Executive Officer	Luca Bettonte	1963	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Director	Massimo Belcredi	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		
Director	Mara Anna Rita Caverni	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		
Director	Alessandro Chieffi	1964	24/04/15	Appr. Financial Statements 31/12/2017	m		
Director	Barbara Cominelli	1970	24/04/15	Appr. Financial Statements 31/12/2017	M		
Director	Marco Costaguta	1959	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Luigi Ferraris	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		
Director	Paolo Francesco Lanzoni	1953	24/04/15	Appr. Financial Statements 31/12/2017	M		
Director	Silvia Merlo	1968	24/04/15	Appr. Financial Statements 31/12/2017	M		

Directors who left office during the reference year: none

Quorum required for list presentation at the time of last appointment: 1%

Number of meetings held during the reference year: BoD: 8 - CRC: 13 - NRC: 6

Notes

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

** This column indicates the percentage of attendance of the Directors in the meetings respectively of the Board of Directors and of the Committees (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).

*** This column indicates the number of appointments as Director or Statutory Auditor held by the relevant individual in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group.

**** This column indicates whether the member of the Board of Directors is a Committee member.

***** This column indicates the date of first appointment of the Directors starting on 16 October 1997, i.e. the listing date of the Company.

					Control and Risk Committee		Nominations and Remuneration Committee	
Indep. as per Code	Indep. as per T.U.F.	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (*****)	(****)	(**)	(****)	(**)
(*****)		100%	2	16/10/97				
		88%	2	16/10/97				
		88%	1	16/10/97				
		100%		15/12/09				
	Yes	100%	1	29/04/03	Yes	100%		
Yes	Yes	88%	2	24/04/15	Yes	92%	Yes	100%
Yes	Yes	100%	2	24/04/15				
Yes	Yes	100%		24/04/15	Yes	100%		
		100%	5	20/04/12				
Yes	Yes	75%	1	24/04/15				
	Yes	100%	1	29/04/03			Yes	100%
Yes	Yes	100%	3	24/04/15			Yes	83%

TABLE 2: Structure of the Board of Statutory Auditors

Board of Statutory Auditors					
Office	**Members**	**Year of birth**	**In office since**	**In office until**	**List (M/m)***
Chairman	Elena Spagnol	1968	03/05/16	Appr. Financial Statements 31/12/2018	m
Statutory Auditor	Lelio Fornabaio	1970	03/05/16	Appr. Financial Statements 31/12/2018	M
Statutory Auditor	Stafano Remondini	1963	03/05/16	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Vincenzo Campo Antico	1966	03/05/16	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Luisella Bergero	1971	03/05/16	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Paolo Prandi	1961	03/05/16	Appr. Financial Statements 31/12/2018	m
Statutory auditors who left office during the reference year					
Chairman	Mario Pacciani	1944	23/04/13	Appr. Financial Statements 31/12/2015	M
Statutory Auditor	Elisabetta Barisone	1967	23/04/13	Appr. Financial Statements 31/12/2015	M
Alternate Auditor	Mario Lamprati	1949	15/04/14	Appr. Financial Statements 31/12/2015	M

Quorum required for list presentation at the time of last appointment: 1%

Number of meetings held during the reference year: 8

Notes

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

** This column indicates the percentage of attendance of the statutory auditors in the meetings of the Board of Statutory Auditors (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).

*** This column indicates the number of appointments as director or statutory auditor held by the Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group. The full list of the offices held is attached, in accordance with Article 144-quinquiesdecies of the CONSOB Issuers' Regulations, to the report on the supervisory activity, prepared by the statutory auditors in accordance with Article 153, paragraph 1 of the Consolidated Finance Law.

**** This column indicates the date of first appointment of the Statutory Auditors.

Independence as per Code	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)
Yes	100%	–	03/05/16
Yes	100%	4	15/04/10
Yes	100%	–	03/05/16
Yes	–	–	15/04/10
Yes	–	–	23/04/13
Yes	–	–	03/05/16
Yes	100%	–	29/04/04
Yes	100%	–	23/04/13
Yes	–	–	15/04/14

Board of Directors' Proposal

BOARD OF DIRECTORS' PROPOSAL

Dear Shareholders, in relation to the results achieved, we ask that you pass the following resolutions:

- to approve the ERG S.p.A. Annual Financial Statements for the period ended 31 December 2016, which closed with a net profit of EUR 11,472,639.75;
- to authorise the payment of a dividend of EUR 0.50 per share. The dividend will be paid in respect of each share having dividend rights outstanding as of the ex-date, excluding the company's treasury shares, in accordance with Article 2357-ter of the Italian Civil Code, by distribution of the year's earnings and for the residual part by use of retained earnings;
- to release part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings", for an amount of EUR 11,181,413.00 corresponding to the cancellation of the positive value of an option linked to the minority shares in ERG Renew S.p.A., which were then acquired in October 2016. Upon approval of the 2015 Financial Statements, the year's profit and a portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" amounting to EUR 11,181,413.00, the unrealised income deriving from the recognition of the positive value of said option, had been allocated to an unavailable reserve in accordance with Article 6, Paragraph 1, Letter a) of Italian Legislative Decree no. 38/2005;
- to make the dividend payable starting from 24 May 2017, with an ex-dividend date as of 22 May 2017 and record date of 23 May 2017.

Genoa, 9 March 2017

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

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Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)	Notes	31/12/2016		31/12/2015	
Intangible fixed assets	1		676,613		845,731
Goodwill	2		125,932		141,098
Property, plant and equipment	3		2,360,338		2,054,525
Equity investments:	4		170,225		143,569
carried at equity		*164,826*		*142,210*	
other investments		*5,398*		*1,363*	
Other non-current financial assets	5		39,099		38,943
of which towards related parties	40	–		*330*	
Deferred tax assets	6		160,045		173,026
Other non-current assets	7		45,615		42,876
of which towards related parties	40	–			
Non-current assets			**3,577,867**		**3,439,768**
Inventories	8		20,365		21,224
Trade receivables	9		292,978		343,450
of which towards related parties	40	*3,449*		*2,324*	
Other receivables and current assets	10		104,437		108,821
of which towards related parties	40	*13,556*		*14,659*	
Current financial assets	11		108,763		92,861
of which towards related parties	40	*8,490*		*8,491*	
Cash and cash equivalents	12		427,195		770,564
Current assets			**953,738**		**1,336,920**
Assets held for sale	38		–		–
TOTAL ASSETS			**4,531,605**		**4,776,688**
Group Shareholders' Equity	13		1,729,099		1,625,959
Minority interests	14		–		50,338
Shareholders' Equity			**1,729,099**		**1,676,297**
Employees' severance indemnities	15		6,733		5,512
Deferred tax liabilities	16		274,357		254,676
Provisions for non-current liabilities and charges	17		125,258		117,748
Non-current financial liabilities	18		1,934,060		1,987,829
of which towards related parties	40	–		–	
Other non-current liabilities	19		37,771		122,858
of which towards related parties	40	–		–	
Non-current liabilities			**2,378,179**		**2,488,623**
Provisions for current liabilities and charges	20		46,682		53,886
Trade payables	21		152,680		162,101
of which towards related parties	40	*60*		*210*	
Current financial liabilities	22		159,098		323,451
of which towards related parties	40	–		–	
Other current liabilities	24		65,865		72,330
of which towards related parties	40	*16,600*		*14,040*	
Current liabilities			**424,325**		**611,768**
Liabilities held for sale	38		–		–
TOTAL LIABILITIES AND EQUITY			**4,531,605**		**4,776,688**

INCOME STATEMENT

(EUR thousand)	Notes	FY 2016		FY 2015	
Revenues from ordinary operations	28		1,025,489		921,030
of which towards related parties	40	*12,176*		*14,631*	
of which non-recurring items	39	–			
Other revenues and income	29		16,312		15,234
of which towards related parties	40	*1,265*		*1,158*	
of which non-recurring items	39	–			
Change in inventories	30		1,905		2,759
Costs for purchases	31		(332,136)		(415,366)
of which towards related parties	40	*(138)*		*(45)*	
of which non-recurring items	39	–			
Costs for services and other operating costs	32		(196,002)		(157,279)
of which towards related parties	40	*(11,446)*		*(12,108)*	
of which non-recurring items	39	*(916)*		*(21,302)*	
Personnel costs	33		(62,260)		(58,195)
of which non-recurring items	39	*(1,159)*		*(8,529)*	
EBITDA			**453,308**		**308,183**
Amortisation, depreciation and write-downs of fixed assets	34		**(253,658)**		**(163,030)**
EBIT			**199,649**		**145,153**
Financial income	35		21,701		32,522
of which towards related parties	40	*15*		*2,224*	
of which non-recurring items	39	–			
Financial expenses	35		(105,552)		(87,267)
of which towards related parties	40	–		–	
of which non-recurring items	39	*(7,700)*		–	
Net financial income (expenses)	35		**(83,851)**		**(54,745)**
Net income (loss) from investments carried at equity			26,555		(13,706)
Other net income (loss) from equity investments			11,188		(39,961)
of which non-recurring items	39	*22,666*		*(62,706)*	
Income (loss) from equity investments	36		**37,743**		**(53,667)**
PROFIT (LOSS) BEFORE TAXES			**153,541**		**36,741**
Income taxes	37		(28,657)		(12,560)
of which non-recurring items	39	*1,768*		*17,254*	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**124,884**		**24,181**
Net profit (loss) from discontinued operations	38		–		(500)
of which non-recurring items	39	–		*(500)*	
NET PROFIT (LOSS) FOR THE PERIOD			**124,885**		**23,681**
Minority interests			(2,425)		(3,055)
of which non-recurring items	39	*491*		*115*	
GROUP SHARE OF NET PROFIT			**122,459**		**20,626**

(EUR)	FY 2016	FY 2015
Basic earnings per share from continuing operations	0.866	0.169
Diluted earnings per share from continuing operations	0.866	0.169
Group basic earnings per share	0.850	0.144
Group diluted earnings per share	0.850	0.144

OTHER COMPREHENSIVE INCOME

(EUR thousand)	2016	2015
Net profit (loss) for the period	**124,884**	**23,681**
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	(367)	(50)
Income taxes referred to the change in the employees' severance indemnities provision	104	15
	(263)	**(36)**
Changes that will be reclassified in the income statement		
Changes in the cash flow hedge reserve	(3,239)	15,752
Income taxes referred to the change in the cash flow hedge reserve	777	(5,764)
	(2,461)	9,988
Changes in the translation reserve	(4,521)	–
Income taxes referred to the change in the translation reserve	38	–
	(4,483)	–
Other components of comprehensive income after tax	**(7,207)**	**9,951**
Comprehensive net income (loss)	**117,677**	**33,633**
Minority interests	(2,425)	(3,260)
Comprehensive net income (loss) pertaining to the Group	**115,252**	**30,372**

STATEMENT OF CASH FLOWS

(EUR thousand)	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Net profit (loss) for the period		124,884	23,681
- Amortisation, depreciation and write-downs of fixed assets	34	253,658	163,030
- Net change in provision for liabilities and charges	17, 20	(5,528)	(12,782)
- Net change in deferred tax assets and liabilities	6, 16	(3,186)	(5,545)
- Write-down of receivables and current assets	9	1,055	2,581
- Net capital gain/loss on sale of non-current assets		–	232
- Portion of income/expenses from investments carried at equity	36	(26,872)	11,836
- Adjustment on sale of the equity investment in ERG Oil Sicilia S.r.l.		–	(500)
- Write-down of equity investments		–	–
- Net change in employees' severance indemnities	15	1,221	(947)
Cash flows before changes in working capital		**345,232**	**181,586**
- Change in other operating assets and liabilities:			
- Change in inventories	8	870	27,872
- Change in trade receivables	9	53,568	152,976
- Change in trade payables	21	(12,360)	(154,164)
- Net change in other receivables/payables and other assets/liabilities	7, 10, 19, 24	(5,434)	(18,831)
		36,645	**7,853**
CASH FLOWS FROM OPERATING ACTIVITIES (A)		**381,876**	**189,439**
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisitions of intangible fixed assets and goodwill	1, 2	(3,920)	(4,417)
Acquisition of property, plant, and equipment	3	(55,622)	(102,191)
Acquisition of equity investments and other non-current financial assets	4	(4,405)	(970)
Net change in other increases/decreases in fixed assets	1, 2, 3	21,049	(9,603)
Collection of balance from acquisition of ERG Hydro S.r.l.	11	10,510	–
Disposals of intangible fixed assets and goodwill	1, 2	13	500
Disposals of property, plant and equipment and related capital gains/losses	3	2,028	2,520
Disposals of equity investments and other non-current financial assets	4, 5	5,225	3,602
CASH FLOWS FROM INVESTING ACTIVITIES (B)		**(25,122)**	**(110,559)**
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
New non-current loans	18	367,000	733,698
Repayment of non-current loans	18, 22	(688,887)	(191,800)
Net change in loans to Group companies not consolidated line by line		–	8,684
Net change in other non-current financial liabilities		–	8,202
Net change in short-term bank borrowings	22	(255,508)	125,941
Net change in other current financial assets/liabilities	11, 22	64,529	32,397
Share capital increases/repayments		–	–
Dividends paid to third parties	23	(142,800)	(71,398)
Other changes in shareholders' equity		(6,246)	5,162
CASH FLOWS FROM FINANCING ACTIVITIES (C)		**(661,912)**	**650,886**
CHANGE IN THE SCOPE OF CONSOLIDATION (D)		**(38,212)**	**(1,128,563)**
NET CASH FLOW FOR THE YEAR (A+B+C+D)		**(343,369)**	**(398,797)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12	**770,564**	**1,169,359**
NET CASH FLOWS FOR THE YEAR		(343,369)	(398,797)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**427,195**	**770,564**

ADDITIONAL CASH FLOW STATEMENT INFORMATION	2016	2015
Income taxes paid	14,230	125,488
Interest paid	40,168	25,076

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	–	(71,398)	–	(71,398)	–	(71,398)
Other changes	–	(4,482)	–	(4,482)	(313)	(4,795)
Net profit (loss) for 2015	–	–	20,626	20,626	3,055	23,681
Actuarial change in employees' severance indemnities provision	–	(36)	–	(36)	–	(36)
Changes in the cash flow hedge reserve	–	9,783	–	9,783	205	9,989
Comprehensive net income (loss)	**–**	**9,747**	**20,626**	**30,372**	**3,260**	**33,633**
BALANCE AT 31/12/2015	**15,032**	**1,590,302**	**20,626**	**1,625,958**	**50,338**	**1,676,297**
Allocation of 2015 profit	–	20,626	(20,626)	–	–	–
Dividends	–	(142,800)	–	(142,800)	–	(142,800)
Exchange of treasury shares	–	76,964	-	76,964	–	76,964
Reclassification of result minority interests vs Group	–	–	52,763	52,763	(52,763)	–
Other changes	–	961	–	961	–	961
Net profit (loss) for 2016	–	–	122,459	122,459	2,425	124,884
Actuarial change in employees' severance indemnities provision	–	(263)	–	(263)	–	(263)
Changes in the cash flow hedge reserve	–	(2,461)	–	(2,461)	–	(2,461)
Change in the translation reserve	–	(4,483)	–	(4,483)	–	(4,483)
Comprehensive net income (loss)	**–**	**(7,207)**	**122,459**	**115,252**	**2,425**	**117,677**
BALANCE AT 31/12/2016	**15,032**	**1,538,846**	**175,222**	**1,729,099**	**–**	**1,729,099**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

THE GROUP

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

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

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements as at and for the year ended 31 December 2016 have been prepared , without any waiver or exception, in accordance with the Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

The Consolidated Financial Statements, expressed in thousands of euros, were prepared under the general historical cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivative instruments, which were measured at fair value.

The Consolidated Financial Statements as at and for the year ended 31 December 2016 were audited by the independent auditor Deloitte & Touche S.p.A. in accordance with CONSOB regulations.

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERG classifies its income statement using the "nature of expense" method, a form deemed more representative than a classification using the "function of expense" method. The form chosen is in fact consistent with internal and management reporting procedures.

With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1.

The structure of the statement of cash flows is based on the indirect method.

Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not occur frequently in the ordinary course of business have been indicated separately in the income statement. These items are commented upon in a dedicated note.

Also pursuant to the aforementioned CONSOB resolution, balances or transactions with related parties have been entered separately in the statement of financial position and in the income statement. These items are commented upon in a dedicated note.

ACCOUNTING STANDARDS AND CONSOLIDATION PRINCIPLES

SUMMARY OF SIGNIFICANT ACCOUNTING STANDARDS

Significant accounting standards adopted for the preparation of the Consolidated Financial Statements at and for the year ended 31 December 2016 are described below. They are the same as for the previous year, except for the differences described in the paragraph "Accounting principles, amendments and interpretations applied from 1 January 2016".

Intangible fixed assets

Intangible fixed assets are recorded as assets, pursuant to IAS 38 - Intangible Assets, wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general, intangible assets are amortised over a maximum period of 5 years, with the exception of surface rights and authorisations and concessions for the wind farms and the hydroelectric assets, which are amortised in relation to the economic and technical life. There are no intangible assets with an indefinite useful life or development costs.

Research costs are expensed directly in the income statement in the period in which they are incurred.

Other intangible assets recognised following a business combination are presented separately from goodwill if their fair value can be measured reliably.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the purchaser to the former owners of the acquiree, the liabilities incurred by the purchaser for such subjects and the equity interests issued by the purchaser. The costs related to the acquisition are recognised as expenses in the periods in which they are incurred.

Goodwill is recognised at the date of acquisition of control of an acquired entity and is estimated as the difference between the sum of:

- the consideration transferred, the amount of any minority interest in the acquiree measured in accordance with IFRS 3 (fair value of the pro-rata share of net assets related to minority interests), in a business combination achieved in stages the fair value at the date of purchase of the interest previously held by the purchaser;
- the net value of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed, measured at fair value.

If the fair value of the net identifiable assets acquired is higher than the consideration transferred, the difference that emerges, after having checked if the fair value of the identifiable assets and liabilities acquired is correct, is recognised in the income statement at the date of acquisition. The profit is allocated to the purchaser.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. If in prior reporting periods the acquirer had recognised changes in the value of its equity interest in the acquiree in other comprehensive income, the amount shall be posted in the income statement on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, provisional amounts are reported. Adjustments to the provisional amounts recognised at the acquisition date are accounted for retrospectively so as to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the amounts recognised at that date. The measurement period lasts for 12 months from the acquisition date.

When the consideration transferred includes a component of contingent consideration, the acquisition-date fair value of the contingent is recorded as part of the consideration transferred in exchange for the acquiree.

Goodwill

Goodwill acquired in a business combination is not amortised, but is subjected to impairment tests pursuant to the procedures provided for in IAS 36 - Impairment of Assets every year, or more frequently if specific events or changes in circumstances indicate the possibility that there may have been any impairment.

For the purposes of the impairment test, goodwill on the acquisition date is allocated to each of the buyer's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the entity acquired are assigned to these units or groups of units.

If the recoverable amount of the unit (or groups of units) to which the goodwill is allocated is less than its carrying value, an impairment loss is recognised in the following order: first, to reduce the carrying amount of goodwill to the cash-generating unit, and then to the other assets of the unit (or group of units) in proportion to the carrying amount of each asset in the unit (or group of units).

If the goodwill has been allocated to a cash-generating unit and the unit is disposed of or transferred, goodwill is included in the carrying amount of the asset when determining the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are recognised at the cost of acquisition or production.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Cyclical maintenance costs are recognised as assets in the statement of financial position as a separate component of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.

The cost of the assets, where there are present obligations to do so, includes charges for dismantling, removal of assets and site restoration to be incurred at the time facilities are abandoned, which are presented as a contra-asset in a specific provision. These charges are recognised starting on the date when they can be reliably estimated for those assets for which future disposal, and the time when this will happen, is foreseeable.

Capitalised charges are allocated to the income statement via depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible fixed asset consists of several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the historical cost less the expected residual value, if material and reliably measurable.

Land is not depreciated, even if acquired together with a building. Assets revertible free of charge are depreciated over the estimated life of the asset or the duration of the concession, whichever is shorter.

There were no significant finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%
Industrial and commercial buildings	2.5 - 7.34
Fixed hydraulic works	1
Pressurised pipelines	2.5
Hydraulic and electrical machinery	3.3
Automation and control systems	10
Equipment and machinery	5
Digital control facilities	10
Remote transmission facilities	10
Transport lines	5
Lightweight constructions	10
General plant	8.45 - 10.0
CCGT plant *	6.09
Digital control and remote transmission facilities	10
Motor vehicles, furniture and furnishings, sundry assets	8.38 - 25.0
Building leases and other civil works	3.5
Other assets	from 10 to 20

* average rates

With regard to wind turbines, depreciation rates are determined taking into account the different economic useful lives of each component of the wind farm (Component Analysis).

Impairment of assets (impairment test)

At least once a year, the Group subjects its tangible and intangible assets to an impairment test to determine whether there are indications that they may be impaired. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

Equity investments

Joint ventures

These are companies on whose activity the Group has joint control as defined by IFRS 11 – Joint Arrangements. The Consolidated Financial Statements include the Group's share of the results of the joint venture, measured under the equity method, starting from the date when joint control starts until the time when it ceases to exist.
If the Group's share of the losses of the joint ventures exceeds the carrying value of the investment in the consolidated financial statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

Associates

These are companies in which the Group exercises significant influence, but not control or joint control, over financial and operating policies, as defined by IAS 28 – Investments in associates and joint ventures. The Consolidated Financial Statements include the Group's share of the results of the associates, measured under the equity method, starting from the date when significant influence starts until the time when it ceases to exist. If the Group's share of the associate's losses exceeds the carrying value of the investment in the consolidated financial statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

Financial assets

IAS 39 envisages classification of financial assets according to the following categories:
- financial assets at fair value through profit or loss (FVTPL);
- held-to-maturity (HTM) investments;
- loans & receivables (L&R);
- available-for-sale (AFS) financial assets.

Initially, all financial assets are recognised at their fair value, increased, in case of assets other than those classified as FVTPL, by ancillary costs.
At the time of underwriting, an assessment is made as to whether a contract contains embedded derivatives. Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.
The Group classifies its financial assets after initial recognition and, when appropriate and allowable, reviews this classification at the end of each year.

- Financial assets at fair value through profit or loss (FVTPL)

This category comprises:

- assets held for trading (HFT);
- assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments. Gains and losses on assets held for trading are recognised in the income statement.

At 31 December 2016, no financial asset had been designated as FVTPL.

- Held-to-maturity (HTM) investments

Non-derivative financial assets with fixed or determinable payments are classified as "held-to-maturity (HTM) investments" whenever the Group intends and has the ability to hold them to maturity.

After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the income statement when the investment is derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

At 31 December 2016, the Group held no investments classified as HTM.

- Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Following initial recognition, these assets are measured at amortised cost using the effective interest method, net of allowances, if any.

Gains and losses are recognised in the income statement when loans and receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

Trade receivables are recognised at their fair value, which corresponds to their face value, and are subsequently reduced to account for uncollectible receivables, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

- Available-for-sale (AFS) financial assets

Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.

Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within shareholders' equity.

AFS financial assets include equity investments in companies other than subsidiaries and associates in which ERG's direct or indirect ownership percentage is less than 20%.

When fair value cannot be reliably measured, equity investments are measured at cost, written down for impairment,

if any, and dividends from such companies are included in "Other net income (loss) from equity investments".
When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement.
The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

IAS 39 prescribes the following measurement methods: fair value and amortised cost.

Fair value

In the case of securities widely traded in regulated markets, fair value is determined with reference to market prices at the close of trading on the financial statements' date.
Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

- prices of recent arm's length transactions;
- current fair market value of a substantially similar instrument;
- discounted cash flow (DCF) analysis;
- option pricing models.

Amortised cost

"Investments held to maturity" and "Loans and receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions or allowances, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest rate and transaction costs.

Impairment of financial assets

At each consolidated financial statements' date, the Group verifies whether a financial asset or group of financial assets has suffered impairment.
If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows discounted at the asset's original effective interest rate.
The carrying value of the asset is reduced via accrual of a provision. The impairment amount is recognised in the income statement. The Group assesses the existence of factual evidence of impairment on an asset-by-asset basis.
If the amount of impairment subsequently decreases and this reduction can objectively be attributed to an event occurring after recognition of impairment, the value previously reduced can be reinstated. Any subsequent write-backs of value are recognised in the income statement, to the extent that the asset's carrying value does not exceed the amortised cost at the write-back date.

In the case of trade receivables, an allowance for uncollectible receivables is recognised when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that the Group will be unable to recover the amounts owed according to the original conditions.

The carrying value of the receivable is reduced via use of a specific provision. Receivables are derecognised if they are deemed unrecoverable.

Cash and cash equivalents

Cash and cash equivalents are presented, according to their nature, at face value.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

Financial liabilities

IAS 39 envisages classification of financial liabilities according to the following categories:

- financial liabilities at fair value through profit or loss (FVTPL);
- other financial liabilities.

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.

After initial recognition, loans are measured at amortised cost using the effective interest method.

Every gain or loss is recognised in the income statement when the liability is settled, as well as via the amortisation process.

Financial liabilities at FVTPL include "liabilities held for trading".

"Liabilities held for trading" (HFT) are acquired for the purpose of short-term sale and comprise derivatives – including separated embedded derivatives – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the income statement.

At 31 December 2016, financial liabilities of immaterial amounts had been designated at FVTPL.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and has transferred substantially all risks

and rewards of ownership of the financial asset, or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of same.

In cases where the Group has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in Group accounts to the extent of the Group's residual involvement in such asset.
A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or settled.

Derivative financial instruments and hedging transactions

Derivative financial instruments are initially recognised at their fair value on the date on which they are concluded. This fair value is then subject to periodic revaluation.
They are presented as assets when their fair value is positive and as liabilities when it is negative.
ERG carries out transactions with derivative instruments to hedge the risk stemming from the fluctuations in raw material and product prices, foreign currency exchange and interest rates.
Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.
When derivatives hedge the risk of fluctuations in the fair value of the underlying hedged asset (fair value hedge), they are measured at their fair value and the effects are presented in the income statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.
When the derivative hedges the risk of fluctuations in the cash flows associated with the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently presented in the consolidated income statement matching the economic effects produced by the hedged transaction.
Changes in the fair value of derivatives that do not have the formal requisites to qualify as hedges under IAS/IFRS are presented in the consolidated income statement.

Treasury shares

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

Inventories

Inventories, relating to spare parts, are measured at cost, determined using the weighted average cost method, or market value (replacement cost), whichever is lower.

Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the financial statements' date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date except in case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are presented in the income statement under financial income and expenses.

Provisions for liabilities and charges

ERG records provisions for liabilities and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in estimates are reflected in the income statement in the period in which they occur.

When the financial effect of time is significant and the dates of settlement of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the income statement under "Financial income (expenses)".

When the liability relates to property, plant or equipment (for example dismantling and restoration of sites), the provision is presented as a contra asset against the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the consolidated financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

Employee benefits

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for the provision were amended by Italian Law no. 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 and not yet liquidated at the date of the consolidated financial statements, whereas after said date it is deemed akin to a defined contribution plan.

The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled at the reporting date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.
Gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the income statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

Revenue recognition

Revenues from sales and services are recognised when the actual transfer of risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or upon completion of the services.
Revenues stemming from partially provided services are recognised as earned pro rata over completion, provided that it is possible to determine their level of completion reliably and there are no significant uncertainties as to the amount and existence of revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.
Revenues are presented net of returns, discounts, rebates and allowances, as well as of any directly related taxes.
If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Since exchanges of goods or services of a similar nature and value do not constitute sales transactions, they do not give rise to recognition of revenues and costs.
Revenues relating to the **Feed-In Premium** (formerly green certificates) are recognised based on production in the period and are calculated on the basis of the legal regulations and prevailing resolutions of the Italian Electricity Authority during the period, also taking into account the prevailing pro tempore equalising regulations.
Grants related to assets are recognised at the time when a formal assignment is made and any possible restriction on their collection is removed and they are recognised in the income statement over the useful life of the related assets, with the purpose of matching their economic-technical depreciation.

Dividends

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

Financial income and expenses

These are recognised under the accrual basis of accounting in the consolidated income statement based on the interest due on the net value of financial assets and liabilities, utilising the effective interest rate.

Taxes

Current taxes are accrued based on the estimated tax burden for the period, also taking into account the effects relating to participation of most Group companies in Tax Consolidation.

Income taxes are presented in the income statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is also directly presented under shareholders' equity.

Furthermore, pursuant to the accrual basis of accounting, the Consolidated Financial Statements include deferred-tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' separate financial statements in application of the Group's uniform accounting standards, as well as from temporary differences between the statutory values and related tax values.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits.

Deferred tax assets are only recognised in the financial statements if their future recovery is probable.

With regards to deferred tax assets related to tax losses that can be carried forward, please see the following paragraph.

Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

In reference to the deferred tax assets relating to the tax losses of Italian subsidiaries, it is pointed out that the legislation provides for a quantitative limit on the use of prior years' tax losses equal to 80% of the income produced in subsequent years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the period attributable to the parent company's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period.
To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all dilutive potential ordinary shares.

ENVIRONMENTAL CERTIFICATES

White certificates (Energy Efficiency Certificates) are assigned by the GSE upon achievement of energy savings through the application of efficient technologies and systems.
White certificates are accounted for on an accrual basis and recognised among other current assets, in proportion to the savings of TOE (Tonnes of Oil Equivalent) actually recorded during the year. They are measured at their market value of the last month of the year, unless the market value at the end of the year is significantly lower than the withdrawal price established by the GSE on the basis of the value established in Article 9, paragraph 2 of Italian Ministerial Decree dated 5 September 2011, which in the case of ERG is constant for the whole incentive period, relative to the white certificates intended for the market. The value of the white certificates intended for withdrawal by the GSE is measured on the basis of the value established in Article 9, paragraph 2 of Italian Ministerial Decree dated 5 September 2011, or at their prevailing price at the time the co-generation unit started operations. For the co-generation units that started operations before the entry into force of the aforementioned Italian Ministerial Decree, the reference price is the prevailing price at the same date of entry into force. The withdrawal price remains constant during the incentivised period.
From January 2016, green certificates were changed to the feed-in premium (FIP). The new incentives are calculated on a monthly basis, based on the electricity fed into the network from the plant, and are withdrawn quarterly by the GSE no later than the last working day of the second quarter following that in which the electricity was produced.
With Resolution 29/2016, the Italian Regulatory Authority for Energy and Gas fixed the 2016 withdrawal price for the feed-in premium (FIP) at 100.08 EUR/MWh.
With regard to the incentive schemes in force in foreign countries where the Group is active, please refer to the relevant sections in the Report on Operations.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Preparation of the Financial Statements and explanatory notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying values of the assets and liabilities recognised in the Consolidated Financial Statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective judgment.
By their very nature, estimates and assumptions used may vary from year to year, and therefore, it cannot be excluded

that in subsequent years the current financial statement values may differ as a result of the change in the subjective assessments used.

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

- the estimate of the revenues from ordinary operations which referred to the Power Business (with particular reference to that indicated in the chapter below);
- provisions for bad debt, inventory obsolescence and asset write-downs;
- the definition of the useful life of fixed assets and the related amortisation and depreciation;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the evaluation processes involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay, and quantifying the related amount;
- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected composition and renewal of tax consolidation regimes;
- the impairment test for intangible and tangible assets and for other equity investments, described in detail in the **Impairment test** paragraph, implies – in the estimation of the value in use – the utilisation of the investee companies' Business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

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

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

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

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

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

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

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

For ERG Power Generation, whose Priolo CCGT plant were considered essential facilities pursuant to Law Decree 91/2014 until 27 May 2016, the compensation advance agreed following the resolution is equal to around 68% of the balance requested. The remaining balance should be paid within the first half of 2017.

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

Both amounts were paid by TERNA within the deadline (31 December 2016).

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2016

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

- On 21 November 2013, amendments to IAS 19 "Defined Benefit Plans: Employee Contributions", relating to the recognition in the financial statements of employee or third-party contributions to defined-benefit plans, were issued.
- On 6 May 2014, amendments to **IFRS 11 - Joint Arrangements** were issued. 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 consolidated financial statements at 31 December 2016.
- On 12 May 2014, amendments to **IAS 16 (Property, plant and equipment)** and IAS 38 **(Intangible Assets)** were issued. In particular, it was clarified that the revenue based amortisation/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 consolidated financial statements at 31 December 2016.
- On 18 December 2014, amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" were issued. These contained modifications relating to issues that emerged following the application of the consolidation exception granted to investment entities.
- On 12 December 2013, the IASB published the document entitled "Annual Improvements to IFRSs: 2010-2012 Cycle". The main amendments pertain to:
  - IFRS 2 Share-based Payments
  - IFRS 3 Business Combinations
  - IFRS 8 Operating Segments
  - IFRS 13 Fair Value Measurement

- On 25 September 2014, EU regulation 2015/2343 implementing the document **Annual Improvements to IFRSs: 2012-2014 Cycle** was issued. 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.

  These amendments must be applied prospectively from 1 January 2016.

  The adoption of these amendments had no significant effect on the consolidated financial statements at 31 December 2016.
- On 18 December 2014, EU regulation 2015/2406 implementing certain amendments to **IAS 1 (Presentation of Financial Statements) - Disclosure Initiative** was issued. The purpose of the amendments is to provide clarification on disclosure elements that could be perceived to impede the clear and intelligible drafting of financial statements. 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 consolidated financial statements at 31 December 2016.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2016

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

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

The standard shall be effective from 1 January 2018, but early adoption is allowed.
The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, have not yet been approved by the European Union.

Impacts on the Group

The Group's energy sales relate mainly to energy sold wholesale, which includes sales on the IPEX electricity exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), and the "dispatching services market" (MSD), as well as sales to the main operators of the sector on the "over the counter" (OTC) platform.
Based on a qualitative analysis, this standard should not have a significant impact on the "core" sales mentioned above since they are not characterised as packet sales (energy/goods/services) or characterised by conditions of price variability in relation to sales volume trends that could result in a different temporal allocation of revenues.
In fact, the new revenue recognition model provided for by IFRS 15 could have an effect in the case of "bundle" offers by providing for the allocation of the Transaction Price (total consideration to which the entity will be entitled in exchange for the transfer of goods and/or services to the customer at each Performance Obligation (each separate asset or service that the entity has promised to transfer to the customer)) on the basis of the relative standalone selling price.
Non "core" sales are currently being analysed in order to determine any impacts.

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

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

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

The Group is conducting analyses to determine the impacts of the application of IFRS 9, in addition to the information necessary to comply with the new disclosure requirements: the analyses conducted to date have not given rise to elements signalling significant changes to the Group financial statements, also due to the fact that the Group generally does not use complex financial instruments, and does not hold financial assets and liabilities other than trade receivables and payables, bank loans and the related hedging instruments and plain vanilla instruments hedging fluctuations in the prices of electricity and gas.

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

As regards IFRS 16, the new principles replaces IAS 17 (Leases) and the related interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease; SIC 15 Operating Leases — Incentives; SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease).

IFRS 16 requires that lessee’s record, for all lease agreements and similar agreements (no longer requiring the evaluation of whether they qualify, as envisaged by the current IAS 17, as operating leases or finance leases) a liability in the statement of financial position representing the present value of future lease payments, against the recognition under assets of the “right to use the leased asset”. This requirement only excludes contracts with duration less than or equal to 12 months and the lease of assets of little value.

IFRS 16 is retrospectively applicable starting from 1 January 2019, by adopting one of the following methods:

- the “full retrospective approach” which involves the recalculation of all comparative periods of the financial statements;
- the “modified retrospective approach”, recording the cumulative effect of the first-time application of the standard as an adjustment to opening equity for the year in which the standard is adopted, thus without recalculating the comparative periods of the financial statements.

Early application is permitted, but only if IFRS 15 Revenue from Contracts with Customers is also adopted. IFRS 16 has not yet been endorsed by the EU.

The Group is conducting analyses to determine the impacts of the application of IFRS 16, in addition to the information necessary to comply with the new disclosure requirements: the analyses conducted to date showed the following main impacts on the Group's consolidated financial statements:

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

CONSOLIDATION PRINCIPLES

Scope of consolidation

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

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

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

Investments in consolidated companies

The financial statements of subsidiaries used for consolidation purposes were drawn up at 31 December 2016 based on the same accounting standards and policies adopted by the Group.

All financial statements of the companies consolidated line by line are expressed in euros.

When preparing the Consolidated Financial Statements, the assets, liabilities, revenues and costs of the consolidated companies are included line by line for their full amount, attributing to minority shareholders, under separate headings of the consolidated statement of financial position and income statement, their portion of shareholders' equity and profit or loss for the year. The portion of shareholders' equity pertaining to minority interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them.

The carrying value of investments is eliminated against the corresponding portion of shareholders' equity of the investee companies, attributing to individual assets and liabilities their fair values at the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill"; if negative, it is recognised in the consolidated income statement as prescribed by IFRS 3 (Business Combinations).

Intra-group transactions

Application of the "line-by-line" method, aimed at eliminating the effects of all intra-group transactions on the consolidated statement of financial position and income statement, results in elimination of reciprocal receivables and payables among the companies included in the scope of consolidation, as well as revenues and costs, income and expenses, gains and losses, if significant, originating from sales of products and assets.

Translation of financial statements drawn up in currencies other than the Euro

ERG's Consolidated Financial Statements have been drawn up in euros, which is the functional currency of ERG S.p.A. and of all companies included in the scope of consolidation, with the exception of:

- the Polish subsidiaries of ERG Renew S.p.A.;
- the Romanian subsidiary of ERG Renew S.p.A.;
- the Bulgarian companies directly controlled by ERG Bulgaria S.p.A.;
- the UK companies directly controlled by ERG Renew S.p.A.

Foreign currency exchange differences resulting from the translation of initial shareholders' equity items at year-end rates, compared with those in force at the end of the previous year, are charged directly to Consolidated shareholders' equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in Other comprehensive income and reclassified from equity to the profit or loss for the financial year at the disposal of the net investment.

A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the net investment in the foreign operation.

List of Group companies

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

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

	Registered Office	Direct share	Group's share	Share Capital (1) (2)	Shareholders' Equity (1) (2)
ERG S.p.A. (3) (4)					
ERG Power Generation S.p.A.	Genoa	100%	100%	6,000	1,061,828
ERG Renew S.p.A.	Genoa	100%	100%	107,692	701,050
ERG Services S.p.A.	Genoa	100%	100%	1,200	10,514
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	744,982
ERG Power S.r.l.	Genoa	100%	100%	5,000	143,535
ERG Renew S.p.A.					
Blachy Pruszynsky-Energy SP.ZO.O.	Rzgów (Poland)	100%	100%	3,000	699
Brockaghboy Windfarm Ltd.	Belfast (UK)	100%	100%	–	(395)
Corni Eolian S.A. (3)	Constanta (Romania)	100%	100%	152,000	123,913
CSO Energy GmbH	Leisnig (Germany)	100%	100%	210	228
CSO Energy S.a.r.l.	Paris (France)	100%	100%	1,415	237
ERG Eolica Adriatica S.r.l.	Genoa	100%	100%	10	23,626
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	1,113
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	3,207
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	143
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	37,734
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	6,737
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	18,580
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(2,450)
ERG Eolica S. Cireo S.r.l.	Genoa	100%	100%	3,500	20,599
ERG Eolica S. Vincenzo S.r.l.	Genoa	100%	100%	3,500	20,168
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	13
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	21,625	27,025
ERG Renew Operations & Maintenance S.r.l. (4)	Genoa	100%	100%	10	6,106
ERG Wind 105 GmbH	Leisnig (Germany)	100%	100%	1	(437)
ERG Wind Bulgaria S.p.A.	Genoa	100%	100%	50	30,167
ERG Wind France 1 S.a.s. (5)	Paris (France)	100%	100%	1,097	(6,978)
ERG Wind French Holdings S.a.s.	Paris (France)	100%	100%	1,410	943
ERG Wind Investments Ltd.	Gibraltar	100%	100%	112,993	78,406
ERG Wind Neunte GmbH	Leisnig (Germany)	100%	100%	25	56
ERG Wind Park Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	20
ERG Wind RE Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	20
EW Orneta 2 SP.ZO.O.	Szczecin (Poland)	100%	100%	32,675	29,612
Green Vicari S.r.l.	Camporeale	100%	100%	119	15,836
Hydro Inwestycje SP.ZO.O.	Warsaw (Poland)	100%	100%	5	(784)

(1) data referring to the latest approved financial statements

(2) data expressed in thousands of euros with the exception of companies with registered office in Poland, UK and Romania whose data is shown in the respective local currencies.

(3) from 1 November 2016, following the merger by incorporation of ERG Wind GmbH into ERG Renew, Corni Eolian became a direct subsidiary of ERG Renew S.p.A.

(4) The secondary headquarters were established in Chartres (France) on 29 February 2016

(5) In October 2016, ERG Renew carried out a EUR 9,000 thousand capital increase in ERG Wind France 1.

	Registered Office	Direct share	Group's share	Share Capital (1) (2)	Shareholders' Equity (1) (2)
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	100%	37	(3,216)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	100%	1,114	(571)
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	100%	1,114	(266)
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	100%	1,060	(109)
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	100%	861	1,949
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	(1,379)
ERG Wind GmbH					
Parc Eolien de St Riquier 3 S.a.s.	Paris (France)	100%	100%	37	(714)
Parc Eolien de St Riquier 4 S.a.s.	Paris (France)	100%	100%	37	(693)
ERG Wind Bulgaria GmbH					
Globo Energy EOOD	Sofia (Bulgaria)	100%	100%	4,379	4,519
K&S Energy EOOD	Sofia (Bulgaria)	100%	100%	3,179	3,164
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	100%	3,024	3,708
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	100%	3,051	3,749
Mark 1 EOOD	Sofia (Bulgaria)	100%	100%	4,113	4,552
Mark 2 EOOD	Sofia (Bulgaria)	100%	100%	4,113	4,388
VG-1 EOOD	Sofia (Bulgaria)	100%	100%	1,520	1,594
VG-2 EOOD	Sofia (Bulgaria)	100%	100%	3,034	2,707
VG-3 EOOD	Sofia (Bulgaria)	100%	100%	3,057	2,952
VG-4 EOOD	Sofia (Bulgaria)	100%	100%	2,955	4,073
VG-5 EOOD	Sofia (Bulgaria)	100%	100%	3,059	2,916
VG-6 EOOD	Sofia (Bulgaria)	100%	100%	3,023	2,740
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	100%	505	777
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	100%	175	737
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	100%	2,157	2,374
ERG Wind France 1 S.a.s.					
ERG Wind France 2 S.a.r.l.	Paris (France)	100%	100%	1	(16)
Cepe Pays De Montbeliard S.n.c.	Paris (France)	100%	100%	365	(3,258)
Cepe de Murat S.n.c.	Paris (France)	100%	100%	444	3,661
Cepe de Saint Florentin S.n.c.	Paris (France)	100%	100%	251	(4,063)
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	100%	100	2,160
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	100%	100	3,670
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	100%	80	2,233
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(1,074)
Parc Eolien de Morvilers S.a.r.l.	Paris (France)	100%	100%	8	(751)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	100%	37	(183)
Parc Eolien du Patis S.a.s.	Paris (France)	100%	100%	1,164	1,176
Parc Eolien Hauts Moulins	Paris (France)	100%	100%	15	(1,847)
Parc Eolien Moulins des Camps	Paris (France)	100%	100%	15	(1,614)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	100%	37	(620)
Parc Eolien de la Souterraine	Paris (France)	100%	100%	505	297
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	100%	37	(839)
SEPE Du Nouvion S.a.s.	Paris (France)	100%	100%	37	(256)

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euros with the exception of companies with registered offices in Bulgaria whose data are given in local currency.

	Registered Office	Direct share	Group's share	Share Capital (1) (2)	Shareholders' Equity (1) (2)
ERG Wind Investments Ltd.					
ERG Wind Holdings (Italy) S.r.l.	Genoa	100%	100%	212	884,044
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	100%	–	(3,346)
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	100%	–	(333)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind 4 S.r.l.	Genoa	100%	100%	6,633	46,816
ERG Wind Energy S.r.l.	Genoa	100%	100%	1,000	76,747
ERG Wind Leasing 4 S.r.l.	Genoa	100%	100%	10	315
ERG Wind Sardegna S.r.l.	Genoa	100%	100%	77	46,122
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	100%	77	32,054
ERG Wind MEI 2-14-1 LTD					
ERG Wind MEG 1 LLP	London (UK)	80%	100%	33,168	21,474
ERG Wind MEG 2 LLP	London (UK)	80%	100%	28,010	18,446
ERG Wind MEG 3 LLP	London (UK)	80%	100%	33,585	23,594
ERG Wind MEG 4 LLP	London (UK)	80%	100%	29,721	20,486
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa	100%	100%	77	38,081
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	100%	77	11,517
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	100%	77	17,715
ERG Wind 2000 S.r.l.	Genoa	100%	100%	77	24,817
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	100%	77	47,039
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	100%	77	29,810
ERG Wind Park Beteiligungs GmbH					
Epuron Energy Park 117 (Frehne) GmbH	Leisnig (Germany)	100%	100%	1	(407)
Voltwerk Energy Park 8 Gmbh & Co. KG	Leisnig (Germany)	100%	100%	–	–
Voltwerk Windpark Worbzig GmbH	Leisnig (Germany)	100%	100%	–	1,233
Voltwerk Windpark Beesenstedt GmbH	Leisnig (Germany)	100%	100%	1	2,344
Windpark Cottbuser Halde GmbH	Leisnig (Germany)	100%	100%	5	(3,753)
WP Achmer Vinte GmbH	Leisnig (Germany)	100%	100%	7,500	(3,142)

(1) data referring to the latest approved financial statements
(2) (EUR thousand)
(3) the remaining 20% is held by ERG Wind MEI 2-14-2

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

Company	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)	Book values at 31/12/2016
(EUR thousands)						
ERG S.p.A.						
TotalErg S.p.A. (3)	Rome	51.00%	51.00%	47,665	287,405	151,676
Joint ventures						**151,676**
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (4)	Melilli	24.4%	24.4%	28,100	49,735	13,150
Associates						**13,150**

(1) data referring to the latest approved financial statements
(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 **recognised according to the cost method**:

Company	Registered Office	Direct share	Group's share	Share capital (1) (2)	Shareholders' Equity (1) (2)	Book values at 31/12/2016
(EUR thousands)						
ERG S.p.A.						
ERG Petroleos S.A.	Madrid (Spain)	100%	100%	3,050	(5,708)	–
ERG Renew S.p.A.						
Eolico Troina S.r.l. in liquidazione	Palermo	99%	99%	20	249	25
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(217)	123
Longburn Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	–	289
Sandy Knove Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	–	348
Creggan Wind Farm Limited	Seebeck House (UK)	100%	100%	–	–	943
WP France 6	Puteaux (France)	100%	100%	–	–	2,975
Subsidiaries						**4,703**
ERG Renew S.p.A.						
Rigghill Wind Farm Limited	Seebeck House (UK)	50%	50%	–	–	204
Joint ventures						**204**
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.	Barcelona (Spain)	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						**5,398**

(1) data referring to the latest approved financial statements
(2) (EUR thousand)
(3) In view of the negative shareholders' equity of ERG Petroleos, a provision for risks on equity investments of approximately EUR 5.7 million has been allocated.

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 Impax Asset Management Group, with an installed output of 124 MW, along with six in Germany, with an installed capacity of 82 MW, for a total of 206 MW. The wind farms, which became 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 from TCI Renewables ("TCI") 100% of the share 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 region of Londonderry, with planned capacity of over 47.5 MW and energy output estimated at approximately 150 GWh when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO_2 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., and Ferme Eolienne de Teterchen S.A.S. to ERG Wind France 1 S.A.S. The transaction has had no impact on these 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. for an equivalent value of 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. completed the purchase from International Power Consolidated Holding Limited of the remaining 20% of the equity investment in ERG Wind Investment Limited following the exercise of a call option by ERG Renew S.p.A., which has held all shares of the investee company since that date.
  The transaction has had no impact on these Financial Statements since in previous Financial Statements, in consideration of the put and call option in effect, the acquisition of the minority shares, with the subsequent inclusion of the said minority shares in the Group Shareholders' equity, was assumed to be certain.

- On **12 October 2016**, ERG S.p.A. executed an agreement with UniCredit, whereby all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital. For additional details, please refer to the chapter **Minority interests transaction**.

- On **25 October 2016**, the deed of merger by incorporation of ERG Wind GmbH in ERG Renew S.p.A. was entered in the Italian Register of Companies. The merger took effect from 1 November 2016. The transaction has had no impact on these Financial Statements as it took place under common control.

- On **15 November 2016**, the deed of merger by incorporation of ERG Wind Bulgaria GmbH in ERG Wind Bulgaria S.p.A., an Italian subsidiary incorporated on 31 May 2016, was entered in the Italian Register of Companies. The merger took effect from 1 December 2016. The transaction has had no impact on these Financial Statements as it took place under common control.

- On **19 June 2015**, ERG Renew acquired 50% of the shares of the UK companies Longburn Wind Farm Limited and Sandy Knowe Wind Farm Limited, involved in the development of two wind projects located in Great Britain, with power of 60 MW and 49 MW respectively. On **25 November 2016**, ERG Renew S.p.A., acquired the remaining 50% of the share capital of said companies. Since they are not operational companies, the equity investments are recognised using the cost method.

- On **21 December 2016**, ERG Renew acquired 100% of the shares of the UK company Creggan Wind Farm Limited and 50% of the shares of the UK company Rigghill Wind Farm Limited, both involved in the development of two wind projects located in Great Britain. Since they are not operational companies, the equity investments are recognised using the cost method.

- On **22 December 2016**, ERG Renew acquired 100% of the shares of the French company WP France 6, involved in the development of a wind project located in France, with power of 13 MW. Since they are not operational companies, the equity investments are recognised using the cost method.

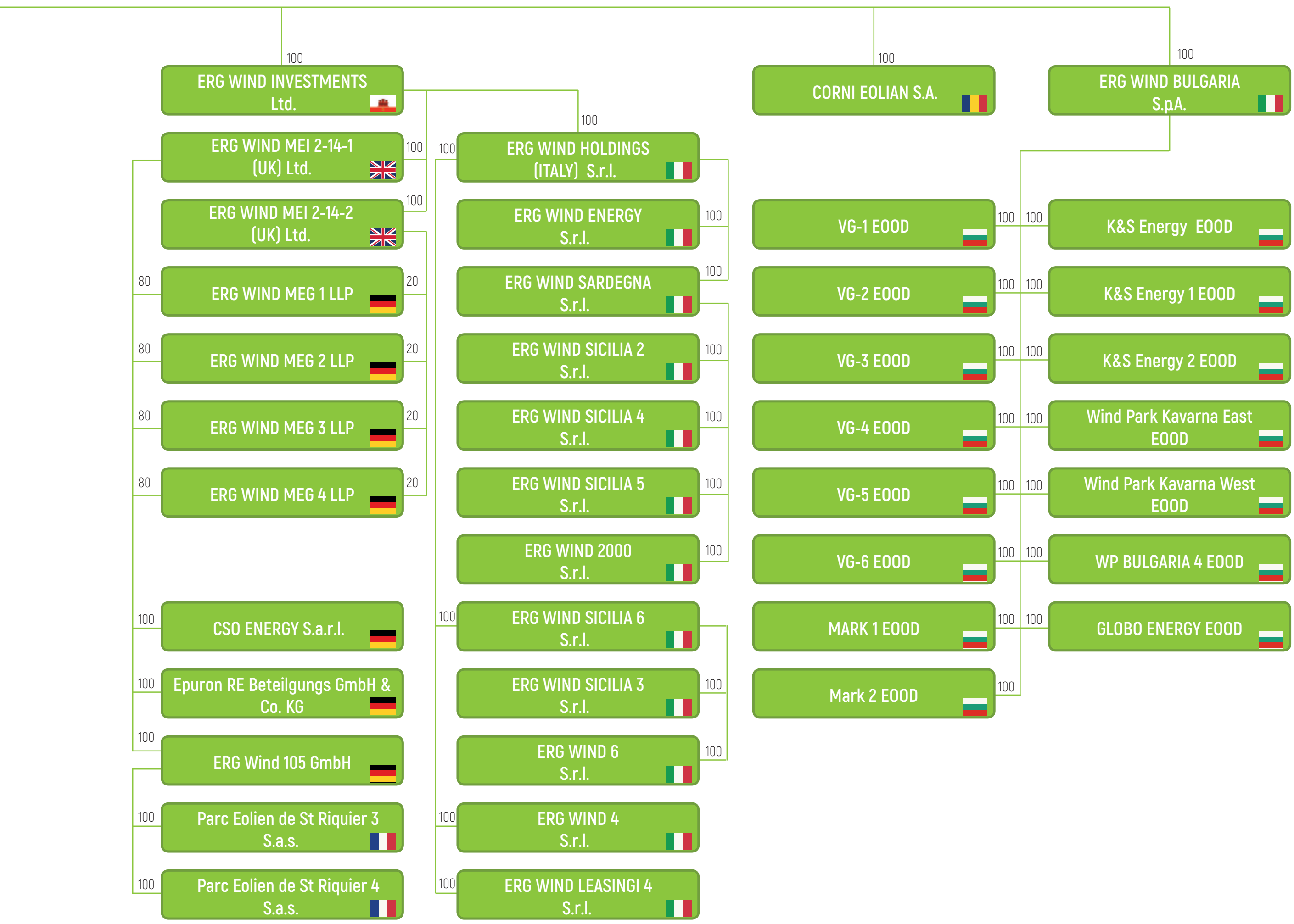
The following transactions under common control also took place:

- On 9 November 2016, the merger by incorporation of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. in ERG Power Generation S.p.A., subsequently approved by the respective Shareholders' Meetings on 18 November 2016, was filed and entered in the Genoa Register of Companies. The deed of merger was concluded on 21 December 2016 and the merger will take effect from **1 January 2017**.

- On 10 November 2016, the merger by incorporation of ERG Services S.p.A. into ERG S.p.A. was filed and entered in the Genoa Register of Companies, and subsequently approved by the Board of Directors on 14 December 2016. The merger deed was concluded on 21 December 2016 and the merger shall take effect from **1 January 2017**.

With regard to the existence of restrictions and guarantees on the equity investments held by the Group, please refer to **Note 26 – Covenants and negative pledges**.

SCOPE OF CONSOLIDATION AT 31 DECEMBER 2016



100
ERG WIND INVESTMENTS Ltd.
100
CORNI EOLIAN S.A.
100
ERG WIND BULGARIA S.p.A.
100
ERG WIND HOLDINGS (ITALY) S.r.l.
100
ERG WIND MEI 2-14-1 (UK) Ltd.
100
ERG WIND MEI 2-14-2 (UK) Ltd.
80
20
ERG WIND MEG 1 LLP
80
20
ERG WIND MEG 2 LLP
80
20
ERG WIND MEG 3 LLP
80
20
ERG WIND MEG 4 LLP
100
CSO ENERGY S.a.r.l.
100
Epuron RE Beteilgungs GmbH & Co. KG
100
ERG Wind 105 GmbH
100
Parc Eolien de St Riquier 3 S.a.s.
100
Parc Eolien de St Riquier 4 S.a.s.
100
ERG WIND ENERGY S.r.l.
100
ERG WIND SARDEGNA S.r.l.
100
ERG WIND SICILIA 2 S.r.l.
100
ERG WIND SICILIA 4 S.r.l.
100
ERG WIND SICILIA 5 S.r.l.
100
ERG WIND 2000 S.r.l.
100
ERG WIND SICILIA 6 S.r.l.
100
ERG WIND SICILIA 3 S.r.l.
100
ERG WIND 6 S.r.l.
100
ERG WIND 4 S.r.l.
100
ERG WIND LEASINGI 4 S.r.l.
100
VG-1 EOOD
100
VG-2 EOOD
100
VG-3 EOOD
100
VG-4 EOOD
100
VG-5 EOOD
100
VG-6 EOOD
100
MARK 1 EOOD
100
Mark 2 EOOD
100
K&S Energy EOOD
100
K&S Energy 1 EOOD
100
K&S Energy 2 EOOD
100
Wind Park Kavarna East EOOD
100
Wind Park Kavarna West EOOD
100
WP BULGARIA 4 EOOD
100
GLOBO ENERGY EOOD

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

CHANGES IN THE SCOPE OF CONSOLIDATION

(EUR thousands)	Brockaghboy Windfarm Ltd.	Companies from Impax Asset Management Group (C.G.U. France)	Companies from Impax Asset Management Group (C.G.U. Germany)	TOTAL
Intangible fixed assets	7,069	77,341	27,742	112,152
Goodwill	–	–	–	–
Property, plant and equipment	6,781	144,316	75,485	226,583
Equity investments	–	–	–	–
Other financial assets	–	756	5	761
Deferred tax assets	–	1,621	427	2,048
Other non-current assets	244	5,353	2,954	8,551
Non-current assets	**14,094**	**229,388**	**106,613**	**350,094**
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 *	(6,565)	(23,255)	(8,392)	(38,212)
Current assets	**(6,565)**	**(18,530)**	**(4,551)**	**(29,646)**
	–	–	–	
TOTAL ASSETS	**7,529**	**210,858**	**102,062**	**320,449**
Shareholders' Equity	**–**	**–**	**–**	**–**
Employees' severance indemnities	–	–	–	–
Deferred tax liabilities	–	24,997	12,899	37,896
Provisions for non-current liabilities and charges	–	3,278	2,556	5,834
Non-current financial liabilities *	7,529	134,285	75,039	216,853
Other non-current liabilities	–	–	–	–
Non-current liabilities	**7,529**	**162,560**	**90,494**	**260,584**
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**	**210,858**	**102,062**	**320,449**
*** Impact on Net Financial Position**	**(14,094)**	**(200,440)**	**(92,010)**	**(306,544)**

The method used for the first consolidation of the acquired companies, as required by reference accounting standards, is described below.

The acquisitions were measured according to the provisions of IFRS 3 on business combinations; based on this standard, for a transaction to be properly accounted for, it is necessary to:

- determine the date of acquisition and control;
- determine the total acquisition price;
- identify and assess the identifiable assets acquired, the liabilities assumed and any minority interests;
- identify and assess the goodwill or the profit resulting from an acquisition at favourable prices;
- define the assessment period and determine the elements included in the aggregation, including the costs related to the acquisition.

Acquisition of Brockaghboy Windfarm Ltd.

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 approximately 45 MW and energy output estimated at approximately 150 GWh when fully operational, corresponding to approximately 3,300 equivalent hours and savings of approximately 71 kt of CO_2 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 14.1 million of which EUR 6.6 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 at the acquisition date and upon allocation of the purchase price

The current values of the assets acquired were determined on the basis of the best estimate available at the date of preparation of the Consolidated Financial Statements as at 31 December 2016 and are presented in the following table:

(EUR thousands)	Brockaghboy Windfarm Ltd.	Adjustments to the acquisition situation	Brockaghboy Windfarm Ltd. Adjusted
Intangible fixed assets	–	7,069	7,069
Goodwill	–	–	–
Property, plant and equipment	6,781	–	6,781
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	–	–	–
Other non-current assets	244	–	244
Non-current assets	**7,025**	**7,069**	**14,094**
Inventories	–	–	–
Trade receivables	–	–	–
Other receivables and current assets	–	–	–
Current financial assets *	–	–	–
Cash and cash equivalents *	–	(6,565)	(6,565)
Current assets	**–**	**(6,565)**	**(6,565)**
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 AND EQUITY	**7,025**	**504**	**7,529**
*** Impact on Net Financial Position**	**(7,529)**	**(6,565)**	**(14,094)**

The column Brockaghboy Windfarm Ltd. shows the opening balance values determined on the basis of the statutory accounting statement at the date of acquisition (29 February 2016) of the target company Brockaghboy Windfarm Ltd.

In particular:

- property, plant and equipment, 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 **Adjustments to the acquisition situation**:

- intangible fixed assets: capital gain attributed upon recognition of the acquisition; this capital gain was attributed to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the duration of the concessions;
- cash and cash equivalents: 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 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 135.0 million of which EUR 55.8 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 0.5 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 definitively; the current values of the acquired assets were determined on the basis of the best estimate available at the date of preparation of the Consolidated Financial Statements as at 31 December 2016.

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”

(EUR thousands)	Companies from Impax Asset Management Group (France)	Adjustments to the acquisition situation [1]	Impax - France Adjusted
Intangible fixed assets	10,557	66,784	77,341
Goodwill	–	–	–
Property, plant and equipment	144,316	–	144,316
Equity investments	–	–	–
Other financial assets	756	–	756
Deferred tax assets	1,621	–	1,621
Other non-current assets	5,353	–	5,353
Non-current assets	**162,603**	**66,784**	**229,388**
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	(42,730)	(23,255)
Current assets	**24,200**	**(42,730)**	**(18,530)**
TOTAL ASSETS	**186,804**	**24,054**	**210,858**
Shareholders’ Equity	**(2,016)**	**2,016**	**–**
Employees’ severance indemnities	–	–	–
Deferred tax liabilities	2,959	22,039	24,997
Provisions for non-current liabilities and charges	3,278	–	3,278
Non-current financial liabilities *	134,285	–	134,285
Other non-current liabilities	–	–	–
Non-current liabilities	**140,522**	**22,039**	**162,560**
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	**186,804**	**24,054**	**210,858**
*** Impact on Net Financial Position**	**(157,710)**	**(42,730)**	**(200,440)**

(1) provisional allocation

The column **Companies from Impax Asset Management Group (France)** shows the opening balance values determined on the basis of the statutory accounting statement at the date of first consolidation (1 January 2016) of the target companies belonging to the France cash-generating unit.

In particular:

- intangible fixed assets: concessions relative to wind farms;
- property, plant and equipment: 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 receivables and current assets: portions of deferred expenses;
- provisions for non-current liabilities and charges: relative mainly to wind farm dismantling expenses;
- non-current financial liabilities: 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 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 **Adjustments to the acquisition situation**:

- intangible fixed assets: capital gain attributed upon recognition of the acquisition; this capital gain was attributed to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the duration of the concessions;
- cash and cash equivalents: value of the consideration for acquisition of 100% of the share capital of the target company in France;
- deferred tax liabilities: the value of the deferred tax liabilities recognised against the attribution above.

Allocations to the Cash Generating Unit "Impax Asset Management Germany"

(EUR thousands)	Companies from Impax Asset Management Group (Germany)	Adjustments to the acquisition situation (1)	Impax - Germany Adjusted
Intangible fixed assets	341	27,401	27,742
Goodwill	–	–	–
Property, plant and equipment	75,485	–	75,485
Equity investments	–	–	–
Other financial assets	5	–	5
Deferred tax assets	427	–	427
Other non-current assets	2,954	–	2,954
Non-current assets	**79,212**	**27,401**	**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	**87,713**	**14,349**	**102,062**
Shareholders' Equity	**(6,403)**	**6,403**	**–**
Employees' severance indemnities	–	–	–
Deferred tax liabilities	4,952	7,946	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	**82,547**	**7,946**	**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	**87,713**	**14,349**	**102,062**
*** Impact on Net Financial Position**	**(78,958)**	**(13,052)**	**(92,010)**

(1) provisional allocation

The column **Companies from Impax Asset Management Group (Germany)** shows the opening balance values determined on the basis of the statutory accounting statement at the date of first consolidation (1 January 2016) of the target companies belonging to the Germany cash-generating unit.

In particular:

- intangible fixed assets: concessions relative to wind farms;
- property, plant and equipment: mainly turbines, blades and transformers;
- other non-current assets: long-term tax receivables and deferred charges;
- 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 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;
- cash and cash equivalents: value of the consideration for acquisition of 100% of the share capital of the target company in Germany;
- deferred tax liabilities: the value of the deferred tax liabilities recognised against the attribution above.

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 consolidated financial statements was as follows:

(EUR thousands)	
Total revenues	36,286
EBITDA	25,614
EBIT	5,347
Net income (loss)	(3,224)

2015 Acquisition of ERG Hydro S.r.l. – Purchase Price Allocation definition

On 30 November 2015, the Group finalised the purchase, through the subsidiary ERG Power Generation S.p.A., of ERG Hydro S.r.l. (formerly Hydro Terni S.r.l.), a company that owns hydroelectric energy production plants in Umbria, Marche and Lazio with a total power of 527 MW.

In the 2015 Consolidated Financial Statements, as prescribed by IFRS 3, the Purchase Price Allocation procedure had been carried out provisionally, because the replacement costs of the identifiable assets and liabilities of ERG Hydro S.r.l., with particular reference to the fair value of the tangible fixed assets, were still being determined and identified.

In particular, the higher price had provisionally been allocated to Concessions for approximately EUR 458 million, before the related tax effect recognised among "Deferred tax liabilities" for EUR 133 million, and to Goodwill for approximately EUR 15 million. For additional details, reference is made to the 2015 Consolidated Financial Statements of ERG S.p.A.

In 2016, Management mandated an independent expert to determine the fair value of the plants and buildings.

The fair value was determined on the basis of continuity of use, attributing a value to the assets in relation to their consistency, characteristics and residual life, on the assumption that they will be used in the current production context, if the prospective income is sufficient to ensure a simultaneous fair return on both net working capital and on the assets valued.

In view of the uniqueness of the plants in terms of geographical relocation, technology and construction profile, only the Cost Method was used. This method expresses the cost (“Reconstruction Cost” or “Replacement Cost”) that would be incurred to replace an asset with a new one with the same characteristics and usefulness as the previous one, reduced to take into account various factors such as physical deterioration and functional obsolescence.

The tangible fixed assets were valued at EUR 235 million, a higher value than the book value.

In October 2016, as a result of the positive outcome of a claim relating to the non-recognition of incentives for previous years, incentive compensation, relating to the years 2009-2015, was paid to ERG Hydro S.r.l. in an amount of approximately EUR 26 million. Having been aware of this litigation at the closing date and having taken into account the positive outcome of this claim in the form of specific indemnities when determining the acquisition price, during the final purchase price allocation incentives receivables were recorded in the amount of approximately EUR 25 million.

Below are the final allocation values with some brief notes. For a comparison with the provisional allocation values, please refer to the corresponding section Acquisition of Erg Hydro S.r.l. in the 2015 Financial Statements.

Determination of the total price of the acquisition

The price of the acquisition was EUR 1,022.6 million and includes mainly:

- EUR 957.5 million for the acquisition of 100% of the share capital of the target company, paid to the seller on 30 November 2015;
- EUR 75 million by way of adjustments in view of the financial assets (see point E of the table below) of the target company at the time of the acquisition, paid to the seller on 7 March 2016;
- EUR -10.5 million related to adjustments defined on the basis of the exact value of certain balance sheet items (price component) of the final reference financial statements, paid by the seller in June 2016.

Measurement of the assets and liabilities of the business combination at the date of acquisition

The accounting treatment for the acquisition presented below has been confirmed:

(EUR thousands)	ERG Hydro S.r.l.		Adjustment to the acquisition situation		ERG Hydro S.r.l. adjusted
Intangible fixed assets	1,682		218,903	J	220,585
Goodwill	154,980		(154,980)	K	–
Property, plant and equipment	508,859	A	235,049	L	743,908
Equity investments	–		–		–
Other financial assets	19		–		19
Deferred tax assets	24,148	B	45,865	M	70,013
Other non-current assets	–		–		–
Non-current assets	**689,688**		**344,837**		**1,034,525**
Inventories	–		–		–
Trade receivables	44,641	C	25,200	N	69,841
Other receivables and current assets	2,994	D	9,540	O	12,534
Current financial assets *	75,129	E	(75,129)		–
Cash and cash equivalents *	3		(946,990)		(946,987)
Current assets	**122,767**		**(987,379)**		**(864,612)**
TOTAL ASSETS	**812,455**		**(642,542)**		**169,913**
Shareholders' Equity	**782,550**		**(782,550)**		**–**
Employees' severance indemnities	1,732		–		1,732
Deferred tax liabilities	5,306	F	140,652	P	145,958
Provisions for non-current liabilities and charges	2,284	G	–		2,284
Non-current financial liabilities *	–		–		–
Other non-current liabilities	–		(644)		(644)
Non-current liabilities	**9,322**		**140,008**		**149,330**
Provisions for current liabilities and charges	–		–		–
Trade payables	16,224	H	–		16,224
Current financial liabilities *	3		–		3
Other current liabilities	4,356	I	–		4,356
Current liabilities	**20,583**		**–**		**20,583**
TOTAL LIABILITIES AND EQUITY	**812,455**		**(642,542)**		**169,913**
*** Impact on Net Financial Position**	**75,129**		**(1,022,119)**		**(946,990)**

The column **ERG Hydro S.r.l.** shows the opening balance values indicated in the statutory accounting statement as at 1 January 2015 of the target company ERG Hydro S.r.l. In particular:

A. the value of the property, plant and equipment acquired relates to 16 plants, 7 dams, 3 reservoirs and a pumping station;

B. the deferred tax assets value relates to loans mainly for deferred tax assets on goodwill, Property, plant and equipment and provisions for liabilities and charges;

C. the trade receivables value relates to sales of electricity and to green certificates accrued;

D. other receivables and current assets are comprised mainly of portions of deferred charges in subsequent periods;

E. current financial assets relate to the balance resulting from the difference between the accounting situation of the portfolio being converted on the date of approval of the demerger financial statements of E.On Produzione at 30 June 2015 and 30 November 2015, the date on which the demerger became effective for legal and financial purposes;

F. deferred tax liabilities are recorded when financial and technical amortisations exceed the tax limit;

G. provisions for non-current liabilities and charges are recorded in view of potential future liabilities;

H. trade payables relate to the operational management of the business;

I. other current liabilities relate to portions of income deferred in subsequent periods.

In the column **Adjustment to the acquisition situation**, the values relate to:

J. the valuation of the concessions for the production of energy by hydroelectric plants, expiring in 2029;

K. the reversal of the goodwill, deductible for tax purposes, to the acquiree, necessary for the purposes of the subsequent purchase price allocation exercise, as prescribed by IFRS 3;

L. the assessment at replacement cost (fair value) of the tangible fixed assets (plants, machinery and buildings), as explained in detail in the introduction to this chapter;

M. the deferred taxation related to the removal of the deductible goodwill referred to in point K;

N. the recognition of receivables for incentives for previous years not yet recognised at the acquisition date, as explained in detail in the introduction to this chapter;

O. receivables for specific indemnities recognised by the seller to ERG (the buyer) against certain liabilities already entered in the financial statements of the target company;

P. deferred tax liabilities relating to the posting of the fair value of the concessions (point J) and the tangible fixed assets (point L) and to the recognition of receivables for incentives for previous years (point N).

Joint ventures

TotalErg S.p.A.

ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A. into 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.
It should be noted that at the end of 2016 a process was begun aimed at identifying any parties potentially interested in acquiring an equity investment in TotalErg S.p.A.

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%).

IFRS 12

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

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

Measurements and significant assumptions

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

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

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

Equity investments in subsidiaries

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

With regard to the nature and extent of restrictions to the Group's capability to access or use assets and to settle liabilities, please refer to **Note 26 – Covenants and negative pledges**.

The consequences of the changes in the equity investments in subsidiaries that took place in 2015 are expressed in the section **Changes in the scope of consolidation**.

With regard to provisions that can limit the distribution of dividends or other distributions of capital, it should be recalled that within the Project Financing agreements, the distribution of the available portions of shareholders' equity to the Shareholders is subject to meeting the conditions prescribed by the project financing agreement, which impose the attainment of determined financial coverage ratios and the absence of default situations. For the details of the constraints and of the accounting values of the assets and liabilities to which such restrictions apply by individual company, please refer to **Note 26 – Covenants and negative pledges**.

Investments in joint control arrangements and associates

For the purposes of the disclosure of the nature, extent and financial effects of the Group's interests in joint control arrangements and in associates, please refer to the sections **List of Group companies, 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 KEY ECONOMIC AND FINANCIAL DATA

	TOTALERG		PRIOLO SERVIZI	
(EUR thousand)	**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**
Property, plant and equipment	481,709	490,168	79,838	80,726
Intangible fixed assets and Goodwill	37,244	42,239	64	80
Equity investments and Other non-current financial assets	67,603	67,726	36	35
FIXED ASSETS	**586,556**	**600,133**	**79,939**	**80,841**
Inventories	304,248	277,803	1,454	1,513
Trade receivables	549,871	465,495	7,179	8,945
Trade payables	648,346	604,689	13,917	13,694
Excise duties payable to tax authorities	122,348	125,277	–	–
NET WORKING CAPITAL	**83,425**	**13,332**	**5,283**	**3,236**
Employees' severance indemnities	7,990	8,265	571	517
Other assets	141,193	167,990	3,198	3,767
Other liabilities	271,460	243,475	3,473	3,492
NET INVESTED CAPITAL	**531,724**	**529,715**	**73,810**	**77,363**
Group Shareholders' Equity	287,404	235,593	53,872	49,735
Financial indebtedness	244,320	294,123	19,938	27,628
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**531,724**	**529,715**	**73,810**	**77,363**

	FY 2016	**FY 2015**	**FY 2016**	**FY 2015**
Revenues from ordinary operations	3,940,783	4,642,963	52,824	54,728
Other revenues and income	74,952	79,449	2,730	2,593
Costs for purchases	(3,373,704)	(4,050,773)	(1,407)	(1,740)
Change in inventories	26,439	(81,694)	(59)	14
Costs for services and other operating costs	(425,050)	(429,003)	(34,862)	(37,880)
Personnel costs	(74,512)	(74,208)	(8,906)	(9,082)
EBITDA	**168,908**	**86,734**	**10,320**	**8,633**
Amortisation, depreciation and write-downs of fixed assets	(73,032)	(88,656)	(8,260)	(5,711)
EBIT	**95,876**	**(1,922)**	**2,059**	**2,922**
Net financial income (expenses)	(14,924)	(25,593)	(684)	(939)
Income (loss) from equity investments	1,827	50	–	–
PROFIT (LOSS) BEFORE TAXES	**82,779**	**(27,465)**	**1,375**	**1,983**
Income taxes	(30,984)	6,395	(802)	(1,397)
NET PROFIT ATTRIBUTABLE TO ERG	**51,794**	**(21,070)**	**574**	**586**

RECONCILIATION WITH THE CARRYING VALUE OF THE EQUITY INVESTMENT

	TOTALERG		PRIOLO SERVIZI	
(EUR thousand)	**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**
Share attributable to ERG Group	51%	51%	24%	24%
Share of Group shareholders' equity	146,576	120,152	13,150	12,140
Purchase Price Allocation / Other adjustments	5,100	5,668	–	–
Carrying value of the equity investment	**151,676**	**125,820**	**13,150**	**12,140**

MINORITY INTERESTS TRANSACTION

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 provided 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), without prejudice to 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 recognised 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. was 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 exercise value of the option was therefore estimated, using as a precaution the assumption of exercise at the last possible time and considering an underlying value which, benefiting also from the current level of discount rates, reached the cap value.
This measurement, calculated prudentially, showed a maximum final liability estimate, required in order to settle the obligation, corresponding to EUR 88 million, recognised in **Other non-current liabilities** (**Note 19**) in the 2015 Financial Statements.

In **2016**, ERG reached an agreement with UniCredit, whereby all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital.

The ratio at which the exchange was agreed is approximately 0.78 ordinary ERG shares for each ERG Renew share, on the basis of a value of EUR 12.8 attributed to each ordinary ERG share. The ratio was calculated on the basis of the Fair Value attributed to the ERG shares and to the ERG Renew equity investment, already owned by UniCredit, determined through the Discounted Cash Flow method, also supported by the assessments carried out by an independent expert.

In consideration of these assessments, the value of the liabilities, already entered in the Consolidated Financial Statements in the amount of EUR 88 million, was adjusted to EUR 77 million with a positive P&L impact of approximately EUR 11 million recorded in **Income from equity investments**.

The agreement was signed with UniCredit on 12 October 2016. On the same date, the Board of Directors of ERG approved the transaction and in particular the disposal of the aforesaid ordinary ERG treasury shares within the scope of the authorisation granted by ERG's Shareholders' Meeting held on 3 May 2016.

By effect of the transaction signed with UniCredit, the liability of EUR 77 million (originally recorded in **Other non-current liabilities**) was settled through an increase in shareholders' equity related to the sale of treasury shares for equal amount.

As a result of the transaction, ERG holds 1,503,000 ordinary ERG treasury shares, equal to 1% of its share capital.

Lastly, it should be noted that as part of the transaction, UniCredit assumed a 180-day lock-up commitment with ERG, whereby UniCredit may not sell the ERG shares acquired by effect of the exchange.

IMPAIRMENT TEST

This section provides a description of the impairment tests on the Group's main assets, as required by IAS 36. In particular, it should be specified that in testing the recoverable value of production plants with defined useful life, the value in use was considered, as calculated on estimated cash flows through the useful life of the assets. The methodology indicated, updated and applied with effect from the financial statements at 31 December 2014, introduces a method for calculating the terminal value (estimated as an extension of the explicit period for ten years) that is more stable over time and standardises the terminal value criterion of the CGUs subject to analysis.

With regard to equity investments, which by nature have indefinite useful life, their specific features were taken into account; please therefore refer to the respective paragraphs for an explanation of the approach used.

Wind segment impairment tests

The Group has completed a series of acquisitions over the years in the Wind segment. The main acquisitions are summarised as follows:

- acquisition of the EnerTAD Group (now ERG Renew S.p.A.), starting from 2006 with subsequent step acquisitions concluded with the acquisition of 100% of ERG Renew S.p.A., completed through the Takeover Bid in 2011;

- acquisition of five French companies owning as many wind farms located in France. The transaction was completed through the transfer of the equity investments from Theta Energy to EnerFrance S.a.s (now ERG Eolienne France), a wholly owned subsidiary, specifically incorporated as a sub-holding of the wind power segment for the assets located in France;
- acquisition of ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 s.r.l.), owner of two operational wind farms in Molise and in Puglia;
- acquisition of 100% of ERG Eolica Campania (formerly IVPC Power 3 S.p.A.), owner of five wind farms, operational since 2008, between the provinces of Avellino and Benevento, with a total installed capacity of approximately 112 MW;
- acquisition of 80% of the capital of IP Maestrale Investments Ltd (now ERG Wind Investment Limited), a primary operator in Italy in the segment of renewable energy from wind power. On 13 April 2016, ERG Renew S.p.A. completed the acquisition from International Power Consolidated Holding Limited of the remaining 20% of the equity investment in ERG Wind Investment Limited following the exercise of a call option by ERG Renew S.p.A. which has held all shares of the investee company since that date;
- acquisition of 100% of the share capital of ERG Renew Operations & Maintenance S.r.l., a company dedicated to the operation and maintenance of the Italian wind farms of ERG Wind;
- acquisition of 100% of Hydro Inwestycje SP. Z.O.O. and Blachy Pruszynski Energia SP Z.O.O., a Polish company owning the authorisations required for the construction of wind farms in Poland (operational since the beginning of 2016);
- acquisition of 100% of the capital of four French companies that directly and indirectly own six wind farms in France, with a total installed capacity of 63.4 MW, commissioned between 2005 and 2008 (Martel business combination);
- winding up of the joint venture Lukerg Renew GmbH with subsequent acquisition of control of all of the wind farms in Romania and Bulgaria;
- 2016 business combination discussed previously in the section Changes in the scope of consolidation.

In reference to these acquisitions, it should be noted that the values recognised in the initial recording of the net identifiable assets and the goodwill attributable to the acquisitions made in 2016 have not been subjected to tests for impairment losses since they are the result of recent transactions.

The acquisitions were recognised and measured pursuant to IFRS 3 on business combinations, by allocating the cost of the acquisition to the acquired assets and assumed liabilities, including those not recognised prior to the acquisition.

Following the impairment tests in the 2008, 2009 and 2010 consolidated financial statements, the values of the Enertad acquisitions had been partially written down. On the occasion of the 2010 consolidated financial statements, the capital gains relating to the acquisitions of the French companies were partially written down.

The residual value of the higher values[1] allocated upon purchase price allocation before the 2016 impairment test was as follows:

- approximately EUR 331 million allocated to permits and preliminary agreements for wind farms in operation, of which EUR 118 million referred to wind farms of the ERG Wind Group;
- approximately EUR 126 million to goodwill, divided among the different business combinations:
  - EUR 96 million referred to ERG Wind (Italy and Germany);
  - EUR 19 million referred to ERG Eolica Campania and ERG Eolica Adriatica (Italy);
  - EUR 10 million referred to ERG Renew Operations & Maintenance (Italy).

In consideration of the goodwill values posted in the financial statements, for these Financial Statements their recoverable value was verified and the measurement values used in the previous tests of the values associated with the aforesaid business combinations were revised.

The Group then estimated the recoverable value of the aforesaid assets. According to IAS 36, the recoverable value of an asset or of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The recoverable value of cash generating units ("CGUs") is tested by determining their value in use. The main assumptions used to calculate value in use pertain to the discount rate, the growth rate and the expected changes in the sale prices of energy and of direct costs during the period selected for the calculation. The Group then adopted an after-tax discount rate that reflects current market measurements of the cost of capital and of the specific risk connected with the CGUs. The growth rates used are based on growth forecasts for the Group's industry, taking into account the Group's market share. Changes in sale prices and in direct costs are determined on the basis of past experience and on future market expectations.
In determining the discount rate, the financial parameters considered were the Beta and Debt/Equity ratios derived from panels of comparable companies, in order to consider both the market risk of companies operating in the same industry and a market-based financial structure. With regard, instead, to the cost of equity (ke), this includes the rate of return of risk-free assets and it is identified as the rate of return of German ten-year Government bonds.

"EnerTAD" (Italy) business combination
With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original

1 Values relating to business combinations from previous years. They do not include the allocations relating to transactions in 2016 since they have not been subjected to impairment tests, as discussed in more detail in the previous paragraph.

definition of an assumed working life, i.e. twenty years, was estimated;

- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (4.0%) was used to compute the present value of expected cash flows.

"ERG Eolica Campania and ERG Eolica Adriatica" (Italy) business combination

The value of Goodwill was determined by identifying two Cash Generating Units (CGUs) connected with the wind farms on which goodwill is allocated, i.e. ERG Eolica Adriatica and ERG Eolica Campania.

In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated. The terminal value is estimated as an extension of the explicit period for ten years.

A discount rate equal to the industry WACC (4.0%) was used to compute the present value of expected cash flows.

"EnerFrance" (France) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (3.1%) was used to compute the present value of expected cash flows.

"ERG Wind GmbH" (Bulgaria and Romania) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;

- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (5.4% for Bulgaria and 5.4% for Romania) was used to compute the present value of expected cash flows.

"ERG Wind" (Italy and Germany) business combination

With reference to the values related to Authorisations:

- in line with the methodology used to determine the purchase price, two Cash Generating Units (CGUs), corresponding with the CGU that comprises the wind farms located in Italy and the CGU that comprises the wind farms located in Germany, were identified. The capital gains identified when accounting for the acquisition were allocated to these CGUs;
- in particular within the CGU in Italy, the capital gains were allocated with reference to each point of sale of energy to the national grid, grouping the related wind farms connected to the same point of sale;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (4.0% for Italy and 3.0% for Germany) was used to compute the present value of expected cash flows.

The goodwill acquired in the "ERG Wind" business combination was allocated, at the acquisition date, to the cash generating units from which benefits connected with the combination are expected; consequently, the same Cash Generating Units as those selected to determine the recoverable value of the Authorisations and preliminary agreements. In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated. The terminal value is estimated as an extension of the explicit period for ten years.
A discount rate equal to the industry WACC (4.0% for Italy and 3.0% for Germany) was used to compute the present value of expected cash flows.

"ERG Renew Operations & Maintenance" business combination

With reference to the value of Goodwill, a Cash Generating Unit (CGU) belonging to the same company was identified. In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the O&M contracts with the other companies of the Group was estimated. The terminal value is estimated as an extension of the explicit period for ten years.

A discount rate equal to the industry WACC (4.0%) was used to compute the present value of expected cash flows.

Poland business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (5.7%) was used to compute the present value of expected cash flows.

"Martel" (France) business combination

With reference to the values related to Authorisations:

- the Cash Generating Units (CGUs) matching the individual wind farms on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGUs for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- the terminal value is estimated as an extension of the explicit period for ten years;
- a discount rate equal to the industry WACC (3.1%) was used to compute the present value of expected cash flows.

Group Management has deemed that the assumptions used to identify the recoverable value of tangible fixed assets, intangible fixed assets and goodwill connected with the different CGUs of the Wind segment are reasonable, and no impairment emerged for any of the identified CGUs on the basis of the aforementioned assumptions.

Lastly, the value in use of the different CGUs that characterise and comprise the Wind segment is determined according to measurement parameters that are extraneous from the logic of negotiation; instead, it is based on industry parameters that, as such, lead to a definition of value that takes on a distinct meaning from the concept of "price".

Sensitivity analysis

The result of the impairment test is derived from information available to date and from reasonable estimates of changes in the following variables: wind strength, energy price and interest rates.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable value of the carrying amounts allocated to the "Renewable" segment, and it also carried out a sensitivity analysis on the recoverable amount of the different CGUs. This analysis assumed that total revenues from energy sales (i.e. energy remuneration and generation) could undergo upward or downward fluctuations, to an extent that can be estimated at 10% relative to the values estimated for the Plan.

If revenues were to decline by 10%, persisting throughout the time interval of the plan, the value of Goodwill would decrease by approximately EUR 22 million and the value of the Assets would decrease by approximately EUR 20 million.

Finally, it should be noted that with an increase of 1.0% in the discount rate, the value of the Assets would decrease by approximately EUR 7 million.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

ERG Power S.r.l.'s CCGT plant impairment test

In April 2010, ERG Power's new CCGT plant, with approximately 480 MW of installed power, started full commercial operations; the plant supplies utilities and electrical energy to the industrial customers of the Priolo site, placing the remainder of the generated electricity on the market.

As a result of the impairment tests carried out in the 2011 financial statements, the productive assets were written down by EUR 95 million before the tax effect. Therefore, goodwill was entirely written down (EUR 1.5 million) in the 2011 financial statements and the residual write-down (EUR 94 million) reduced the value of the tangible fixed assets referred to the CCGT plant.

The carrying amount of the plant at 31 December 2016, net of the aforesaid write-downs (EUR 60 million at 31 December 2016) and depreciations, amounts to approximately EUR 273 million.

In preparing these Financial Statements, the recoverability of the carrying value of the aforesaid plant was verified, in view of the persistence, for 2016 as well, of uncertainties and variability (or volatility) of the scenario which characterises the domestic electric market.

For impairment test purposes, the CGU comprises the tangible fixed assets attributable to the CCGT plant of ERG Power and the cash flows generated by the Power Business Unit (since 1 July 2014, ERG Power Generation) which operates the plant through a tolling agreement and sells the energy produced on the free market.

The analysis was carried out identifying the recoverable value, i.e. the value in use, of the Cash Generating Unit. The basis for the calculation was the projection of the operating cash flows associated to the CGU for its useful life, contained in the financial forecast prepared by the Group and pertaining to a twenty-year time span; additionally, a residual value (or "terminal value") was assumed, calculated with a further 10-year extension of the measurement period. The expected changes in sale prices and direct costs during the period assumed for the calculation are determined on the basis of past experience, corrected by future market expectations. In particular, the hypotheses used take account of a reduction in the profitability of site agreements expiring after 2025 (deadline year) by as much as 50% of the fixed quotas recognised.
Projected cash flows were discounted using a discount rate (WACC after tax) of 4.9%.
The impairment test was set up by updating the assumptions used for the test performed for the 2016 financial statements; in particular, the estimates of the electricity market scenario, of the zone bonus in Sicily, of the profitability of the plant in the Dispatching Services Market and of the modulation activities were updated.

Group management deems the assumptions used to identify the recoverable value of the CCGT plant of ERG Power to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.
It should be noted that the value in use resulting from the impairment test shows a positive difference relative to the carrying amount. Taking into account that this difference is mainly due to temporary phenomena and also connected to the current level of discount rates, Management did not reverse previous write-downs. These considerations are supported by broker consensus evaluations.

Sensitivity analysis

The result of the impairment test is derived from information available to date and from reasonable estimates of the evolution of external variables such as the price of energy and interest rates, as well as the development of certain activities and the attainment of cost saving targets.
The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the CCGT plant and it also carried out a sensitivity analysis on the recoverable value of the CGU. This analysis showed that in the event of a further reduction of approximately 50% in the profitability of site agreements, expiring after 2025, the recoverable value, determined according to the evaluation model adopted, would decrease by an amount of approximately EUR 67 million, resulting in a write-down of the carrying value of approximately EUR 4 million.
Lastly, with a 1.0% increase in the discount rate, recoverable value would decrease by approximately EUR 23 million, not entailing any write-down of the carrying value.
The Directors will continue to systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

Equity investment in 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. into ERG Petroli S.p.A.

TotalErg S.p.A. is one of the primary operators in the Italian integrated downstream market with a network of approximately 2,700 sales outlets and it is also active in the refining and logistics business.

In the Consolidated Financial Statements at 31 December 2016 the value of the equity investment amounted to EUR 152 million and it is measured at equity. It should be specified that the value at equity also includes a residual capital gain after prior write-downs (approximately EUR 5 million) recognised on the occasion of the aforesaid 2010 integration.

The impairment test carried out for the 2013 Financial Statements showed an excess carrying amount of the TotalErg equity investment in the Consolidated Financial Statements relative to its recoverable value; in particular the recoverable value, estimated according to the measurement paradigm, was slightly higher than ERG's share of the Consolidated equity of the investee. The impairment, amounting to EUR 58 million, was allocated to write down the value of the equity investment with consequent decrease in the capital gain attributable to the business combination described above. The write-down was recognised in the 2013 consolidated income statement.

For the purposes of these Financial Statements, critical elements were noted, caused by the volatility of the oil scenario and by the performance of the reference market where TotalErg operates.

Considering the persistence of these critical elements, also for these Financial Statements, the value of the equity investment was tested.

The test was carried out independently using a model developed internally in accordance with the test that was carried out in previous years using the draft plan already prepared by the management of TotalErg and by applying to this certain prudential measures in view of the volatility of the Oil scenario. For the purposes of the test, the CGU consists of TotalErg S.p.A. and its investees, subsidiaries and associates.

The measurement was performed using the following criteria and assumptions:

- Unlevered Discounted Cash Flow method over 6 years of explicit projections plus a terminal value[2] calculated by applying a multiple between 4.0x and 5.0x (in line with the market multiples observed in the past 10 years in the Integrated Downstream business) to the average of the explicit projections of adjusted EBITDA[3] of TotalErg;
- the discount rate used is TotalErg's WACC (6.0%) calculated on the basis of market parameters;
- the measurement was carried out on the basis of the draft Consolidated economic and financial plan of TotalErg S.p.A., whose scope of consolidation includes TotalErg, Eridis, TotalGaz, Restiani, Guazzotti, Gestioni Europa, Sarpom and Raffineria di Roma.

2 To calculate the terminal value, the perpetuity method was not used since it is not one of the usual market practices for TotalErg's reference industry.

3 For the definition of adjusted EBITDA, please refer to the detailed information provided in the Report on Operations.

The impairment test described above showed an estimated recoverable value more or less in line with that of the previous year.

This recoverable value is higher than the carrying value at which the equity investment TotalErg is reported in the Consolidated Financial Statements. Taking into account that this value is positively influenced by the current level of discounting rates and the volatility of the reference Oil scenario, and considering that at the end of 2016 a process was begun aimed at identifying any parties potentially interested in acquiring an equity investment in TotalErg S.p.A., no values written down in previous years were reversed.

It should be specified that the value recorded in the Consolidated Financial Statements matches the value at equity at 31 December 2016.

Lastly, the recoverable value is higher than the carrying value (cost method) of the TotalErg equity investment in the Separate Financial Statements of EUR 200 million.

Sensitivity analysis

The result of the impairment test derives from the information available to date and from the reasonable estimates on the evolution of variables tied to the expected margins, in particular with changes in the reference economic environment and in the discount rates.

In particular, sensitivity analyses were conducted on the basis of changes in the discount rate and in the EV/EBITDA multiples applicable to the EBITDA of the last year of the explicit period.

The analyses showed that:

- a 1% increase in the discount rate would entail a decrease by approximately EUR 18 million in the recoverable value (51%), which nonetheless would not result in any write-down;
- a decrease in the EV/EBITDA multiple from 4.5x to 4.0x would entail a decrease by approximately EUR 31 million (51%) in the recoverable value, which nonetheless would not result in any write-down.

The above analyses confirm the sensitivity of the assessments of the recoverability of the equity investment to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE FIXED ASSETS

	Concessions	Other intangible fixed assets	Assets in progress	Total
Historical cost	942,647	50,635	223	**993,505**
Amortisation	(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	112,152	–	–	**112,152**
Capital expenditure	19	2,363	1,538	**3,920**
PPA definition - ERG Hydro	(238,827)	–	–	**(238,827)**
Capitalisation and reclassification	–	864	(864)	**–**
Disposals and divestments	(4)	(8)	–	**(13)**
Amortisation	(42,161)	(4,135)	–	**(46,295)**
Write-downs	–	–	–	**–**
Other changes	(419)	297	67	**(55)**
Historical cost	**817,467**	**52,600**	**964**	**871,030**
Amortisation and write-downs	(149,172)	(45,245)	–	**(194,417)**
BALANCE AT 31/12/2016	**668,295**	**7,355**	**964**	**676,613**

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

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

Change in the scope of consolidation refers to:

- the acquisition of the French and German companies acquired from Impax Asset Management Group for an amount of EUR 105,083 thousand;
- the acquisition of Brockaghboy Windfarm Ltd, a UK company owning the authorisations required for the construction of a wind farm in Northern Ireland, for an amount equal to EUR 7,069 thousand.

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

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

PPA definition - ERG Hydro, refers to the allocation of greater value to the assets on the basis of the expert report having as its object the fair value of the ERG Hydro plants. For more details, please refer to the section **2015 Acquisition of ERG Hydro S.r.l. - Purchase Price Allocation definition**.

NOTE 2 - GOODWILL

"Goodwill", equal to EUR 125,932 thousand (EUR 141,098 thousand 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. The decrease compared to the values at 31 December 2015 is linked to the definition of the Purchase Price Allocation of ERG Hydro.

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

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

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

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

NOTA 3 - PROPERTY, PLANT AND EQUIPMENT

	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**
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	219,420	144	6,781	**226,583**
Capital expenditure	672	9,826	901	44,224	**55,622**
PPA definition - ERG Hydro	–	235,049	–	–	**235,049**
Capitalisation and reclassification	15,068	41,245	954	(57,267)	**–**
Disposals and divestments	(28)	(1,850)	(151)	–	**(2,028)**
Depreciation	(7,651)	(195,285)	(2,118)	–	**(205,053)**
Write-downs	(226)	(2,057)	(27)	–	**(2,309)**
Other changes	592	519	1,093	(4,254)	**(2,050)**
Historical cost	**234,235**	**3,962,608**	**24,089**	**60,795**	**4,281,727**
Depreciation and write-downs	(108,092)	(1,796,879)	(16,418)	–	**(1,921,389)**
BALANCE AT 31/12/2016	**126,143**	**2,165,729**	**7,671**	**60,795**	**2,360,338**

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

Change in the scope of consolidation refers to:

- the acquisition of the French and German companies acquired from Impax Asset Management Group for an amount of EUR 219,801 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.

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

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

PPA definition - ERG Hydro, refers to the allocation of greater value to the assets on the basis of the expert report having as its object the fair value of the ERG Hydro plants. For more details, please refer to the section **2015 Acquisition of ERG Hydro S.r.l. – Purchase Price Allocation definition**.

Other changes include the net change due to the exchange rate effect relating to the conversion into euros of financial statements in foreign currencies, to increases for decommissioning charges relating to wind farms in Poland entered into operation in 2016, and to capitalised interest of EUR 836 thousand.

For information on the existence of restrictions on the assets held by the Group, please refer to **Note 26 - Covenants and negative pledges**.

NOTE 4 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries not consolidated on a line-by-line basis	**Joint ventures**	**Associates**	**Other companies**	**Total**
BALANCE AT 31/12/2015	**523**	**126,169**	**16,390**	**491**	**143,569**
Changes during the period:					
Acquisitions/share capital increases	4,205	204	–	–	**4,409**
Reclassifications	350	(350)	–	–	**–**
Write-downs/use of provision to cover losses	–	–	–	–	**–**
Disposals and divestments	(375)	–	(4,250)	–	**(4,625)**
Measurement of investments using the equity method	–	25,856	1,017	–	**26,872**
BALANCE AT 31/12/2016	**4,703**	**151,880**	**13,157**	**491**	**170,225**

Acquisitions relate to the UK companies and the French company discussed in the section **Scope of consolidation**.

Disposals and 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 26,872 thousand positive change arising from **measurement of investments using the equity method** is due to the performance of the investee companies TotalErg and Priolo Servizi in the period.

Equity investments owned at 31 December 2016 were as summarised below:

	Measured at Shareholders' equity	Measured at cost	Total
Equity investments:			
in subsidiaries not consolidated on a line-by-line basis	–	4,703	**4,703**
in joint ventures	151,676	204	**151,880**
in associated companies	13,150	–	**13,150**
in other businesses	–	491	**491**
Total	**164,826**	**5,398**	**170,225**

A breakdown of the equity investments is provided in the section **List of Group companies**.

At end-2016, a process was begun aimed at identifying any subjects potentially interested in acquiring an equity investment in TotalErg S.p.A. In reference to the above, and considering that at 31 December 2016 the process was still in the preliminary stages, the equity investment in TotalErg was not classified among "Non-current assets held for sale" since the conditions prescribed by IFRS 5 had not been fully verified at that date. Should the outcome of the process to identify potential purchasers during the course of 2017 be such that the completion of the sale becomes highly probable, the equity investment will be classified as required by IFRS 5.

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2016	31/12/2015
Financial receivables due from investee companies	1,335	331
Other financial receivables	37,764	38,613
Total	**39,099**	**38,943**

"Other non-current financial assets" amounting to EUR 39,099 thousand (EUR 38,943 thousand at 31 December 2015) are mainly comprised of grants due pursuant to Law 488/92 pertaining to wind farms acquired within the ERG Wind transaction, which are restricted in the dedicated Escrow Account established by Article 61, Paragraph 23, of Italian Law Decree no. 112/2008 (converted by Law no. 133/2008) and awaiting the decision of the Court of Avellino, amounting to EUR 32 million. Pending the ruling, the Ministry of Economic Development revoked the contributions pursuant to Law 488/92 which had been assigned to the beneficiary companies, with decrees notified respectively on 29 October and 3 November 2014. An extraordinary appeal was promptly filed against the cancellation decrees, with a request for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension request and on the merits of the appeal. Pending this appeal, on 27 July 2015, the payment forms were served to the company against which the ERG Wind company's appeal before the Court of Genoa, submitting a further appeal for precautionary suspension. The appeal was accepted, therefore suspending the efficacy of the payment forms, subject to submission of appropriate bank guarantees by the appellant companies. In view of the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 Financial Statements within the definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 19 - Other non-current liabilities**).

NOTE 6 - DEFERRED TAX ASSETS

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis and on the tax losses that can be carried forward.

The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.90% - 5.12%).

Deferred tax assets at 31 December 2016 amounting to EUR 160,045 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 44 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 45,615 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 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**);
- other receivables (EUR 10 million) which arose in the course of financial year 2015 in the context of the acquisition of ERG Hydro S.r.l.;
- tax receivables relative to VAT (EUR 8 million).

The item also includes deferred charge assets and other receivables in the amount of EUR 6 million.

NOTE 8 - INVENTORIES

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

NOTE 9 - TRADE RECEIVABLES

The summary of receivables is as follows:

	31/12/2016	31/12/2015
Customer trade receivables	194,956	186,565
Receivables for incentives	101,668	162,209
Receivables due from Group companies not consolidated line-by-line	3,460	2,324
Bad debt provision	(7,106)	(7,648)
Total	**292,978**	**343,450**

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

For information concerning loans to Group companies not consolidated line-by-line, reference is made to **Note 40 – Related parties**.

The bad debt provision changed as follows:

	31/12/2016	Increases	Decreases	Change in the scope of consolidation	31/12/2015
Bad debt provision	7,106	1,055	(1,597)	–	7,648
Total	**7,106**	**1,055**	**(1,597)**	**–**	**7,648**

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

The bad debt provision is deemed to be sufficient to address the risk of potential non-collectability of past due accounts receivable. Below is a breakdown of trade receivables outstanding at year-end.

	31/12/2016	31/12/2015
Receivables not yet due	**266,112**	**309,352**
Receivables past due:		
within 30 days	17,638	6,700
within 60 days	–	1,820
within 90 days	–	1,659
beyond 90 days	9,227	23,919
Total	**292,978**	**343,450**

NOTE 10 - OTHER RECEIVABLES AND CURRENT ASSETS

	31/12/2016	31/12/2015
Tax receivables	48,039	52,662
Group VAT receivables due from TotalErg	9,238	10,141
IRES tax consolidation receivables due from TotalErg	2,909	2,607
Sundry receivables	44,251	43,411
Total	**104,437**	**108,821**

Tax receivables mainly comprise VAT and income tax receivables.

“Sundry receivables” comprise, inter alia, receivables due from Group companies not consolidated line by line and the portions of deferred costs in subsequent periods. The item also includes receivables way of indemnification of the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired within the scope of the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in **Note 20 - Provisions for current liabilities and charges**.

NOTE 11 - CURRENT FINANCIAL ASSETS

	31/12/2016	31/12/2015
Financial receivables due from investee companies	8,581	8,620
Securities	80,137	–
Other short-term financial receivables	20,045	84,241
Total	**108,763**	**92,861**

The net increase is mainly due to the combined effect of:

- the decrease due to the collection in the period of a receivable belonging to the subsidiary ERG Hydro S.r.l. from the previous parent company amounting to EUR 75 million, as part of the acquisition operation described in the section Acquisition of Italian hydroelectric assets from E.ON of 527 MW in the 2015 financial statements;
- the increase relating to the investment of EUR 80 million in Credit Linked Notes, short-term certificates of deposit;
- the increase due to receivables from ECC - European Commodity Clearing, relating to the margin deposit and the fair value of futures contracts concluded (EUR 15 million).

NOTE 12 - CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Bank and postal deposits	427,187	770,559
Cash and notes on hand	9	5
Total	**427,195**	**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 with which the Group works. The item includes the amount in the accounts of ERG Power S.r.l. and the companies belonging to the ERG Renew

Group according to the restrictions on use set forth in the relative Project Financing.

For information on restricted liquidity, please refer to **Note 26 – Covenants and negative pledges**.

At 31 December 2016, the liquidity subject to the different restrictions prescribed by Project Financing agreements amounted to approximately EUR 164 million (EUR 144 million at 31 December 2015).

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

NOTE 13 - GROUP SHAREHOLDERS' EQUITY

Share Capital

Fully paid-in share capital at 31 December 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 31 December 2016, the Parent Company's Shareholders Register, relative to holders of significant interests, shows the following:

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

At 31 December 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.

On 12 October 2016, ERG S.p.A. concluded an agreement with UniCredit, whereby all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary

ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital. The ratio at which the exchange was agreed is approximately 0.78 ordinary ERG shares for each ERG Renew share, on the basis of a value of EUR 12.8 attributed to each ordinary ERG share. For further details, please refer to the comments in the **Minority interests transaction** section.

At 31 December 2016, as a result of the transaction, ERG holds 1,503,000 ordinary ERG treasury shares, equal to 1% of its 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

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

NOTE 14 - MINORITY INTERESTS

At 31 December 2016, as a result of the transaction described in the section **Minority interests transaction**, the Group's equity does not provide for any third-party share.

NOTE 15 - EMPLOYEES' SEVERANCE INDEMNITIES

This item, totalling EUR 6,733 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.

Illustrated below are the main assumptions used to calculate the present value of the liability relating to employees' severance indemnities and the relative change in the period. The discount rate was determined on the basis of a panel of AA-rated corporate securities with at least 10-year maturity.

Discount rate	1.3%
Inflation rate	1.0%
Average turnover rate	3.0%
Average rate of salary increase	1.5%
Average age	43

	31/12/2016	31/12/2015
BALANCE AT BEGINNING OF PERIOD	**5,512**	**4,727**
Change in the scope of consolidation	–	1,732
Increases in the period	2,694	2,602
Decreases in the period	(1,473)	(3,549)
BALANCE AT END OF PERIOD	**6,733**	**5,512**

The increases relate to accrual for the period and decreases to employee departures and advances to staff.

The following table shows the impact on the liability of a change of +/-0.5% in the discount rate.

	2016
+0.5% change in discount rate: minor liabilities	(229)
-0.5% change in discount rate: major liabilities	254

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

Deferred tax liabilities at 31 December 2016 of EUR 274,357 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 financial and technical amortisations.

NOTE 17 - PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

	31/12/2016	Increases	Decreases	Reclassi-fications	Change in scope of consolidation	31/12/2015
Provision for decommissioning costs	34,579	1,234	–	–	4,779	28,565
Priolo site provision	81,071	–	(763)	1,487	–	80,346
Other provisions	9,609	–	(282)	–	1,055	8,836
Total	**125,258**	**1,234**	**(1,045)**	**1,487**	**5,834**	**117,748**

Provisions for non-current liabilities and charges mainly refer to liabilities related to:

- expenses for the restoration of the site on which the wind farms recognised against major tangible fixed assets operate;

- the Priolo site as discussed in further detail in **Note 27- Contingent liabilities and disputes**, resulting mainly from the exit from the Oil sector.

Increases for the period refer to the expenses for the restoration of the farms located in Poland, which entered into operation during 2016.

Decreases during the period mainly refer to outstandings against expenses incurred for the period relative to the refining operations of previous years.

Reclassifications, in the amount of EUR 1.5 million, were recognised against provisions for current liabilities and charges.

The **Change in the Scope of Consolidation** includes amounts best described in the section of the same name.

NOTE 18 - NON-CURRENT FINANCIAL LIABILITIES

The breakdown of this item is as shown below:

	31/12/2016	31/12/2015
Medium/long-term mortgages and loans	668,439	694,573
- current portion of medium/long-term loans	–	–
	668,439	**694,573**
Medium/long-term Project Financing	1,275,580	1,284,578
- current portion of Project Financing	(151,906)	(144,718)
	1,123,674	**1,139,860**
Other medium/long-term financial payables	**141,947**	**153,396**
Total	**1,934,060**	**1,987,829**

Medium/long-term mortgages and loans

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

The loans are presented net of commission costs and other ancillary charges totalling EUR 9.7 million. These costs were recognised according to the amortised cost method in application of IAS 39 against an amount of EUR 3.1 million.

Medium/long-term Project Financing

The following tables show the main characteristics of existing Project Financing at 31 December 2016:

Company	Wind Farm / Thermoelectric Plant	Net carrying amount of the asset	ASSOCIATED FINANCIAL DEBT				
			Carrying amount of the financial liability	Technical form	Issue / Maturity		Hedge
ERG Wind Investments	ERG Wind Group wind farms	437,917	507,870	Project Financing	2008	2022	IRS: average fixed rate 4.46%
ERG Eolica Adriatica	Rotello - Ascoli Satriano (CB/FG)	129,329	115,561	Project Financing	2009	2022	IRS: fixed rate 4.85%
ERG Eolica Fossa del Lupo	Fossa del Lupo (CZ)	110,426	84,154	Project Financing	2012	2025	IRS: fixed rate 2.26%
ERG Eolica Campania	Bisaccia 2 - Foiano - Molinara - Baselice - Lacedonia 2 (AV/BN)	87,187	45,730	Project Financing	2009	2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Ginestra (BN)	61,157	30,539	Project Financing	2010	2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Amaroni (CZ)	31,795	23,600	Project Financing	2013	2026	IRS: fixed rate 1.68%
Green Vicari	Vicari (PA)	21,052	14,326	Project Financing	2008	2019	IRS: fixed rate 2.235%
ERG Eolica Faeto	Faeto (FG)	14,932	17,407	Project Financing	2007	2021	IRS from 1 January 2016 fixed rate 2.13%
Eoliennes du Vent Solaire	Plogastel Saint Germain (France)	4,521	5,435	Project Financing	2011	2025	fixed rate loan
Parc Eolien les Mardeaux	Les Mardeaux (France)	2,235	3,201	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil	Hetomesnil (France)	2,241	2,548	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus	Lihus (France)	2,333	2,372	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de la Bruyere	La Bruyere (France)	2,154	2,100	Project Financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien du Carreau	Carreau (France)	1,814	2,250	Project Financing	2005	2019	IRS: average fixed rate 5.39%
ERG Eolica Basilicata	Palazzo San Gervasio (PZ)	38,542	37,180	Project Financing	2010	2031	IRS: fixed rate 2.77%
EW Orneta 2 SP. Z.O.O.	Radziejów (Poland)	50,042	37,789	Project Financing	2015	2029	IRS: fixed rate 1.46%
K & S Energy Eood	Kavarna/Hrabovo	50,049	23,470	Project Financing	2012/13	2018	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
ERG Wind France 1	Various French	49,692	34,727	Project Financing	2016	2025	IRS: fixed rate -0.065%
ERG Power	CCGT plant	333,423	121,748	Project Financing	2010	2021	IRS: fixed rate 2.77%
Parc Eolien du Patis SAS	Jallais (France)	7,549	7,470	Project Financing	2013	2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Secqueville SAS	Caen Garcelles (France)	7,213	6,437	Project Financing	2007	2023	IRS: fixed rate 3.75%
SAS Societè de exploitation du P.E. de la Souterraine	La Souterraine (France)	6,851	7,206	Project Financing	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur SAS	Oyré (France)	12,003	10,467	Project Financing	2014	2029	Fixed rate loan for 40%
Parc Eolien St Riquier 1 SAS	St Riquier 1 (France)	9,247	10,798	Project Financing	2009	2027	Fixed rate loan
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Frehne I & II (Germany)	16,540	13,500	Project Financing	2013	2030	Fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Achmer Vinte (Germany)	3,454	7,000	Project Financing	2006	2021	Fixed rate loan
Windpark Cottbuser Halde GmbH & Co. KG	Cottbus (Germany)	24,877	22,872	Project Financing	2007	2025	Fixed rate loan
Parc Eolien Chaude Vallée S.a.r.l.	Chaude Vallée (France)	12,079	12,920	Project Financing	2011	2027	Fixed rate loan for 85%
Parc Eolien Hauts Moulins S.a.r.l.	Hauts Moulins (France)	13,029	12,573	Project Financing	2012	2028	Fixed rate loan for 86%
Parc Eolien de Morvillers S.a.r.l.	Morvillers (France)	12,991	13,218	Project Financing	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S.a.r.l.	Moulins des Champs (France)	13,029	12,456	Project Financing	2012	2028	Fixed rate loan for 85%
Parc Eolien de St Riquier 3 S.a.s.	St Riquier 3 (France)	13,747	14,400	Project Financing	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	St Riquier 4 (France)	11,815	12,257	Project Financing	2014	2028	Fixed rate loan
Total			**1,275,580**				

For further details on the new project financing compared to those described in the 2015 Consolidated Financial statements, please see **Note 26 – Covenants and negative pledge**.

At 31 December 2016, the weighted average interest rate on mortgages, loans and project financing was 1.42% (1.52% at 31 December 2015). The rate indicated does not take into account interest rate hedges.

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

	Mortgages and loans	Project Financing
Due by 31/12/2017	–	151,906
Due by 31/12/2018	58,625	153,085
Due by 31/12/2019	179,750	163,140
Due by 31/12/2020	299,125	167,616
Due by 31/12/2021	130,939	148,783
Due beyond 31/12/2021		491,051
Total	**668,439**	**1,275,580**

	31/12/2016	31/12/2015
Secured by Group tangible assets		
with maturities up to December 2026	1,275,580	1,284,578
Not secured		
with maturities up to August 2020	668,439	694,573
Total	**1,944,020**	**1,979,151**

For details on Covenants and negative pledges relating to the bank loans, please refer to **Note 26**.

Other medium/long-term financial payables

Other medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 142 million (EUR 153 million at 31 December 2015), the details of which are provided below:

	Issuing bank	Contract	Maturity	Payable for fair value	
(EUR thousand)				31/12/2016	31/12/2015
ERG Wind Investment Ltd.	RBS	IRS	31/12/22	(49,186)	(54,873)
ERG Wind Investment Ltd.	BOS	IRS	31/12/22	(36,826)	(41,077)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(7,920)	(9,254)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(7,920)	(9,254)
ERG Eolica Adriatica S.r.l.	RBS	IRS	15/06/22	(7,920)	(9,254)
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(2,623)	(2,643)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(2,256)	(2,273)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(1,731)	(1,744)
ERG Eolica Campania S.p.A.	RBS	IRS	31/05/20	(1,113)	(1,572)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(1,313)	(1,439)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(1,313)	(1,439)
ERG Eolica Ginestra S.r.l.	Barclays	IRS	30/06/25	(1,313)	(1,439)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(697)	(602)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/26	(697)	(602)
Green Vicari S.r.l.	BNL	IRS	31/12/16	–	(319)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(444)	(537)
ERG Eolica Faeto S.r.l.	UniCredit	IRS	31/12/21	(444)	(537)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(110)	(179)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(114)	(187)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(103)	(169)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(108)	(176)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(106)	(173)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(110)	(180)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(111)	(181)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(115)	(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	(937)	(584)
ERG Eolica Basilicata S.r.l.	Credit Agricole	IRS	30/06/31	(937)	(584)
EW Orneta 2 SP. Z.O.O.	ING	IRS	31/12/29	–(1)	(49)
EW Orneta 2 SP. Z.O.O.	Bank Pekao	IRS	31/12/29	– (1)	(49)
K & S Energy Eood	Raiffeisen Bank	IRS	31/12/18	(346)	(495)
K & S Energy Eood	Raiffeisen Bank	IRS	31/12/18	(86)	(118)
Corni Eolian SA	Raiffeisen Bank	IRS	04/05/16	–	(1,478)
Corni Eolian SA	ING	IRS	04/05/16	–	(1,478)
ERG Power S.r.l.	BNP Paribas BNL	IRS	31/12/21	(1,805)	(2,390)
ERG Power S.r.l.	IntesaSanpaolo	IRS	31/12/21	(1,805)	(2,390)
ERG Power S.r.l.	Credit Agricole	IRS	31/12/21	(1,446)	(1,915)
ERG Power S.r.l.	Santander	IRS	31/12/21	(287)	(380)
ERG Power S.r.l.	Centrobanca	IRS	31/12/21	(287)	(380)
ERG Power S.r.l.	ING	IRS	31/12/21	(287)	(380)
ERG S.p.A.	ING	IRS	06/08/20	(504)	(60)
ERG S.p.A.	BNP Paribas BNL	IRS	06/08/20	(484)	(37)
ERG S.p.A.	UniCredit	IRS	06/08/20	(508)	(64)
ERG S.p.A.	Barclays	IRS	06/08/20	(477)	(28)
ERG S.p.A.	IntesaSanpaolo	IRS	06/08/20	(505)	(60)
ERG S.p.A.	Credit Agricole	IRS	06/08/20	(515)	(73)
ERG S.p.A.	Natixis	IRS	06/08/20	(508)	(64)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(98)	–
ERG S.p.A.	Mediobanca	IRS	15/03/21	(2,089)	–
ERG S.p.A.	UniCredit	IRS	21/04/21	(194)	–
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	02/08/27	(308)	–
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	30/07/27	(313)	–
Parc Eolien de Garcelles Secqueville S.a.s.	Nord LB	IRS	30/06/23	(783)	–
SAS Societè de exploitation du P.E. de la Souterraine	Credit Cooperatif	IRS	29/12/28	(767)	–
Parc Eolien de Oyre Saint Sauveur S.a.s.	Natixis	IRS	01/07/29	(486)	–
Parc Eolien St Riquier 1 S.a.s.	Saar	IRS	31/12/24	(181)	–
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Commerzbank	IRS	31/12/29	(302)	–
Epuron Energy Park 117 (Frehne) GmbH & Co. KG	Commerzbank	IRS	31/12/30	(98)	–
Total				**(141,947)**	**(153,396)**

(1) the balance as at 31 December 2016 of the derivative instrument in question was positive and classified in financial assets

NOTE 19 - OTHER NON-CURRENT LIABILITIES

	31/12/2016	31/12/2015
Minority interests sale option liabilities	–	88,000
Wind Group acquisition price	9,821	9,821
Prior tax payables from foreign company mergers	18,594	18,594
Portions of deferred revenue in subsequent periods	2,313	1,806
Payables due to employees	1,066	684
Other minor entries	5,977	3,953
Total	**37,771**	**122,858**

Other non-current liabilities, amounting to EUR 37,771 thousand (EUR 122,858 thousand at 31 December 2015), show a decrease mainly connected with the UniCredit agreement, described in the section **Minority interests transaction**.

NOTE 20 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	31/12/2016	Increases	Decreases	Reclassi-fications	Change in scope of consolidation	31/12/2015
Provision for interest and revaluations under Law 488/1992	15,170	113	–	–	–	15,057
Restructuring and similar provisions	548	–	(865)	(504)	–	1,917
Provision for legal and fiscal risks	9,178	1,393	(1,348)	(549)	–	9,683
Provision for environmental risks	60	–	–	(381)	–	441
Provision for equity investments	5,821	159	(10)	–	–	5,672
Provision for miscellaneous expenses of former Oil business	650	60	(833)	–	–	1,423
Provision for contingent risks of foreign companies	9,005	–	–	–	–	9,005
Provisions for risks ERG Nuove Centrali S.p.A.	232	46	(3,799)	–	–	3,985
Provisions for hydroelectric sector risks	1,448	225	(1,060)	–	–	2,284
Other provisions	4,571	660	(193)	(314)	–	4,417
Total	**46,682**	**2,655**	**(8,108)**	**(1,749)**	**–**	**53,886**

Provisions for current liabilities and charges amounted, at 31 December 2016, to EUR 46,682 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 15.2 million) relating to wind farms acquired within the scope of the ERG Wind transactions and revoked by the Ministry of Economic Development as discussed in more detail in **Note 5**. 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";
- restructuring and similar provisions (EUR 0.5 million) relating to the initiated personnel redundancy procedures and to the costs for restructuring the asset portfolio;
- the provision for legal and fiscal risks (EUR 9.1 million) related to risks arising from ongoing legal disputes;
- the provision for environmental risks (EUR 0.1 million) pertaining to reclamation costs;

- the provision for equity investments (EUR 5.8 million) relating mainly to the subsidiary ERG Petroleos, which is no longer operational and under liquidation;
- the provision for miscellaneous expenses of former Oil business (EUR 0.7 million) relating mainly to demurrage and ancillary freight expenses;
- the provision for contingent risks of foreign companies (EUR 9 million) referring to contingent risk concerning Romania;
- the provision for risks (EUR 0.2 million) concerning contingent expenses of foreign companies for settlement of prior period expenses and disputes from the operation of now decommissioned plants;
- the provisions for hydroelectric sector risks (EUR 1.4 million) referring to various expenses inherent in the operations of ERG Hydro S.r.l.;
- other provisions for liabilities and charges mainly referring to expenses considered to be probable as part of business relations and expenses considered to be probable for service rights payable to Municipalities.

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

The **decreases** relate mainly to:

- the use of EUR 3.8 million to deal with the impact of the general settlement agreement concluded by ERG S.p.A., ERG Power S.r.l. and ERG Power Generation S.p.A. at the end of December with counterparties with which a dispute began in previous years within the framework of the operational management of the former ERG Nuove Centrali;
- the use of EUR 0.9 million in relation to the staff redundancy procedures initiated;
- the use of EUR 0.8 million to cover costs arising from the former Oil business.

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

Reclassifications were recognised in the amount of EUR 1.5 million against provisions for non-current liabilities and charges, while the residual amount was reclassified among other current liabilities.

NOTE 21 - TRADE PAYABLES

	31/12/2016	31/12/2015
Trade payables	152,525	162,055
Payables due to Group companies not consolidated line by line	156	46
Total	**152,680**	**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

	31/12/2016	31/12/2015
Short-term bank borrowings	**2,270**	**110,028**
Other short-term financial payables:		
Current portion of medium/long-term bank borrowings	–	–
Current portion of medium/long-term bank project financing	151,906	144,718
Other financial payables	4,922	68,705
	156,828	**213,423**
Total	**159,098**	**323,451**

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

- at 31 December 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 14% of the total amounts granted (16% at 31 December 2015);
- these lines are revocable and unsecured;
- at 31 December 2016, there were no current account overdrafts, while at 31 December 2015 the weighted average interest rate on short-term indebtedness was 0.20%.

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 thousands)	Note	31/12/2016	31/12/2015
Medium/long-term mortgages and loans	18	668,439	694,573
- current portion of mortgages and loans	18, 22	–	–
Fair value of derivatives hedging interest rates	18	141,947	153,396
Total		**810,386**	**847,969**
Medium/long-term Project Financing	18	1,275,580	1,284,578
- current portion of Project Financing	18, 22	(151,906)	(144,718)
Total		**1,123,674**	**1,139,860**
Medium/long-term financial indebtedness/ (Medium/long term financial assets)		**1,934,060**	**1,987,829**
Short-term bank borrowings	22	2,270	110,028
Short-term financial debts	22	4,922	68,705
Total		**7,192**	**178,733**
Cash and cash equivalents	12	(263,328)	(626,977)
Securities and other short-term financial receivables	11	(108,763)	(92,861)
Total		**(372,090)**	**(719,838)**
Short-term Project Financing	18, 22	151,906	144,718
Cash and cash equivalents	12	(163,868)	(143,587)
Total		**(11,962)**	**1,131**
Net short-term financial indebtedness/ (Short-term financial assets)		**(376,860)**	**(539,974)**
NET FINANCIAL POSITION		**1,557,200**	**1,447,855**

Net financial indebtedness amounted to EUR 1,557 million, up by EUR 109 million compared to 31 December 2015, mainly by effect of the following impacts and the cash flow of the period:

- EUR +293 million relating to the acquisition from Impax Asset Management Group;
- EUR +143 million relating to the distribution of dividends to Shareholders;
- EUR -333 million in receipts for incentives (green certificates, white certificates, feed-in tariff);
- EUR -56 million for the Mucchetti amendment, discussed in detail in the Mucchetti amendment section;
- regarding the production units in Sicily – update on the completion of the “Sorgente-Rizziconi” intervention;
- EUR +62 million for investments relating to the construction of the wind park in Northern Ireland and other changes in working capital.

NOTE 24 - OTHER CURRENT LIABILITIES

	31/12/2016	31/12/2015
Tax payables	19,764	26,088
Payables due to employees	8,765	10,252
Payables due to social security institutions	4,438	5,345
Payables due to TotalErg S.p.A. for tax consolidation	16,600	13,533
Portions of deferred revenue in subsequent periods	1,642	2,006
Other current liabilities	14,656	15,105
Total	**65,865**	**72,330**

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

In 2016, taxes, net of offsetting, of approximately EUR 14.2 million were paid to the tax authorities in settlement of 2015 and as an advance for 2016.

NOTE 25 – GUARANTEES, COMMITMENTS AND RISKS (EUR 125,667 THOUSAND)

Sureties given (EUR 124,368 thousand)

Sureties given mainly concern the guarantees granted for use of Group VAT receivables and generally in favour of Public Entities.

Other guarantees given (EUR 1,299 thousand)

The other guarantees given pertain to sureties on bank loans.

Our commitments (EUR 6,960 thousand)

Commitments to third parties mainly refer to those entered into for the purchase of hardware, software and IT consulting services.

NOTE 26 - COVENANTS AND NEGATIVE PLEDGES

Corporate acquisition loan ERG S.p.A.

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

- syndicated corporate acquisition loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, BNPParibas, Credit Agricole, ING, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A, stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

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

The net financial indebtedness and gross operating margin (NET DEBT/EBITDA) ratio referring to the Consolidated Financial Statements of the ERG Group must be lower than or equal to 4.50 beginning from 31 December 2016, with values progressively decreasing up to the final value of 3.75 at 31 December 2020, according to the following scale which corresponds to the respective calculation dates:

- 4.50 at 31 December 2016 and 30 June 2017;
- 4.25 at 31 December 2017 and 30 June 2018;
- 4.00 at 31 December 2018 and 30 June 2019;
- 3.75 at 31 December 2019; 30 June 2020; 31 December 2020.

In the event that the covenants are not complied with, the agreements provide the borrower with the possibility of intervening with an "equity cure" which will be taken under consideration as a reduction of the net financial indebtedness.

The contracts also provide for a standard negative pledge for loan contracts of a similar type, prohibiting the usage of any third party lenders' assets as guarantees.

ERG Power S.r.l. Project Financing

In December 2009, the Company stipulated, with a group of international banks (Banca IMI, BNP Paribas, Banco Santander, Crédit Agricole Corporate and Investment Bank, Centrobanca, ING Bank, MPS Capital Services, UniCredit Mediocredito Centrale, WestLB) a limited recourse Project Financing for EUR 330 million. The project Agent is UniCredit Mediocredito Centrale.

The loan was disbursed in April 2010, following the fulfilment of all conditions precedent set out in the loan agreement.

The agreement, granting a loan for the repowering of a CCGT plant, required as guarantee for the payment of amounts and fulfilment of all obligations resulting from the lending agreement:

- the creation of a mortgage loan in favour of the lending financial institutions, covering the property owned by the Company and the property subjected to a building lease of the Company;
- the creation of a special lien covering the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods above certain monetary thresholds;
- the creation of a lien on the receivables deriving from the main project agreements and on ERG Power's project deposit accounts;
- the monitoring of incoming and outgoing cash flows relating to financial management by the financial institutions.

The guarantees given also entail, among others, a 100% pledge of the Company's share capital.

The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, in principle, ERG Power may not issue further guarantees, with the standard exceptions for transactions of this kind. The guarantees' duration is tied to the repayment of the loan agreement. The loan is also subject to the following covenants:

- Historical and Prospective Annual Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Power S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- Loan Life Cover Ratio (LLCR): the LLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of debt – of operating cash flows projected by the company in the periods between the date of calculation and the debt's maturity year and the amount of debt existing at the calculation date. If it is below 1.20, ERG Power S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

In relation to the Project financing for ERG Power S.r.l., starting on 30 June 2011 compliance with the following covenants, to be calculated on a half-yearly basis on the consolidated financial statements of the ERG Group, is expected:

- Ratio between Consolidated Adjusted Net Financial Position and Consolidated Adjusted EBITDA (Adjusted NFP / Adjusted EBITDA): if it exceeds 4.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.
- Ratio between Consolidated Adjusted EBITDA and Consolidated Adjusted Financial Income and Expenses: if it is lower than 3.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.

Failure to comply with the aforesaid covenants for three consecutive times entails the partial early repayment of the loan for an amount equal to the excess cash flow defined contractually and restricted in dedicated bank accounts in the three previous periods.

At the reporting date, the company's covenants were fulfilled.

Project financing of ERG Renew S.p.A. and its subsidiaries

Loan taken out in June 2007 by ERG Eolica Faeto S.r.l. (formerly Eos 4 Faeto S.r.l.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 6.4 million at 31 December 2016), as well as a letter of patronage from ERG Renew S.p.A.. The loan is also subject to the following covenants and negative pledges:

- Historical Debt Service Coverage Ratio (DSCRS): calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the amounts paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts. If the DSCRS is less than 1.10, ERG Eolica Faeto S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Faeto S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out in August 2007 by Green Vicari S.r.l.

The guarantees issued include a mortgage on real estate, a special lien on properties, a pledge on 100% of the company's share capital and on the company's receivables and bank accounts (EUR 8.5 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Average Debt Service Coverage Ratio (ADSCR): calculated on 30 June and 31 December of each year as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the base credit line, for the two previous half-years, and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the subsidised loan, of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the ADSCR is less than 1.10, Green Vicari S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, Green Vicari S.r.l. may not issue further guarantees on its assets.

Loan for construction of the five wind farms located in France. Parc Eolien de Lihus, Hetomesnil, Bruyère, Carreau, Mardeaux

The guarantees issued include a mortgage on real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 2.6 million at 31 December 2016). The loan is subject to the following financial covenant pertaining to dividend distribution:

- Historical Debt Service Coverage Ratio (DSCRS): calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the amounts paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts. If it is less than 1.10, the French companies may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.
- The contract also provides for a negative pledge safeguarding the creditor's rights over the assets pledged by the debtor as guarantee for loan repayment. Therefore, the French companies may not issue further guarantees on their assets.

Loan taken out by Eoliennes du Vent Solare S.a.s for the construction of a wind farm located in France

The guarantees issued include a mortgage on real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1.3 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Debt Service Coverage Ratio (DSCRS): calculated as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines. If the DSCR is less than 1.15 Eoliennes du Vent Solaire S.a.s. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

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

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 4.5 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historic and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- Loan Life Cover Ratio (LLCR): the LLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of debt – of operating cash flows projected by the company in the periods between the date of calculation and the debt's maturity year and the amount of debt existing at the calculation date. If it is less than 1.20, ERG Eolica Ginestra S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Ginestra S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out in October 2009 by ERG Eolica Adriatica S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10.7 million at 31 December 2016).

The base credit line of the loan is also subject to the following covenants and negative pledges:

- Historical Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, ERG Eolica Adriatica S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- Balloon Cover Ratio (BLCR): calculated as the ratio between the net present value, discounted at the weighted average cost of debt, of the operating cash flows forecast by the company in the periods between the last repayment date and 60 subsequent months and the amount of the last instalment of the loan (Balloon). If it is less than 1.50, ERG Eolica Adriatica S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor

as guarantee for loan repayment. Consequently, ERG Eolica Adriatica S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out in October 2007 by ERG Eolica Campania (formerly IVPC POWER 3 S.p.A.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 12.9 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Campania S.p.A. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Campania S.p.A. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan granted in March 2012 to the company ERG Eolica Fossa del Lupo S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 5.7 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Fossa del Lupo S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor

as guarantee for loan repayment. Consequently, ERG Eolica Fossa del Lupo S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan issued in April 2013 to ERG Eolica Amaroni S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1.1 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Amaroni S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Amaroni S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan issued in September 2014 to ERG Eolica Basilicata S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 2.7 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Basilicata S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor

as guarantee for loan repayment. Consequently, ERG Eolica Basilicata S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan granted in 2008 to ERG Wind Investments Ltd.

The loan is subject to the following covenants and negative pledges:

- Covenants

  The main financial covenant is the HDSCR (Historical Debt Service Cover Ratio), which is calculated once every six months, with reference to the cash flows generated in the previous 12 months, in relation to the payment of the financial debt (principal, interest, fees and swaps) of that period.

  If the DSCR were lower than 1.05, there would be a Project Finance default event. A DSCR above 1.15 is required for the distribution of dividends.
- Security Package

  To secure the commitments made in accordance with the loan agreement, security contracts governed by the regulations prescribed by different jurisdictions had to be executed.

  The security documents indicated in the loan agreement include, inter alia, pledges on equity investments, pledges on stocks, transfer of the receivables serving as collateral (also pertaining to insurance receivables), pledges on current accounts (EUR 67.0 million at 31 December 2016).

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

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 3.7 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

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

prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, EW Orneta 2 SP.ZO.O. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan (project multiborrower) issued in April 2012 and September 2013 to the Bulgarian company

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1.4 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, ERG Wind Bulgaria may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Wind Bulgaria may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan granted in August 2016 to ERG Wind France 1

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 5.2 million at 31 December 2016). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, ERG Wind France 1 may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the loan agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Wind France 1 may not issue further guarantees on its assets except in the event of guarantees required by law.

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

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

A total of EUR 62.9 million was repaid and approximately EUR 6 million in additional charges was incurred. This item was isolated since it is non-recurring.

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

Loan taken out by Parc Eolien de Garcelles-Secqueville SAS from Norddeutsche Landesbank on 19 March 2007, expiring on 30 June 2023.

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

Loan taken out by Parc Eolien de la Chaude Vallée 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 covenant is the DSCR (Debt Service Coverage Ratio) which historically must be 1.05. Failure to comply with the minimum DSCR value constitutes a default event in terms of the loan.

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

Loan taken out by Parc Eolien du Pâtis S.a.s. from Le Crédit Coopératif on 14 June 2013, expiring on 31 July 2027.

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the outstanding debt/equity ratio (shareholders' equity + shareholder loans) which must be higher than or equal to 4.

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

- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.

The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by S.a.s. Societe d'Exploitation du Parc Eolien de La Souterraine from BP France on 11 October 2013, expiring on 31 December 2028.

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the outstanding debt/equity ratio (shareholders' equity + shareholder loans) must be higher than or equal to 82.35/17.65.
- Failure to comply with either covenant constitutes a default event in terms of the loan.
  - the negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts;
  - the main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

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

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

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

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum DSCR value constitutes a default event in terms of the loan.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by Parc Eolien de Oyré Saint Sauveur S.a.s. from Natixis on 24 April 2014, expiring on 30 June 2029.

- The main financial covenants are:
  - The DSCR (debt service coverage ratio) which historically must exceed 1.05.
  - The outstanding debt/equity ratio (shareholders' equity + shareholder loan) must not exceed a ratio of 85/15 up to 1 June 2019; 90/10 between 1 June 2019 and 1 June 2024 and 95/5 between 1 June 2024 and 1 June 2029.

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

- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- A main condition underlying distribution is that the DSCR be higher than 1.15.

Loan taken out by Parc Eolien de Saint Riquier 1 from Landesbank Saar on 31 March 2009, expiring on 30 December 2027.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.40 in order for distribution to be allowed. Distributions are in any case not allowed between 2014 and 2018 and from 2024 to 2026.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.

Loan taken out by Parc Eolien de Saint Riquier 3 S.a.s. from HSH Nordbank AG on 31 March 2014, expiring on 30 December 2028.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.10; fully constituted DSRA account - Debt Service Reserve Account.

Loan taken out by Parc Eolien de Saint Riquier 4 S.a.s. from HSH Nordbank AG on 31 March 2014, expiring on 30 December 2028.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.10; fully constituted DSRA account - Debt Service Reserve Account.

Loans taken out by Windpark Achmer Vinte GmbH & Co. KG from DKB Deutsche Kreditbank on 14 February 2006 and 23 February 2006, expiring on 31 December 2021.

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

Loans taken out by Windpark Cottbuser Halde GmbH & Co. KG from DKB Deutsche Kreditbank on 27 October 2007 and 9 November 2006, expiring on 31 December 2025.

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

Loan taken out by ERG Wind 117 GmbH & Co. KG from Commerzbank on 6 August 2013, expiring on 30 December 2030.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05 and 1.10 on a prospective basis. Failure to comply with the minimum DSCR value constitutes a default event in terms of the loan.
- The negative pledges are those which are typical of the project financing and they refer to the shares of the company, its assets and current accounts.
- The main conditions for distribution are: historic DSCR higher than 1.05; prospective DSCR higher than 1.10; Debt Service Reserve Account (DSRA) fully constituted.

NOTE 27 - 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 80 million at 31 December 2015). 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 Syracuse partially allowed the Company's appeal and ruled that **harbour duties** for the whole of 2006 are not due, declaring them from 2007 onwards. The first degree decision was challenged within the deadline by the Italian Revenue Agency with appeal relative to the period subsequent to 2006. During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments. The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first 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 Syracuse allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. The date of the hearing has not yet been set. Starting from 2007, the related taxes had already been recognised in the income statement under the accrual basis, while no provision had been made for the years from 2001 to 2006.
- With reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, in that the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and LUKOIL. With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous

owner of the site), and by the agreement executed with LUKOIL (new owner), the risk is as follows: (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 – 1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable. The following limitations apply to ERG's contractual liability to LUKOIL: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and in case of uncertain identification of the period to which the potential damage is referred, a time shift until 2018 is applied. The agreement with LUKOIL prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). Up to EUR 33.4 million, the costs shall be divided between ERG and LUKOIL (51% and 49%). With reference to the **site commercial transactions**, there are both receivables and payables, mainly related to supplies of petroleum products and utilities pertaining to previous years.

At the time of preparation of these Consolidated Financial Statements for the year 2016, the Management of the Group, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, noting the substantial absence of new elements and confirming, therefore, the appropriateness of the measurements made previously. At 31 December 2016, therefore, the provision for liabilities is deemed adequate and only a partial use is reported, amounting to approximately EUR 3 million.

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. (the 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 largely 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 and 2009, of substantially similar nature and amount, for each year, to those referenced above, hence referred to periods prior to the establishment of the TotalErg joint venture.

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

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

Compared to the specific comment regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the aforementioned official report on findings 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 the investee TotalErg S.p.A., in its capacity as the incorporating entity of Total Italia S.p.A.

ERG S.p.A. and TotalErg S.p.A. – in its capacity as the consolidated entity – were served assessment notices on **29 November 2016** and **24 November 2016** respectively, for IRES for tax year 2010. TotalErg S.p.A. was served an additional assessment notice for IRES, IRAP and VAT for the same year. Compared to the specific comments made in the official tax audit report of 6 August 2014 served to TotalErg S.p.A. which amounted to EUR 3,797 million of non-deductible costs, the assessment notices considerably reduce the amount in this case as well, to approximately EUR 7.5 million.

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 law 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.

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 Syracuse - Southern Prefecture (hereinafter the "Agency") served to ERG S.p.A. as the incorporating entity on December 2015 of the seller ISAB Energy S.r.l., a notice amending the values declared for settlement of the registration tax.

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

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

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

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

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

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

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

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

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

On 15 November 2016, the hearing on the matter was held at the Provincial Tax Commission of Syracuse and the relevant judgement is pending.

The Group does not consider that it will lose and therefore no liabilities have been recognised 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 Law 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. The deadline for applying for an appeal by the Italian tax authorities has not yet expired.

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 the International Power 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. Following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010 the wind farms which have been under precautionary attachment were released, upon attachment of the aforementioned amounts. These amounts were then transferred to the Single Guarantee Fund.

The preliminary investigation for the criminal proceedings at the Court of Avellino is underway. The next hearing is expected to be on 3 March 2017.

Despite the pending proceedings, 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 to revoke the aforementioned incentives.

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

On 27 July 2015, the companies involved were issued with payment notices relating to the revoked incentives. Said notices were challenged with the submission of opposition proceedings before the Court of Genoa. As part of the appeal 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 48 million). Subsequently, the Ministry of Economic Development and Equitalia raised the issue of the correctness of the judicial authority seised and the Court of Genoa suspended the proceedings, passing the case to the Court of Cassation for a decision. The hearing in the Supreme Court was held on 20 December 2016 and the ruling of the Court is expected in the first quarter of 2017. Following this decision, where - as plausible- the jurisdiction of the civil court was confirmed, it will be possible to resume the currently suspended process while, on the other hand, new proceedings should be brought before the Regional Administrative Court.

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

In view of the prolonged time taken to settle the proceedings subsequent to the filing of the appeals, as well as the possible conclusion of the judgements regarding opposition to the tax assessments by 2017, on 10 March 2016 an arbitration was initiated against the seller of the relevant companies in the International Power Group, which had until then repeatedly denied their indemnification obligations pursuant to the contract for the transfer of equity investments. While awaiting the arbitration proceedings, discussions continued between the parties in order to settle the dispute amicably. This was finally achieved with the conclusion of a settlement agreement on 19 December 2016 and the subsequent extinction of the arbitration judgement on 22 December 2016.

In consideration of the above, and taking into account that in view of the aforesaid receivables a liability of an equal amount had already been allocated 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), additional allocations to the financial statements 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 at 22 December 2015 of EUR 0.4 million, (ii) an additional assessment of penalties for the reason under (i) with separate quantification of the penalties due to failure to pay a withholding amount of EUR 0.8 million and (iii) a question regarding the alleged inappropriate deduction of the interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by a valid economic reasons (abuse of the right afforded under article 10-bis of Law 212/2000) for the 2010-2013 tax period.

Following the proceedings initiated against Provincial Division I of Rome and the documentation produced, the comment made within the PVC regarding failure to apply, during the 2010-2013 tax period, withholding on interest paid to non-resident individuals as part of the existing project financing of EUR for 14 million was removed.

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

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

On 16 November 2016, the Provincial Tax Commission of Rome ordered the judicial suspension of the tax collection and the hearing was held on 6 February.

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

An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed.

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"[4] only for the 2010 and 2011 tax periods.

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

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.

At end-2016, ERG Renew S.p.A. decided not to pursue the arbitration, while reiterating Engie's responsibilities for subsequent tax periods.

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

ERG Wind Holdings (Italy) Tax Audit

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

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

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

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

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

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

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

No hearing date has been set yet.

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

It is furthermore noted that against the tax assessment in issue, ERG Renew S.p.A. 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.

CONSOLIDATED INCOME STATEMENT ANALYSIS

For the purposes of comparison with the 2015 figures, it should be noted that the 2016 income statement reflects the full contribution of the results of the companies located in Romania and Bulgaria, consolidated on a line-by-line basis from 31 December 2015 following the "**ERG Wind GmbH transaction (dissolution of joint venture LUKERG Renew)**", as described in detail in the 2015 Consolidated Financial Statements.

NOTE 28 - REVENUES FROM ORDINARY OPERATIONS

	2016	2015
Revenues from sales	1,018,514	915,315
Revenues from services	6,974	5,715
Total	**1,025,489**	**921,030**

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

	2016	2015
Wind power sector	422,850	316,785
Thermoelectric sector	479,323	592,262
Hydroelectric sector	122,165	10,552
Corporate	1,151	1,431
Total	**1,025,489**	**921,030**

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

- the sales of **electricity** produced by the wind farms and thermoelectric installations and, from December 2015, the hydroelectric plants, as well as sales on organised markets through physical bilateral agreements. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral contracts.
  In particular, electricity sold wholesale includes the sales on the IPEX electricity exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), and the "dispatching services market" (MSD), as well as the sales to the main operators of the sector on the "over the counter" (OTC) platform. We note finally the sales of water and steam which are supplied to the industrial operators at the Priolo site.
- the **incentives** relative to the production during the half year of the wind farms in operation belonging to the ERG Renew Group and the ERG Hydro hydroelectric plants. In Italy, the valuation of the incentives was calculated at the price of EUR 100.1/MWh determined on the basis of the expected realisable value. With reference to the regulations pertaining to incentives, please refer to the section **Criteria for the preparation of the Financial Statements**.

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

The following table shows the breakdown of revenues from sales:

	2016	2015
Sales to third parties	1,007,685	902,626
Sales to Group companies not consolidated line by line	10,829	12,689
Total	**1,018,514**	**915,315**

NOTE 29 - OTHER REVENUES AND INCOME

	2016	2015
Indemnifications	3,150	1,116
Expense recoveries	259	200
Capital gains on disposals	294	240
Non-recurring income	2,598	6,147
Other revenues	10,011	7,531
Total	**16,312**	**15,234**

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

NOTE 30 - CHANGE IN INVENTORIES

The changes in raw material inventories, relative to the spare parts which are recognised at the lower of the cost calculated using the weighted average cost method and the market value, equal +EUR 1.9 million (EUR 2.8 million in 2015).

NOTE 31 - COSTS FOR PURCHASES

The amount for 2016 is equal to EUR 332 million (EUR 415 million in 2015) and refers 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 32 - COSTS FOR SERVICES AND OTHER OPERATING COSTS

	2016	2015
Costs for services	146,000	121,554
Rents and leases	30,009	15,863
Write-downs of receivables	1,055	2,581
Accruals of provisions for liabilities and charges	3,889	1,899
Duties and taxes	7,749	10,445
Other operating expenses	7,299	4,937
Total	**196,002**	**157,279**

The breakdown of **Costs for services** was as follows:

	2016	2015
Commercial, distribution and transportation costs	31,885	12,357
Repairs and maintenance	28,258	21,988
Utilities and supplies	6,289	2,336
Insurance	9,316	7,572
Consulting services	14,709	22,757
Advertising and promotions	1,221	555
Other services	54,322	53,989
Total	**146,000**	**121,554**

- The **commercial**, distribution and transportation **costs** 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 in this item, as with the increase in **Utilities and supplies**, is linked to the change in the scope of consolidation.
- The decrease in **Consulting services** is due to the lower expenses incurred with reference to non-recurring transactions completed in the period.
- **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, bank expenses, general overheads and ancillary personnel costs.

The item **Rents and leases** mainly includes state fees for water derivations, royalties to municipalities on the basis of agreements signed, leasing instalments to the owners of the land on which the Group's wind parks exercise their activities and rental expenses relating to offices. The increase is due 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 33 - PERSONNEL COSTS

	2016	2015
Salaries and wages	42,459	39,265
Social security contributions	12,532	11,759
Employees' severance indemnities	2,694	2,287
Other personnel costs	4,574	4,884
Total	**62,260**	**58,195**

The other costs include additional employees' severance indemnities.

The increase is tied mainly to the change in the 2016 scope of consolidation.

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

	2016	2015
Executives	41	42
Managers	163	146
Staff	344	268
Workmen	168	144
Total	**717**	**600**

At 31 December 2016, the total number of employees was 721.

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

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

	2016	2015
Amortisation of intangible fixed assets	46,295	27,378
Depreciation of tangible fixed assets	205,053	134,379
Write-downs of fixed assets	2,310	1,273
Total	**253,658**	**163,030**

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 commissioning of the parks in Poland.

NOTE 35 - NET FINANCIAL INCOME (EXPENSES)

	2016	2015
Income		
Foreign currency exchange gains	883	320
Interest income on bank accounts	2,069	9,618
Other financial income	18,749	22,584
	21,701	**32,522**
Expenses		
Foreign currency exchange losses	(695)	(333)
Interest on short-term bank borrowings	(545)	(339)
Interest on medium/long-term bank borrowings	(39,623)	(24,737)
Other financial expenses	(64,689)	(61,858)
	(105,552)	**(87,267)**
Total	**(83,851)**	**(54,745)**

The lower interest income mainly reflects the decrease in 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 acquisitions made in 2015 and, in particular, in 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; other financial expenses also include the effect on the income statement of the fair value measurement of the loan to ERG Wind Investments Ltd, adjusted downwards by EUR 159 million at the time of the acquisition, because it had originally been stipulated at more advantageous conditions than those proposed by the market at the time of the acquisition.

NOTE 36 - NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The income and loss from equity investments of EUR 37,743 thousand (EUR -53,667 thousand in 2015) mainly includes:

- the Group's portion of the result of the joint venture TotalErg, equal to EUR 26.4 million (EUR -10.7 million in 2015),
- the income deriving from the fair value measurement of the liability relating to the sale option granted to minority interests of ERG Renew S.p.A., equal to EUR 11 million (EUR -38 million in 2015),
- the income from the sale of the equity investment in ERG Eolica Lucana (EUR 1 million).

Note that the 2015 comparative figure also reflected charges in the amount of EUR -3.5 million related to the result of the joint venture LUKERG Renew GmbH.

NOTE 37 - INCOME TAXES

	2016	2015
Current income taxes	33,970	30,613
Taxes from previous years	625	(2,785)
Deferred taxes	(5,939)	(15,268)
Total	**28,657**	**12,560**

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 17.4 million (EUR 18.5 million in 2015), calculated on the fair value of the 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. Note, therefore, that the rate used for the calculation of the prepaid taxes is 24%, increased, where applicable, by the IRAP rate (3.9%).

Reconciliation between reported and theoretical tax charges

IRES (Corporate tax)		
Profit (loss) before taxes	**153,541**	
Theoretical IRES taxation at 27.5%	**42,224**	
Impact of consolidation adjustments not relevant to the calculation of taxes		(7,206)
Impact of permanent tax changes		(16,639)
Current and deferred IRES		**18,379**

IRAP		
EBIT	199,649	
Write-down of receivables	–	
Total	**199,649**	
Theoretical IRAP at 3.5%	**6,988**	
Effect stemming from IRAP rate increase for some companies		2,520
Impact of permanent differences and consolidation adjustments not relevant to the calculation of income taxes		144
Current and deferred IRAP		**9,652**
Total theoretical taxes	**49,211**	
Total IRES and IRAP in the financial statements		**28,031**
Taxes from previous year		**625**
Substitute taxes		**–**
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS		**28,657**

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

NOTE 38 - NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS

The **2015** income statement is presented in accordance with IFRS 5, which prescribes how to report the income and expenses of discontinued operations, with the exclusion therefore of:

- the operating results of ERG Supply and Trading S.p.A., whose activities largely ceased in the first months of 2015;
- the 2015 adjustment to partially correct the provisional price related to the sale of ERG Oil Sicilia S.r.l., on 29 December 2014.

		Year 2015			
(EUR thousand)	NoteS	ERG Oil Sicilia S.r.l.	ERG Supply & Trading S.p.A.	Intercompany transactions	Discontinued operations
Revenues from ordinary operations	A	–	224,559	726	225,285
Other revenues and income	B	–	5,328	(1,061)	4,267
Changes in product inventories	C	–	(30,631)	–	(30,631)
Changes in raw materials inventories		–	–	–	–
Costs for purchases	D	–	(198,168)	–	(198,168)
Costs for services and other costs	E	–	(4,075)	335	(3,740)
Personnel costs	F	–	(3,641)	–	(3,641)
EBITDA		**–**	**(6,628)**	**–**	**(6,628)**
Amortisation, depreciation and write-downs of fixed assets	G	–	(31)	–	(31)
Net financial income (expenses)	H	–	(3,386)	–	(3,386)
Net income (loss) from equity investments	I	(500)	–	–	(500)
PROFIT (LOSS) BEFORE TAXES		**(500)**	**(10,045)**	**–**	**(10,545)**
Income taxes		–	2,762	–	2,762
Net profit (loss) from discontinued operations		**(500)**	**(7,282)**	**–**	**(7,782)**
Use of provision for restructuring asset portfolio			7,282		7,282
Net profit (loss) from discontinued operations		**(500)**	**–**	**–**	**(500)**

A the revenues from ordinary operations of ERG Supply & Trading relate to the sale of petroleum products;

B other revenues and income relate to demurrage charges and vetting services;

C the change in inventories relates to the valuation of the changes in inventories of petroleum products for short-term resale;

D costs for purchases relate to the purchase of petroleum products and ancillary charges related to them;

E costs for services and other costs relate to the sale, distribution and transport of petroleum products;

F personnel costs relate to salaries, social security charges and the provision of post-employment benefit to company personnel;

G amortisation, depreciation and write-downs relate to licences and software;

H net financial income (expenses) relate to realised and estimated exchange differences and to interest charges to the parent company ERG S.p.A. under the centralised treasury agreement;

I net income (loss) from equity investments relates to the negative adjustment (EUR 0.5 million) to partially correct the provisional price collected in 2014, relating to the sale of ERG Oil Sicilia S.r.l.

NOTE 39 - NON-RECURRING ITEMS

(EUR thousand)		2016		2015
Revenues from ordinary operations		–		–
Other revenues		–		–
Costs for purchases		–		–
Changes in inventories		–		–
Costs for services and other costs	1	(916)	1	(21,302)
Personnel costs	2	(1,159)	2	(8,529)
Amortisation, depreciation and write-downs of fixed assets		–		–
Net financial income (expenses)	3	(7,700)		–
Net income (loss) from equity investments	4	22,666	3	(62,706)
Income taxes		1,768		17,254
Net profit (loss) non-recurring items (continuing operations)		**14,659**		**(75,283)**
Net profit (loss) non-recurring items (discontinued operations)	5	**–**	4	**(500)**
Net profit (loss) non-recurring items		**14,659**		**(75,783)**
Minority interests	6	**491**	5	**115**
Group net profit (loss) non-recurring items		**15,150**		**(75,668)**

In 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 effect of the commodity inventories of the TotalErg joint venture;

5 Net profit (loss) non-recurring items (discontinued operations) refers to the joint venture TotalErg;

6 the profit pertaining to minority shareholders insofar as the portion held by the minority shareholders of non-recurring items relative to the ERG Renew Group.

In 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 equity investment mainly referring to the ERG Group portion of the profits on the inventories of investing TotalErg;

4 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.

5 the profit pertaining to minority shareholders insofar as the portion held by the minority shareholders of non-recurring items relative to the ERG Renew Group.

NOTE 40 - RELATED PARTIES

Statement of Financial Position

	Trade receivables	Other receivables and current assets	Trade payables	Other current liabilities	Current financial assets
Priolo Servizi S.c.p.A.	2,860	–	17	–	–
TotalErg S.p.A.	546	12,147	43	16,600	–
ISAB Energy Solare S.r.l.	43	–	–	–	–
San Quirico S.p.A.	–	1,409	–	–	–
ERG Petroleos S.A.	–	–	–	–	8,490
Other	–	–	–	–	–
Total	**3,449**	**13,556**	**60**	**16,600**	**8,490**

Income Statement

	Revenues from ordinary operations	Other revenues and income	Costs for purchases	Costs for services and other costs	Financial income
Priolo Servizi S.c.p.A.	11,180	102	–	(11,426)	–
TotalErg S.p.A.	996	832	(138)	(20)	–
ISAB Energy Solare S.r.l.	–	31	–	–	15
San Quirico S.p.A.	–	300	–	–	–
ERG Petroleos S.A.	–	–	–	–	–
Other	–	–	–	(364)	–
Total	**12,176**	**1,265**	**(138)**	**(11,810)**	**15**
% of the total item	*1%*	*8%*	*0%*	*6%*	*7%*

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. Other revenues in these 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 San Quirico S.p.A. tax consolidation.

Costs for services also include EUR 0.4 million related to remuneration for the office of Executive Chairman performed in a Group company by a related party of ERG S.p.A. Additionally, in June 2016 EUR 100 thousand were paid to the Edoardo Garrone Foundation as a contribution for 2016.

NOTE 41 - EARNINGS PER SHARE

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

	2016	2015
Group share of net profit (1)	122,459	20,626
Average number of shares outstanding (2)	144,142,788	142,804,000
Basic earnings per share from continuing operations (2)	0.866	0.169
Diluted earnings per share from continuing operations (2)	0.866	0.169

(1) EUR thousand
(2) EUR

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

Reconciliation with ERG S.p.A. shareholders' equity and net income

	Shareholders' Equity		Net income	
	31/12/2016	31/12/2015	2016	2015
ERG S.p.A. Shareholders' equity and net income for the period	**1,692,102**	**1,748,702**	**11,473**	**2,027**
Elimination of the effects of transactions among consolidated companies:				
Elimination of intra-group profits on inventories and fixed assets	(7,328)	(7,328)	–	–
Elimination of intra-group dividends	–	–	(104,189)	(12,009)
	(7,328)	**(7,328)**	**(104,189)**	**(12,009)**
Deferred taxes:				
Deferred taxes on consolidation adjustments	**(11,911)**	**(3,962)**	**17,070**	**10,863**
Elimination of the carrying value of equity investments:				
Difference between the carrying value and the pro rata value of shareholders' equity	(134,524)	(184,278)	–	–
Adjusted pro rata profits of investee companies			200,530	22,800
Recognition of Assets and Liabilities from business combinations	190,760	123,163	–	–
	56,236	**(61,115)**	**200,530**	**22,800**
Shareholders' equity and net income for the period	**1,729,099**	**1,676,297**	**124,884**	**23,681**
Minority share of shareholders' equity and net income for the period	**–**	**(50,338)**	**(2,425)**	**(3,055)**
ERG Group consolidated shareholders' equity and net income for the period	**1,729,099**	**1,625,959**	**122,459**	**20,626**

NOTE 42 - INFORMATION BY SEGMENT AND GEOGRAPHICAL AREA

Information by segment and geographical area is presented in accordance with IFRS 8 - Operating segments. The results at replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management considers that these indicators are significant parameters insofar as the measurement of the performance of the ERG Group.

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

Information by business segment

(EUR million)	Wind	Thermoelectric power	Hydroelectric power	Corporate	TOTAL replacement cost	Reconciliation items	TOTAL reported	Discontinued operations	TOTAL Continuing operations
2016									
Total revenues	422.8	479.3	122.2	32.2	1,056.5				
Intra-segment revenues	–	–	–	(31.1)	(31.1)				
Net revenues from ordinary operations	**422.8**	**479.3**	**122.2**	**1.2**	**1,025.5**	**–**	**1,025.5**	**–**	**1,025.5**
EBITDA	**307.6**	**77.4**	**83.6**	**(13.2)**	**455.4**	**(2.1)**	**453.3**	**–**	**453.3**
Amortisation. depreciation and write-downs	(162.9)	(30.2)	(58.0)	(2.6)	(253.7)	–	(253.7)	–	(253.7)
EBIT	**144.8**	**47.2**	**25.6**	**(15.8)**	**201.7**	**(2.1)**	**199.6**	**–**	**199.6**
Capital expenditure in fixed assets	**43.6**	**9.6**	**3.6**	**2.7**	**59.5**	**–**	**59.5**	**–**	**59.5**
2015									
Total revenues	344.6	592.0	11.0	22.4	969.9				
Intra-segment revenues	(4.0)	(0.4)	–	(20.9)	(25.4)				
Net revenues from ordinary operations	**340.5**	**591.6**	**11.0**	**1.4**	**944.6**	**(23.8)**	**920.3**	**0.7**	**921.0**
EBITDA	**253.8**	**107.0**	**8.0**	**(19.1)**	**350.0**	**(41.7)**	**308.3**	**(0.1)**	**308.2**
Amortisation. depreciation and write-downs	(133.9)	(30.0)	(5.0)	(2.6)	(170.9)	7.8	(163.0)	–	(163.0)
EBIT	**120.0**	**80.8**	**80.8**	**(21.6)**	**179.1**	**(33.9)**	**145.2**	**(0.1)**	**145.2**
Capital expenditure in fixed assets	**95.2**	**8.6**	**0.3**	**1.9**	**105.8**	**–**	**105.8**	**–**	**105.8**

Information by geographical area

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL replacement cost
2016								
Revenues from ordinary operations	944.9	45.5	26.1	9.7	12.5	17.8	(0.0)	1.056.5
EBITDA	**383.2**	**31.8**	**18.2**	**5.7**	**8.1**	**8.5**	**(0.1)**	**455.4**
Amortisation, depreciation and write-downs	(195.8)	(25.1)	(14.8)	(6.4)	(6.4)	(5.4)	(0.0)	(253.7)
EBIT at replacement cost	**187.4**	**6.8**	**3.4**	**(0.7)**	**1.7**	**3.1**	**(0.1)**	**201.7**
	307.6	**77.4**	**83.6**	**(13.2)**	**455.4**	**(2.1)**	**453.3**	**–**
Capital expenditure in fixed assets	**22.3**	**0.1**	**–**	**0.8**	**0.3**	**0.0**	**36.2**	**59.5**

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL replacement cost
2015								
Revenues from ordinary operations	882.9	18.7	15.1	4.4	6.1	17.7	–	944.6
EBITDA	**308.9**	**13.3**	**12.1**	**3.5**	**3.7**	**8.2**	**–**	**350.0**
Amortisation, depreciation and write-downs	(145.4)	(9.5)	(6.9)	(0.8)	(1.9)	(5.9)	–	(170.9)
EBIT at replacement cost	**163.6**	**3.8**	**5.2**	**2.7**	**1.8**	**2.3**	**–**	**179.1**
Capital expenditure in fixed assets	**18.5**	**–**	**–**	**87.5**	**–**	**–**	**–**	**105.8**

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

NOTE 43 - DIVIDENDS

The dividends paid by ERG S.p.A. in 2016 (EUR 142.8 million) and in 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 at the coupon date.

On 9 March 2017, the Board of Directors proposed the payment to the shareholders of a dividend amounting to EUR 0.50 per share.

The dividend shall be available for payment from 24 May 2017, subject to issuance of the coupon starting on 22 May 2017 and with record date of 23 May 2017.

NOTE 44 – FINANCIAL INSTRUMENTS

31/12/2016	FVTPL (1)	L&R (2)	AFS (3)	Hedging derivatives	Other liabilities	Total	*of which non current*	Fair value
Equity investments	–	–	491	–	–	491	–	–
Financial receivables	–	39,099	–	–	–	39,099	*39,099*	–
Derivative financial instruments	–	–	–	18,526	–	18,526	*667*	17,859
Trade receivables	–	292,978	–	–	–	292,978	–	–
Financial securities classified as current assets	–	-	80,137	–	–	80,137	–	–
Other receivables	–	309,781	–	–	–	309,781	*205,344*	–
Cash and cash equivalents	–	427,195	–	–	–	427,195	–	427,195
Total assets	**–**	**1,069,054**	**80,628**	**18,526**	**–**	**1,168,208**	***245,110***	**445,055**
Mortgages and loans	–	–	–	–	668,439	668,439	*668,439*	–
Non-recourse project financing	–	–	–	–	1,275,580	1,275,580	*1,123,674*	–
Short-term bank borrowings	–	–	–	–	2,270	2,270	–	–
Financial payables	–	–	–	–	4,675	4,675	–	–
Derivative financial instruments	–	–	–	142,194	–	142,194	*141,947*	142,194
Trade payables	–	–	–	–	152,680	152,680	–	–
Other payables	–	–	–	–	101,218	101,218	*37,153*	101,218
Total liabilities	**–**	**–**	**–**	**142,194**	**2,204,863**	**2,347,057**	***1,971,213***	**243,412**

31/12/2015	FVTPL (1)	L&R (2)	AFS (3)	Hedging derivatives	Other liabilities	Total	*of which non current*	Fair value
Equity investments	–	–	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	**–**	**–**	**–**	**153,585**	**2,469,949**	**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	17,383	1,143	–
Total	**17,383**	**1,143**	**–**
Financial liabilities			
- FVTPL	–	–	–
- Hedging derivatives	–	142,194	–
Total	**–**	**142,194**	**–**

The Group has no financial instruments classifiable under level 3.

The financial instruments classified under level 1 are futures on petroleum products whose value is quoted on a daily basis.

Derivatives are classified in Level 2; in order to estimate the market value of these derivatives, ERG uses various measurement and valuation models, as summarised in the following table:

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

NOTE 45 - DISCLOSURE ON RISKS

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

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Market risk: deriving from exposure to fluctuations in currency exchange rates, mainly between the euro and US dollar and interest rates, as well as changes in the prices of products sold and raw material purchased (commodity price volatility risk);
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments;

The ERG Group attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. In line with this objective, an advanced Risk Management system has been adopted that guarantees identification, measurement and control at a centralised level for the entire Group of exposure to individual risks, in accordance with existing policies.

The Risk Finance department ensures compliance with the assigned limits and, via its own analyses; it provides appropriate support for strategic decisions both to individual subsidiaries and to the Risk Committee as well as to top management at the Parent Company.

Credit risk

Exposure to credit risk, i.e. the likelihood that a given counterparty is not able to meet its contractual obligations, is managed through appropriate analysis and assessments, assigning to each counterparty an Internal Based Rating, a summary indicator of the creditworthiness assessment. The rating provides an estimate of the likelihood of default of a given counterparty on which the level of credit assigned depends, which is carefully monitored and must never be exceeded. The choice of counterparties for both the industrial business and financial transactions is subject to the decisions of the Credit Committee, whose decisions are supported by the credit rating analysis.

The risk of concentration, in terms of both customers and segments, is also monitored continuously; however, 'alert' situations have never occurred.

The following table provides information on the ERG Group's exposure to credit risk at year-end, by a classification of credits that are not overdue (see **Note 9 - Trade receivables**) according to the corresponding creditworthiness reflecting the internal ratings assigned.

	2016	2015
AAA Rating	–	5,915
AA+ / AA- Rating	12,577	10
A+ / A- Rating	–	–
BBB+ / BBB- Rating	193,603	239,264
BB+ / BB- Rating	9,382	129
B+ / B- Rating	508	10,867
CCC- Rating	5,486	3,228
Receivables due from Group companies	3,449	555
Not assigned	41,107	49,383
Total	**266,112**	**309,352**

Liquidity risk

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. Today, with its cash flow generation and the availability of lines of credit made available by various counterparties, the ERG Group ensures adequate coverage of its financial requirements.

The following tables summarise the maturity profile of the Group's financial liabilities at 31 December 2016 and 31 December 2015, based on undiscounted contractual payments.

31/12/2016	Payables by maturity				
(EUR thousand)	On demand	Under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	3,040	36,281	792,552	–
Non-recourse project financing	–	4,799	121,964	607,487	637,090
Short-term bank borrowings	302	–	–	–	–
Derivative financial instruments	–	993	35,791	94,382	10,214
Trade payables	68,457	84,194	31	–	–
Total liabilities	**68,758**	**93,026**	**194,067**	**1,494,421**	**647,304**

31/12/2015	Payables by maturity				
(EUR thousand)	On demand	Under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	1,063	6,403	721,023	–
Non-recourse project financing	–	182	170,673	671,483	722,590
Short-term bank borrowings	110,028	–	–	–	–
Derivative financial instruments	–	–	37,348	99,194	18,876
Trade payables	81,963	79,531	582	–	25
Total liabilities	**191,991**	**80,775**	**215,006**	**1,491,700**	**741,490**

Market risk

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the Group's Policy and internal procedures of the Finance department. Furthermore, for the Power & Gas business specific risk management policies and procedures, based on industry best practice, were developed for the continuous measurement of risk exposure levels with respect to a Risk Capital value allocated by the parent company.

Interest rate risk

Interest rate risk identifies the fluctuation in future interest rate trends that could determine higher costs for the Group. Interest rate risk is hedged by using derivative contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla). The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 1% change in interest rate, with all other variables kept constant.

Impact on Consolidated Income Statement

(EUR million)	2016	2015
Shock-up (interest rate variation +1%)	0.1	(18.6)
Shock-down (interest rate variation -1%)	(1.2)	(19.6)

Impact on shareholders' equity

(EUR million)	2016	2015
Shock-up (interest rate variation +1%)	73.5	72.9
Shock-down (interest rate variation -1%)	(33.9)	(26.1)

Commodity Risk

Commodity price risk consists in unexpected fluctuations in the prices of raw materials, of procurement of services, of finished products and services provided for sale on the open market.

With regard to the management of the price risk tied to trading activities, the internal policies prescribe hedging the flat price (price risk tied to any different periods of accrual of the price between each single purchase and its corresponding resale).

The objective defined in the Risk Management Policy is to target the margin for trade at the risk of market price fluctuations.

In order to achieve the trade margin and to hedge the flat price, the Group uses derivative instruments such as Futures and Commodity Swaps with underlying crude oil and petroleum products.

The following table considers the derivative financial instruments tied to different categories of commodities, oil and energy, and shows, in view of reasonable changes in price, – with all other variables kept constant – the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities) and Group shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 25% change in the price of commodities.

Impact on Income Statement

(EUR million)	2016	2015
Shock-up (variation in commodities price +25%)	0.1	0.3
Shock-down (variation in commodities price -25%)	(0.1)	(0.3)

Impact on shareholders' equity

(EUR million)	2016	2015
Shock-up (variation in commodities price +25%)	(9.4)	0.5
Shock-down (variation in commodities price -25%)	9.4	(0.5)

Derivative financial instruments used

The main types of derivative financial instruments used to manage financial risks, with the sole purpose of hedging, are the following:

Options: a contract whereby one of the parties, on payment of a sum to the other (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments at an established price (exercise or strike price).

Forward contracts: contracts for the purchase or sale between two parties of a certain financial instrument (the underlying asset) at a future date and at a price fixed at the time the contract is stipulated; this category also includes futures contracts, which unlike forward contracts are standardised, negotiated in lots and for predetermined maturity dates within regulated markets.

Swaps: a contract which establishes an exchange of payment flows between two parties on certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The underlying financial instrument can be of various types and significantly influences the characteristics of the contract which, in practice, can take on different forms.

The derivative instruments entered into by ERG and aiming to mitigate exposure to financial risks existing at 31 December 2015 are as follows:

Interest rate derivatives

- Interest Rate Options that fix upper (cap) and lower (floor) limits to be applied to fluctuations in interest rates on variable rate loans;
- Interest Rate Swaps entered into to confine fixed- and floating rate loans to the most appropriate risk profile. Interest Rate Swaps provide for the exchange between the counterparties of interest flows calculated with reference to pre-agreed fixed rates or variable rates and to pre-defined face value and timing.

Currency exchange rate derivatives

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

Commodity derivatives

- CfD (Contracts for Differences) instruments are used to hedge the risk of electricity price fluctuations; via this instrument it is possible to buy or sell block quantities of electricity by paying on maturity the difference between the price agreed to in the contract and the market price reported in the reference period.

Summary of derivative instruments used

The derivative financial instruments arranged by ERG, designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks were as follows as at 31 December 2015:

	Type	Hedged risk	Underlying financial instruments	Fair Value at 31/12/2016
				(EUR thousand)
	Cash Flow Hedging Instruments			
A	Interest rate swaps and interest rate caps	Economic interest rate risk	1,556 EUR million	(141,280)
B	Gas price risk swaps	Commodity transaction risk	135 thousands of MWh	465
C	Electricity price risk hedging futures	Commodity transaction risk	782 thousands of MWh	(4,548)
	Total cash flow hedging instruments			**(145,363)**
	Non Hedge Accounting Instruments			
D	Electricity price risk hedging CFD	Commodity transaction risk	11 thousands of MWh	12
C	Electricity price risk hedging futures	Commodity transaction risk	4 thousands of MWh	6
	Total non Hedge Accounting instruments			**(145,363)**
	TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS			**(145,346)**

Cash Flow Hedging Instruments

A Interest Rate Swaps and Interest Rate Caps and Collars

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

The underlying financial instruments lie in the following companies:

- ERG S.p.A.;
- ERG Power;
- companies in the wind power business.

At 31 December 2016, there was a total net negative fair value in the amount of EUR 141.3 million. The change is recognised in the Cash Flow Hedge reserve.

B Gas price risk swaps

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

At 31 December 2016, there was a total positive fair value in the amount of EUR 0.5 million.

C Electricity price risk hedging futures

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

At 31 December 2016, there was a total negative fair value in the amount of EUR 4.5 million.

D Electricity price risk hedging CFD

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

At 31 December 2016, there was a total negative fair value of an immaterial amount.

NOTE 46 - INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of the Issuers' Regulations, set out below are the costs for 2016 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's main independent auditor, and by the companies belonging to its network.

The prospectus is prepared in line with the "Procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services".

Auditing services include the full audit of the annual separate and consolidated financial statements and the audit of the company's reporting package for the purposes of preparing the Consolidated Financial Statements of the parent company.

Services other than statutory auditing refer mainly to:

- certification services for EUR 91 thousand pertaining to the conformity review of the separate yearly accounts for the purposes of AEEG resolution no. 11/2007;
- tax consultancy services for EUR 269 thousand;
- the limited audit of the half-yearly financial statements of the parent company for EUR 20 thousand and the limited audit of the company's half-year reporting package for the purposes of preparing the half-yearly financial statements of the parent company for EUR 167 thousand;
- other services for EUR 132 thousand provided by Deloitte & Touche to the parent company relating mainly to voluntarily agreed-upon audit procedures requested on the quarterly data of subsidiaries.

Type of service	Party that delivered the service	Recipient	2016 fees (EUR thousand)
External auditing	Auditor of the parent company	Parent company	115
	Auditor of the parent company	Subsidiaries	895
	Network of the auditor of the parent company	Subsidiaries	193
Total Auditing services			**1,203**
Services other than Auditing	Tax advice services	Subsidiaries	269
	Auditor of the parent company	Parent company	170
	Network of the auditor of the parent company	Parent company	35
	Network of the auditor of the parent company	Subsidiaries	8
	Auditor of the parent company	Subsidiaries	30
Total Services other than Auditing			**781**
TOTAL			**1,984**

NOTE 47 - OTHER DISCLOSURES

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

NOTE 48 - PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 9 March 2017, the Board of Directors of ERG S.p.A. authorised the publication of the consolidated financial statements together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, Italy, 9 March 2017

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, as Chief Executive Officer of ERG S.p.A, and Paolo Luigi Merli, as 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 the administrative and accounting procedures for the preparation of the Consolidated Financial Statements in the period between 1 January 2016 and 31 December 2016.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements the ERG Group at 31 December 2016 was verified by the assessment of the Financial Reporting internal control system. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
   - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore represented that:
   - the Consolidated Financial Statements of the ERG Group:
     - were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
     - match the underlying accounting books and records;
     - are suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;
   - the Report on Operations contains a reliable analysis of the operating performance and results, as well as the financial position of the issuer and the group of companies included in its consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, Italy, 9 March 2017

The Chief Executive Officer	The Manager responsible for preparing the company's financial reports
Luca Bettonte	**Paolo Luigi Merli**

REPORT BY THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

To the shareholders,

ERG S.p.A.'s consolidated financial statements for year 2015 were provided within the terms of law, together with the Management Report, and drawn in conformity with the International Financial Reporting Standards – IFRS promulgated by the International Accounting Standards Board (IASB) adopted by the European Union.

In accordance with Leg. Decree of 27 January 2010, n. 39 and art. 41 par. 2 of Leg. Decr. of 9 April 1991, n. 127, the Auditing Company is assigned the task of verifying the conformity of the consolidated Financial Statements to the legal requirements and their correspondence to the accounts and consolidation entries. Our supervision activities have been carried out in compliance with the principles of conduct of the Board of Auditors emanated by the National Board of Chartered Accountants and have entailed in particular:

- the verification of the existence and adequacy within the organizational structure of ERG S.p.A. of a function responsible for relations with controlled and allied companies;
- the examination of the Group's composition and participations, for the purpose of evaluating the determination of the consolidation and its variations with respect to the previous statements;
- the obtainment of information on the activities carried out by the controlled companies and on the operations of economic, financial and patrimonial relevance carried out within the Group, through the information received from the Directors of ERG S.p.A., the Auditors' Board and the Auditors of the controlled companies.

Following the supervision activities of the consolidated financial statements, it is hereby attested that:

- the determination of the consolidation area and the choice of consolidation principles of the participated companies conform with the requirements of the IFRS;
- the norms of law inherent to the drawing up and formulation of the financial statements and management report have been respected;
- we have ensured the adequacy of the provisions issued by ERG S.p.A.'s competent function in obtaining the flow of data needed for the consolidation, examining the information provided by the controlled companies subject to legal control by the respective Board of Statutory Auditors;
- the Financial Statements correspond to the facts and information acquired in the exercise of supervisory duties and control and inspection powers;
- the Notes to the consolidated Financial Statements report all the information provided for in paragraph 134 of IAS Accounting Principle 36 – Reduction of asset value, the application of which is defined in the document of

Banca d'Italia/Consob/Isvap n. 4 of March 3, 2010. The Board of Auditors acknowledges having examined the documents containing the analyses carried out and the results obtained in the impairment test activity. The Board of Auditors has confirmed the correctness of the procedure and soundness of the main evaluation hypotheses, and has consequently shared its results;

- the Group's Management Report is coherent with the data and results of the consolidated financial statements and provides ample information on the Group's economic-financial performance and risks as well as on the relevant facts occurred during the accounting period and after closing of the same period and on the foreseeable business evolution;
- the Managing Director and the Manager drawing up the company's financial statements have issued the certification, in pursuance of art. 81 – ter of CONSOB Regulation n. 11971/1999, subsequent amendments and integrations and of art. 154-bis of Leg. Decr. N.58/1998 (T.U.F.).

***

On March 28, 20126 the Board of Statutory Auditors issued the report in conformity with article 14 and 16 of Leg. Decr. 39/2010 in which it is confirmed that the consolidated financial statements at 31 December 2015 conform to theIFRS, as well as to the provisions emanated by the implementation of art. 9 of Leg. Decr. n. 38/2005, and is drawn up clearly and gives a true and correct representation of the assets and liabilities, and financial position, profits and losses and cash flows of the Gruppo ERG for the financial year closing on said date.

Genoa, 29 March 2017

The Board of Statutory Auditors

(Dott.ssa Elena Spagnol)

(Dott.Lelio Fornabaio)

(Dott. Stefano Remondi

AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Erg S.p.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Erg Group, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidate statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Erg Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Deloitte.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Erg S.p.A., with the consolidated financial statements of the Erg Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of the Erg Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
March 28, 2017

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

Notes to the Separate Financial Statements

SEPARATE STATEMENT OF FINANCIAL POSITION

(EUR)	Notes	31/12/2016		31/12/2015	
Intangible fixed assets	1		47,276		105,812
Goodwill			–		–
Property plant and equipment	2		2,554,415		2,662,191
Equity investments	3		1,946,260,296		1,173,337,234
Other financial assets	4		93,004,734		822,995,536
of which towards related parties	35	*93,004,734*		*811,814,123*	
Deferred tax assets	5		12,203,231		13,119,904
Other non-current assets	6		3,426,871		*5,023,728*
Non-current assets			**2,057,496,824**		**2,017,244,405**
Inventories			–		
Trade receivables	7		13,936,728		14,380,474
of which towards related parties	35	*5,235,748*		*6,860,798*	
Other receivables and current assets	8		64,581,627		68,587,875
of which towards related parties	35	*39,330,556*		*47,442,268*	
Current financial assets	9		245,863,282		52,590,593
of which towards related parties	35	*165,025,649*		*49,230,004*	
Cash and cash equivalents	10		247,648,671		616,554,815
Current assets			**572,030,307**		**752,113,757**
Assets held for sale			**–**		**–**
of which towards related parties	35	–		–	
TOTAL ASSETS			**2,629,527,131**		**2,769,358,162**
Shareholders' Equity	11		**1,692,088,874**		**1,748,702,464**
Employees' severance indemnities	12		573,530		63,135
Deferred tax liabilities	13		1,633,143		1,632,561
Provisions for non-current liabilities and charges	14		82,117,261		82,735,619
Non-current financial liabilities	15		674,320,349		694,959,588
Other non-current liabilities	16		6,424,343		4,424,671
of which towards related parties	35	–		–	
Non-current liabilities			**765,068,627**		**783,815,574**
Provisions for current liabilities and charges	17		7,291,259		9,780,784
Trade payables	18		52,784,854		57,129,963
of which towards related parties	35	*1,535,370*		*1,926,089*	
Current financial liabilities	19		61,600,522		110,989,365
of which towards related parties	35	*59,353,174*		*924,106*	–
Other current liabilities	21		50,692,995		58,940,011
of which towards related parties	35	*37,469,069*		*27,034,751*	–
Current liabilities			**172,369,630**		**236,840,124**
Liabilities held for sale			**–**		**–**
of which towards related parties	35		–		–
TOTAL LIABILITIES AND EQUITY			**2,629,527,131**		**2,769,358,162**

SEPARATE INCOME STATEMENT

(EUR)	Notes	2016		2015	
Revenues from ordinary operations	25		16,628,719		58,264,423
of which towards related parties	*35*	*16,623,888*		*55,327,757*	
of which non-recurring items	*34*	–		–	
Other revenues and income	26		5,365,436		11,045,157
of which towards related parties	*35*	*546,355*		*6,373,449*	
of which non-recurring items	*34*	–	–	–	–
Changes in product inventories			–		
Changes in raw materials inventories			–		–
Costs for purchases	27		(115,825)		(48,871,102)
of which towards related parties	*35*	*(41,310)*		*(48,704,189)*	
Costs for services and other costs	28		(24,521,886)		(38,773,471)
of which towards related parties	*35*	*(6,024,800)*		*(7,360,342)*	
of which non-recurring items	*34*	–		*(11,011,272)*	
Personnel costs	29		(11,896,382)		(17,024,874)
of which non-recurring items	*34*	–		*(5,698,322)*	
EBITDA			**(14,539,939)**		**(35,359,867)**
Amortisation, depreciation and write-downs of fixed assets	30		**(170,702)**		**(281,692)**
Income (expenses) from sale of business unit					
of which non-recurring items					
Financial income	31		22,428,151		27,323,038
of which towards related parties	*35*	*19,460,205*		*6,539,863*	
Financial expenses	31		(24,171,709)		(2,578,756)
of which towards related parties	*35*	*(5,515)*		*(592,375)*	
Net financial income (expenses)	31		**(1,743,558)**		**24,744,282**
of which non-recurring items	*34*	(12,469,005)		11,181,413	
Net income (loss) from equity investments	32		27,381,544		8,586,027
of which non-recurring items	*34*	–		–	
Other net income (loss) from equity investments			–		–
Net income (loss) from equity investments	32		**27,381,544**		**8,586,027**
PROFIT (LOSS) BEFORE TAXES			**10,927,345**		**(2,311,249)**
Income taxes	33		**545,295**		**4,338,470**
of which non-recurring items	*34*	*354,088*		–	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**11,472,640**		**2,027,221**
Net profit (loss) from assets held for sale			–		–
of which non-recurring items		–		–	
NET PROFIT (LOSS) FOR THE PERIOD			**11,472,640**		**2,027,221**

OTHER COMPREHENSIVE INCOME

(EUR)	2016	2015
NET PROFIT (LOSS) FOR THE PERIOD	**11,472,640**	**2,027,221**
Changes that will not be reclassified in the income statement		
Actuarial change in employees' severance indemnities provision	(18,327)	(3,539)
Income taxes related to the change in the employees' severance indemnities provision	5,040	973
Total	**(13,287)**	**(2,566)**
Changes that will be reclassified in the income statement		
Change in the cash flow hedge reserve	(2,236,916)	(183,463)
Income taxes related to the change in the cash flow hedge reserve	706,394	44,031
Total	**(1,530,522)**	**(139,432)**
Other components of comprehensive income after tax	**(1,543,809)**	**(141,998)**
Comprehensive net income (loss)	**9,928,830**	**1,885,223**

STATEMENT OF CASH FLOWS

	Notes	31/12/2016	31/12/2015
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Net profit (loss) from continuing operations		11,473	2,027
- Amortisation, depreciation and write-downs of fixed assets	30	171	281
- Net change in provision for liabilities and charges	14, 17	(3,108)	(27,009)
- Net change in deferred tax assets and liabilities	5, 13	917	4,796
- Write-down of receivables		–	2,581
- Net capital gain/loss on sale of non-current assets		–	–
- Net write-downs of financial fixed assets		–	2,065
- Net revaluations of financial fixed assets		–	–
- Net change in employees' severance indemnities	12	510	(247)
Cash flows before changes in working capital		**9,963**	**(15,506)**
Change in other operating assets and liabilities:			
- Change in inventories		–	–
- Change in trade receivables	7	444	60,447
- Change in trade payables	18	(4,345)	(28,052)
- Net change in other receivables/payables and other assets/liabilities	7,8,18,16	(647)	(8,580)
		(4,548)	**23,815**
Total		**5,415**	**8,309**
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisitions of intangible fixed assets and goodwill	1	–	(8)
Acquisition of property, plant, and machinery	2	(4)	–
Acquisitions of equity investments	3	(777,173)	(261,733)
Disposals of intangible fixed assets	1	–	51
Disposals of property, plant and equipment	2	–	–
Disposals of equity investments	3	4,250	160,390
Total		**(772,927)**	**(101,301)**
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
New non-current loans		(325,000)	(694,960)
Repayment of non-current loans		350,000	–
Net change in other non-current financial assets/liabilities	4, 15	684,352	686,519
Net change in short-term bank borrowings	19	(49,388)	(513,133)
Net change in other current financial assets	9	(193,273)	90,030
Share capital increases/repayments		–	–
Dividends		(142,804)	(71,398)
Other changes in shareholders' equity	11	74,718	390,365
Total		**398,605**	**(112,577)**
CASH FLOWS FROM DISCONTINUED OPERATIONS (D):			
NET CASH FLOWS FOR THE YEAR (A+B+C)		**(368,907)**	**(205,567)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10	**616,555**	**822,124**
NET CASH FLOWS FOR THE YEAR		(368,907)	(205,567)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR BEFORE IFRS 5 RECLASSIFICATION		**247,649**	**616,554**
RECLASSIFICATION OF ASSETS/LIABILITIES HELD FOR SALE		–	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	**247,649**	**616,554**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Reserves	Net profit (loss) for the year	Total shareholders' equity
BALANCE AT 31/12/2014	15,032	1,366,625	46,050	1,427,707
Allocation of 2014 profit	–	46,050	(46,050)	–
Distribution of dividends	–	(71,398)	–	(71,398)
Acquisition of treasury shares	–	–	–	–
Net profit (loss) for 2015	–	–	2,027	2,027
Change in the cash flow hedge reserve	–	(139)	–	(139)
Actuarial change in employees' severance indemnities provision	–	(3)	–	(3)
Other changes	–	390,508	–	390,508
BALANCE AT 31/12/2015	15,032	1,731,643	2,028	1,748,702

	Share Capital	Reserves	Net profit (loss) for the year	Total shareholders' equity
BALANCE AT 31/12/2015	15,032	1,731,643	2,028	1,748,702
Allocation of 2015 profit	–	2,028	(2,028)	–
Distribution of dividends	–	(142,804)	–	(142,804)
Sale of treasury shares	–	76,964	–	76,964
Net profit (loss) for 2016	–	–	11,473	11,473
Change in the cash flow hedge reserve	–	(2,237)	–	(2,237)
Actuarial change in employees' severance indemnities provision	–	(13)	–	(13)
Other changes	–	5	–	5
BALANCE AT 31/12/2016	15,032	1,665,585	11,473	1,692,089

THE COMPANY

ERG S.p.A., a company listed on the Stock Exchange since 1997, operates, including through its subsidiaries, as leading independent operator in the production of energy from renewable sources, differentiated by non-programmable sources (wind) and programmable sources (thermoelectric and hydroelectric), as well as in terms of geographic presence (with a rising presence on the foreign wind market, particularly in France and Germany).

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Separate Financial Statements as at and for the year ended 31 December 2016 have been prepared, without any waiver or exception, in accordance with the Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC). The Separate Financial Statements, expressed in euros, were prepared under the general historical cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivative instruments, which were measured at fair value. For clearer disclosure, it was deemed preferable to show in the notes all amounts rounded off to the nearest EUR thousand; consequently, in some statements, totals may differ slightly from the sum of the amounts that comprise it. The Separate Financial Statements as at and for the year ended 31 December 2016 have been audited by the independent auditor Deloitte & Touche S.p.A. using the procedures prescribed by CONSOB regulations.

FORM AND CONTENTS OF THE SEPARATE FINANCIAL STATEMENTS

ERG S.p.A. classifies its income statement using the “nature of expense” method, a form deemed more representative than a classification using the “function of expense” method. The form chosen is in fact consistent with internal and management reporting procedures. With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1. The structure of the statement of cash flows is based on the indirect method. Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not occur frequently in the ordinary course of business have been indicated separately in the income statement. These items are commented upon in a dedicated note. Also pursuant to the aforementioned CONSOB resolution, balances or transactions with related parties have been entered separately in the statement of financial position and in the income statement. These items are commented upon in a dedicated note.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

Below we provide a summary of the significant accounting policies adopted for the preparation of the Separate Financial Statements as at and for the year ended 31 December 2016.

Intangible fixed assets

Intangible fixed assets are recorded as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general intangible assets are amortised over a maximum period of 5 years, with the exception of authorisations and surface rights for the wind farms, amortised in relation to the contractual term.

There are no intangible assets with an indefinite useful life or development costs.

Research costs are expensed directly in the income statement in the period in which they are incurred.

Other intangible assets recognised following a business combination are presented separately from goodwill if their fair value can be measured reliably.

Property, plant and equipment

Property, plant and equipment are recognised at the cost of acquisition or production.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Cyclical maintenance costs are recognised as assets in the statement of financial position as a separate component of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.

The cost of the assets, where there are present obligations to do so, includes charges for dismantling, removal of assets and site restoration to be incurred at the time facilities are abandoned, which are presented as a contra-asset in a specific provision. These charges are recognised starting on the date when they can be reliably estimated for those assets for which future disposal, and the time when this will happen, is foreseeable.

Capitalised charges are allocated to the income statement via depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible fixed asset consists of several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the historical cost less the expected residual value, if material and reliably measurable.

Land is not depreciated, even if acquired together with a building. Assets revertible free of charge are depreciated over the estimated life of the asset or the duration of the concession, whichever is shorter.

There were no significant finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%
Industrial and commercial buildings	2.75 - 5.5
General plant	10
Office furniture and fittings	12
Electronic machinery	20
Equipment	25
Incremental expenses	8 - 25

Impairment of assets (impairment test)

At least once a year, the Group subjects its tangible and intangible assets to an impairment test to determine whether there are indications that they may be impaired. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

Equity investments

Equity investments in subsidiaries, joint ventures and associates are recognised at their acquisition or subscription cost, written down to reflect any permanent impairment losses. The positive difference, at the time of acquisition, between the acquisition cost and the share of the subsidiary's or associate's shareholders' equity attributable to the Company is therefore included in the carrying value of the equity investment.

Where the book value of equity investments exceeds the corresponding portion of shareholders' equity based on the latest approved financial statements, this value is maintained if it does not constitute a permanent impairment.

Equity investments in other companies are carried at fair value with changes presented in shareholders' equity.

When fair value cannot be measured reliably, equity investments are measured at cost, written down for permanent impairment losses, if any, and dividends from such companies are included in "Net income from equity investments".

When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement.

The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

Financial assets

IAS 39 envisages classification of financial assets according to the following categories:

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

Initially, all financial assets are recognised at their fair value, increased, in the case of assets other than those classified as FVTPL, by ancillary costs.

At the time of underwriting, an assessment is made as to whether a contract contains embedded derivatives. Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group classifies its financial assets after initial recognition and, when appropriate and allowable, reviews this classification at the end of each year.

Financial assets at fair value through profit or loss (FVTPL)

This category comprises:

- Assets held for trading (HFT);
- Assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments. Gains and losses on assets held for trading are recognised in the income statement.

At 31 December 2016, no financial asset had been designated as FVTPL.

Held-to-maturity (HTM) investments

Non-derivative financial assets with fixed or determinable payments are classified as “held-to-maturity (HTM) investments” whenever the Group intends and has the ability to hold them to maturity.

After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the income statement when the investment is derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

At 31 December 2016, the Group held no investments classified as HTM.

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Following initial recognition, these assets are measured at amortised cost using the effective interest method, net of allowances, if any.

Gains and losses are recognised in the income statement when loans & receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

Trade receivables are recognised at their fair value, which corresponds to their face value, and are subsequently reduced to account for uncollectible receivables, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

Available-for-sale (AFS) financial assets

Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.

Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within shareholders' equity.

AFS financial assets include equity investments in companies other than subsidiaries and associates in which ERG's direct or indirect ownership percentage is less than 20%.

When fair value cannot be reliably measured, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from equity investments".

When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement. The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

At 31 December 2016, the Group held investments classified as "Available for sale".

IAS 39 prescribes the following measurement methods: fair value and amortised cost method.

Fair value

In the case of securities widely traded in regulated markets, fair value is determined with reference to market prices at the close of trading on the financial statements' date.

Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

- Prices of recent arm's length transactions
- Current fair market value of a substantially similar instrument
- Discounted cash flow (DCF) analysis
- Option pricing models.

Amortised cost method

"Investments held to maturity" and "Loans and receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions or allowances, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest rate and transaction costs.

Impairment of financial assets

At each financial statements' date, the Group verifies whether a financial asset or group of financial assets has suffered impairment.

If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows discounted at the asset's original effective interest rate.

The carrying value of the asset is reduced via accrual of a provision. The impairment amount is recognised in the income statement.

The Group assesses the existence of factual evidence of impairment on an asset-by-asset basis.

If the amount of impairment subsequently decreases and this reduction can objectively be attributed to an event occurring after recognition of impairment, the value previously reduced can be reinstated. Any subsequent write-backs of value are recognised in the income statement, to the extent that the asset's carrying value does not exceed the amortised cost as at the write-back date.

In the case of trade receivables, an allowance for uncollectible receivables is recognised when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that the Group will be unable to recover the amounts owed according to the original conditions.

The carrying value of the receivable is reduced via use of a specific provision. Receivables are derecognised if they are deemed unrecoverable.

The Group has applied the provisions of IFRS 2 commencing on 1 January 2005 and therefore to all stock option plans implemented after that date.

At 31 December 2016, there were no extant stock option plans.

Cash and cash equivalents

Cash and cash equivalents are presented, according to their nature, at face value.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

Financial liabilities

IAS 39 envisages classification of financial liabilities according to the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL);
- Other financial liabilities.

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.

After initial recognition, loans are measured at amortised cost using the effective interest method.

Every gain or loss is recognised in the income statement when the liability is settled, as well as via the amortisation process.

Financial liabilities at FVTPL include “liabilities held for trading”.

“Liabilities held for trading” (HFT) are acquired for the purpose of short-term sale and comprise derivatives – including separated embedded derivatives – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the income statement.

At 31 December 2016, no financial liabilities had been designated as FVTPL.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and has transferred substantially all risks and rewards of ownership of the financial asset, or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of same.

In cases where the Group has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in Group accounts to the extent of the Group’s residual involvement in such asset.

A financial liability is derecognised when the liability’s underlying obligation has been extinguished, cancelled, or settled.

Derivative financial instruments and hedging transactions

Derivative financial instruments are initially recognised at their fair value on the date when they are stipulated. This fair value is then subject to periodic revaluation.

They are presented as assets when their fair value is positive and as liabilities when it is negative.

Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.

When derivatives hedge the risk of fluctuations in the fair value of the underlying hedged asset (fair value hedge), they are measured at their fair value and the effects are presented in the income statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.

When the derivative hedges the risk of fluctuations in the cash flows associated with the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently presented in the income statement matching the economic effects produced by the hedged transaction.

Changes in the fair value of derivatives that do not have the formal requisites to qualify as hedges under IAS/IFRS are presented in the income statement.

Treasury shares

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

Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the financial statements' date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date except in the case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are presented in the income statement under financial income and expenses.

Provisions for liabilities and charges

ERG S.p.A. records provisions for liabilities and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in estimates are reflected in the income statement in the period in which they occur.

When the financial effect of time is significant and the dates of settlement of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the income statement under "Financial income (expenses)".

When the liability relates to property, plant or machinery (for example dismantling and restoration of sites), the provision is presented as a contra asset against the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the separate financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

Employee benefits

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for the provision were amended by Italian Law no. 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 and not yet liquidated at the date of the separate financial statements, whereas after said date it is deemed akin to a defined contribution plan.

The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled at the reporting date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.

Gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the income statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

Revenue recognition

Revenues from sales and services are recognised when the actual transfer of risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or upon completion of the services.

Revenues stemming from partially provided services are recognised as earned pro rata over completion, provided that it is possible to determine their level of completion reliably and there are no significant uncertainties as to the amount and existence of revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred. Revenues are presented net of returns, discounts, rebates and allowances, as well as of any directly related taxes. If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Since exchanges of goods or services of a similar nature and value do not constitute sales transactions, they do not give rise to recognition of revenues and costs. Grants related to assets are recognised at the time when a formal assignment is made and any possible restriction on their collection is removed and they are recognised in the income statement over the useful life of the related assets, with the purpose of matching their economic-technical depreciation.

Dividends

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

Financial income and expenses

These are recognised under the accrual basis of accounting based on the interest due on the net value of financial assets and liabilities utilising the effective interest rate.

Taxes

Current taxes are accrued based on the estimated tax burden for the period, also taking into account the effects relating to participation of most Group companies in Tax Consolidation. Income taxes are presented in the income statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is also directly presented under shareholders' equity. Furthermore, pursuant to the accrual basis of accounting, the Financial Statements include deferred-tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' separate financial statements in application of the Group's uniform accounting standards, as well as from temporary differences between the statutory values and related tax values.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits. Deferred tax assets are only recognised in the financial statements if their future recovery is probable. With regards to deferred tax assets related to tax losses that can be carried forward, please see the following paragraph.

Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed. Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities. With regard to deferred tax assets related to Italian investees' tax losses, regulations provide for a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the income produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

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 available information and subjective judgement.

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

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

- provisions for bad debt, inventory obsolescence and asset write-downs;
- the definition of the useful life of fixed assets and the related amortisation and depreciation;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the evaluation processes involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay, and quantifying the related amount;
- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected composition and renewal of tax consolidation regimes;
- the impairment test for intangible and tangible fixed assets and for other equity investments, described in detail in the paragraph **Impairment test on equity investments** – in the estimation of the value in use – the utilisation of the investee companies' Business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

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

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2016

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

- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" relating to the entry into the financial statements of employee or third-party contributions to defined-benefit plans were issued on 21 November 2013.
- On 6 May 2014, amendments to IFRS 11 - Joint Arrangements were issued. 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 financial statements at 31 December 2016.

- On 12 May 2014, amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) were issued. In particular, it was clarified that the revenue based amortisation/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.
- On 12 August 2014, an amendment to IAS 27 Equity Method in Separate Financial Statements was issued introducing the option to use the equity method in the separate financial statements of an entity for the valuation of equity investments in subsidiaries, joint ventures and associates. The adoption of this amendment had no effect on the Company's separate financial statements.
- On 18 December 2014, amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" were issued. These amendments related to issues arising as a result of applying the consolidation exception granted to investment entities.
- On 12 December 2013, the IASB published the document "Annual Improvements to IFRSs: 2010-2012 Cycle". The amendments mainly concerned:
  - IFRS 2 Share-based payment
  - IFRS 3 Business combinations
  - IFRS 8 Operating segments
  - IFRS 13 Fair Value measurement.

The adoption of these amendments had no effect on the financial statements at 31 December 2016.

- On 25 September 2014, the EU regulation 2015/2343 implementing the document Annual Improvements to IFRSs: 2012-2014 Cycle was issued. The amendments mainly concerned:
  - IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations
  - IFRS 7 - Financial Instruments: additional information
  - IAS 19 - Employee Benefits.

  These amendments must be applied prospectively from 1 January 2016.
  The adoption of these amendments had no significant effect on the financial statements at 31 December 2016.
- On 18 December 2014, the EU regulation 2015/2406 implementing certain modifications to IAS 1 (Presentation of Financial Statements) - Disclosure Initiative was issued. The purpose of these modifications was to provide clarification with regard to types of disclosures that may be perceived as impediments to the clear and intelligible presentation of financial statements. 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 financial statements at 31 December 2016.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2016

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

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

The standard shall be effective from 1 January 2018, but early adoption is allowed. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, have not yet been approved by the European Union. The adoption of these amendments had no effect on the Company's Financial Statements at 31 December 2016. With regard to IFRS 15, no significant effects are expected on the Company's financial statements. For more details on the analyses under way at Group level, please refer to the comments provided in the Notes to the Consolidated Financial Statements.

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

- it introduces new criteria for the classification and measurement of financial assets and liabilities;

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

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

With regard to IFRS 9, no significant effects are expected on the Company's financial statements. For more details on the analyses under way at Group level, please refer to the comments provided in the Notes to the Consolidated Financial Statements.

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

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

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

With reference to IFRS 16, there were no effects on the financial statements at 31 December 2016.

With regard to IFRS 16, no significant effects are expected on the Company's financial statements. For more details on the analyses under way at Group level, please refer to the comments provided in the Notes to the Consolidated Financial Statements.

Impairment test on equity investments

ERG Renew S.p.A.

In these Separate Financial Statements, the value of the equity investment in ERG Renew S.p.A. is EUR 766 million (EUR 689 million at 31 December 2015). In 2009 and 2010, mainly as a result of the worsened economic scenario and the delayed commissioning of some wind farms under construction, the equity investment had been written down by a total amount of EUR 73 million. In the 2013 Financial Statements, in consideration of the values recognised by UniCredit for the share capital increase of January 2014 as well as broker consensus assessments and internal assessments developed with the Discounted Cash Flow method at the time of approval of the aforementioned transaction, an excess recoverable value had emerged, i.e. fair value, relative to the carrying value of the ERG Renew equity investment in the financial statements of ERG S.p.A., subjected to previous write-downs.

The recovery of value from EUR 615 million to EUR 650 million (EUR +35 million) was recognised as an increase in value of the equity investment and an increase in income from equity investments in the income statement.

In the 2014 Financial Statements, the value in use resulting from the impairment test showed a positive difference compared to the book value, in line with indications from broker consensus valuations. In consideration of these values, the value of the equity investment was recovered by the amount of the residual devaluation at 31 December 2014 (EUR +39 million) with matching income statement entry.

In 2016, the value of the equity investment increased from EUR 689 million to EUR 785 million as a result of the transaction with UniCredit, which is explained in more detail in the section **ERG Renew minority interests transaction**.

For the 2016 Financial Statements, as in previous years, the carrying amount of the equity investment in ERG Renew S.p.A. was tested.

In this regard, an assessment was performed by determining the recoverable value, i.e. the value in use, based on the "sum of parts" methodology; hence, the value of the equity investment was determined by adding the equity values of the Cash Generating Units that comprise ERG Renew's assets.

For additional details on the calculation of the equity values of the Cash Generating Units, reference is made to the Financial Statements. The value in use resulting from the impairment test shows a positive difference relative to the carrying amount. These considerations are supported by broker consensus evaluations.

In consideration of the above, there were no write-downs of the value of equity investments.

Sensitivity analysis

The result of the impairment test derives from information available to date and from reasonable estimates on future changes in the following variables: wind strength, energy price and interest rates.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable amount of the carrying amounts allocated to the "Renewable Energy Sources" business, and it also carried out a sensitivity analysis on the recoverable amount of the different CGUs. This analysis assumed that total revenues from energy sales (i.e. energy remuneration and generation) could undergo upward or downward fluctuations, to an extent that can be estimated at 10% relative to the values estimated for the Plan.

In such a case, the overall equity values would drop by around EUR 336 million without the equity investment being written down. Finally, it should be noted that an increase of 1.0% in the discounting rate would result in a EUR 180 million decrease in the equity value without the equity investment being written down.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Financial Statements.

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 transaction had entailed loss of control over ERG Petroli S.p.A. (previously, a wholly owned subsidiary) and the acquisition of an equity investment in the aforesaid joint venture recognised in the Financial Statements with the cost method, determined according to the method described below.

IAS 27 prescribes that as a result of the disposal of controlling shares, any residual interest held in the entity subjected to disposal is measured at fair value.

The fair value of the new equity investment was determined, at the time of the loss of control, according to the values mutually exchanged by the parties and used for the definition of the share swap for the purposes of reaching the 51/49 interests prescribed by the agreements. Therefore, said fair value represented the initial carrying value of the new company, amounting to EUR 432 million, with the consequent recognition of a capital gain of EUR 346 million in the 2010 income statement. In view of the capital gain in question, the Shareholders' Meeting to approve the 2010 Financial Statements had made a portion of the equity reserves of the same amount unavailable.

It should be recalled that the **2012** and **2013** impairment tests had shown impairment losses totalling EUR 234 million, recognised as a reduction in the value of the equity investment.

The value reductions were tied to the significant volatility of the Oil scenario and of the reference market, as well as to the transformation of the Rome Refinery into a logistical facility and a plan to streamline the sales network. These factors had negative effects, specifically both on the final results of the investee and on the expected profitability forecasts.

The value of the equity investment was also tested for the purposes of these Separate Financial Statements.

The test was carried out independently using a model developed internally in accordance with the test that was carried out in previous years using the draft plan already prepared by the management of TotalErg and by applying to this certain prudential measures in view of the volatility of the Oil scenario.

For the purposes of the test, the CGU consisted of TotalErg S.p.A. and its investees, subsidiaries and associates.

The valuation was performed using the following criteria and assumptions:

- Unlevered Discounted Cash Flow method over 6 years of explicit projections plus a terminal value[1] calculated by applying a multiple between 4.0x and 5.0x (in line with the market multiples observed in the past 10 years in the Integrated Downstream business) to the average of the explicit projections of adjusted EBITDA[2] of TotalErg;
- the discounting rate used is TotalErg's WACC (6.0%) calculated on the basis of market parameters;
- the valuation was carried out on the basis of the draft economic-financial plan of TotalErg S.p.A., whose scope of consolidation includes TotalErg, Eridis, TotalGaz, Restiani, Guazzotti, Gestioni Europa, Sarpom and Raffineria di Roma.

1 The perpetuity method was not used to calculate the terminal value because it is not one of the usual market practices for TotalErg's reference industry.
2 For the definition of adjusted EBITDA, please refer to the detailed information provided in the Report on Operations.

The impairment test described above showed an estimated recoverable value in line with that of the previous year. This recoverable value is higher than the carrying value at which the equity investment TotalErg is reported in the Separate Financial Statements. Taking into account that this value is positively influenced by the current level of discounting rates and the volatility of the reference Oil scenario, and considering that at the end of 2016 a process was begun aimed at identifying any parties potentially interested in acquiring a shareholding in TotalErg S.p.A., no values written down in previous years were reversed.

Sensitivity analysis

The result of the impairment test derives from the information available to date and from the reasonable estimates on the evolution of variables tied to the expected margins, in particular with changes in the reference economic environment and in the discount rates.

In particular, sensitivity analyses were conducted on the basis of changes in the discount rate and in the EV/EBITDA multiples applicable to the EBITDA of the last year of the explicit period.

The analyses showed that:

- a 1% increase in the discount rate would entail a decrease by EUR 18 million in the recoverable value (51%), which nonetheless would not determine any write-down;
- a decrease in the EV/EBITDA multiple from 4.5x to 4.0x would entail a decrease by around EUR 31 million (51%) in the recoverable value, with a subsequent write-down of approximately EUR 3 million of the equity investment.

The above analyses confirm the sensitivity of the assessments of the recoverability of the equity investment to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Financial Statements.

ERG Power Generation S.p.A.[3]

In April 2010, ERG Power's new CCGT plant, with approximately 480 MW of installed power, started full commercial operations; the plant supplies utilities and electrical energy to the industrial customers of the Priolo site, placing the remainder of the generated electricity on the market.

A CGU was identified that consists of the cash flows generated by ERG Power Generation S.p.A. which operates the CCGT plant through a tolling agreement and sells on the open market the energy thus generated.

In the preparation of the 2011 Separate Financial Statements, these values were verified in view of the increased weighted average cost of capital (WACC), of the higher Robin Tax rates for 2011-2012-2013 and of the lower profitability as a result of the worsening scenario that characterised the domestic electricity market.

3 On 15 May 2014, the investee ERG Nuove Centrali S.p.A. changed its name to ERG Power Generation S.p.A.

This verification resulted in an impairment of EUR 63 million, net of the tax effect. This impairment was allocated to the carrying value of the equity investment in ERG Nuove Centrali (now ERG Power Generation), which was entirely written off as a result. The residual difference (amounting to EUR 29 million) was then recognised in a "provision for charges on equity investments"[4].

In preparing these Separate Financial Statements, the recoverability of the carrying value of the aforesaid plant was verified, in view of the persistence, for 2016 as well, of uncertainties and variability (or volatility) of the scenario which characterises the domestic electric market.

For impairment test purposes, the CGU comprises the tangible fixed assets attributable to the CCGT plant of ERG Power and the cash flows generated by the Power Business Unit (since 1 July 2014, ERG Power Generation) which operates the plant through a tolling agreement and sells the energy produced on the free market.

The analysis was carried out by identifying the recoverable value, i.e. the value in use, of the Cash-Generating Unit. The basis for the calculation was the projection of the operating cash flows associated to the CGU for its useful life, contained in the financial forecast prepared by the Group and pertaining to a twenty-year time span; additionally, a residual value (or "terminal value") was assumed, calculated with a further 10-year extension of the measurement period. The expected changes in sale prices and direct costs during the period assumed for the calculation are determined on the basis of past experience, corrected by future market expectations. In particular, the hypotheses used take account of a reduction in the profitability of site agreements expiring after 2025 (deadline year) by as much as 50% of the fixed quotas recognised.

Projected cash flows were discounted using a conservative estimate of the discount rate (WACC after tax), i.e. 4.9%.

The impairment test was set up by updating the assumptions used for the test performed in previous years; in particular, the estimates of the electricity market scenario, of the zone bonus in Sicily, of the profitability of the plant in the Dispatching Services Market and of the modulation activities were updated.

Group management deems the assumptions used to identify the recoverable value of the CCGT plant of ERG Power to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

It should be noted that the value in use resulting from the impairment test shows a positive difference relative to the carrying amount. Taking into account that this difference is mainly due to temporary phenomena and also connected to the current level of discount rates, Management did not reverse previous write-downs. These considerations are supported by broker consensus evaluations.

Sensitivity analysis

The result of the impairment test is derived from information available to date and from reasonable estimates of the evolution of external variables such as the price of energy and interest rates, as well as the development of certain activities and the attainment of cost saving targets.

The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to

4 This liability was transferred to ERG Power Generation S.p.A. on 1 July 2014.

determine the recoverable value of the CCGT plant and it also carried out a sensitivity analysis on the recoverable value of the CGU. This analysis showed that in the event of a further reduction of approximately 50% in the profitability of site agreements, expiring after 2021, the recoverable value, determined according to the evaluation model adopted, would decrease by an amount of approximately EUR 67 million, resulting in a write-down of the carrying value of approximately EUR 4 million.

Lastly, with a 1.0% increase in the discount rate, recoverable value would decrease by approximately EUR 23 million, not entailing any write-down of the carrying value.

The Directors will continue to systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Financial Statements.

ERG Renew minority interests transaction

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 provided 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).

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. was less probable.

In **2016, as a result of change in the scenarios**, ERG S.p.A. reached an agreement with UniCredit whereby all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital.

The ratio at which the exchange was agreed is approximately 0.78 ordinary ERG shares for each ERG Renew share, on the basis of a value of EUR 12.8 attributed to each ordinary ERG share. The ratio was calculated on the basis of the Fair Value attributed to the ERG shares and to the ERG Renew equity investment, already owned by UniCredit, determined through the Discounted Cash Flow method, also supported by the appraisals carried out by an independent expert.

The agreement with signed with UniCredit on **12 October 2016**. On the same date, the Board of Directors of ERG approved the transaction and in particular the disposal of the aforesaid ordinary ERG treasury shares within the scope of the authorisation granted by ERG's Shareholders' Meeting held on 3 May 2016.

As a result of the operation, ERG holds 1,503,200 ordinary ERG treasury shares, equal to 1% of its share capital. Lastly, it should be noted that as part of the transaction, UniCredit assumed a 180-day lock-up commitment with ERG, whereby UniCredit may not sell the ERG shares acquired by effect of the exchange.

ANALYSIS OF THE SEPARATE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE FIXED ASSETS

	Other intangible fixed assets	Assets in progress	Total
BALANCE AT 31/12/2015	94	13	106
Changes during the period:			
Acquisitions	–	–	–
Capitalisation/reclassification	2	(2)	–
Disposals and divestments	(0)	–	(0)
Amortisation	(59)	–	(59)
Other changes	–	–	–
BALANCE AT 31/12/2016	36	11	47

To enhance understandability, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation and write-downs. "Other intangible fixed assets" mainly consisted of application software and the consulting services provided during the implementation of such software.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Other assets	Assets under construction	Total
Historical cost	2,090	3	1,424	–	3,517
Depreciation and write-downs	(812)	(3)	(40)	–	(855)
BALANCE AT 31/12/2015	1,278	–	1,384	–	2,662
Changes during the period					
Acquisitions	–	–	–	4	4
Capitalisation/reclassification	–	–	–	–	–
Disposals and divestments	–	–	–	–	–
Other changes	–	–	–	–	–
Depreciation	(108)	–	(3)	–	(111)
IFRS 5 Reclassification	–	–	–	–	–
Historical cost	2,090	3	1,424	4	3,521
Depreciation and write-downs	(920)	(3)	(43)	–	(966)
BALANCE AT 31/12/2016	1,170	–	1,381	4	2,554

To enhance understandability, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and write-downs. "Land and buildings" include land on the Priolo Gargallo site. "Other assets" mainly consist of equipment, furniture, fixtures and works of art.

NOTE 3 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiary companies	Joint ventures	Associates	Other companies	Total
Historical cost	**1,088,759**	**433,810**	**8,135**	**491**	**1,540,796**
Write-downs	(120,163)	(233,810)	(3,885)	–	**(367,459)**
BALANCE AT 31/12/2015	**968,596**	**200,000**	**4,250**	**491**	**1,173,337**
Changes during the period:					
Acquisitions/share capital increases/revaluations	777,173	–	–	–	**777,173**
Disposals and divestments	–	–	(4,250)	–	**(4,250)**
Write-downs/use of provision to cover losses	–	–	–	–	**–**
Other changes	–	–	–	–	**–**
Historical cost	**1,865,932**	**433,810**	**–**	**491**	**2,300,233**
Write-downs	(120,163)	(233,810)	–	–	**(353,973)**
BALANCE AT 31/12/2016	**1,745,769**	**200,00**	**–**	**491**	**1,946,260**

Acquisitions/share capital increases include:

- a capital contribution to the subsidiary ERG Power Generation made by waiving a financial receivable currently due from the Company in the amount of EUR 700 million;
- the increase in the equity investment in ERG Renew following an agreement with UniCredit whereby all shares held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital.

Disposals/divestments refer to the sale of the entire equity investment held in I-Faber S.p.A. (23%) to UniCredit S.p.A. for an amount of EUR 4.2 million, in line with the book value. The sale therefore had no effect on the income statement.

In order to provide further information, the main transactions carried out during the year are summarised below:

- On **6 April 2016** ERG S.p.A. sold the entire equity investment held in I-Faber S.p.A. (23%), a company consolidated using the equity method, to UniCredit S.p.A. for an equivalent value of EUR 4.2 million, in line with the book value in ERG S.p.A.'s financial statements.
- On **12 October 2016**, ERG S.p.A. executed an agreement with UniCredit, whereby all shares already held by UniCredit in ERG Renew, i.e. 7,692,308, accounting for 7.14% of its share capital, were exchanged with 6,012,800 ordinary ERG treasury shares, corresponding to 4.00% of all shares representing ERG's share capital. The ratio at which the exchange was agreed is approximately 0.78 ordinary ERG shares for each ERG Renew share, on the basis of a value of EUR 12.8 attributed to each ordinary ERG share. The ratio was calculated on the basis of the Fair Value attributed to the ERG shares and to the ERG Renew equity investment, already owned by UniCredit, determined through the Discounted Cash Flow method, also supported by the appraisals carried out by an independent expert.
- On **10 November 2016**, the merger by incorporation of ERG Services S.p.A. into ERG S.p.A. was filed and registered in the Genoa Register of Companies, and subsequently approved by the Board of Directors on 14 December 2016. The merger deed was concluded on 21 December 2016 and the merger shall take effect from 1 January 2017.

Below is a list of the equity investments together with the data required by Article 126 of CONSOB Resolution No.11971 and subsequent revisions.

(Migliaia di Euro)	Registered Office	Share Capital	%	Shareholders' (1)	Our shate of shareholders' equity (1)	Book value
Subsidiary companies						
ERG Power Generation S.p.A.	Genoa	6,000	100%	1,061,828	1,061,828	969,641
ERG Petroleos S.A.	Madrid (Spain)	3,050	100%	(5,708)	(5,708)	–
ERG Renew S.p.A.	Genoa	107,692	100%	701,050	701,050	765,966
ERG Services S.p.A	Genoa	1,200	100%	10,514	10,514	10,162
Total subsidiary						**1,745,769**
Joint ventures						
TotalErg S.p.A.	Rome	47,665	51%	287,405	146,577	200,000
Total joint ventures						**200,000**
Other companies						
CAF Interregionale Dipendenti S.r.l.	Vicenza	276	0%	1,026	–	–
Emittenti Titoli S.p.A.	Milan	4,264	1%	15,997	82	26
Meroil S.A.	Barcelona (Spain)	19,077	1%	49,690	432	310
R.U.P.E. S.p.A.	Genva	3,058	5%	3,069	149	155
Total other companies						**491**
TOTAL EQUITY						**1,946,260**

(1) 2016 data for subsidiaries and joint control arrangements; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies

It is also recalled that in view of the negative shareholders' equity of ERG Petroleos S.A. in liquidation, a provision for risks on equity investments of approximately EUR 5.7 million has been allocated, of which EUR 159,000 was set aside in 2016.

For the valuation of the equity investments in ERG Renew S.p.A., ERG Power Generation and TotalErg S.p.A., please see the paragraphs **Impairment test on equity investments**.

It should be noted that at the end of 2016 a process was begun aimed at identifying any parties potentially interested in acquiring a shareholding in TotalErg S.p.A.

In reference to the above, and considering that at 31 December 2016 the process was still in the preliminary stages, the equity investment in TotalErg was not classified among "Non-current assets held for sale" since the conditions prescribed by IFRS 5 had not been fully verified at that date. Should the outcome of the process to identify potential purchasers during the course of 2017 be such that the completion of the sale becomes highly probable, the equity investment will be classified as required by IFRS 5.

For a complete list of the Group's equity investments, please see the Notes to the Consolidated Financial Statements.

NOTE 4 - OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2016	31/12/2015
BALANCE AT BEGINNING OF PERIOD	**822,996**	**119,593**
Changes during the period		
Disbursements and interest	13,943	3,926
Disbursement of loan to ERG Power Generation S.p.A.	–	697,599
Waiver for capital contribution	(700,000)	–
Repayments	(24,000)	(8,380)
ERG Renew minorities option	(11,181)	11,181
Reclassifications	(8,753)	–
Other changes	–	(924)
BALANCE AT END OF PERIOD	**93,005**	**822,996**

"Other non-current financial assets" amounted to EUR 93 million at 31 December 2016 and included the receivable from the subsidiary ERG Power S.r.l relating to the Project Sponsor Subordinated Loan Agreement for the residual construction work on the CCGT after plant completion and the work to revamp the water demineralisation plant that supplies treated waters for the processes of the Priolo production site; EUR 24 million were repaid in 2016.

It should be noted that on 13 July 2016 the Board of Directors of ERG S.p.A. resolved to make a capital account payment to ERG Power Generation S.p.A. in order to structurally strengthen the subsidiary's capital and financial structure. This payment was made by off-setting the outstanding financial loan in the amount of EUR 700 million. This receivable was generated to cover the loan was granted in 2015 during the acquisition of the hydroelectric assets.

The reclassifications relate mainly to the transfer to the centralised cash management system of the residual value (EUR 9 million) of the loan referred to above, the negative net balance of which is recognised in "Other current financial liabilities".

Lastly, reference is made to the cancellation of the positive value of the option, recognised in the 2015 Financial Statements, in consideration of the transaction finalised with UniCredit in 2016 and described in detail in the section **ERG Renew minority interests transaction**.

NOTE 5 - DEFERRED TAX ASSETS

	31/12/2016		31/12/2015	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Provisions for liabilities and charges	33,300	9,211	36,736	10,212
Bad debt provision	1,850	444	3,202	769
Tax losses and other temporary differences	7,467	1,798	9,167	2,095
Derivatives	3,127	750	183	44
Total		**12,203**		**13,120**

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. 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.

It should therefore be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporate tax) rate of 24%, increased, where so prescribed, by the IRAP (regional tax) rate (3.9%).

Deferred tax assets at 31 December 2016, i.e. EUR 12.2 million (EUR 13.1 million at 31 December 2015), are mainly recognised on allocations to provisions for liabilities and charges and on tax loss for the period.

NOTE 6 - OTHER NON-CURRENT ASSETS

	31/12/2016	31/12/2015
Medium/long-term receivables from the tax authorities	1,913	2,363
Other medium/long-term receivables	1,514	2,661
Total	**3,427**	**5,024**

Medium/long-term receivables from the tax authorities amounted to EUR 1,913 thousand and primarily refer to VAT receivables.

Other medium/long-term receivables mainly include (EUR 1,254 thousand) the receivable relating to a deferred portion of price of the sale of ERG Oil Sicilia S.r.l., which took place in December 2014, which was reclassified in “Other current assets” for the short-term portion, and others relating to security deposits for lease agreements.

NOTE 7 - TRADE RECEIVABLES

Receivables are summarised as follows:

	31/12/2016	31/12/2015
Customer trade receivables	10,549	10,361
Receivables due from Group companies	5,238	6,860
Bad debt provision	(1,850)	(2,841)
Total	**13,937**	**14,380**

The item “Customer trade receivables” mainly includes trade receivables in the amount of EUR 5,292 thousand and invoices to be issued in the amount of EUR 5,257 thousand.

The item consists, for the most part, of inherited trade receivables deriving mainly from relationships with clients in the energy, thermoelectric and petroleum sector originally concerning companies merged into ERG S.p.A. in 2015 and in previous years. These include, in particular, demurrage charges relating to ERG Supply & Trading S.p.A.’s activities (EUR 2,737 thousand), receivables relating to prior year Refining items (EUR 1,052 thousand), and receivables relating to the electricity retail business sold in 2012, covered by the bad debt provision.

At 31 December 2016, customer trade receivables also included receivables from GSE for the reimbursement of Green Certificates for 2014 production relating to the activities of ISAB Energy S.r.l. (merged into ERG S.p.A. in 2015) for an amount equal to EUR 4,572 thousand (EUR 3,101 thousand at 31 December 2015). The increase in 2016 is due to the posting of a positive adjustment of EUR 1,486 thousand following the publication of Resolution 709-16 on 1 December 2016.

It should be noted, finally, that this credit was collected in January 2017.

The item "Receivables due from Group companies" mainly includes receivables for service contracts in respect of Group companies, in particular EUR 4,596 thousand from subsidiaries, EUR 96 thousand from associated companies and finally EUR 546 thousand from jointly controlled entities.

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

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

The bad debt provision changed as follows:

	31/12/2015	Allocations	Usage	Other changes	31/12/2016
Bad debt provision	2,841	–	(911)	–	1,850
Total	**2,841**	**–**	**(911)**	**–**	**1,850**

2016 usage relates to the removal of receivables deemed to be irrecoverable from parties declared bankrupt or subjected to other insolvency procedures relating to the electricity retail business of the former ERG Power & Gas S.p.A., merged into ERG S.p.A. following the 2010 merger.

	31/12/2016	31/12/2015
Receivables from third parties not past due and intercompany receivables	**10,846**	**9,026**
Receivables from third parties past due		
within 30 days	–	–
within 60 days	–	37
within 90 days	–	66
beyond 90 days	3,090	5,250
Total	**13,937**	**14,380**

NOTE 8 - OTHER RECEIVABLES AND CURRENT ASSETS

	31/12/2016	31/12/2015
Tax receivables	19,087	19,068
Indemnifications to be received	40	80
Other receivables due from Group companies	42,240	47,442
Sundry receivables	3,215	1,998
Total	**64,582**	**68,588**

Tax receivables relate mainly to receivables due from tax authorities for consolidated IRES (EUR 11,925 thousand), advances on electricity and gas excise duties (EUR 539 thousand), IRAP (EUR 919 thousand) and other receivables due from the tax authorities in the amount of EUR 5,634 thousand in relation to IRES and IRAP rebates and tax payments made on a provisional basis pending judgement.

"Other receivables due from Group companies" consist of receivables from subsidiaries and jointly controlled companies for tax consolidation IRES.

NOTE 9 - CURRENT FINANCIAL ASSETS

	31/12/2016	31/12/2015
Securities	80,136	136
Financial receivables from subsidiaries and associates	165,026	49,230
Other short-term financial receivables	701	3,224
Total	**245,863**	**52,590**

The item "Securities" represents investment in credit-linked notes, and short-term certificates of deposit.

"Financial receivables from subsidiaries and associates" mainly comprise:

- receivables for centralised treasury agreement with ERG Petroleos (EUR 8,490 thousand);
- receivables for centralised treasury agreement with ERG Renew (EUR 150,314 thousand);
- dividends receivables from ERG Renew (EUR 6,000 thousand), collected on 5 January 2017.

The item has increased significantly compared to the previous year, mainly as a result of the financial support given to the subsidiary ERG Renew for the acquisition of wind farms in France and Germany during the period.

"Other short-term financial receivables" comprise mainly financial receivables from customers. The decrease is mainly due to the collection of some financial receivables from customers and to a reduction in receivables for interest income on time deposits subsequent to the decrease in cash and cash equivalents.

NOTE 10 - CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Bank and postal deposits	247,646	616,552
Cash and notes on hand	3	3
Total	**247,649**	**616,555**

The decrease in cash and cash equivalents is mainly due to the payment of dividends in the amount of EUR 142 million and the loan to the subsidiary ERG Renew for the purchase of wind farms in France and Germany.

For further clarification, please refer to the Statement of Cash Flows.

NOTE 11 - GROUP SHAREHOLDERS' EQUITY

Share Capital

Fully paid-in share capital at 31 December 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 31 December 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%;
- UniCredit S.p.A. holds 6,129,557 shares, i.e. 4.078%.

At 31 December 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 24 April 2015, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 24 April 2015, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million sixty four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months as from 24 April 2015, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale and in any case no lower than the per-share value of the Company's equity as reported by the latest approved financial statements.

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

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

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

As a result of the transaction, at 31 December 2016 ERG holds 1,503,000 ordinary ERG treasury shares, equal to 1% of its share capital.

Reserves

	31/12/2016	31/12/2015
Paid-in capital in excess of par	64,207	22,863
Legal reserve	3,236	3,236
Reserve for first-time adoption of IAS/IFRS and retained earnings	714,080	854,853
Cash flow hedge reserve	(2,376)	(139)
2010 merger surplus	250,563	250,563
2015 ISAB Energy merger surplus	361,755	361,755
Other reserves	274,120	238,513
Total	**1,665,585**	**1,731,643**

- "**Paid-in capital in excess of par**" consists of the share premium paid by shareholders to purchase shares related to the share capital increases carried out on 14 October 1997, 2 July and 5 August 2002. This reserve was used for:
  - the purchase of treasury shares in 2006 for an amount of EUR 11,210 thousand,
  - the purchase of treasury shares in 2008 for an amount of EUR 14,779 thousand,
  - the purchase of treasury shares in 2012 for an amount of EUR 25,672 thousand,
  - the sale of treasury shares in 2016 for an amount of EUR 41,343 thousand as part of the transaction to convert the ERG Renew S.p.A. shares held by the minority shareholder into ordinary shares of ERG S.p.A.
- The "**Reserve for first-time adoption of IAS/IFRS and retained earnings**" consists of adjustments made to the Financial Statements of ERG S.p.A. at the time of conversion (mainly for the derecognition of dividends maturing at the end of the period) and retained earnings. The decrease reflects the net effect of the reclassification of the results of the previous year and of the distribution of the 2014 dividend;
- At 31 December 2016, the "**Cash flow hedge reserve**" amounted to EUR -2,376 thousand and reflects the effect of derivatives hedging current loans;
- The "**ISAB Energy merger surplus**" includes the surplus generated by the merger by incorporation of the company ISAB Energy S.r.l., which took place in 2015, and amounts to EUR 361,755 thousand.

The item "Other reserves" is composed mainly of monetary revaluation reserves; the item was increased in 2015 as a result of the reconstitution of the former ISAB Energy S.r.l. from the monetary realignment reserve pursuant to Law 266/05 for an amount equal to EUR 28,709 thousand. This reserve may be subject to distribution to the Shareholders, in which case it will be included as part of the Company's taxable income, or may be used to cover losses, in which case the Company will not be able to proceed to the distribution of dividends, without first having recovered the amount. The Company has not allocated deferred tax liabilities on these reserves as it does not envisage their use for purposes that could require taxation. Moreover, the surplus generated by the 2010 merger by incorporation of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A., amounting to EUR 446 million, was partly allocated to the "2010 merger surplus" reserve (EUR 251 million) and partly to reconstitute specific tax-deferred equity reserves (EUR 195 million), i.e. reserves that become taxable upon distribution.

The increase over the period is linked to the sale of treasury shares as part of the aforesaid transaction with UniCredit: in particular it reflects the higher sale price of the treasury shares with respect to the book value of approximately EUR 36 million.

The following table lists shareholders' equity items, indicating for each of them the possible utilisation, as well as any tax restrictions.

	Amount	Possible use	Amount available for distribution	Amount subject to tax on distribution
Share Capital	15,032	–	–	15,032
Paid-in capital in excess of par	64,207	A B C	64,207	–
Legal reserve	3,236	B	–	–
Reserve for first-time adoption of IAS/IFRS and retained earnings	714,080	A B C	585,946	–
Cash flow hedge reserve	(2,376)	–	–	–
Other reserves and merger surpluses	886,437	A B C	886,437	255,070
Net profit (loss) for the year	11,473	A B C	11,473	
Total	**1,692,089**		**1,548,063**	**270,102**

Key
A – for share capital increase
B – to cover losses
C – for distribution to shareholders

Following off-balance sheet tax deductions taken pursuant to the previously-in-force version of Article 109, paragraph 4 b) of the Italian Unified Income Tax Act (TUIR), still provisionally applicable (including those taken by the merged companies), in the event of distribution of the year's earnings and/or reserves, the amount of shareholders' equity reserves and retained earnings must not fall below the total remaining amount of off-balance sheet tax deductions taken. Net of the deferred tax provision, this is estimated to be EUR 6.9 million. Should this occur, the amount of reserves and/or profit for the year distributed beyond the minimum level will form part of the Company's taxable income.

The unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings", equal to EUR 116,953 thousand, refers to the amount remaining in the unavailable reserve[5] allocated by the Shareholders' Meeting of 14 April 2011 to include part of the earnings of the year 2010, equal initially to EUR 346,404 thousand, constituting the unrealised portion, net of the related tax expense, of the capital gain deriving from the incorporation of the TotalErg S.p.A. Joint Venture.

Following approval of the 2012 and 2013 Financial Statements, a part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" was released, i.e. a total of EUR 229,450,160.55 corresponding to the write-downs, net of the related tax effects, carried out in the corresponding years, of the share in the TotalErg S.p.A. Joint Venture.

5 In accordance with Article 6, paragraph 1, subparagraph a) of Italian Legislative Decree no. 38/2005.

Following approval of the 2016 Financial Statements, the unavailable reserve, recorded in 2015 pursuant to Article 6, paragraph 1, subparagraph a) of Legislative Decree 38/2005 for an amount of EUR 11,181,413.00 and corresponding to the unrealised expense resulting from the cancellation of the value of the option on the minority shares of ERG Renew S.p.A, will be released. This release will increase the “Reserve for first-time adoption of IAS/IFRS and retained earnings”.

NOTE 12 - EMPLOYEES’ SEVERANCE INDEMNITIES

	31/12/2016	31/12/2015
BALANCE AT BEGINNING OF PERIOD	**63**	**310**
Increases	1,036	1,088
Decreases	(526)	(1,335)
Other changes	–	–
BALANCE AT END OF PERIOD	**574**	**63**

This item includes the estimated liability, determined on the basis of actuarial procedures, relating to severance indemnities payable to employees when they terminate their employment.
The changes shown in the table do not include the portion of employees’ severance indemnities accrued and transferred to the Italian National Social Security Institute (“INPS”) Treasury fund.

The following are the main assumptions used to calculate the actuarial value of the liability relating to employees’ severance indemnities. The discount rate was determined on the basis of a panel of AA-rated corporate securities with at least 10-year maturity.

	2016
Discount rate	1.3%
Inflation rate	1.0%
Average turnover rate	3.0%
Average rate of salary increase	1.5%
Average age	45

The following table shows the impact on liabilities of a change of +/-0.5% in the discount rate.

(EUR thousand)	2016
+0.5% change in the discount rate: minor liabilities	(18)
-0.5% change in the discount rate: major liabilities	20

NOTE 13 - DEFERRED TAX LIABILITIES

	31/12/2016		31/12/2015	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Actuarial valuation of employees' severance indemnities	596	142	614	147
Unrealised foreign exchange gains	454	109	250	60
Other deferred tax liabilities	5,776	1,382	5,939	1,426
Total		**1,633**		**1,633**

Deferred tax liabilities are recognised on taxable temporary differences between the financial reporting value of assets and liabilities and their value for tax purposes. The tax rate used to calculate deferred tax assets is the same as the theoretical IRES (corporate taxation) rate (24%) and the theoretical IRAP (Regional tax) rate (3.9%).

Deferred tax liabilities at 31 December 2016 amount to EUR 1,633 thousand (EUR 1,633 thousand at 31 December 2015).

NOTE 14 - PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

The value of provisions for non-current liabilities and charges amounted to EUR 82,117 thousand (EUR 82,736 thousand at 31 December 2015). The item mainly refers to provisions allocated to meet possible future liabilities and charges relating to the Priolo Site, including as a result of the exit from the refining business for an amount equal to EUR 81,071 thousand.

During the period, the Priolo Site provision increased by around EUR 1 million in connection with the reclassification of the residual value of the fund allocated for the same purposes in the Financial Statements of ISAB Energy S.r.l., the subsidiary merged in 2015.

In 2016, EUR 1 million of the Fund was also used to finalise certain transactions with Site operators.

For more information on the Priolo Site provision, please refer to **Note 24 – Contingent liabilities and disputes**.

This item also includes the "Italian Carbon Fund" provision, in the amount of EUR 832 thousand, allocated to meet potential write-downs on CO_2 quotas still to be credited by the Italian Carbon Fund.

NOTE 15 - NON-CURRENT FINANCIAL LIABILITIES

	31/12/2016	31/12/2015
Medium and long-term mortgages and loans	668,439	694,574
Financial payables due beyond 12 months for derivatives	5,881	386
Other medium and long-term financial payables	–	–
Total	**674,320**	**694,960**

Mortgages and loans at 31 December 2016 total EUR 674,320 thousand (EUR 694,690 thousand 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) and UBI Banca S.p.A. (EUR 100 million), concluded in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan concluded for the acquisition of ERG Hydro S.r.l., and with UniCredit S.p.A. (EUR 75 million) for the project loan for the wind farm at Corni (Romania).

The loans are presented net of commission costs and other ancillary charges totalling EUR 9.7 million. These costs were recognised according to the amortised cost method in application of IAS 39 against an amount of EUR 3.1 million.

At 31 December 2016, the weighted average interest rate on mortgages, loans and project financing was 1.1% (1.5% at 31 December 2015). The rate indicated does not take into account interest rate hedges.

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

	Mortgages and loans
Due by 31/12/2017	-
Due by 31/12/2018	58,625
Due by 31/12/2019	179,750
Due by 31/12/2020	299,125
Due by 31/12/2021	130,939
Due beyond 31/12/2021	–
Total	**668,439**

The above-mentioned loan agreements require compliance with a financial covenant. For further details, please see **Note 23 - Covenants**.

Financial payables due beyond 12 months for derivatives refer to the negative fair value of interest rate swap derivatives on these loans.

NOTE 16 - OTHER NON-CURRENT LIABILITIES

The value at 31 December 2016, i.e. EUR 6,424 thousand (EUR 4,425 thousand at 31 December 2015), mainly refers to payables to employees and Directors.

NOTE 17 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	31/12/2016	Increases	Decreases	Other changes	31/12/2015
Provision for coverage of investees' losses	5,708	159	–	–	5,549
Provision for environmental risks	–	–	–	(381)	381
Provision for legal risks	231	–	(371)	243	359
Other provisions	1,353	60	(1,957)	(243)	3,492
Total	**7,291**	**219**	**(2,328)**	**(381)**	**9,781**

The value of the provisions for liabilities and charges at 31 December 2016 is deemed sufficient to meet possible future liabilities and charges.

The "Provision for coverage of investees' losses" refers to the fund for the equity investment in ERG Petroleos and was increased by EUR 159 thousand at end-2016 to cover the alleged losses for the negative shareholders' equity of the company itself.

The "Provision for environmental risks" was reclassified in 2016 to the Priolo provision under Provisions for non-current liabilities and charges.

EUR 371 thousand of the "Provision for legal risks" was used for charges relating to the restructuring of the Parent Company.

The item "Other provisions", amounting to EUR 1,353 thousand at 31 December 2016, was increased by EUR 60 thousand in order to adjust the provision for demurrage charges following the merger with ERG Supply & Trading S.p.A.

The decrease of EUR 1,957 thousand refers mainly to the following:

- EUR 303 thousand of the restructuring provision used to cover the costs of the merger of ERG Supply & Trading S.p.A.;
- EUR 833 thousand of the demurrage provision used;
- EUR 371 thousand of the San Quirico refinery provision for liabilities used;
- EUR 450 thousand used for other minor disputes.

NOTE 18 - TRADE PAYABLES

	31/12/2016	31/12/2015
Trade payables	51,233	55,204
Payables due to Group companies	1,552	1,926
Total	**52,785**	**57,130**

Trade payables stem from commercial transactions with domestic and foreign suppliers and are payable within the next year.

Trade payables include mainly payables relating to previous years' Oil supplies in addition to other payables for third party services and advisory services.

Payables to group companies include mainly payables for the provision of services and advice.

NOTE 19 - CURRENT FINANCIAL LIABILITIES

	31/12/2016	31/12/2015
Short-term bank borrowings		
Short-term bank borrowings in euros	2,244	110,022
Short-term bank borrowings in foreign currency	–	–
	2,244	**110,022**
Other short-term financial payables		
Short-term portion of medium-long term bank borrowings	–	–
Short-term Project Financing	–	–
Financial payables due to Group companies	59,353	924
Other short-term financial payables	4	43
	59,357	**967**
TOTAL	**61,601**	**110,989**

The item "Short-term bank borrowings" amounts to EUR 2,244 thousand and includes payables relating to interest on existing loans. At 31 December 2015, the item "Short-term bank borrowings" included credit lines with four banks, in particular BNL in the amount of EUR 30 million, UniCredit in the amount of EUR 20 million, Banca Passadore in the amount of EUR 10 million and Banca Popolare di Sondrio in the amount of EUR 50 million.

"Financial payables due to Group companies", amounting to EUR 59,353 thousand, mainly include:

- Payables resulting from the financial management of ERG Services S.p.A. (EUR 3,970 thousand);
- Payables resulting from the financial management of ERG Renew S.p.A. (EUR 55,383 thousand).

NOTE 20 - NET FINANCIAL POSITION

	Notes	31/12/2016	31/12/2015
Medium/long-term mortgages and loans	**15**	668,439	694,574
- current portion of mortgages and loans		–	–
Fair value of derivatives hedging interest rates	**15**	5,881	386
Total		**674,320**	**694,960**
Medium/long-term financial indebtedness/ (Medium/long-term financial assets)		**674,320**	**694,960**
Short-term bank borrowings	**19**	2,244	110,022
Short-term financial debts	**19**	59,357	967
Total		**61,601**	**110,989**
Cash and cash equivalents	**10**	(247,649)	(616,555)
Securities and other short-term financial receivables	**9**	(245,863)	(52,590)
Total		**(493,512)**	**(669,145)**
Net short-term financial indebtedness/ (Short-term financial assets)		**(431,911)**	**(558,156)**
NET FINANCIAL POSITION		**242,409**	**136,804**

Net financial indebtedness amounted to EUR 242 million, up by EUR 106 million compared to 31 December 2015, mainly by effect of the payment of dividends (EUR 142 million) partly offset by the cash flow of the period.

NOTE 21 - OTHER CURRENT LIABILITIES

	31/12/2016	31/12/2015
Tax payables	7,960	18,899
Payables due to employees	3,672	5,047
Payables due to social security institutions	1,256	1,848
Other current liabilities	37,805	33,148
Total	**50,693**	**58,940**

"Tax payables" relate mainly to Group VAT debt in the amount of EUR 7,411 thousand. The decrease relates to the reduction in VAT credit compared to 2015.

"Payables due to employees" refer to sums owed for the period but not yet paid and include vacation days, unused time off "in lieu", productivity bonuses, and bonuses linked to the Management Compensation Plan.

"Payables due to social security institutions" relate to the social contributions to be paid on December 2016 wages and salaries.

"Other current liabilities" consist mainly of other short-term payables to subsidiaries (EUR 20,869 thousand) and other payables to jointly controlled entities (EUR 16,600 thousand) for tax consolidation and Group VAT. The increase is mainly due to IRES for subsidiaries as part of the Tax Consolidation.

NOTE 22 - GUARANTEES, COMMITMENTS AND RISKS

	31/12/2016	31/12/2015
Sureties in favour of Group companies	429,915	322,620
Sureties in favour of third parties	–	18,434
Our commitments to third parties	11	158
Total	**429,926**	**341,211**

The sureties in favour of Group companies were mainly for guarantees provided in favour of subsidiaries with respect to loan agreements.

Commitments to third parties are mainly commitments for the management of the information systems, in particular pertaining to the finance area.

Lastly, ERG S.p.A. issued Parent Company Guarantees in favour of Group Companies related mainly to the wind farm business and amounting to approximately EUR 157 million.

NOTE 23 - COVENANTS

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

- syndicated corporate acquisition loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, Intesa Sanpaolo, BNP Paribas, Credit Agricole, ING, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The loan agreements indicated above provide for the following financial covenant, the failure to comply with which constitutes an "event of default" pursuant to the relative financing agreements.

The net financial indebtedness and gross operating margin (NET DEBT/EBITDA) ratio referring to the Consolidated Financial Statements of the ERG Group must be lower than or equal to 4.50 from 31 December 2016, with values progressively decreasing up to the final value of 3.75 at 31 December 2020, according to the following scale which corresponds to the respective calculation dates:

- 4.50 at 31 December 2016 and 30 June 2017;
- 4.25 at 31 December 2017 and 30 June 2018;
- 4.00 at 31 December 2018 and 30 June 2019;
- 3.75 at 31 December 2019; 30 June 2020; 31 December 2020.

In the event that the covenants are not complied with, the agreements provide the borrower with the possibility of intervening with an "equity cure" which will be taken under consideration as a reduction of the net financial indebtedness.

The agreements also provide for a standard negative pledge for loan agreements of a similar type, prohibiting the usage of any third party lenders' assets as guarantees.

At year-end, the Company's covenants had all been complied with.

NOTE 24 – CONTINGENT LIABILITIES AND DISPUTES

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

Priolo Site

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

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

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

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it should be recalled that on 6 April 2011 the Provincial Tax Commission of Siracusa partially allowed the Company's appeal and ruled that harbour duties through 2006 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 separate 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 Separate Financial Statements, the Management of the Group, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, noting the substantial absence of new elements and confirming, therefore, the appropriateness of the measurements made previously. At 31 December 2016, therefore, the provision for liabilities is deemed adequate and only a partial use is reported, amounting to approximately EUR 0.7 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, whose contents substantially refer to the aforesaid allegations.

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

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

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

Compared to the specific comment regarding the alleged non-deductibility of the acquisition and service costs for

2007 set forth in the aforementioned official tax audit report dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

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

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

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 law 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.

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 of Siracusa - Territorial Office of Noto (hereinafter the "Agency") served to ERG S.p.A. as the incorporating entity on December 2015 of the seller ISAB Energy S.r.l., a notice amending the values declared for settlement of the registration tax.

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

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

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

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

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

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

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

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

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

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

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

SEPARATE INCOME STATEMENT ANALYSIS

NOTE 25 - REVENUES FROM ORDINARY OPERATIONS

	2016	2015
Revenues from sales	–	48,915
Revenues from services	16,629	9,349
Total	**16,629**	**58,264**

Revenues from sales relating to 2015 relate to the sale to ERG Renew S.p.A. of energy purchased from its operating subsidiaries completed in the first half of 2015.

Revenues from services refer mainly to charges for services rendered to subsidiaries.

NOTE 26 - OTHER REVENUES AND INCOME

	2016	2015
Other revenues from Group companies	1,359	6,373
Expense recoveries	224	174
Other revenues	3,783	4,498
Total	**5,365**	**11,045**

"Other revenues from Group companies" essentially refer to other recoveries and charges to Group companies, relating to sundry consulting services and special projects. 2015 included the offsetting to Group companies of costs for extraordinary transactions.

"Other revenues" includes the adjustment in the amount of EUR 1,486 thousand relating to ISAB Energy's 2014 "green certificates", as discussed in **Note 7 - Trade receivables**.

NOTE 27 - COSTS FOR PURCHASES

	2016	2015
Costs for the purchase of energy from ERG Renew	–	48,871
Costs for purchases	116	–
Total	**116**	**48,871**

Costs for purchases for 2015 relate to the purchase of energy from ERG Renew by Group companies until June 2015, under the electricity supply contract concluded on 23 April 2013. From July 2015, ERG Renew Group companies sell energy directly to ERG Power Generation S.p.A.

NOTE 28 - COSTS FOR SERVICES AND OTHER COSTS

	2016	2015
Costs for services	20,923	33,298
Rents and leases	618	650
Write-downs of receivables	–	2,581
Provision for liabilities and charges	60	–
Duties and taxes	551	726
Other operating expenses	2,370	1,518
Total	**24,522**	**38,773**

Costs for services are broken down as follows:

	2016	2015
Utilities and supplies	27	105
Insurance	1,089	991
Consulting services	3,084	8,458
Advertising and promotions	1,104	464
Emoluments paid to Directors and Statutory Auditors	6,470	12,741
Other services	9,149	10,539
Total	**20,923**	**33,298**

This item mainly includes consulting costs and emoluments to Directors and Statutory Auditors.

Other services include services supplied by other Group companies, EDP services from third parties, personnel services and other services.

The decrease in costs for services is mainly due to the fact that in 2015, costs relating to extraordinary transactions, in particular for the purchase of hydroelectric assets, were higher.

NOTE 29 – PERSONNEL COSTS

	2016	2015
Salaries and wages	8,226	11,343
Social security contributions	2,091	3,057
Employees’ severance indemnities	562	538
Other costs	1,016	2,087
Total	**11,896**	**17,025**

In 2015, salaries and wages included bonuses awarded to employees for extraordinary transactions concluded in the same year.

The following table shows the breakdown of ERG S.p.A. personnel (average headcount during the period):

	2016	2015
Executives	17	17
Managers	41	43
Staff	22	27
Total	**80**	**87**

At 31 December 2016, the total number of employees was 78 (82 at 31 December 2015).

NOTE 30 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2016	2015
Amortisation of intangible fixed assets	59	168
Depreciation of tangible fixed assets	111	114
Write-downs of fixed assets	–	–
Total	**171**	**282**

NOTE 31 - NET FINANCIAL INCOME (EXPENSES)

	2016	2015
Income		
Foreign currency exchange gains	374	73
Interest income on bank accounts	1,981	9,445
From receivables recorded under non-current financial assets	2,789	3,926
Other financial income	17,284	13,879
	22,428	**27,323**
Expenses		
Foreign currency exchange losses	73	(116)
From subsidiaries	(6)	(592)
Interest on short-term bank borrowings	(70)	(300)
Interest on medium/long-term bank borrowings	(7,346)	(1,063)
Other financial expenses	(16,823)	(507)
	(24,172)	**(2,579)**
TOTAL	**(1,744)**	**24,744**

Other net financial income and financial expenses relate to interest on cash account and cash pooling relationships with Group companies.

Interest income on bank accounts relates to the investment of available cash in deposit accounts. The decrease is due to the reduction in cash and cash equivalents as a result of investments and the distribution of dividends during the period.

The interest expense on medium/long-term loans refers to the loan taken out for the acquisition of Hydro Terni S.r.l., the loans signed to refinance the short-term portion of the corporate acquisition loan signed for the acquisition of ERG Hydro S.r.l., and the financing for the project relating to the Corni wind farm in Romania.

Other financial expenses also reflect the negative impact (EUR 11.2 million) related to the cancellation of the value of the sale option for ERG Renew S.p.A. minority interests, in consideration of the UniCredit transaction carried out in 2016 and discussed in detail in the section **ERG Renew minority interests transaction**.

The item "Other financial expenses" also includes the effects of derivatives hedging against the risk of interest rate fluctuation for around EUR 2.3 million and expenses arising from the measurement at amortised cost of mortgages for an amount of EUR 3.1 million.

NOTE 32 - NET INCOME (LOSS) FROM EQUITY INVESTMENTS

	2016	2015
Dividends and other income from subsidiaries	27,188	12,009
Dividends and other income from other entities	353	67
Write-downs and capital losses from equity investments	(159)	(3,491)
Total	**27,382**	**8,586**

The item "Dividends and other income from subsidiaries" refers to the dividends distributed by ERG Power Generation S.p.A. in the amount of EUR 21 million and the dividends distributed by ERG Renew S.p.A. in the amount of EUR 6 million.

The item "Dividends and other income from other entities" refers to the dividends distributed by the Issuing Companies Titoli and Meroil.

The item "Write-downs" includes the adjustment of the provision for charges on equity investments in the amount of EUR 159 thousand relating to the company ERG Petroleos, in view of its negative equity, as discussed in detail in the section Equity Investments.

NOTE 33 - INCOME TAXES

	2016	2015
IRES for the year	5,192	10,528
Taxes from previous year	(3,062)	784
Benefit from tax consolidation and deferred tax assets	(1,585)	(6,973)
Total	**545**	**4,338**

Taxes for the year – positive by EUR 545 thousand – include positive tax effects resulting from the tax loss assessment carried out as part of ERG's tax consolidation and the allocation of deferred tax liabilities/assets to other income components for a net balance of EUR 1,585 thousand.

Below is a summary of financial balances resulting from the tax consolidation regime:

	31/12/2016	31/12/2015
Receivables from Group companies (payable to Tax Authorities)	29,006	21,723
Payables to Group companies (receivable from Tax Authorities)	(32,532)	(15,328)
ERG S.p.A. debt position	5,192	10,527
Total	**1,666**	**16,922**

Reconciliation between reported and theoretical tax charges[1]

The reconciliation between the tax charge reported in the financial statements and the theoretical tax charge before the application of the IFRS 5 is shown below.

	Taxable income	Tax
IRES (Corporate tax)		
Profit (loss) before taxes	**10,927**	
Theoretical taxation (27.5%)		3,005
Permanent tax changes	(23,417)	
Taxable income	**(12,490)**	
IRES rate (27.5%)		(3,435)
Derecognition of IRES deferred tax assets/ other changes		(222)
IRES taxes from previous years		
IRAP (Regional tax)		**(3,755)**
Difference between production costs and revenues	(14,711)	
Costs and revenues not relevant for IRAP purposes	–	
Theoretical taxable income for IRAP purposes	(14,711)	
Theoretical tax charge (tax rate 4.82%)		–
Permanent tax changes	7,126	
Theoretical taxable income (IRAP)	**(7,585)**	
Theoretical IRAP in the financial statements		–
Derecognition of IRAP deferred tax assets/ other changes		50
Taxes from previous years		3,062
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS		**(545)**

(1) Permanent differences mainly consist of dividends paid by subsidiaries and write-downs of equity investments

NOTE 34 - NON-RECURRING ITEMS

The non-recurring items of 2016 before the tax effect refer to:

- the expense resulting from the cancellation of the value of the option to sell the ERG Renew S.p.A. minority interests held by the minority shareholder for an amount equal to EUR 11.2 million;
- net financial expenses relating to the early closure of Facility A of the loan granted to equip ERG Power Generation S.p.A. with the financial resources to acquire ERG Hydro for an amount equal to EUR 1.3 million;

NOTE 35 - RELATED PARTIES

The tables below show the details of the assets, liabilities, income and expenses to/from related parties.

2016 – STATEMENT OF FINANCIAL POSITION - ASSETS

	Other financial assets	Trade receivables	Other receivables and current assets	Current financial assets
ERG Power Generation S.p.A.	–	4,511	312	222
ERG Eolica San Vincenzo S.r.l.	–	–	1,643	–
ERG Eolica San Cireo S.r.l.	–	–	1,641	–
ERG Eolica Faeto S.r.l.	–	–	137	–
ERG Renew S.p.A.	–	8	–	156,314
Green Vicari S.r.l.	–	–	846	–
ERG Eolica Basilicata S.r.l.	–	–	1,053	–
ERG Eolica Fossa del Lupo S.r.l.	–	–	2,406	–
ERG Power S.r.l.	93,005	–	8,452	–
ISAB Energy Solare S.r.l.	–	38	–	–
ERG Eolica Campania S.p.A.	–	–	5,165	–
ERG Eolica Amaroni S.r.l.	–	–	448	–
ERG Wind Sardegna S.r.l.	–	–	1,535	–
ERG Wind 4 S.r.l.	–	4	473	–
ERG Wind Leasing 4 S.r.l.	–	3	–	–
ERG Wind Sicilia 2 S.r.l.	–	–	217	–
ERG Renew Operations & Maintenance S.r.l.	–	–	2,096	–
ERG Services S.p.A.	–	28	341	(0)
ERG Hydro S.r.l.	–	3	1,917	–
ERG Petroleos S.A.	–	–	–	8,490
Priolo Servizi S.c.a.r.l.	–	94	–	–
San Quirico S.p.A.	–	–	1,409	–
TotalErg S.p.A.	–	546	9,238	–
Total	**93,005**	**5,236**	**39,331**	**165,026**
% of the total item	*100.00%*	*37.57%*	*60.90%*	*67.12%*

2016 – STATEMENT OF FINANCIAL POSITION - LIABILITIES

	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG Power Generation S.p.A.	–	1,201	55,383	9,406
ERG Eolica San Vincenzo S.r.l.	–	–	–	40
ERG Eolica San Cireo S.r.l.	–	–	–	39
ERG Eolica Ginestra S.r.l.	–	–	–	279
ERG Eolica Joppolo S.r.l.	–	–	–	6
ERG Renew S.p.A.	–	350	–	6,220
ERG Eolica Basilicata S.r.l.	–	–	–	22
ERG Eolica Fossa del Lupo S.r.l.	–	–	–	63
ERG Eolica Calabria S.r.l.	–	–	–	7
ERG Power S.r.l.	–	–	–	743
ISAB Energy Solare S.r.l.	–	–	–	49
ERG Eolica Adriatica S.r.l.	–	–	–	384
ERG Eolica Campania S.p.A.	–	–	–	93
ERG Wind Investments Ltd.	–	–	–	7
ERG Wind Holdings (Italy) S.r.l.	–	–	–	59
ERG Wind Sicilia 6 S.r.l.	–	–	–	25
ERG Wind Leasing 4 S.r.l.	–	–	–	2
ERG Wind 6 S.r.l.	–	–	–	19
ERG Wind Sicilia 3 S.r.l.	–	–	–	20
ERG Wind Sicilia 4 S.r.l.	–	–	–	24
ERG Wind Sicilia 5 S.r.l.	–	–	–	33
ERG Wind 2000 S.r.l.	–	–	–	42
ERG Wind Energy S.r.l.	–	–	–	2,933
ERG Services S.p.A.	–	(31)	3,970	346
ERG Wind Bulgaria S.p.A.	–	–	–	9
TotalErg S.p.A.	–	24	–	16,600
Other	–	(8)	–	–
Total	**–**	**1,535**	**59,353**	**37,469**
% of the total item	*0.00%*	*2.91%*	*96.35%*	*73.91%*

2016 - INCOME STATEMENT - INCOME

	Revenues from ordinary operations	Other revenues and income	Financial income
ERG Power Generation S.p.A.	7,343	119	12,119
ERG Renew S.p.A.	7,769	6	4,549
ERG Power S.r.l.	27	3	2,789
ISAB Energy Solare S.r.l.	–	31	–
ERG Wind Holdings (Italy) S.r.l.	–	1	–
ERG Wind 4 S.r.l.	–	3	–
ERG Wind Leasing 4 S.r.l.	–	2	–
ERG Services S.p.A.	483	53	3
ERG Hydro S.r.l.	6	–	–
Priolo Servizi S.c.a.r.l.	–	27	–
Other counterparties	–	–	(0)
San Quirico S.p.A.	–	300	–
TotalErg S.p.A.	996	–	–
Total	**16,624**	**546**	**19,460**
% of the total item	*99.97%*	*10.18%*	*86.77%*

2016 - INCOME STATEMENT - EXPENSES

	Costs for purchases	Service costs and other costs	Financial expenses
ERG Power Generation S.p.A.	–	1	–
ERG Services S.p.A.	–	6,004	5
TotalErg	41	20	–
Other counterparties	–	–	–
Total	**41**	**6,025**	**6**
% of the total item	*35.67%*	*24.57%*	*0.02%*

Assets mainly concerned trade receivables, the granting of loans, Group VAT and the "Consolidated Tax Regime".

Liabilities mainly concerned trade payables and loan agreements, Group VAT and the "Consolidated Tax Regime".

Income and expenses mainly comprise services carried out in respect of investees and the dividends distributed by subsidiary companies.

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

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

NOTE 36 - INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of the Issuers' Regulations, set out below are the costs for 2016 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's independent auditor, and by the companies belonging to its network.

	2016	2015
Auditing services	115	235
Services other than auditing	205	253
Total	**320**	**488**

Services other than auditing refer to:

- certification services for EUR 15 thousand pertaining to the conformity review of the separate yearly accounts for the purposes of AEEG resolution no. 11/2007;
- other services, in the amount of EUR 132 thousand for agreed-upon procedures voluntarily requested on the quarterly data of subsidiaries, in the amount of EUR 35 thousand for drafting the sustainability report, in the amount of EUR 20 thousand for the Half-Yearly Financial Report, in the amount of EUR 3 thousand for the signing of the Tax Declaration.

NOTE 37 - DIVIDENDS

The dividends paid by ERG S.p.A. in 2016 (EUR 142.8 million) and in 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 to EUR 0.50 for each of the shares with dividend rights at the coupon date.

On 9 March 2017, the Board of Directors proposed the payment to the shareholders of a dividend amounting to EUR 0.50 per share.

The dividend shall be available for payment from 24 May 2017, subject to issuance of the coupon starting on 22 May 2017 and with record date of 23 May 2017.

NOTE 38 - FINANCIAL INSTRUMENTS

31/12/2016	FVTPL (1)	L&R (2)	AFS (3)	Hedging derivatives	Other liabilities	Total	*of which non-current*	Fair value
Investments in other companies	–	–	491	–	–	491	–	–
Financial receivables	–	94,670	–	–	–	94,670	*94,670*	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Trade receivables	–	13,937	–	–	–	13,937	–	–
Financial securities classified as current assets	–	–	80,136	–	–	80,136	–	–
Other receivables	–	78,698	–	–	–	78,698	*14,116*	–
Cash and cash equivalents	–	247,649	–	–	–	247,649	–	247,649
Total assets	**–**	**434,953**	**80,627**	**–**	**–**	**515,580**	***108,786***	**247,649**
Mortgages and loans	–	–	–	–	668,439	668,439	*668,439*	–
Non-recourse project financing	–	–	–	–	–	–	–	–
Short-term bank borrowings	–	–	–	–	2,252	2,252	–	–
Financial payables	–	–	–	–	59,357	59,357	–	–
Derivative financial instruments	–	–	–	5,881	–	5,881	*5,881*	5,881
Trade payables	–	–	–	–	52,785	52,785	–	–
Other payables	–	–	–	–	57,083	57,083	*6,424*	57,083
Total liabilities	**–**	**–**	**–**	**5,881**	**839,916**	**845,797**	***680,745***	**62,964**

31/12/2015	FVTPL (1)	L&R (2)	AFS (3)	Hedging derivatives	Other liabilities	Total	*of which non-current*	Fair value
Investments in other companies	–	–	491	–	–	491	–	–
Financial receivables	–	866,929	–	–	–	866,929	*814,475*	–
Derivative financial instruments	11,181	–	–	–	–	11,181	–	11,181
Trade receivables	–	14,380	–	–	–	14,380	–	–
Financial securities classified as current assets	–	–	–	–	–	–	–	–
Other receivables	–	48,881	–	–	–	48,881	–	–
Cash and cash equivalents	–	616,555	–	–	–	616,555	–	616,555
Total assets	**11,181**	**1,546,745**	**491**	**–**	**–**	**1,558,417**	***814,475***	**627,736**
Mortgages and loans	–	–	–	–	694,573	694,573	*694,573*	–
Non-recourse project financing	–	–	–	–	–	–	–	–
Short-term bank borrowings	–	–	–	–	110,022	110,022	–	–
Financial payables	–	–	–	–	968	968	–	–
Derivative financial instruments	–	–	–	386	–	386	*386*	386
Trade payables	–	–	–	–	57,130	57,130	–	–
Other payables	–	–	–	–	37,535	37,535	*4,425*	37,535
Total liabilities	**–**	**–**	**–**	**386**	**900,228**	**900,614**	***699,384***	**37,921**

(1) FVTPL: Fair value through profit and 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	–	–	–
Total	**–**	**–**	**–**
Financial liabilities			
FVTPL	–	–	–
Hedging derivatives	–	5,881	–
Total	**–**	**5,881**	**–**

NOTE 39 - DISCLOSURE ON RISKS

The following are the main risks identified and actively managed by ERG S.p.A.:

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

ERG S.p.A. attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. In line with this objective, an advanced Risk Management system has been adopted that guarantees identification, measurement and control at a centralised level for the entire Group of exposure to individual risks, in accordance with existing policies.

The Risk Finance department ensures compliance with the assigned limits and, via its own analyses, provides appropriate support for strategic decisions both to individual subsidiaries and to the Risk Committee as well as to top management at the Parent Company.

Credit risk

Exposure to credit risk, i.e. the likelihood that a given counterparty is not able to meet its contractual obligations, is managed through appropriate analysis and assessments, assigning to each counterparty an Internal Based Rating, a summary indicator of the creditworthiness assessment. The rating provides an estimate of the likelihood of default of a given counterparty on which the level of credit assigned depends, which is regularly monitored and must never be exceeded. The choice of counterparties for both industrial and financial transactions is subject to the decisions of the Credit Committee, whose decisions are supported by the credit rating analysis.

The risk of concentration, in terms of both customers and segments, is also monitored continuously, with no 'alert' situations having ever occurred.

The following table provides information on ERG S.p.A.'s exposure to credit risk at year-end by a classification of receivables not overdue (see **Note 7 - Trade receivables**) according to the corresponding creditworthiness reflecting the internal ratings assigned.

	2016
AAA Rating	92
AA+ / AA- Rating	293
A+ / A- Rating	–
BBB+ / BBB- Rating	4,581
BB+ / BB- Rating	1
B+ / B- Rating	420
CCC- Rating	200
	–
Receivables from Group companies	5,238
Not assigned	22
Total	**10,846**

Liquidity risk

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. Today, with its cash flow generation and the availability of lines of credit provided by various counterparties, ERG ensures adequate coverage of its financial requirements.

The following tables summarise the maturity profile of the financial liabilities of ERG S.p.A. at 31 December 2016 and 31 December 2015, based on undiscounted contractual payments.

31/12/2016	Payables by maturity				
(EUR thousand)	On demand	under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	3,040	4,207	695,626	–
Short-term bank borrowings	283	–	–	–	–
Derivative financial instruments	–	893	1,898	4,042	–
Trade payables	50,085	2,700	–	–	–
Total liabilities	**50,368**	**6,633**	**6,105**	**699,669**	**–**

31/12/2015	Payables by maturity				
(EUR thousand)	On demand	under 3 months	3-12 months	1-5 years	More than 5 years
Mortgages and loans	–	1,063	6,403	721,023	–
Short-term bank borrowings	110,022	–	–	–	–
Derivative financial instruments	–	–	584	11,812	–
Trade payables	57,103	27	–	–	–
Total liabilities	**167,125**	**1,090**	**6,987**	**732,835**	**–**

Concerning the disclosure on "Fair value hierarchies" required by IFRS 7, see the comments in **Note 44** to the Consolidated Financial Statements.

Interest rate risk

Identifies the fluctuation in future interest rate trends that could determine higher costs for the ERG S.p.A. Interest rate risk is hedged by using derivative contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on the shareholders' equity of ERG S.p.A. (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 1% change in interest rate, while holding all other variables constant.

Impact on Income Statement

(EUR million)	2016
Shock-up (interest rate variation +1%)	(0.8)
Shock-down (interest rate variation -1%)	(1.5)

Impact on shareholders' equity

(EUR million)	2016
Shock-up (interest rate variation +1%)	16.5
Shock-down (interest rate variation -1%)	(14.2)

Derivative financial instruments used

The main types of derivative financial instruments used to manage financial risks, with the sole purpose of hedging, are the following:

Options: a contract whereby one of the parties, on payment of a sum to the other (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying asset) at an established price (exercise or strike price);

Forward contracts: contracts for the purchase or sale between two parties of a certain financial instrument (the underlying asset) at a future date and at a price fixed at the time the contract is stipulated; this category also includes futures contracts, which unlike forward contracts are standardised, negotiated in lots and for predetermined maturity dates within regulated markets;

Swaps: contracts which establish an exchange of payment flows between two parties on certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The underlying financial instrument can be of various types and significantly influences the characteristics of the contract which, in practice, can take on different forms.

The derivative instruments entered into by ERG S.p.A. and aiming to mitigate exposure to financial risks existing at 31 December 2016 are as follows:

Interest rate derivatives

- Interest Rate Options that fix upper (cap) and lower (floor) limits to be applied to fluctuations in interest rates on variable rate loans;

- Interest Rate Swaps entered into to confine fixed- and floating rate loans to the most appropriate risk profile. Interest Rate Swaps provide for the exchange between the counterparties of interest flows calculated with reference to pre-agreed fixed rates or variable rates and to pre-defined face value and timing.

Summary of derivative instruments used

The derivative financial instruments arranged by ERG, designed to hedge its exposure to interest rate risk, were as follows at 31 December 2016:

	Type	Hedged risk	Underlying financial instruments	Fair Value at 31/12/2016
				(EUR thousand)
	Cash Flow Hedging Instruments			
A	Interest Rate Swap e Interest Rate Cap	Economic interest rate risk	675 EUR million	(5,881)
	Total cash flow hedging instruments			**(5,881)**

Cash Flow Hedging Instruments

A. Interest Rate Swaps and Interest Rate Caps and Collars

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

At 31 December 2016, there was a total negative fair value in the amount of EUR 5,881 thousand. The change is recognised in the Cash Flow Hedge reserve.

On 31 December 2016, the value of the option to sell minority interests in ERG Renew S.p.A. held by the minority shareholder for an amount equal to EUR 11 million was cancelled, in view of the transaction carried out with UniCredit in 2016 and discussed in detail in the section **ERG Renew minority interests transaction**.

NOTE 40 - PUBLICATION DATE OF THE SEPARATE FINANCIAL STATEMENTS

On 9 March 2017, the Board of Directors of ERG S.p.A. authorised the publication of the Separate Financial Statements together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, Italy, 9 March 2017

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

REPRESENTATIONS ON THE SEPARATE FINANCIAL STATEMENTS

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

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-bis, subsections 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, represent as to:
   - the suitability in relation to the characteristics of the business and
   - the actual application of the administrative and accounting procedures for the preparation of the Separate Financial Statements in the period between 1 January 2016 and 31 December 2016.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the Separate Financial Statements of ERG S.p.A. at 31 December 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 Separate Financial Statements of ERG S.p.A.:
     - were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
     - match the underlying accounting books and records;
     - are suitable to provide a true and fair view of the financial position and results of operations of the issuer and of the group of companies included in its consolidation;
   - the Report on Operations contains a reliable analysis of the operating performance and results, as well as the financial position of the issuer and the group of companies included in its consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, Italy, 9 March 2017

The Chief Executive Officer

Luca Bettonte

The Manager responsible for preparing the company's financial reports

Paolo Luigi Merli

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING, PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/98 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of ERG S.p.A.

The Board of Statutory Auditors of ERG S.p.A (hereinafter, also "ERG" or the "Company"), pursuant to Article 153 of Italian Legislative Decree no. 58/98 (hereinafter, also the CFA) and Article 2429, paragraph 2 of the Italian Civil Code, is required to report to the Shareholders' Meeting called to approve the Financial Statements, on the supervision carried out during the year in fulfilment of its duties, on omissions and objectionable facts that may have arisen and on the results of the financial year, as well as formulate proposals regarding the Financial Statements, their approval and the matters under its remit.

During the year ended at 31 December 2016 and up to today's date, the Board of Statutory Auditors has conducted supervision in line with the provisions of Law, taking account of the principles of conduct recommended by the National Board of Chartered Accountants, the provisions of CONSOB regarding corporate controls, as well as the provisions of Article 19 of Italian Legislative Decree no. 39/2010.

ERG's Financial Statements have been drawn up based on the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, and in compliance with the measures issued by CONSOB in implementation of Article 9, paragraph 3 of Italian Legislative Decree no. 38/2005. The Company's Financial Statements have been drawn up in compliance with law and are accompanied by the documents required by the Italian Civil Code and the CFA.

The Board of Statutory Auditors acquired the information needed to carry out its assigned duties of supervision by participating in the meetings of the Board of Directors and the Committees, questioning the management of the Company and the Group, acquiring information from the competent company structures and through other control activities.

Appointment and Independence of the Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting of 3 May 2016 and is composed of Elena Spagnol (Chairman), Lelio Fornabaio (Standing Auditor), Stefano Remondini (Standing Auditor), Vincenzo Campo Antico, Luisella Bergero and Paolo Prandi were appointed as Alternate Auditors. They shall remain in office for three financial years and shall fall from office at the date of the Shareholders' Meeting called to approve the Financial Statements for 2018.

They were appointed on the basis of two lists submitted by the majority Share-holder and several institutional investors who are minority shareholders, respec-tively, in compliance with applicable provisions of law, regulations and the ar-ticles of association, and according to a transparent procedure, which guarantees, *inter alia*, prompt and suitable information on the personal and professional characteristics of the candidates for the office.

The Chairman of the Board of Statutory Auditors and an alternate auditor were appointed from the minority list.

The composition of the Board of Statutory Auditors fulfils the gender parity criteria per Article 148 of Italian Legislative Decree no. 58/98 (CFA).

At the time of appointment, the Board of Statutory Auditors verified the existence of the independence requirements. The verification was conducted based on the criteria prescribed by the Standards of Behaviour of listed companies – April 2015 and by the Corporate Governance Code with reference to independent directors.

The Board of Statutory Auditors, based on the declarations made by the candidates and the information available as well as a questionnaire filed with the records of the Board, assessed that the independence requirements were met by all the members of the Board of Statutory Auditors. The Board of Directors was informed of the outcome of the verification, pursuant to Article 144-novies, paragraph 1-ter of CONSOB Regulation no. 11971 and Article 8. C1 of the Corporate Governance Code so that it could fully and adequately conduct the assessments envisaged in paragraph 1-bis of said Article, regarding the fulfilment of the independence requirements of Article 148, paragraph 3 of the Consolidated Finance Act by the members of the control body.

Supervisory and control activities by the Board of Statutory Auditors

The Board of Statutory Auditors carried out its supervision activity in compliance with the rules set out in Article 2403 of the Italian Civil Code and Article 149 of Italian Legislative Decree no. 58/98, as well as Article 19 of Italian Legislative Decree no. 39/2010 as illustrated below.

Supervision and reporting activities required by CONSOB

In carrying out the duties under its responsibility, the Board conducted the supervisory activities required by Article 2403 of the Italian Civil Code and by Article 149 of Italian Legislative Decree no. 58/98, the recommendations of CONSOB regarding corporate controls and activities of the Board of Statutory Auditors (specifically, Communication no. DAC/RM 97001574 of 20 February 1997), following the indications set out in the Corporate Governance Code and the Standards of Behaviour of the Board of Statutory Auditors issued by the National Board of Chartered Accountants – 2015 edition.

In preparing this Report, due consideration was given to CONSOB communications no. 1025564 of 6 April 2001, no. 3021582 of 4 April 2003 and no. 6031329 of 7 April 2006, pertaining to the content of the reports of the Boards of Statutory Auditors to the Shareholders' Meetings of companies with shares listed on the stock market.

Within the scope of its remit, therefore, the Board of Statutory Auditors:

- attended the Shareholders' Meetings and the meetings of the Board of Directors, supervising compliance with the articles of association, the laws and regulations that govern the operation of the Company's bodies and the enforcement of proper administration standards;

- supervised, to the extent of its remit, the adequacy of the Company's organisational structure and its compliance with proper administration stand-ards, through direct observation, collection of information from the heads of the organisational functions and meetings with the Independent Auditors as part of the reciprocal exchange of relevant information;
- assessed and oversaw the adequacy of the internal control system and the administrative and accounting system, as well as its reliability to correctly represent management events, through the acquisition of information from the heads of the respective functions, the examination of company docu-ments and the analysis of the results of the work carried out by the Independent Auditors;
- conducted, during the year, 8 audits with a duration of around 2 hours and 30 minutes (of which 3 concerning the old Board and 5 concerning the Board currently in office). It also participated in the 8 meetings of the Board of Directors, in the 13 meetings of the Internal Control and Risk Committee and the 6 meetings of the Nominations and Remuneration Committee;
- supervised the adequacy of the reciprocal flow of information between ERG S.p.A. and its subsidiaries pursuant to Article 114, paragraph 2 of Italian Legislative Decree no. 58/1998, ensured by the instructions issued by the Company management to the Group. An additional guarantee of reciprocal reporting is provided by the presence of several members of the parent company's Board of Directors in the corporate bodies of the subsidiaries;
- conducted supervision regarding compliance with the "Market abuse" and "Protection of savings" regulations on the matter of "Internal Dealing", with particular reference to the treatment of privileged information and to the procedure for disseminating notices and information to the public.

  On 13 July 2016 the Board of Directors of ERG approved the update to the Code of Conduct for Internal Dealing, which aims to provide transparency to financial transactions carried out by Relevant Persons.

  On 13 July 2016 the Board of Directors of ERG also approved the update to the Procedure for handling and processing privileged information and for the public dissemination of statements and information.

  On the issue of Market abuse, the Company monitored the changes intro-duced by the EU Regulation 596/2014 (MAR), assessing and updating the structure to follow with regard to financial reporting.

  The Board of Statutory Auditors monitored compliance with the provisions of Article 115-bis of the Consolidated Finance Act and Articles 152-*bis* and 152-*quinquies* of the Issuers' Regulations, as well as Regulation (EU) 596/2014 about updates to the Register of persons with access to privileged information;
- received information on the activity of ERG and the Group concerning health, safety, environment and quality. The training and updating on the regulations issued on the matter was also illustrated to the Board, which found the corporate bodies and the Management focused on and sensitive to these issues. Attention to these issues by ERG and the Group could be seen in the principles and Guidelines set out in the Code of Ethics, which guides the Group's activities to achieving its business objectives while protecting the environment where the Group operates and safeguarding the internal and external stakeholders with whom it interacts;
- the Board was also updated on the fact that in 2016 the ERG Group invested suitable resources and skills in Compliance as regards Privacy. The structure of internal regulations was systematically updated as well as the

system of appointments and delegated powers, aligning them with the changes in external regulations and internal organisational rules, to guarantee compliance with the provisions of the Privacy Code (Italian Legislative Decree no. 196/2003) and the Measures issued by the Authority for the protection of personal data.

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

Furthermore, the Board:

- obtained from the Directors, at least once per quarter, adequate information on the activity carried out and on the most important economic, financial and equity transactions carried out by the Company and its subsidiaries pursuant to Article 150, paragraph 1 of the CFA. In this regard, both as a Board and individually, the Statutory Auditors specifically focused on the fact that the transactions resolved and carried out were compliant with the law and with the articles of association and were not manifestly imprudent or foolhardy, in contrast with the resolutions passed by the Shareholders' Meeting or in potential conflict of interest or such as to compromise the integrity of the company's capital.

  The Board of Statutory Auditors also supervised compliance with the Guidelines, Standards of Behaviour and Procedures in force within the Group, as well as compliance with the processes whose results are brought to the attention of the directors for the purpose of passing resolutions;
- held meetings with representatives of the Independent Auditors pursuant to Article 150, paragraph 3 of the Consolidated Finance Act and no significant data and/or information arose which needs to be emphasized in this Report;
- exchanged information with the Boards of Statutory auditors of the companies directly and indirectly controlled by ERG S.p.A pursuant to Article 151, paragraphs 1 and 2 of the Consolidated Finance Act;
- conducted oversight on the manner of concrete implementation of the corporate governance rules set out in the Corporate Governance Code the Company adheres to, as adequately represented in the Report on Corporate Governance and Ownership, in compliance with Article 124-ter of the Consolidated Finance Act and with Article 89-*bis* of the CONSOB Regula-tions;
- verified, in relation to the periodic assessment to be conducted in accordance with Article 3, paragraph 5 of the Corporate Governance Code, within the scope of its oversight on the manner of concrete implementation of corporate governance rules, the correct enforcement of the assessment criteria and procedures adopted by the Board of Directors, concerning the positive evaluation of Directors' independence, both with reference to the provisions of Article 148, third paragraph, of the Consolidated Finance Act, and with reference to the contents of the Corporate Governance Code, assigning relevance to substance (assurance of independent judgement) over form.

  The Board of Statutory Auditors has agreed with the positive assessment expressed by the Nominations and Remuneration Committee, endorsed by the Board of Directors as required by application standard no. 1. C.1, letter g) of the Corporate Governance Code, on the size and composition of the board of directors and its operation

as well as on the size, composition and operation of the board committees. To carry out the assessment, the Board employed the assessment criteria already used in the past year, based on the results of a self-assessment questionnaire prepared by the Nominations and Remuneration Committee and filled in by all members of the Board of Directors and of the Board of Statutory Auditors;
- on 13 July 2016 participated in a light induction, in which the Company management presented ERG and the Group to the new Board in order to provide it with suitable knowledge of the sector ERG operates in, also in light of the company dynamics and the evolution of the corporate structure.

The Board also notes that:
- it issued its opinion pursuant to Article 2389 of the Italian Civil Code, also in light of the evaluations of the Nominations and Remuneration Committee on the proposed remuneration of directors tasked with specific duties;
- it expressed its favourable opinion as expressly requested by the Corporate Governance Code – Article 7, standard 7.C.1 on the assignment of remuneration to the Head of Internal Audit;
- it expressed a favourable opinion in view of the resolutions to be passed by the Board of Directors concerning (i) the correct use of the accounting standards and their homogeneity for the purposes of the Report to the Separate and Consolidated Financial Statements and the interim reports, (ii) the audit plan of Internal Audit and the adequacy of the resources assigned, and (iii) the Procedure for transactions with related parties;

Supervision and reporting activities required by the Consolidated Law on Statutory Auditing

Pursuant to Article 19 of Italian Legislative Decree no. 39/2010 (Consolidated Law on Statutory Auditing), the Board of Statutory Auditors, which is classified as the "Internal Control and Auditing Committee", is required to supervise:
- the financial reporting process;
- the effectiveness of the Internal Control and Risk Management System;
- the statutory auditing of annual accounts and of consolidated accounts;
- the independence of the Independent Auditors, specifically as regards the provision of non-audit services.

The Board of Statutory Auditors carried out its activities with the cooperation of the Internal Control and Risk Committee in order to coordinate their respective duties and avoid overlapping activities.

It is noted that on 17 July 2016 Italian Legislative Decree no. 39/2010 was amended to implement the changes introduced by Directive 2014/56/EU on statutory auditing of annual accounts and consolidated accounts.

The "new auditors directive" intervenes on the regulations governing the duties of the Internal Control and Auditing Committee, identified as the Board of Statutory Auditors. However, the amendments concern 2017.

Financial reporting process

The Board of Statutory Auditors supervised the existence of rules and procedures regarding the process of formation and dissemination of financial information. In this regard, the Report on Corporate Governance and Ownership illustrates the ways in which the ERG Group has defined its System for Internal Control and Risk Management in relation to the process of financial reporting at the consolidated level.

The Manager Responsible for preparing the company's financial reports is Paolo Luigi Merli, to whom the Board of Directors has assigned the following responsibilities:

- preparing adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the enforcement of the procedures;
- issuing to the market the certification of the adequacy and effective enforcement of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

The Manager Responsible avails of the support of the Compliance 262 Organisational Unit for the purpose of verifying the operation of the administrative-accounting procedures through testing of controls.

The Board of Statutory Auditors notes that it received adequate information about the monitoring of company processes with administrative-accounting impact within scope of the Internal Control System, performed both during the year in relation to periodic reports on operations and upon closing the accounts for the preparation of the Financial Statements, in compliance with the monitoring and certification obligations ERG S.p.A. must fulfil in accordance with Law 262/05.

In particular, the Board of Statutory Auditors acknowledged the Risk Assessment for 2016, carried out by the Compliance 262 Unit, as well as the half-year update on the testing pursuant to Law 262/05.

The adequacy of the administrative-accounting system was also assessed through the acquisition of information from the heads of the respective functions and the analysis of the results of the work carried out by the Independent Auditors.

No particular critical issues or elements were found that would prevent the issue of the certification by the Manager responsible for preparing the company's financial reports and by the Chief Executive Officer on the adequacy of the administrative and accounting procedures for the drafting of the Financial Statements of ERG SpA and of the Consolidated Financial Statements for the year 2016.

The Board of Statutory Auditors oversaw compliance with regulations on the preparation and publications of the Half-Year Financial Report and on Interim Reports on Operations, as well as their manner of drafting and the correct application of accounting standards, using also the information obtained from the Independent Auditors.

Effectiveness of the Internal Control and Risk Management System and the Statutory audit of annual and consolidated accounts

The Board of Statutory Auditors assessed and oversaw the effectiveness of the Internal Control and Risk Management System.

The Board of Statutory Auditors notes that it verified the most important activities carried out by the overall internal control and risk management system by participating in the meetings of the Internal Control and Risk Committee and the Nominations and Remuneration Committee, as well as meetings:

- with the Director in charge of the Internal Control and Risk Management System;

- with the Internal Audit/Internal Audit, Risk & Compliance function;
- with Group Risk Management & Corporate Finance;
- with the Supervisory Committee and the 231 Compliance body.

Within the scope of this activity, in particular, the Board of Statutory Auditors noted that it received and examined:

- the periodic reports on activities prepared by the Internal Control and Risk Committee and by the Internal Audit/ Internal Audit, Risk and Compliance Division;
- the reports prepared, at the conclusion of the audit and monitoring activities, by the Internal Audit/Internal Audit, Risk & Compliance Division, with the related findings, recommended actions and controls on the implementation of such actions;
- the periodic updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by the Internal Audit/Internal Audit, Risk & Compliance Division and the Group Risk Management & Corporate Finance Division and the objectives achieved.

The Board of Statutory Auditors expressed a favourable opinion, as expressly required by the Corporate Governance Code, on the audit plan and the budget of Internal Audit for 2017, also with regard to the adequacy of available resources.

It also expressed a favourable opinion on the proposal for determining the variable remuneration regarding 2015 for the Chief Internal Audit, Risk & Compliance, who resigned during 2016, and expressed a favourable opinion on the fixed and variable remuneration of the new Chief of Internal Audit for 2016.

The Board acknowledged and shared the update to the ERG Group Risk Management Policy.

Thus, the Board examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee and examined the action plan and budget for 2017.

Likewise, the Board acknowledged the Compliance activities pursuant to Legislative Decree 231/01 and the action plan for 2017, and examined and shared the proposed update to the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01.

The main risks identified, monitored and managed are listed in the Report on Operations.

As a result of the activities carried out during the period, as illustrated above, the Board of Statutory Auditors agreed with the positive evaluation expressed by the Internal Control and Risk Committee on the adequacy of the Internal Control and Risk Management System.

Furthermore, it is noted that:

- the Independent Auditors Deloitte & Touche, assigned to conduct statutory auditing for the period 2009-2017, executed the controls set out by law and did not note any findings in the periodic meetings with the Board of Statutory Auditors;
- the Board of Statutory Auditors supervised the auditing of the annual and consolidated accounts, dialoguing with the Independent Auditors;

Independence of the Independent Auditors, fees and non-audit services

The Board of Statutory Auditors supervised the independence of the Independent Auditors Deloitte & Touche, verifying the nature and extent of services other than auditing with regard to ERG and its subsidiaries.

In detail, the fees paid by the ERG Group to the Independent Auditors and the companies in its network were as follows:

Assets	Amount EUR/000
Auditing	1,203
Services connected with Auditing (accounting certification)	130
Other services	651
Total	**1,984**

The "Other services", mainly relating to "Tax services" for EUR 269 thousand, "Limited accounting review of the half-year reporting package" for EUR 187 thousand, "Agreed audit procedures on periodic reports of subsidiaries" for EUR 152 thousand and "sustainability report" for EUR 35 thousand per assignment, represent around 33% of "Auditing" and "Services connected with Auditing."

In light of that indicated, the Board of Statutory Auditors deems that the requirement of independence has been met by the Independent Auditors Deloitte & Touche.

It is noted that during 2016 there were changes in the scope of auditing, with the resulting supplementation of the fees relating to the companies in the scope of consolidation of ERG Renew S.p.A.

Moreover, in 2016 the Independent Auditors were not granted further assignments other than statutory auditing in addition to those already existing in the previous year, with the exception of the assignments of Limited accounting review of the half-year reporting package of the new foreign companies that have been consolidated for the first time.

Lastly, it is noted that the Independent Auditors Deloitte & Touche:

- provided the annual confirmation of independence pursuant to Article 17 of Italian Legislative Decree no. 39/2010 on 28 March 2017;
- on 28 March 2017, the Independent Auditors issued the report in accordance with Articles 14 and 16 of Italian Legislative Decree no. 39/2010, declaring that the Separate and Consolidated Financial Statements as at 31 December 2016 are in accordance with the International Financial Reporting Standards – IFRS – adopted by the European Union, and with the regulations promulgated to implement Article 9 of Italian Legislative Decree no. 38/2005, and they are prepared clearly and they represent truthfully and fairly the financial situation, the income and expenses and the cash flows for the year that ended on that date.

  The audit report also expresses the judgements on the consistency with the Financial Statements of the Report on Operations and of the information of the Report on Corporate Governance, per Article 123-*bis* of Italian Legislative Decree no. 58/98.

Significant transactions and events

Based on the information received, the analyses carried out as part of the supervisory activity, it has emerged that the transactions with the greatest financial and capital relevance carried out by the Company, also through direct or indirect investees, are those described below and illustrated in greater detail in the Report on Operations and the Notes:

- on 6 April 2016 ERG S.p.A. sold the entire equity investment held in I-Faber S.p.A. (23%) to UniCredit;
- on 12 October 2016, ERG S.p.A. executed an agreement with UniCredit, which regards the exchange of all shares already held by UniCredit in ERG Renew S.p.A., accounting for 7.14% of its share capital, with ordinary ERG treasury shares, accounting for 4% of all shares representing ERG's share capital;
- on 26 October 2016, during the presentation of the CDP Climate Leadership Awards, in Milan, ERG received the Award as Best Newcomer Italy assigned by the Carbon Disclosure Project (CDP), in collaboration with Borsa Italiana, with an entry rating of B (in a scale that ranges from A to D);
- on 10 November 2016 ERG won the 2016 Financial Report Oscar for the "Companies and Large Enterprises" category;
- on 12 December 2016 ERG announced that, starting on 19 December 2016, its ICB classification (Industry Classification Benchmark) would change from "Oil & Gas" to "Utilities"; more specifically, it entered the "Alternative Electricity" subsector, consequently moving from the "Oil & Gas" to the "Utilities" FTSE Italia All-Share index.

The following significant transactions and events involved ERG through its direct or indirect subsidiaries:

- on 2 February 2016 ERG Renew S.p.A. finalised the agreement to purchase eleven wind farms in France, including two companies which provide technical, operational and commercial assistance, from a fund managed by Impax Asset Management Group.
- on 29 February 2016 ERG Renew S.p.A. acquired 100% of the share capital of Brockaghboy Windfarm, a UK company owning the authorisations required for the construction of a wind farm in Ireland, from TCI Renovables;
- on 13 April 2016 ERG Renew S.p.A. exercised the call option on the remaining 20% of the share capital of ERG Wind Investments Ltd.;
- on 13 July 2016 Massimo Derchi, Chief Executive Officer of ERG Renew S.p.A. and Key Manager, resigned from all offices held, in order to pursue new professional opportunities outside the ERG Group.

Furthermore, during the meetings of the Board of Directors, the Board of Statutory Auditors was provided with information:

- on ongoing tax and legal disputes;
- on the evolution of the overall regulatory framework.

All the above listed transactions were suitably illustrated at the meetings of the Board of Directors regarding the passing of the necessary resolutions, and discussed in detail in the notes to the Financial Statements and in the Report on Operations for the year 2016, which also provides a comprehensive update on the evolution of the overall reference regulatory framework.

Extraordinary operations – One Company

In mid-2016 an internal project was launched to develop a new organisational structure featuring a strong focus on process logic, aiming for the utmost organisational simplification, by creating specific areas of competency, for the ultimate purpose of concentrating the entire organisation towards a single, integrated view of the business.

The new structure will define two macro-roles of (i) ERG S.p.A. – corporate – with direct responsibility over the business development processes and the management of all business support processes and (ii) ERG Power Generation S.p.A., which is assigned the responsibility for the Group's industrial and commercial processes.

Implementation of the new Group organisational model was begun at the end of 2016 with the centralisation of Business Development and Legal and Corporate Affairs into ERG S.p.A. and with:

- the merger of ERG Services S.p.A. into ERG S.p.A.: the plan for merger was filed on 10 November 2016 and approved on 14 December 2016 by the Board of Directors and the merger deed was entered into on 21 December 2016. The merger shall take effect on 1 January 2017.
- the merger of ERG Renew S.p.A. and ERG Renew Operations & Maintenance S.r.l. into ERG Power Generation S.p.A.: the plan for merger was filed on 9 November 2016 and approved on 18 November 2016 by the respective Boards of Directors and the merger deed was entered into on 21 December 2016. The merger shall take effect on 1 January 2017.

The merger of ERG Services S.p.A. into ERG S.p.A. was carried out through resolution of the respective Boards of Directors, as permitted by Article 17 of the Company's articles of association and Article 12 of the articles of association of ERG Services S.p.A., as the conditions required by law were met.

The Board of Statutory Auditors supervised compliance by the administrative body with the applicable provisions of law and the articles of association as well as compliance with proper administration standards and, in particular, the fulfilment of the conditions for document and procedural simplification.

The Board of Statutory Auditors certified that the entire share capital had been fully paid in and that there were no situations envisaged by Articles 2446 and 2447 of the Italian Civil Code.

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. Communication of this decision is provided in the Annual Financial Reports, as required by Article 70, paragraph 8 of the Issuers' Regulation.

Atypical and/or unusual transactions

As a result of the supervision and control activity carried out during the year, the Board of Statutory Auditors can certify that:

- during the activity carried out, no omissions, irregularities or objectionable or otherwise significant facts emerged, such as would require notification to the supervisory bodies or mention herein;
- the Board of Statutory Auditors did not receive any reports in accordance with Article 2408 of the Italian Civil Code or complaints by third parties;
- no transactions were identified, either with third parties or intra-group and/or with related parties, that appeared atypical or unusual by their contents, nature, dimensions and timing.

Intra-group transactions and transactions with related parties

The Board of Statutory Auditors verified the intra-group transactions and transactions with related parties which related almost entirely to transactions carried out for streamlining and economisation purposes. These are part of ordinary operations, are settled at market conditions and are illustrated in the Report on Operations and in the Notes to the Financial Statements. In particular, the Board of Statutory Auditors reviewed and approved the document containing the main income data of the intra-group service agreements for the year 2016, considering adequate the analysis in the identification of the criteria for charging back to individual companies the services set out therein, according to the services used. As also indicated in the Report on Corporate Governance and Ownership, the Board of Directors' meeting of 13 July 2016 approved the amendment of the Procedure for transactions with related parties to implement the organisational changes occurred during the year.

Treasury shares

As previously illustrated, in 2016, as a result of the changed scenarios, ERG reached an agreement with UniCredit, which regards the exchange of all shares already held by UniCredit in ERG Renew S.p.A., accounting for 7.14% of its share capital, with ordinary ERG treasury shares, accounting for 4% of all shares representing ERG's share capital.
The agreement was signed by UniCredit on 12 October 2016. On the same day, the Board of Directors of ERG approved the transaction and in particular the disposal of the aforesaid ordinary ERG treasury shares within the scope of the authorisation granted by ERG's Shareholders' Meeting held on 3 May 2016.
Following this transaction, ERG holds ordinary treasury shares accounting for 1% of its share capital. Within the transaction, as also reported in the ERG Notes to the Financial Statements, UniCredit assumed a 180-day lock-up commitment with ERG, whereby UniCredit may not sell the ERG shares acquired by effect of the exchange.

Impairment testing

On 23 February 2017 the Board of Directors of ERG approved the approach of the impairment test procedure as compliant with the prescriptions of IAS 36, autonomously and in advance with respect to the time of approval of the financial reports, as recommended by the Bank of Italy/CONSOB/ISVAP joint document no. 4 of 3 March 2010.
The Board of Statutory Auditors notes that, in a joint meeting with the Internal Control and Risk Committee, it analysed and discussed the supporting documentation and, verifying its consistency with the previously adopted approach, deemed the procedure to be correct.
The results of the impairment tests are suitably illustrates in the Notes to the Financial Statements.

Additional supervision regarding the Separate and Consolidated Financial Statements

Concerning the Separate Financial Statements for the year ended at 31 December 2016, the Consolidated Financial Statements and the Report on Operations, the following is reported:

- the Board of Statutory Auditors ascertained, through direct checks and information obtained from the Independent Auditors, compliance with the laws that regulate the drafting and organisation of the Financial Statements and of the

Report on Operations, and of the financial statement models adopted, certifying the correct use of the accounting standards, described in the Notes to the Financial Statements and the Company's Report on Operations;

- in accordance with CONSOB Resolution no. 15519/2006, the Financial Statements expressly indicate the effects of transactions with related parties;
- the Financial Statements match the facts and information of the Board of Statutory Auditors became aware in the performance of its supervisory duties and in the exercise of its oversight and inspection powers;
- as far as the Board of Statutory Auditors is aware, in drawing up the Financial Statements, the Board of Directors did not deviate from the provisions of law pursuant to Article 2423 of the Italian Civil Code;
- the Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the certification, in accordance with Article 81–ter of CONSOB Regulation no. 11971/1999 with subsequent amendments and additions and with Article 154-bis of Legislative Decree 58/1998 (CFA);
- the Report on Operations meets law-mandated requirements and it is consistent with the data and results of the Financial Statements; it provides ample disclosure about the business and about relevant transactions, of which the Board of Statutory Auditors had parties accurately informed, and about the main risks of the Company and of its subsidiaries and on intra-group transactions and transactions with related , as well as about the process of upgrading the corporate organisation in accordance with the standards of governance, consistently with the Corporate Governance Code for listed companies;
- in accordance with Article 123-ter of Legislative Decree 58/1998 (CFA), the Report on Remuneration is submitted to the Shareholders' Meeting. The Board of Statutory Auditors examined and agreed on the approach taken in drawing up this report, in a joint meeting with the Internal Control and Risk Committee.

Proposal to the Shareholders' Meeting

The Board of Statutory Auditors expresses a favourable opinion on approval of the Financial Statements at 31 December 2016 and has no objections to make with regard to the proposed resolution submitted by the Board of Directors as formulated in the Report on Operations.

Genoa, 29 March 2016

The Board of Statutory Auditors

(Elena Spagnol)

(Lelio Fornabaio)

(Stefano Remondini)

AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Erg S.p.A.

Report on the Separate Financial Statements

We have audited the accompanying Separate Financial Statements of Erg S.p.A., which comprise the statement of financial position as at December 31, 2016, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

The Company's Directors are responsible for the preparation of these Separate Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Auditor's Responsibility

Our responsibility is to express an opinion on these Separate Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Separate Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Separate Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Separate Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of Separate Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Separate Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Separate Financial Statements give a true and fair view of the financial position of Erg S.p.A. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Deloitte.

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Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the Separate Financial Statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Erg S.p.A., with the Separate Financial Statements of Erg S.p.A as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above is consistent with the Separate Financial Statements of Erg S.p.A as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
March 28, 2017

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

FINANCIAL STATEMENTS OF THE MAIN SUBSIDIARIES AND JOINT VENTURES

BALANCE SHEET

	ERG Power S.r.l.	ERG Power Generation S.p.A.	ERG Hydro S.r.l.
	(EUR thousand)	(EUR thousand)	(EUR thousand)
Tangible Fixed Assets	326,690	88	486,577
Intangible Fixed Assets	6,147	451	123,281
Equity Investments	11,232	983,649	169
Non current Assets	**344,069**	**984,189**	**610,027**
Inventories	6,436		–
Trade Receivables	14,724	166,085	15,919
Trade Payables	(9,556)	(116,263)	(11,098)
Tax payables for excise duties		(422)	–
Net Working capital	**11,604**	**49,400**	**4,821**
Employees' severance Indemnities		(1,090)	(1,654)
Other assets	8,043	17,000	23,336
Other liabilities	(11,000)	(16,055)	(12,891)
Net invested capital	**352,716**	**1,033,444**	**623,639**
Shareholders' Equity	144,010	985,809	744,982
Net financial indebtedness	208,706	47,634	(121,343)
Shareholders' equity and financial debt	**352,716**	**1,033,444**	**623,639**

PROFIT & LOSS

	ERG Power S.r.l.	ERG Power Generation S.p.A.	ERG Hydro S.r.l.
	(EUR thousand)	(EUR thousand)	(EUR thousand)
Revenues from ordinary operations	119,033	621,631	69,423
Other revenues and income	247	6,903	82,635
Total revenues	**119,280**	**628,534**	**152,058**
Costs for purchases	(144)	(432,445)	(2,885)
Changes in inventory	(2,383)	–	–
Costs for services and other operating costs	(39,703)	(177,085)	(31,818)
Personnel Costs		(17,565)	(6,969)
EBITDA	**77,050**	**1,439**	**110,386**
Amortisation, depreciation and write-downs of fixed assets	(36,717)	(316)	(54,887)
EBIT	**40,333**	**1,123**	**55,499**
Net financial income (expenses)	(8,039)	(12,030)	64
Net income (loss) from equity investments	–	1,783	–
Result of ordinary management	**32,295**	**(9,124)**	**55,563**
Net income extraordinar	–	–	–
Result before taxes	**32,295**	**(9,124)**	**55,563**
Income taxes	(9,411)	9,873	(17,923)
Result for the period	**22,884**	**748**	**37,640**

ERG Services S.p.A.	ERG Renew S.p.A.	Gruppo ERG Renew	TotalErg S.p.A.	Gruppo TotalErg
(EUR thousand)	(EUR thousand)	(EUR thousand)	(EUR million)	(EUR million)
2,866	753	559,920	380	482
8,454	1,887	1,382,015	18	37
42	743,660	40,419	88	68
11,362	**746,300**	**1,982,354**	**486**	**587**
	0	14,708	273	304
1,190	25,796	133,006	454	550
(3,577)	(20,415)	(16,310)	(608)	(648)
	–	–	(122)	(122)
(2,388)	**5,381**	**131,404**	**(4)**	**83**
(679)	(560)	(2,829)	(6)	(8)
801	44,863	206,682	130	141
(2,553)	(2,002)	(315,147)	(266)	(271)
6,543	**793,981**	**2,002,467**	**340**	**532**
10,514	701,050	723,941	214	287
(3,971)	92,930	1,278,526	126	244
6,543	**793,981**	**2,002,467**	**340**	**532**

ERG Services S.p.A.	ERG Renew S.p.A.	Gruppo ERG Renew	TotalErg S.p.A	Gruppo TotalErg
(EUR thousand)	(EUR thousand)	(EUR thousand)	(EUR million)	(EUR million)
22,069	128,044	422,850	3,273	3,941
71	1,799	5,634	70	75
22,140	**129,843**	**428,483**	**3,343**	**4,016**
(120)	(116,034)	(14,288)	(2,796)	(3,374)
–	–	2,469	24	26
(10,582)	(21,343)	(93,156)	(380)	(425)
(8,162)	(7,371)	(17,667)	(46)	(75)
3,276	**(14,905)**	**305,841**	**144**	**169**
(2,464)	(842)	(160,862)	(58)	(73)
812	**(15,748)**	**144,979**	**86**	**96**
4	7,000	(72,354)	(13)	(15)
–	38,857	526	17	2
816	**30,110**	**73,150**	**90**	**83**
–	–	(0)	(11)	–
816	**30,110**	**73,150**	**79**	**83**
(436)	9,218	(19,423)	(26)	(31)
380	**39,328**	**53,727**	**53**	**52**

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